Blue Economy

Ministry of Earth Sciences has released Draft Blue Economy Policy for India (February 2021)

What is Blue Economy?

- Blue Economy refers to sustainable use of ocean resources for economic growth.
- It is a subset (part) of national economy.
- It consists of ocean resources and economic infra in marine domain:
    - fisheries, aquaculture, marine tourism, renewable ocean energy, seabed mining, off-shore oil and gas, etc.

Significance for India's economy:

Developmental needs	Contribution by Oceans
Food	Fishes, shrimps, prawn are rich in protein; Edible seaweed are rich in protein and fibre
Jobs	People involved in fisheries and marine tourism
Fuel	Off-shore oil and gas Methane hydrates (world's largest natural gas reserves)
Renewable energy	Wave energy; tidal energy; off-shore wind energy; floating solar power plants
Metals; Rare Earth metals	Seabed mining; Polymetallic nodules
Trade	90 percent of world trade is carried by sea

India as Blue Economy:

- India's unique maritime position:
    - 7,517 km long coastline,
    - more than 200 sea ports,
    - 23 lakh km^2 of EEZ with bounty of living and non-living resources.
- Ocean Policy Statement 1982 focused on developing technologies for sustainable harnessing of ocean resources.
- In 1987 India was given 1.5 lakh km^2 in central Indian Ocean basin for nodule exploration.
- Sagarmala project for port lead development.
- O-SMART program of Ministry of Earth Sciences.
    - Ocean Services, Modelling, Applications, Resources and Technology:
    - Regular updates on living resources, monitor seawater pollution, early weather forecast, explore Polymetallic Nodules and gas hydrates.
- e-SANTA online platform to connect aqua farmers and buyers
- Seaweed park in Tamil Nadu to be set up (Budget announcement)
- In 2015, India stated Security and Growth for All in the Region (SAGAR) vision for maritime cooperation in Indian Ocean region.
- In 2020, India joined Indian Ocean Commission as Observer.

Draft Blue Economy Policy:

Released by MoES, it outlines strategy for using oceanic resources of India. Aims:

- Increase contribution of blue economy to India's GDP
- improve lives of coastal communities
- preserve marine biodiversity
- maintain the national security of marine areas and resources

It identifies seven areas for focus:

1) An accounting framework to generate data on ocean resources.
2) National authority for marine spatial planning (how to efficiently use marine resources)
3) Legal and institutional framework for its effective management
4) Use PPP model for emerging industries, technologies, and skill development.
5) Formulate a 30 year ship building plan to boost shipping sector
6) National Placer mission to explore and extract placer deposits.
7) International partnerships for security in Indian ocean region.

Deep Ocean Mission:

(Approved by Cabinet in June 2021) (MoES is the nodal ministry)

It has six major components:

1) Develop technologies for Deep Sea Mining and Manned Submersible. (will help in commercial mining of Polymetallic Nodules)
2) Develop Ocean Climate Change Advisory Services. (will help in fishing and coastal tourism)
3) Technological innovations for exploration and conservation of deep-sea biodiversity.
4) Deep Ocean Survey and Exploration.
5) Energy and freshwater from the Ocean (e.g. ocean powered desalination plant)
6) Advanced Marine Station for Ocean Biology. (For skill development and entrepreneurship)

Challenges to Blue economy?

- Unsustainable fishing, e.g. bottom trawling, dynamite fishing
- Marine pollution: sewage, agri-runoff, dead zones, micro plastics, crude oil spill
- Maritime boundary issues with neighboring countries, e.g. Sri Lanka
- Off-shore fossil fuel reserves will run out
- Mining methane hydrates is technologically challenging. Burning methane will cause global warming.
- Renewable energy faces challenges of irregular power generation.
- Seabed mining in international waters needs permission of ISA.
- Seabed mining is technologically challenging and financially expensive.
- Maritime piracy

Way forward:

a) Arresting marine pollution at source; use of sewage treatment plants.
b) Increasing fishermen's capabilities for sustainable fishing techniques.
c) More international cooperation for seabed mining.
d) Use of Blue Bonds to finance ocean-based projects e.g. Seychelles in 2018

Additional comments:

a) SDG goal 14 aims for sustainable use of marine resources.
b) UN has declared 2021-2030 as the Decade of Ocean Science for Sustainable Development.
c) Oceans are not unlimited source of fishes and dumping ground of waste.
d) Indian ocean is a vast natural resource, its sustainable use can significantly contribute to double digit GDP growth.

moneycontrol

Explained | Minimum Income Support, Universal Basic Income - where does India stand?

Two successive waves of COVID-19 have severely battered the economy, pushing large segments of the urban migrant workers and rural poor towards poverty, as unemployment rises. As the debate over whether the government should start providing direct income support to raise consumption and dispense financial safety gathers momentum, a look at the two main ways it can be done, and the experiences from around the globe.

SUBHAYAN CHAKRABORTY

JUNE 21, 2021 / 03:17 PM IST

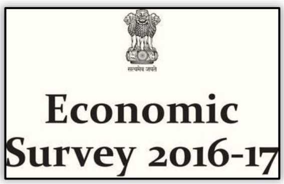
Universal Basic Income

NHRC report to UNHCR (May 2020):
Indian govt is actively considering the possibility of universal basic income to reduce poverty.

- **UBI refers to periodic and unconditional cash transfer from govt. to every citizen.**
- **It is based on the idea that every person has right to a basic income to cover basic needs, just by virtue of being citizens.**

Features of UBI:

1) **Universality: for everyone, not for any specific group**
2) **Periodic: regular payments, not one-off grants**
3) **Cash transfer: not in-kind transfer like subsidised food grains; People should be free to spend on what they actually need**
4) **For individuals: payment to individuals, not families**
5) **Unconditional: no need to prove socio-economic status**



a) **UBI is a "conceptually appealing idea".**
b) **It should replace (not supplement) social welfare programs**
c) **It can bring down poverty.**
d) **UBI of Rs 7,620 per year (4.9% of GDP) to bottom 75% population will reduce poverty to 0.5%**

Sikkim:

a) **Sikkim may implement UBI from 2022**
b) **Its financial position is much better than most other states**
c) **Sikkim has literacy rate of 98% and BPL less than 8% (2011-12)**
d) **Hence, its example may not be replicable in other states**

Madhya Pradesh:

a) **experiment done during 2011-13**
b) **Monthly payments given: Rs 300 to adults, Rs 150 to children**
c) **Noticeable improvement in sanitation, nutrition, education**

Arguments in support of UBI:

a) **No exclusion error: no poor person is left out of the scheme**
b) **Poverty reduction: UBI reduces poverty with immediate effect**
c) **Choice: It follows "one size does not fit all approach" letting people spend money as per their need.**

 **or** 

d) **Bargaining power: People will no longer work in poor working conditions and meagre wages**

e) **Safety net: It acts as a safety net against shocks like death of bread winner**

f) **Dignity of poor: protects dignity of the poor & needy in difficult times like medical emergencies**

g) **Women empowerment:** it will help victims of domestic violence leave the abusive partner

h) **Mental health:** Basic income can reduce stress and suicide cases caused by financial distress

i) **Administrative efficiency:** reduces government's work by replacing multiple subsidies with a single subsidy

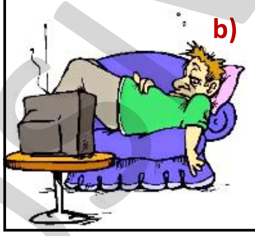
j) **Easier implementation:** identification of beneficiaries is not required

k) **Financial inclusion:** UBI will increase demand for financial services like banking and insurance.

l) **Higher GDP growth:** Increase in domestic demand will boost GDP growth rate.

Arguments against UBI:

a) **Wasteful spending:** people may spend additional money on alcohol, tobacco, gambling.



b) **Reduces incentive to work:** UBI will reduce the motivation to work and people may opt out of labour market

c) **Gender disparity:** Giving money instead of in-kind benefits will further increase control of men.

d) **Low GDP growth:** if people opt out of labour market, economic growth will slow down

e) **Fiscal burden:** it will put tremendous pressure on govt. finances

f) **Inflation:** sudden increase in domestic demand can cause inflation.

g) **Less welfare:** govt. may withdraw from welfare activities like health & education. Poor will be at mercy of private companies.

h) **Inclusion error:** it includes the rich who don't need this money

i) **Replacing** existing schemes like **Mid-day meal**, PDS, MGNREGA, can be counter-productive.

Challenges in implementing UBI:

a) **Fiscal deficit:** UBI will be a burden on govt. finances

b) **Financial exclusion:** people have bank accounts but don't use them

c) **Financial infra:** weak banking and telecom infra in backward areas

Alternatives to UBI:

a) Create more jobs so that people may not need free money
b) Strengthen MGNREGA so that assets too can be created
c) Strengthen existing welfare schemes by better beneficiary identification and plugging leakages

Variations of UBI / Quasi UBI:

a) Only for poor: give money only to bottom 75% population
b) Only for women: give money only to all women (better use of money)
c) Only for vulnerable sections: give money only to old, disabled, widows, pregnant women, (as these sections find it difficult to work)

Other countries:

a) In 2010, Iran's UBI trial reduced poverty. There was no sign of people leaving labour market. People used money to invest in their businesses, hence small enterprises grew faster.
b) Kenya's small scale UBI experiment since 2016 is showing positive impact on economy.
c) Many other countries like Finland, Canada, Netherlands also have experimented with UBI on limited scale
d) Experiments of other countries cannot be blindly assumed to hold true for India, as socio-economic conditions are quite different in India.

Food Processing

Food processing: Post-harvest value addition to edible agricultural produce

Potato → Food Processing → Chips

Fruits → Food Processing → Jam

Mustard → Food Processing → Oil

Supply Chain of Food Processing Industry:

Farm inputs → Growing and harvesting of crops → Procurement and storage → Primary Processing → Secondary Processing → Distribution and Retailing

Significance of food processing:

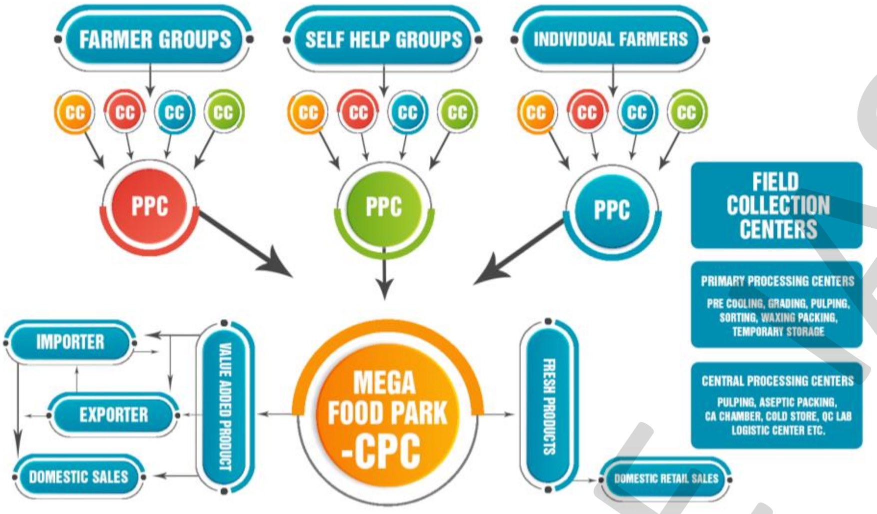
- Farmer: Gets better price; skill development
- Consumer: longer shelf-life; gets hygienic food; fortified food; modern lifestyle; working women
- Economy: contributes 11% to agri GDP; boosts exports; employs 7 million people
- Inclusive growth: mostly in rural areas; employs low-skilled people & women, prevents migration
- Food security: reduces post-harvest losses (Rs 1 lakh crore/year); India #2 in fruits & vegetables)
- Sunrise sector: (small, but growing fast). In India, only 10% of agri produce is processed, while this figure is 23% in China and 65% in USA.

Issues:

- Land to set up processing unit; Capital and skill requirements
- Lack of infra like cold storage facilities
- Unreliable power supply in rural areas
- Quality control; certification; marketing and sales
- Unhealthy: adds sugars and salts (obesity, cardiac diseases)
- Lack of formalization: most food processing units are small and family run. They lack professional management and economies of scale.

Steps taken:

- MoFPI:
    - A dedicated ministry since 1988
- PM Kisan Sampada Yojana:
    - by MoFPI in 2016, Central Sector scheme, umbrella scheme
- Production Linked Incentive Scheme:
    - Central Sector Scheme for 2021-27.
    - Will provide incentives and marketing support.
- PM Formalization of Micro Food Processing Enterprise Scheme:
    - To help upgrade existing micro food processing companies.
    - Gives 35% subsidy on project cost, up to Rs 10 lakh
    - Adopts 'One District One Product' approach, govt. to provide common infra and marketing support.
- Priority Sector Lending:
    - status to food processing for easier credit
- FDI:
    - Permitted 100% FDI by automatic route (brings investment and technology)



Mega Food parks scheme:

- Central Sector Scheme, Launched by MoFPI in 2008
- Up to Rs 50 crore financial assistance to set up Mega Food Parks.
- Operate on hub and spoke model:
    - Collection Centres: raw materials collected from farmers
    - Primary Processing Centres: grading, cooling, pulping, etc.
    - Mega Food Park: Main processing, cold storage, packing, etc.

Challenges:

- Only 22 of the 38 approved MFPs have started operations (August 2021)
- Timeline of 30 months to operationalize is too tight.
- Delay in statutory clearances from state governments.
- Minimum 50 acres of land is needed.
- Can't use land as collateral to get loan.
- One size fits all approach ignores different regional and investment requirements.

Draft National Food Processing Policy 2019:

- Allows flexibility to suit local requirements.
- Increases role of states like allot land, give monetary incentives, etc.
- Mega projects will get support in land, power, water, etc. on fast track basis
- Establish Specialized Agro processing Financial Institutions (SAPFI) for easier credit.

Mains 2020:

What are the challenges and opportunities of food processing sector in the country? How can the income of the farmers be substantially increased by encouraging food processing? (Answer in 150 words)

Social Stock Exchange

Social Enterprise:

- Enterprises that are engaged in the business of "creating positive social impact".

Social Stock Exchange:

- Electronic fundraising platform for social enterprises
- Idea supported by Union Budget 2019 and Economic Survey 2021.

Need for SSE:

- Social enterprises: will have more visibility, better access to funds
- Investors: will find it easy identify better performing social enterprises
- Society: faster eradication of poverty, better health, education, etc.
- Government: burden on govt to fund/work in social areas will reduce
- Performance: social impact will be audited and reported, resulting in better performance and transparency
- FCRA norms tightened, so SSE will help in alternative way to raise funds.

Challenges:

- Defining a social enterprise is difficult
- Evaluating impact of social work, in different sectors, and comparing them.
- Designing a valuation method for social enterprises is challenging.
- Increased compliance burden on companies after getting listed.
- Low returns may discourage investors.

What more can be done:

- Make funding to SSE companies eligible as CSR.
- Exempt Security Transaction Tax and Capital Gains Tax on trades done on SSE.
- Investors be allowed to claim tax exemptions .

- SEBI has finalised a framework for SSE for fund raising by social enterprises (September 2021)
- SSE will be a separate segment on existing stock exchanges.
- It can be used by both Non-profit organisations (NPOs) and For-profit social enterprises.
- They must have social intent and impact as their primary goal.
- They must be engaged in at least one of the 15 activities approved by SEBI (poverty, hunger…)
- Funds can be raised by equity, bonds, mutual funds, social impact funds, development impact funds.
- Social audit will be mandatory.
- *Corporate foundations, political and religious organisations may not be allowed*
- *Minimum reporting standards:*
  - *social problem being addressed*
  - *target segment*
  - *approach to solving the problem*

ESG reporting / Sustainability reporting:

- Disclosing data on environmental, social and governance impacts.
- Many benefits, like, shows financial risk due to environmental or social practices.
- To be included under Business Responsibility and Sustainability Reporting
- voluntary for FY 2021-22 and mandatory from FY 2022-23 for the top 1,000 listed companies by market capitalization

Triple Bottom Line

The Indian EXPRESS | Epaper

ExplainSpeaking: The curious case of India's falling unemployment rate

Latest PLFS report shows unemployment rates falling in a year when GDP growth hit a low. This surprising trend emerges from one method for calculation; a second method shows unemployment isn't really down.

Written by Udit Misra , Edited by Explained Desk | New Delhi |

Updated: July 30, 2021 10:08:38 am

PLFS

Periodic Labour Force Survey:

- Since 2017, by National Statistical Office
- Gives key employment data like LFPR, WPR, UR.

PLFS third annual report (July 2019 - June 2020):

- Unemployment rate fell from 5.8% to 4.8%

Problem:

How can unemployment fall when GDP growth rate is falling?

- Rise in distress
- US instead of CWS

Rise in distress:

- Fall in jobs & income → more workforce in agri
- Rise in workforce is due to rise in agri workforce.
- UR still high in 15-29 age group (15%)

PLFS calculates unemployment in two ways:

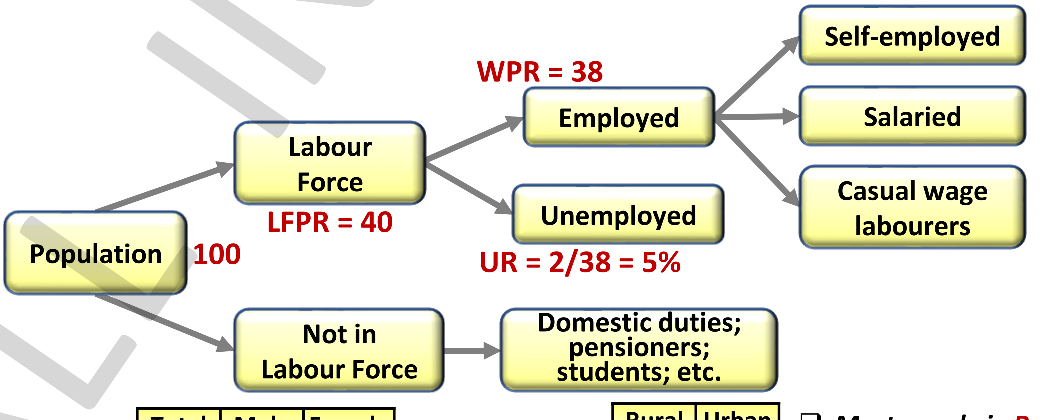
- Usual status (US): employment status in last 365 days
- Current Weekly Status (CWS): employment status in last 7 days

CWS numbers show that unemployment didn't fall.

Why CWS is better than US?

- Memory recall is much better in CWS. Recall is less reliable over longer periods.
- Most people today are in jobs that don't follow year long cycle (agriculture).
  US makes more sense in agrarian economy.
- Quarterly changes are given by CWS, not US

$$\text{LFPR} = \frac{\text{Employed} + \text{Unemployed}}{\text{Total Population}} \qquad \text{WPR} = \frac{\text{Employed}}{\text{Total Population}} \qquad \text{UR} = \frac{\text{Unemployed}}{\text{Employed} + \text{Unemployed}}$$



All three more for Males

	Total	Male	Female
LFPR	40%	57%	23%
WPR	38%	54%	22%
UR	4.8%	5.1%	4.2%

	Rural	Urban
Salaried	13%	43%
Self-employed	53%	31%
Casual	25%	11%

- *Most people in Rural areas are Self-employed*
- *Most people in Urban areas are Salaried*

Note: the above figures are taken from PLFS third annual report, but are approximated.

Unemployment

General reasons for unemployment in India:

- High population burden
- Illiteracy → Low level of education/skills
- Poor quality of education → low employability
- Slow job creation → not enough jobs for graduates
- Society discourages women to take employment

Solution? See reasons and make points, or: *(Think of agri, manufacturing, services)*

- **Agriculture:**
  - Promote allied activities like horticulture, fisheries, animal husbandry
  - Incentivise Food Processing industry
- **Manufacturing:**
  - Promote assemble in India, then slowly go up the value chain
  - Focus on labour intensive sectors like textile, leather.
  - Reduce compliance burden (GST, labour laws)
- **Services sector:**
  - Promote sunrise industries with high job potential like Tourism.
  - Incentivise global leaders in emerging technologies to set up base in India
- Frame a National Employment Policy to push employment generation
- Formalise the large informal sector
- Upskilling of workers as per changing needs of industry

Impact of unemployment:

- Less money with people → low demand → low GDP growth rate
- Less money with people → low expenditure on health and education
- Low human capital → low worker productivity → low global competitiveness
- Poverty → more spending on anti-poverty programs
- Low tax collection → higher govt borrowing
- More crimes in society (theft, domestic abuse, etc.)

Some recent steps:

- Labour laws have been codified
- eSHRAM portal as National Database of Unorganized Workers (easy to get benefits of social security schemes)
- Atmanirbhar Bharat Rozgar Yojana: govt to pay EPFO on behalf of employee and/or employer
- Digisaksham: enhance the employability of youth by improving their digital skills

Informal employment

Why is informal sector important to Indian economy?

- GDP: forms 50% of GDP
- Jobs: employs 90% of workforce
- Linkages: supplier to formal sector

Why India has a large informal sector?

- State led industrialization: public sector could not provide jobs to all; restrictions on private sector; so people had no option other than informal sector.
- Education: formal employment needs degree/certificate; only 2.4% of workforce has formally acquired vocational training.
- Labour laws: by becoming formal, companies need to comply with strict labour laws
- MSME: Problem of missing middle:
    - Govt. wants job creation for the poor.
    - So govt. gives incentives for small firms.
    - Side-effect: small firms don't want to grow big (else they lose incentives)

Problems faced by informal sector:

- Lack of data makes policy formulation difficult.
- Access to credit is difficult (high ROI) due to lack of documentation (e.g. income proof)
- Outdated technology makes them uncompetitive.
- Lack of willingness to expand, to prevent compliance burden.

Steps Taken for Formalization of jobs:

- Mudra and Stand-up India for easy credit.
- Recognition of Prior Learning scheme under PM Kaushal Vikas Yojana
- Universal Account Number by EPFO for portability of Provident Fund accounts
- Under PM Rozgar Protsahan Yojana (PMRPY), Government is paying 12% of employer contribution to EPFO for new employees.
    - Side-effect of such measures: job numbers increasing, not jobs

Unorganized vs informal:

- 80% workers are in unorganized sector.
- 90% workers are in informal employment.
- Unorganized sector: unincorporated enterprise with less than 10 workers.
- Informal employment: working without social security provided by employer.

Self employment

What is self-employment?

- An individual's income being directly dependent on profit earned.
- Data:
    - PLFS: 53% in rural; 31% in urban
    - NSSO: 96% of 6.3 crore unregistered firms are run by individuals

Why such large number of self-employed?

- Low education: people not educated enough / lack degree for formal employment
- No jobs: lack of formal employment opportunities
- Govt. schemes: PM Employment generation Program; PM-Mudra Yojana

Importance of self-employment:

- They become job creators
- Encourages culture of innovation
- Diversification of jobs increases economy's resilience

Issues with self-employment:

- Only 4% of self-employed actually hire others (create jobs)
- 60% of self-employed are in agriculture which is a low productivity sector
- Low average monthly income of Rs 8,000/month

Fixed Term Employment

Timeline:

2016: for apparel manufacturing sector
2017: for footwear manufacturing sector
2018: for all sectors

Fixed Term Employment:

Engaging worker for a fixed term, through written contract. Conditions:

- Hours of work, wages, allowances should not be less than of permanent employee.
- He must get all statutory benefits like that of permanent employee.
- He must get gratuity if serves for one year.
- Wage rate must be displayed on website and must be paid within seven days.
- Contract can be renewed any number of times. (Other countries have limits)

Permanent Employee	Contract Labour	Fixed Term Employee
➢ Engaged by company ➢ On payroll of company	➢ Engaged by agency ➢ Not on payroll of company	➢ Engaged by company ➢ On payroll of company
➢ Employed on permanent basis ➢ Termination notice required	➢ Terms as negotiated with agency/contractor	➢ Employed for fixed period ➢ Termination notice not required

Benefits:

- Nature of work is changing e.g. rise of Gig economy
- It will help companies hire best talent for short period of time.
- It will help companies to quickly adjust workforce as per changing workload.
- Even non-permanent employees will get all benefits, and without delay.
- Provides alternative to contractor system, exploitation of labour will decrease.

Issues:

- Companies may convert positions for permanent employees into fixed term employment.
  - Allowed as per Code on IR 2020 (September 2020)
- It offers no job security. Employees will be under constant pressure to appease seniors.
- It will increase job switching. Employees under FTE will be constantly looking for other jobs.

FTE will go a long way in improving ease of doing business and especially boost manufacturing sector. Steps should be taken to dispel any myths/concerns of labour unions.

Fixed Term Employment:

- ❑ Hired on company's payroll for specific time.
- ❑ Contract can be renewed any number of times.
- ❑ Under Code on IR 2020:
  - → Permanent jobs can be converted into fixed-term jobs
  - → Company must give them same benefits, wages, etc. as permanent employees

Prelims 2019:

As per the Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018:

1. If rules for fixed-term employment are implemented, it becomes easier for firms/companies to lay off workers
2. No notice of termination of employment shall be necessary in the case of temporary workman

Which of the above statements is/are correct?

(a) 1 only (b) 2 only
$\boxed{\text{(c)}}$ Both 1 and 2 (d) Neither 1 nor 2

Gig Economy

Gig economy: *(Definition as per Boston Consulting Group)*
- **work** done by an individual
- on a per-time or **per-task** basis (with no commitment of future work)
- with **flexibility** to choose hours of work

e.g. Food delivery, cab service, plumbing, electrical repair, etc. (Zomato, Ola, UrbanCompany)

Why is it rising so fast?
- Growth in **digital technologies** (all gig work assigned by digital platforms)
- Emergence of **start-up culture** (can scale up quickly as per demand, no fixed salary)
- Rising consumer **demand for services** at home (salon, food, etc.)
- Rising **labour supply** ready to work in temporary job
- Lack of formal **jobs** in the economy

Benefits:
- **Reduces fixed costs** for company (e.g. fixed salary)
- **Flexibility to companies**: workforce as per workload
- **Flexibility to workers**: time, hours, work for multiple companies
- **Increases labour participation** by students/women by offering part-time work as per convenience.

Challenges:
- **No job security**: can be fired any moment, can't complain
- **Fluctuating income**: due to low demand, too many workers, bad weather, illness
- **No career**: no opportunity for skill upgradation and promotion
- **No legal rights**: form trade union, right to strike, minimum wages, etc.

Code on Social security 2020:
- **Register** all Gig workers
- Provide **insurance** for life and disability cover
- Social security **fund** to be funded by company and govt.

Way forward:
- **Mandatory social protection**: cover under PM Jeevan Jyoti Bima Yojana and PM Suraksha Yojana.
- **Income certainty**: Set minimum per hour or per task wage rates.
- **Work assurance**: Set minimum assured daily work.
- **Skilling**: create provision for workers to upgrade their skills.

Skill Development

Need for skill development:

- High unemployment rate can be controlled by skilling
- Skilled workforce brings innovation, which increasing competitiveness.
- Skilling is necessary to utilize demographic dividend. 62.5% of India's population is in the age group of 15-59 years.

Skill Development

- NSSO 2011-12:
  - Only 2.4% of workforce is formally trained. Its 96% in South Korea.
- India Skills Report 2021:
  - Only 46% of graduates are employable

Challenges:

- Education: 40% of marginal workers are illiterate (Census 2011).
- Quality of education: Only 46% graduates are employable. (More rote learning, less practicals)
- Vocational education: School education focusses on theoretical knowledge, not vocational edu.
- Low skilling capacity: India's skilling capacity is less than the workforce entering market annually.
- Underutilized capacity at ITIs as total trainees are 19.4 lakh against capacity of 21.9 lakh.
- Informal sector: It is difficult to upgrade skills of 90% of the workers, as they are in informal employment.
- Sector skill councils are too many; follow their narrow interest, not of industry; no mechanism to hold them accountable.
- Reluctance of industry to give higher wages to skilled workers.
- Fragmented policy. Policies to promote skilling are spread across 20 ministries. This creates multiplicity and inefficiency.

Skill development initiatives:

- PM Kaushal Vikas Yojana:
  - Recognize and certify prior learning.
  - mandatory provision for placement tracking.
- National Apprenticeship Promotion Scheme:
  - Union govt. pays 25% of stipend for apprenticeship with employers.
- Future Skills prime:
  - To reskill IT industry workforce for emerging technologies like AI, Blockchain, Cyber security, etc.
- Indian Institute of Skills:
  - to be established in three cities Mumbai, Ahmedabad, Kanpur
- Indian Skill Development Services:
  - Group-A service to boost skill development system in the country

Skill Development

- 1956: NCVT: National Council for Vocational Training
- 2008: NSDC: National Skill Development Corporation (PPP model; 49% govt, 51% private)
- 2013: NSDA: National Skill Development Agency
- 2014: MSDE: Ministry of Skill Development & Entrepreneurship
- 2018: NCVET: formed as skill regulator by subsuming NSDA & NCVT

- Indian Institute of Skills: on PPP model, in three cities (Mumbai, Ahmedabad, Kanpur)
- Indian Skill Development Service: Group-A service; through CSE? No, ESE
- India Skills Report: by MSDE? No, Wheebox
- SWADES: by MSDE/MoCA/MEA; for those returning to India from Abroad
- ASEEM: by NSDC; for those returning from cities to villages

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NSSO 2011-12:

- Only 2.4% of workforce is formally trained.

PLFS 2017-18:

- 1.8% of population received formal vocational training
- 5.6% of population received informal vocational training
- 33% of trained youth are unemployed

Prelims 2017:

'Recognition of Prior Learning Scheme' is sometimes mentioned in the news with reference to

(a) Certifying the skills acquired by construction workers through traditional channels.
(b) Enrolling the persons in Universities for distance learning programmes.
(c) Reserving some skilled jobs to rural and urban poor in some public sector undertakings.
(d) Certifying the skills acquired by trainees under the National Skill Development Programme.

Prelims 2017:

With reference to 'National Skills Qualification Framework (NSQF)', which of the statements given below is/are correct?

1. Under NSQF, a learner can acquire certification for competency only through formal learning.
2. An outcome expected from the implementation of NSQF is the mobility between vocational and general education.

Select the correct answer using the code given below:

(a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

Prelims 2018:

With reference to Pradhan Mantri Kaushal Vikas Yojana, consider the following statements

1. It is the flagship scheme of the Ministry of Labour and Employment.
2. It, among other things, will also impart training in soft skills, entrepreneurship, financial and digital literacy.
3. It aims to align the competencies of the unregulated workforce of the country to the National Skill Qualification Framework.

Which of the statements given above is/are correct?

(a) 1 and 3 only (b) 2 only (c) 2 and 3 only (d) 1, 2 and 3

Labour Laws

Why are labor laws needed?

- to protect the rights of workers (unequal power)
- to help develop harmonious industrial relations (together we win)

Constitution:

- Article 19(1)(c): right to form associations or unions
- Article 23: prohibits forced labour
- Article 43A: secure the participation of workers in the management of industries
- Concurrent list; both Centre and states can frame laws.

What was the need to codify labour laws?

- Too many laws: 44 Central laws and more than 100 state laws.
- Complexity: many laws were outdated, and inconsistent with each other
- Unorganized sector: labour laws covered only organized sector workers.
- Compliance burden: industries (especially small) found them difficult to follow.
- Contractualization of labour: increased from 26% in 2005 to 36% in 2018.
- Poor enforcement: due to delays in referral, disposal and implementation of awards.
- 2nd National Commission of Labour: recommended simplification of labour laws.

Four labour codes:

1) Code Occupational Safety, Health and Working Conditions, 2020
2) Code on Industrial Relations, 2020
3) Code on wages, 2019
4) Code on Social Security, 2020

What more can be done?

- Create separate law for small scale units
- Include ASHA and Anganwadi workers, and agricultural workers
- Create system of labour courts and Labour relation committees
- Restrict number of FTE and contract workers, and number of renewals. (China 10%, 2 renewals)
- Enable unorganized sector workers to form trade unions, with any number of workers

CODE ON INDUSTRIAL RELATIONS, 2020

- Defines worker as those earning less than Rs 18,000/month
- Companies with more than 300 workers:
  - Cannot fire workers without govt. permission
  - Must frame standing orders (rules) on conduct of workers.
- Trade Union:
  - Only the TU with more than 51% workers will be eligible for negotiations.
  - If no such TU, then form a Negotiation Council with TU having 20% workers.
- Tribunals:
  - For settling industrial disputes; one judicial and administrative member
- Fixed Term employees:
  - Their working hours, wages, and other benefits can't be less than that of a permanent worker.
- Re-skilling fund:
  - To be established by govt.; employer to contribute 15 days wage

Issues with the code:

- Strike:
  - Not allowed in certain conditions; Must give 14 days notice
  - Earlier, it was only for public utilities (water, electricity, transport, etc.) but now for all.
- Trade Unions:
  - No negotiation Council if no TU has 20% members.
- Tribunals:
  - Govt. can modify/reject tribunal award on grounds of economy, justice, etc.
- Fixed Term Employment:
  - Permanent posts can be converted into temporary (2018 rules nor used)

CODE ON SOCIAL SECURITY, 2020

- ❑ Applies to:
  - All establishments (above certain size-threshold)
  - Unorganized workers, gig workers, platform workers
- ❑ Expands definitions:
  - 'employees' to include 'contract workers'
  - Inter-state migrant workers to include self-employed workers
- ❑ National Social Security Board:
  - To monitor welfare schemes and advise govt.
- ❑ Social Security Fund:
  - For unorganised workers, gig workers, platform workers.
  - To be set up by Central and state governments.
- ❑ Epidemic/Pandemic/Disaster:
  - Gives central govt. additional powers e.g. reduce PF contributions

Issues with the Code:

- ❑ Not for all companies:
  - Pension and medical insurance are mandatory only for establishments above certain size threshold.
- ❑ Not for all employees of company:
  - PF, pension, etc. only for employees earning above certain threshold.
- ❑ Overlap between Gig and Platform workers:
  - Their definitions overlap, hence, it's unclear how category specific schemes will apply.
- ❑ Aadhaar:
  - ❑ Mandatory linking of Aadhaar number for social security benefits may violate SC judgement in Puttaswamy case.

CODE ON WAGES, 2019

- To regulate wage and bonus payments in all employments.
- Floor wage to be fixed by Central govt.
- Minimum wage to be fixed by Centre/State; must be higher than Floor wage; must be reviewed every five years.
- Overtime wage at least twice the normal wage rate
- Wage deductions should not exceed 50% of total wage.
- Bonus (for certain employees) to be between 8.33% and 20%.
- No gender discrimination.
- Central and State Advisory Boards to advise govt. on various issues.

CODE ON OCCUPATIONAL SAFETY, HEALTH, AND WORKING CONDITIONS, 2020

- Coverage:
  - Factory: manufacturing facility which employs 20 workers (with electricity) or 40 workers (without electricity)
  - Hazardous: any establishment where hazardous activity is carried out
  - Contract workers: those employing 50 or more contract workers;
  - Prohibits contract labour in core activities (to be determined by Centre/State government
- Work conditions:
  - Fixes maximum working hours at 8 hours/day and 6 days/week.
  - Women can be employed in all types of work; can work between 7 pm – 6 am but with consent
  - Must provide washrooms for men, women, and transgenders.
- Exemption:
  - State govt. can exempt any new factory from the Code.
- Inter-state migrant workers:
  - Definition: moved to another state; earns less than 18,000/month
  - Benefits: can avail PDS from native or new state
  - Database: govt. to maintain portal where ISMW can register using Aadhaar

Issues with the code:

- It bars the jurisdiction of civil courts.
- The only option will be to petition before High Courts (accessibility problem)

Labour Codes

Code on Wages, 2019	Code on Social Security, 2020	Code on Industrial Relations, 2020	Code Occupational Safety, Health and Working Conditions, 2020
❑ Payment of Wages Act 1936 ❑ Minimum Wages Act 1948 ❑ Payment of Bonus Act 1965 ❑ Equal Remuneration Act 1976	❑ Employees Compensation Act 1923 ❑ Employees Provident Fund Act 1952 ❑ Employees State Insurance Act 1948 ❑ Maternity Benefit Act 1961 ❑ Payment of Gratuity Act 1972	❑ Industrial Disputes Act 1947 ❑ Trade Union Act 1962 ❑ Industrial Employment (Standing Orders) Act 1946	❑ Factories Act 1948 ❑ Mines Act 1952 ❑ Contract Labour Act 1970 ❑ Inter-State Migrant Workmen Act 1979 ❑ Construction Workers Act 1996 ❑ Working Journalist (Fixation of rates of wages) Act 1958

Code on Wages, 2019

- ❑ Floor wage to be fixed by Central govt.
- ❑ Minimum wage to be fixed by Centre/State; must be higher than Floor wage; must be reviewed every five years.
- ❑ Overtime wage at least twice the normal wage rate

Code on Social Security, 2020

- ❑ Covers unorganized workers, gig workers, platform workers
- ❑ Schemes to be funded by Centre, States, Aggregators
- ❑ Epidemic/Pandemic/Disaster: Gives central govt. additional powers e.g. reduce PF contributions

Code on Occupational Safety, Health, and Working conditions, 2020

- ❑ Covers Factory with 20 workers (with electricity) or 40 workers (without electricity) or doing hazardous work.
- ❑ Limit of 8 hours/day and 6 days/week.
- ❑ Women can be employed in all types of work
- ❑ State govt can exempt any new factory
- ❑ It bars the jurisdiction of civil courts

Code on Industrial Relations, 2020

- ❑ Worker < Rs 18,000/month
- ❑ Companies with more than 300 workers cannot fire workers without govt. permission
- ❑ Only TUs with > 51% workers can negotiate.
- ❑ Tribunal: Govt. can modify/reject their award
- ❑ Strike: only after 14 days notice
- ❑ Fund for reskilling of fired workers

Fixed Term Employment:

- ❑ Hired on company's payroll for specific time.
- ❑ Contract can be renewed any number of times.
- ❑ Under Code on IR 2020:
  - → Permanent jobs can be converted into fixed-term jobs
  - → Company must give them same benefits, wages, etc. as permanent employees

Prelims 2019:

As per the Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018:

1. If rules for fixed-term employment are implemented, it becomes easier for firms/companies to lay off workers
2. No notice of termination of employment shall be necessary in the case of temporary workman

Which of the above statements is/are correct?

(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

Financial Inclusion

Affordable access to financial services, such as bank account, payments, loan, insurance etc.

Objectives of FI →
- Banking for the unbanked: Universal access to bank accounts
- Access to formal credit: at reasonable cost
- Social security products: universal coverage by insurance

PM JAN DHAN YOJANA

Features:
- for those who don't have any other account
- No need to maintain minimum balance
- Rupay debit card & accident insurance of ₹ 2 lakh
- Overdraft facility of Rs 10,000 to eligible persons

Achievements:
- 43 crore accounts opened
- Rs 1.5 lakh crore balance
- 67% accounts are in rural/semiurban areas
- 55% beneficiaries are women
- Subsidy transfer through DBT became easier

Challenges:
- Cost: High cost of operations of traditional banking model.
- Internet: poor internet coverage in rural areas makes use of digital products difficult.
- Informal credit: bank account does not reduce dependence on moneylenders.
- Savings: lack of surplus income and savings; no need to open bank account
- Bank mitras: low reach, signal problem, security threats
- Lack of financial literacy in general public.

NATIONAL STRATEGY FOR FINANCIAL INCLUSION

Recently, RBI released NSFI 2019-24:
- Every village should have a formal financial service provider within 5 km radius.
- Every adult should have access to basic services like bank account and insurance.
- Customer must be given info about govt. schemes on livelihood (NRLM).
- Customers must be made aware of grievance redressal system.
- Coordination between govt., regulators, service providers, etc.

DIGITAL FINANCIAL INCLUSION

DFI refers to digital access of formal financial services to underserved population.

Components of digital financial inclusion:
- Digital platform like mobile app/website.
- Devices like mobile phones and PoS machines.
- Retail agents for 'cash-in' and 'cash-out' facilities.

Benefits of digital financial inclusion:
- Enables access to formal financial services at low cost (transport, staff salary)
- Improves financial inclusion among weaker sections like women, PwD, elderly, etc.
- Develops habit of saving as small irregular amounts are used more frequently.
- Less risk of cash-related crimes.

Reasons for its rapid growth in India:
- High smartphone and internet penetration.
- Govt. initiatives like PMGDISHA, Digishala, DBT, Jan Dhan.
- Fintech revolution due number of startups.

Challenges:
- Digital illiteracy.
- Prone to cyber-crime, fraud (OTP scams), and associated loss of faith.
- Challenge in regulating new service providers.
- Small merchants fear that they may be brought into the tax net.

FINANCIAL EDUCATION:

- Recently RBI released National Strategy for Financial Education 2020-25.
- 27% people have the minimum FE as prescribed by OECD. [Survey by National Centre for Financial Education]
- Importance and challenges in financial education?
    - *(same points as Financial inclusion)*
- Way forward: (NSFE 2020-2025)
    - Content: create content suitable for all (complexity, language)
    - Capacity: train and frame 'code of conduct' for financial education providers
    - Collaboration: Integrate financial education in school, vocational courses.
    - Communication: use mass media channels (Ads by RBI, SEBI, IRDAI)
    - Community: Involve community to spread financial literacy

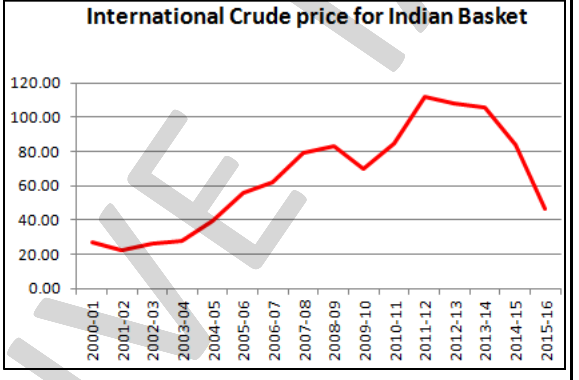
INFLATION

Inflation:

- rise in general <u>price</u> level in economy
- fall in <u>purchasing power</u> of money

Demand pull inflation **(think of Rise in Demand)**

- Increasing <u>population</u>
- Rise in <u>income</u>
- Increase in <u>govt expenditure</u>
- Printing of <u>new money</u>



Cost-push inflation **(think of Fall in supply)**

- Increase in <u>wages</u> and cost of raw materials
- Increase in indirect <u>taxes</u>
  Excise duty 2014-2020: Petrol 9→33 Diesel 3→32)
- Increase in administered prices like <u>MSP</u> and FRP

Other factors:

- <u>Hoarding</u> of goods to create artificial scarcity
- Fluctuation in <u>global prices</u> of imported products (crude oil, edible oil)

Govt steps:

- Banning exports, imposing stock limits, easing imports
- Price stabilization fund, creation of buffer stock
- Strategic petroleum reserves for crude oil
- Increasing domestic production (e.g. pulses)

Following is from Prelims course

Tax & Inflation

More tax → Less money with people → Less inflation

Less tax → More money with people → More inflation

Prelims 2011:

Economic growth is usually coupled with
(a) Deflation
(b) Inflation
(c) Stagflation
(d) Hyperinflation

Economic growth → More jobs, Less poverty → More money in hands of people → Increase in Aggregate Demand

Prelims 2011:

Rapid increase in rate of inflation is sometimes attributed to "base effect". What is "base effect"?
(a) It is the impact of drastic deficiency in supply due to failure of crops
(b) It is the impact of the surge in demand due to rapid economic growth
(c) It is the impact of the price levels of previous year on calculation of inflation rate
(d) None of the statements (a), (b) and (c) given above is correct in this context

Inflation Targeting

FINANCIAL EXPRESS Read to Lead

At 6.09% in June, inflation breaches RBI threshold, MPC may yet stay put on rate cut path

By: FE Bureau
July 14, 2020 12:40 AM

Of course, transportation services (thanks to recent duty hikes on fuel) and certain food articles were among the major drivers of the June inflation.

- Central Bank changes policy rates to keep inflation in a target band.
- India adopted inflation targeting in 2016.
- Target:
  - → CPI 4 ± 2%
  - → Reviewed every 5 years
  - → Decided by? Government, after consulting RBI
- Failure:
  - → Either limit crossed for 3 consecutive quarters
  - → RBI will explain reasons, actions, future.
  - → ~~Governor will resign~~

Monetary Policy Committee:

- Statutory body under RBI Act, 1934
- RBI: Gov. ; Dy. Gov. in-charge of MP ; One officer
- Govt: Three; 4 years; no reappointment
- Must meet at least 4 times a year

Prelims 2015:
With reference to inflation in India, which of the following statements is correct?
(a) Controlling inflation in India is responsibility of Govt of India only
(b) The Reserve Bank of India has no role in controlling the inflation
(c) Decreased money circulation helps in controlling the inflation
(d) Increased money circulation helps in controlling the inflation

Prelims 2017:
Which of the following statements is/are correct regarding the MPC?
1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer from below:
(a) 1 only (b) 1 & 2 only (c) 3 only (d) 2 & 3 only

Prelims 2015:
Which of the following brings out 'CPI for Industrial Workers'?
(a) Reserve Bank of India
(b) Dept. of Economic Affairs
(c) Labour Bureau
(d) Dept. of Personnel & Training

CPI	For	By	Base
CPI-IW	Industrial Workers	Labour Bureau in Ministry of Labour	2016
CPI-AL	Agricultural Labourers		1986-87
CPI-RL	Rural Labourers		1986-87
CPI-UNME	Urban Non-Manual Employees	CSO in MoSPI	2012

Prelims 2020: Consider the following statements
1. The weightage of food in CPI is higher than that in WPI
2. WPI does not capture change in price of services, which CPI does.
3. RBI has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?
(a) 1 and 2 only (b) 2 only (c) 3 only 4 (d) 1, 2 and 3

- CPI-UNME has been replaced by CPI Rural, Urban and Combined
- Released by CSO in MoSPI
- Base 2012

	Consumer Price Index CPI	Wholesale Price Index WPI	Producer Price Index PPI	Index of Industrial Production IIP	Purchasing Manager's Index PMI
Released by	CSO in MoSPI	OEA in DPIIT	OEA in DPIIT	CSO in MoSPI	Markit & Nikkei
Base year	2011-12	2011-12	2011-12	2011-12	-
Frequency	monthly	monthly	monthly	monthly	monthly
Remarks	46% weightage to food items. Used by MPC.	Excludes services. 64% weightage Manufacturing	Includes Services. Plans to replace WPI by PPI.	77% weightage to Manufacturing	Sentiment tracker. 50 is neutral.

I read I forget, I see I remember | See explanation of this PDF on YouTube www.youtube.com/c/allinclusiveias

Inequality & Inclusive Growth

Wealth inequality: Top 1% people hold 42% of wealth. Top 10% people hold 74% of wealth. Bottom 50% people hold 3% of wealth.	***Income inequality:*** (in 2018) Top 1% people's wealth increased 46% Bottom 50% people's wealth increased 3%
	Social inequality: based on gender, caste, etc.

Please note:

- Inequality is natural. Inequality in itself is not a problem.
- It becomes a problem when it results in denial of rights, opportunity, etc.

Consequences of inequality?

- Low social mobility:
  - change in social status relative to one's current social location in the society.
- Social unrest:
  - leads to popular agitations, increase in crimes, demand for reservation, etc.
- Social divisions:
  - relative deprivation reinforces casteism, communalism, regionalism.
- Vulnerability:
  - weaker sections are more vulnerable to disasters like flood, drought, covid, etc.
- Authoritarianism:
  - Power gap increases tendencies of unequal treatment before law, corruption, cronyism, etc.

Way forward:

- Improve public services like water, childcare facilities, etc. to enable women to participate in labour market. (Nal se Jal, Maternity benefit Act)
- Expand social security net through income, insurance, pensions (NREGA, NFSA, PMJJY, APY)
- Improve quality of social infra like health and education facilities.
- Reduce overdependence on agriculture; promote non-farm entrepreneurship; skilling (RSETI, SHG, PM-EGP, MUDRA)
- Link industry incentives to jobs creation; create coastal employment zones.
- Promote on upskilling of workforce vulnerable to automation.

How growth benefits poor
- → Simple Growth: trickle-down approach (automatically)
- → Pro-poor growth: welfare approach (redistribution)
- → Inclusive growth: empowerment approach (capability development)

What are pro-poor growth and inclusive growth? How do they differ?

- Pro-poor growth:
  - economic growth that benefits poor people.
- Inclusive growth:
  - all groups of people participate in growth and benefit equitably from it
  - People at bottom of pyramid become part of growth process, not merely recipient of fruits of growth.

Pro-poor growth	***Inclusive growth***
Focusses on the poor	Focusses on everyone: poor, middle class, rich
Brings welfare to the poor	Creates opportunities for poor & others
Focussed on end result	Focussed on process as well as end result

Liquidity Trap

Liquidity trap A situation of very low rate of interest in the economy where every economic agent expects the interest rate to rise in future and consequently bond prices to fall, causing capital loss. Everybody holds her wealth in money and speculative demand for money is infinite. *– NCERT*

- ❑ Low interest rate
- ❑ High savings rate
- ❑ People avoid bonds

Liquidity Trap:

A situation of very low interest rate, when monetary policy becomes ineffective.

Implications?

- ❑ **In such a situation, increase in money supply has no effect on:**
  - ➢ **interest rates, because they are already very low**
  - ➢ **consumer demand, because people save money instead of spending**
- ❑ **Risk of recession as increased money supply fails to provide stimulus to economic activity**
- ❑ **Businesses don't invest in expansion (no increase in consumer demand)**

What can be done?

- ❑ **Increase in govt spending**
- ❑ **Focus on job creation (will increase consumer demand)**
- ❑ **Reducing general price level, as it may boost spending**

Why the concern?

- ➢ **60% of global economy has interest rates below 1%**
  20% of global economy has negative interest rates
- ➢ **Low consumer demand due to pandemic**

Hence, IMF warned about risks of liquidity trap

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India is vulnerable to a liquidity trap of its own

2 min read . Updated: 03 Nov 2020, 08:16 PM IST

Livemint

Gita Gopinath of the IMF has called for a fiscal push across the world as the rescue plans of central banks lose efficacy. The rationale she offers is applicable to the Indian economy too

FORTUNE INDIA

OPINION

India's growth prospects anything but bright

Prolonged cheap credit regime has led to a clear liquidity trap and irrational stock market boom, both of which are bad for the economy.

By **PRASANNA MOHANTY**, Nov 5, 2021

7 min read

1991 Economic Reforms

"No power on earth can stop an idea whose time has come" said then finance minister Manmohan Singh quoting Victor Hugo while presenting the Union Budget on 24 July 1991.

In first four decades, India created a strong industrial base and became self-sufficient in food grains. But 1991 BoP crisis compelled economic reforms

WHAT CAUSED THE CRISIS?

- Underlying reasons:
  - License raj: made it difficult to do business.
  - Import Substitution: Reduced competitiveness of Indian industries.
- Immediate reasons:
  - BoP crisis: Forex reserves dropped, not sufficient for even two weeks of imports.
  - Gulf war: pushed up oil prices
  - Fall of USSR: collapse of Rupee-Rouble trade

GOVT RESPONSE?

Govt approached WB and IMF, got $7 billion loan, subject to conditions:

- open up the economy by removing restrictions on private sector (Liberalization)
- reduce role of government in many areas (Privatization)
- remove trade restrictions between India and other countries (Globalization)

Govt agreed, brought New Economic Policy: stabilisation measures and structural measures

stabilisation measures	structural measures
(short-term measures)	(long-term measures)
Strengthen forex reserves	To increase competitiveness
Bring inflation under control	Through LPG reforms

LIBERALISATION:

- Deregulation of Industrial Sector:
  - Industrial licensing abolished for most products (except alcohol, explosives, electronics, aerospace, drugs)
  - Many goods produced by small-scale industries were dereserved.
- Financial Sector Reforms: (facilitation instead of control)
  - Many private sector banks established (Indian as well as foreign)
  - FIIs allowed to invest in Indian financial markets
- Tax reforms:
  - Direct taxes were gradually reduced (Income tax and corporation tax)

PRIVATISATION:

- Disinvestment and sale of PSUs to improve financial discipline and facilitate modernisation.
- Private sector allowed in most sectors (except part of defence, nuclear, railway)
- Increased autonomy of PSUs by giving them special status like Maharatna, Navratna, etc.

GLOBALISATION: *Integration of national economy with world economy*

- Foreign Exchange reforms:
  - Rupee was devalued. This led to inflow of foreign exchange.
  - Reduced govt control on rupee value in forex market
- Trade and Investment Policy Reforms: (to increase competitiveness)
  - Encouraging foreign investments and technology
  - Removed import licensing and reduced export duties on most products

What changed in 30 years:

- **GDP grew from Rs 6 lakh crore to Rs 140 lakh crore**
- **Forex reserves increased from $6 billion to $600 billion**
- **Foreign investment increased from $100 million to $80 billion**
- **Sensex rose from 1,000 to 4,000 within a year, now 60,000**
- **Sectoral share in GDP:**
    - **Agriculture: 30 → 17**
    - **Industry: 27 → 29**
    - **Services: 43 → 54**
- **Misc: better hospitals, schools, universities, technology, working conditions, etc.**

Criticism:

- **Jobs have not increased at the same speed as GDP**
- **Tax-to-GDP ratio India-17%, China-22%, OECD-34%**
- **Agriculture did not benefit from reforms, its growth rate has decreased**
- **Cheap imports reduced demand for domestic goods.**
- **Inequality increased, rich benefitted from reforms much more than the poor.**

Way forward:

(Try to frame points yourself)

- **National Employment Policy**
- **GST is good, improve it. Simplify direct taxes also by new Direct Tax code.**
- **Agri extension services, food processing.**
- **Increase competitiveness (new tech, FDI), no more import substitution.**
- **Inclusive growth**

Land Reforms

DURING BRITISH RULE:

- **Intermediaries (Zamindars, Jagirdars, etc) merely collected rent**
- **Farmers did not own the land**

Hence, no one invested to increase productivity.
Result: famines, import dependence

AFTER INDEPENDENCE:

- **Kumarappa committee formed. Govt initiated land reforms.**
- **Steps taken to make tillers land owners.**
- **Idea: ownership will give incentive to increase productivity**

Land Reforms had four main components:

1) Abolition of Intermediaries:
   - **2 crore tenants became land owners**
   - **Problem: zamindars claimed to be self-cultivators**

2) Tenancy Reforms:
   - **Either outlawed tenancy, or regulated tenure and rent (20-25% instead of 70-75%)**
   - **Problem: no proof, many tenants evicted**

3) Fixing Ceilings on Landholdings:
   - **fixed maximum size of land that can be owned by an individual**
   - **Problem: benami transfers, big land owners registered part of land in name of relatives**

4) Consolidation of Landholdings:
   - **To tackle problem of fragmented land holdings (compulsory consolidation of fragmented land in some states like Punjab and Haryana)**
   - **This reduced cost of cultivation, increased productivity**
   - **Problem: further fragmentation due to population pressure**
   - **Average holding size in 1970 was 2.28 ha, which has come down to 1.08 ha in 2015**

Model Agriculture Land Leasing Act 2016:

- **Security of ownership to land owner.**
- **Security of tenure to tenant.**
- **No land to be left with tenant after lease period.**
- **Tenant can get bank loan against pledging of expected output.**
- **Land Tribunals to be established by States to adjudicate disputes.**

Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013:

- **Mandatory consent: 70% for PPP projects, 80% for private companies**
- **Compensation: 4 times the market value in rural areas, 2 times in urban areas.**
- **40% of profit to be shared with original owner if land is sold to third party.**
- **Social Impact Assessment must be done to identify impact on affected families.**
- **Resettlement of people affected by the acquisition.**

Land Records

Land records are maintained by different departments:

- Revenue department → textual records
- Survey and settlement department → spatial records
- Registration department → registering land transactions

Why digitalize land records?

- Land related data is maintained by different departments, this causes discrepancies while updating any one of them.
- Records in physical form are subject to manipulation by fraud, causes land disputes (65% of all civil litigations).
- By creating accurate digital land records, property related disputes will decrease.
- Digital records fastens up land acquisition process.
- Help people take loans by pledging land as collateral.
- Help govt in calculating property tax.
- GIS map helps all govt departments in planning process.

Step taken:

- Digital India Land Records Modernization Programme (Dilrmp) 2008
    - To computerize all land records, digitize maps, update survey and settlement records.
- Unique Land Parcel Identification Number (ULPIN)
    - 14-digit Alpha–Numeric Unique ID for each land parcel.
    - It has ownership details of the plot, its size and longitude and latitude.
- Survey of Villages Abadi and Mapping with Improvised Technology in Village Areas (SVAMITVA)
    - Central Sector Scheme, 2021, M.o.PR
    - mapping of land parcels using drone technology
    - providing owners Property cards/Title deeds
- State govt initiatives:
    - Karnataka govt's Bhoomi project for digital land records
    - Andhra Pradesh using Blockchain technology to prevent property fraud.

Challenges:

- Implementation is responsibility of States. States may lack manpower and expertise to carry out the exercise.
- Legal validity of the property cards is unclear. States must make laws declaring that property cards are legal proof of ownership. (land is in state list)
- Record keeping practices and their quality varies across states.
- Land related records are maintained by different departments in the states.
- Conflicts could arise if property cards do not reflect the reality of land ownership.
- Influential groups could secure land titles to the disadvantage of marginal groups.

Conclusive Land Titling

NITI Aayog has prepared a Model Bill on Conclusive Land Titling.
Currently India follows presumptive land titling system.

Presumptive land titling:
- Ownership is determined by current possession based on Sale deed.
- Other documents for ownership: Record of rights, property tax receipts, survey documents.
- A sale deed is a record of transaction, not a record of guaranteed title.
- Ownership is presumptive in nature, hence can be challenged.

The Hindu Explains | Why does India need conclusive land titling?

Priscilla Jebaraj

FEBRUARY 21, 2021 02:45 IST
UPDATED: FEBRUARY 21, 2021 14:32 IST

Does India need to change the land ownership process, and what are the hurdles in implementing it?

Conclusive land titling:
- Govt grants the title, and is responsible for its accuracy.
- Other claimant have to settle dispute with govt, not title holder.
- If govt loses case, govt will compensate the claimant. Title holder will not lose ownership.

Benefits:
- Drastically reduce litigation (66% of court cases, takes 20 years to resolve on average)
- In case of multiple transactions, dispute in ownership of any one, impacts all others.
- Individuals / Businesses will no longer face risk of eviction (improve ease of doing business)
- It will help farmers to easily get loan from bank.

Challenges:
- Land records not updated regularly, especially in rural areas.
- Occupants don't have documents to prove ownership.
- Land records are often in the name of the grandparents, with no proof of inheritance.
- Village-level surveys with community involvement is necessary but difficult.

Land Bank

- Govt plans to set up a land bank company that will take over and sell land parcels of govt departments and PSUs. (DIPAM under FinMin is working on it)
- NITI's strategy for New India @75 proposed creating of land banks for manufacturing sector.

Land Bank:
- Aggregating small parcels of land for future sale or development.
- e.g. India Industrial Land Bank portal developed by DPIIT
  (information on available land for prospective investors)

Benefits of Land Bank:
- Creates a single updated database of all vacant land ready for use.
- Faster land allotment to industries. Ease of doing business will increase.
- Timebound disposal/sale of unutilised govt land.

Challenges:
- Including disputed lands in land banks can lead to legal challenges in future.
- Digital records often do not match the actual use of the land on the ground (e.g. encroachment)
- Those who are cultivating marginal parts of govt land will lose livelihood.
- Common lands on which communities have traditional rights have been placed under Land Banks. This will create conflict with FRA 2006.

Poverty

3 dimensions	10 indicators	Govt. initiatives
(1/3) Health	▪ (1/6) Child mortality ▪ (1/6) Nutrition	▪ UIP; Ayushman Bharat ▪ Poshan Abhiyaan
(1/3) Education	▪ (1/6) Years of schooling ▪ (1/6) School attendance	▪ Samagra Shiksha Abhiyan ▪ Mid-day meal; ASMITA (student tracking)
(1/3) Living standard	▪ (1/18) Cooking fuel ▪ (1/18) Sanitation ▪ (1/18) Drinking water ▪ (1/18) Electricity ▪ (1/18) Housing ▪ (1/18) Assets	▪ Ujjwala (LPG) ▪ Swachh bharat ▪ Nal se jal ▪ Saubhagya yojana ▪ PMAY

Global Multidimensional Poverty Index:

- Released by UNDP and OPHI (Oxford Poverty and Human Development Initiative)
- Uses 10 indicators under 3 dimensions to measure poverty.
- It measures both incidence of poverty (number of people) and intensity of poverty.
- 27 crore Indians moved out of poverty during 2005-15
- Still, 37 crore Indians live under poverty. (UN estimates)
- In India, 5 out of 6 multidimensionally poor are from lower tribes or castes

How MPI is a better approach to measure poverty?

- Dimensions: People above poverty line may still lack basic needs.
- Comparison: monetary comparison with other countries is difficult.
- Govt. initiatives: helps understand the impact of various govt. welfare measures.

Note: Consumption (not income) is used to estimate poverty.
Reason: income is seasonal, fluctuates, not reported honestly.

Poverty Alleviation

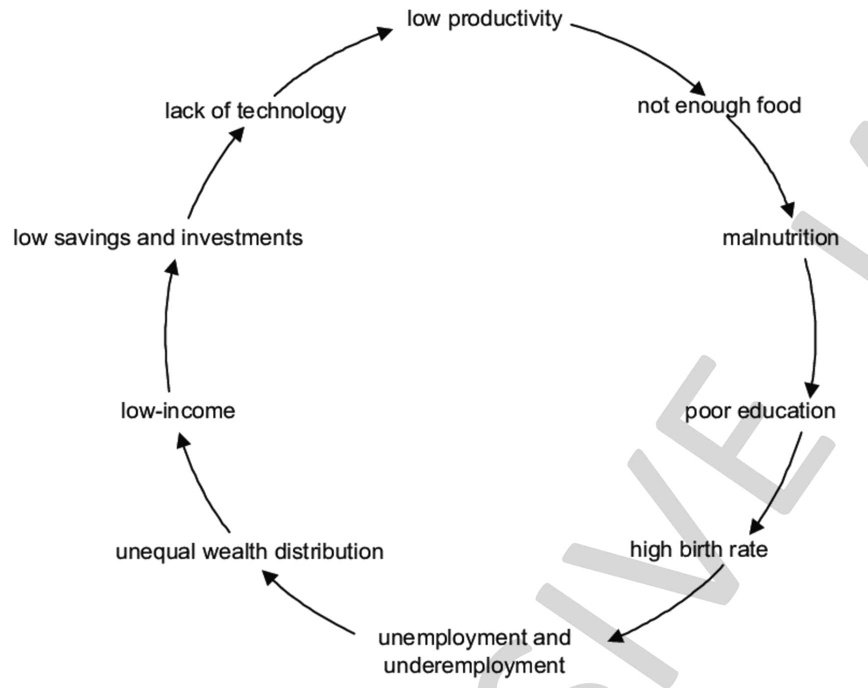
NITI paper on "Eliminating Poverty: Creating Jobs & Strengthening Social Programs"

- ❑ Beneficiary identification
    - ❑ for welfare schemes is based on BPL census, latest being SECC 2011.
- ❑ Poverty line (currently Tendulkar)
    - ❑ aims to track poverty, not individual poor.
    - ❑ It shows how many are in extreme poverty, those who cannot afford even two square meals a day and other most basic necessities.
    - ❑ Tendulkar: Rs 27 rural, Rs 33 urban (Rangarajan: 32 rural, 47 urban)

How to end poverty in India?

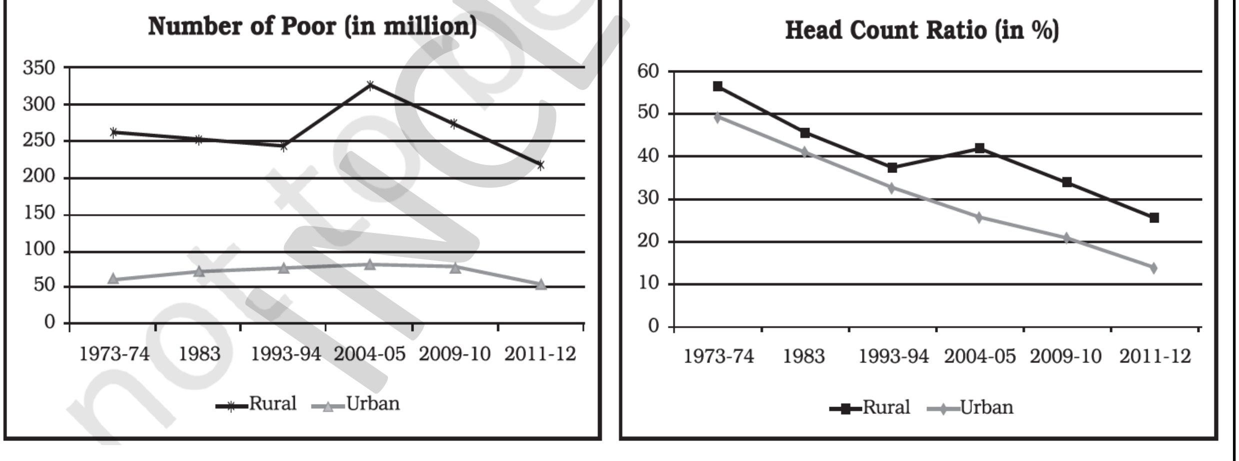
- ❑ Employment intensive economic growth:
    - Agri: remunerative prices, 2nd Green revolution, tenancy reforms; quick relief after disasters
    - Coastal economic zones for labour intensive industries (apparel, footwear)
    - Create well-paying jobs → govt. revenue → more social expenditure
- ❑ Strengthen anti-Poverty programs:
    - Strengthening PDS, MGNREGA, Housing for All
    - More use of JAM to replace current leaky welfare distribution by DBT
    - Each Gram Panchayat may be asked to identify five poorest families in the village and endeavour to lift them out of poverty. Panchayat may ensure that these families get all government benefits.

Vicious cycle of poverty



NCERT

Chart 4.3: Trends in Poverty in India, 1973–2012



Proportion of poor in India during 1973-2012 has come down from 55 to 22%.

What causes poverty?

(i) social, economic and political inequality
(ii) social exclusion
(iii) unemployment
(iv) indebtedness
(v) unequal distribution of wealth

Poverty is also caused by economy-wide problems:

(i) low capital formation
(ii) lack of infrastructure
(iii) lack of demand
(iv) pressure of population
(v) lack of social/welfare nets

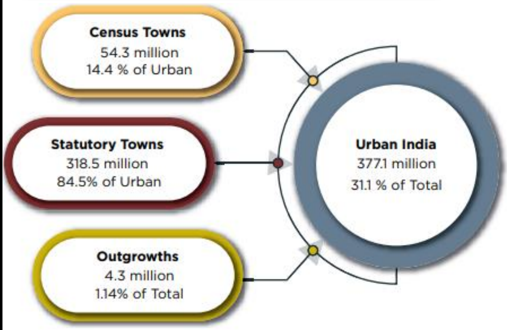
Most of the urban poor are overflow of rural poor, who migrated in search of livelihood.

All-Inclusive GS-2 & GS-3 MAINS 2021

Class-23

NITI Aayog Launches Report on Reforms in Urban Planning Capacity in India

Posted On: 16 SEP 2021 4:57PM by PIB Delhi



Urban Planning

Reforms in Urban Planning Capacity

Urbanisation: increase in number of people living in towns & cities

- **Recently, NITI Aayog published report 'Reforms in Urban Planning Capacity in India'**
- **India is home to 11% of global urban population.**
- **By 2027, India will surpass China as the most populous country in the world.**
- **Census 2011: 31.1% of population lives in urban areas**
- **Urbanisation is not uniform across the country: 75% of urban population is in 10 States**
- **Unplanned urbanization exerts great strain on cities.**

Revise Town Planning Acts:
- **Most States have Town Planning Acts, under which they notify Master Plans.**
- **However, many need to be reviewed and upgraded.**

Urban Governance:
- **Clear division of the roles and responsibilities of various authorities**
- **Use of technology for inter-agency coordination.**

Human Resources:
- **Fill up vacant positions of town planners. Allow only those with planning degree.**
- **More seats in MTech Planning to increase supply of qualified urban planners.**

Enhancing the Role of Private Sector:
- **Use private sector consultancy for better urban planning**

Involve Citizens:
- **'Citizen Outreach Campaign' to involve citizens in urban planning.**

Optimum use of Land:
- **Strengthen development control regulations to increase land use efficiency.**

Healthy Cities:
- **Every city must aspire to become a 'Healthy City for All' by 2030.**
- **Launch '500 Healthy Cities Programme', for 5 years.**

Some urban issues

- **Population:**
  - **by 2030, 40% Indian will live in urban areas**
- **Infrastructure:**
  - **rural-to-urban migration puts pressure on public utilities**
- **Urban Local Bodies:**
  - **excessive control over ULBs by states**
- **Environment:**
  - **pollution; poor quality of air & water; lack of open spaces**
- **Disasters:**
  - **high density increases vulnerability in case of disasters e.g. Mumbai/Chennai floods**

Schemes related to Urban Development

- **PMAY-Urban:**
  - addresses urban housing shortage.
  - 1.12 crore houses have been sanctioned
- **Smart Cities:**
  - Develop cities that are citizen friendly and sustainable.
  - Completed more than 200 projects worth Rs 25,000 crore
  - Integrated Command and Control Centres operational in 70 cities.
- **AMRUT Mission:**
  - city infra for tap water and sewerage connection
  - 1 crore tap connections, and 78 lakh sewage connections provided
  - 88 Lakh street lights replaced with LED
- **Swachh Bharat Mission-Urban:**
  - make cities free from open defecation, solid waste management
  - 4,371 cities declared ODF
- **HRIDAY:**
  - Urban planning with preserving heritage character of selected cities.
- **TULIP:**
  - The Urban Learning Internship Program. Portal to connect graduates to ULBs
- **IUDX:**
  - India Urban Data Exchange; for inter-agency data sharing
- **National Urban Digital Mission:**
  - to build a shared digital infra as a public good

Affordable Housing

Need to develop affordable housing:

- Urbanization: by 2030, 40% Indian will live in urban areas.
- Encroachment: affordable housing prevents poor from encroaching on govt. land.
- Slums: planned housing prevents development of new slums.
- Sanitation: sanitation and hygienic conditions can be provided

Challenges:

- Land: land is scarce resource, especially in urban areas
- Cost: cost of land is high, making housing unaffordable
- Location: affordable housing projects mostly located in outskirts
- Credit: EWS/LIG have difficulty in getting formal credit due to lack of income documents

Steps taken:

- Infra status given to Affordable housing. This helps in lower borrowing rates, tax concessions, etc.
- Affordable Housing Fund in National Housing Bank
- RERA Act, 2016 to protect interest of home buyers
- Affordable Rental Housing Complexes ARHCs under PMAY-U
- Model Tenancy Act to develop the rental market

ARHC scheme

- Affordable Rental Housing Complexes
- sub-scheme under Pradhan Mantri Awas Yojana- Urban (PMAY-U)
- to provide affordable rental housing to urban migrants/poor, close to their workplace
- ARHCs will be used only for rental housing, for minimum 25 years.
- Two models:
    - Convert existing government housing complexes into ARHC
    - Develop new by ARHC by giving incentive to private/public entities.

Model Tenancy Act

Union Cabinet has approved the Model Tenancy Act prepared by MoHUA.

Features:

- It is compulsory to have a written agreement.
- Security deposit can be maximum of two months rent.
- Divides the repairs to be undertaken by landlord and tenant.
- It has penalties for overstaying and non-payment of rent
- Landlord must inform the tenant at least three months before revision of rent.
- Set up rent courts and tribunals in every State/Union Territory (UT)

Benefits:

- It will reduce disputes between landlord and tenant
- It will encourage investments into real estate sector.
- More people will give property on rent, supply will increase, rent will become affordable.
  (As per Census 2011, 1.1 crore houses were lying vacant in India)

Challenges:

- The Act is not binding on states as land is a state subjects.
- Like RERA, states may dilute the essence of the Model Act.

Govt Debt

Central govt. debt → 90% Public debt → 84% Internal; 06% External
Central govt. debt → 10% Other liabilities

External debt of India? **$560 billion**

External debt of
- Centre/State Govt. — *4% of GDP*
- Companies
- Citizens — *17% of GDP* (Companies and Citizens)

Status Paper on Govt. debt: (since 2010-11)
- It provides detailed analysis of overall debt position of government.
- It increases transparency by giving details of debt operations in the previous year.

Significance of managing Government debt:
- **Interest burden**: as more revenue is used for paying interest, less is available for other expenses
- **Investor confidence**: risk of default increases with increased debt
- **Future taxes**: to repay loan, govt. will have to increase taxes in future
- **Crowding out**: internal borrowing lowers the money available for corporates to borrow
- **Exchange rate risk**: external borrowing exposes govt. to exchange rate risk; and risk of inflation

State Finances

Concerns regarding state finances:
- ❑ Market borrowings rising since 2015, creating crowding-out effect for private companies.
- ❑ Populist measures like farm loan waivers are burden on state finances.
- ❑ Revenue autonomy has shrunk with introduction of GST.
- ❑ Additional financial burden on states due to UDAY scheme.
- ❑ State's share in Gross Tax Revenue fell from 36% in FY19 to 32% in FY20.
  - ➢ Reason: Centre using more Surcharge and Cess.
- ❑ States are controlling fiscal deficit by reducing capital expenditure.
  - ➢ Their revenue expenditure is more than 80%

Some steps taken:
- ➢ Borrowing limit increased from 3% to 5% of GSDP, subject to conditions.
- ➢ Scheme for Special Assistance to States for Capital Expenditure
- ➢ With rising GST collection, states' financial situation is expected to improve.

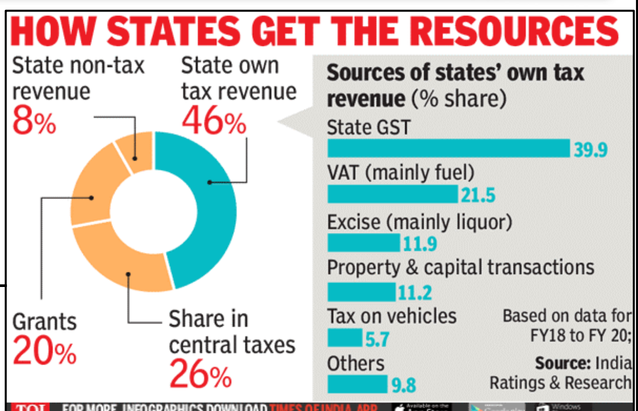
Way forward:
- ➢ Reduce populist measures like free utilities and farm loan waivers.
- ➢ Increase non-tax revenue by appropriate user charges on public services.
- ➢ Centre should not increase use of cess and surcharges, are these are not shared with state.

For macro-economic stability, it is important that States control their debt as per FRBM Acts.

Scheme for Special Assistance to States for Capital Expenditure

- ➢ launched in 2020; 50-year interest free loan of Rs 12,000 crore given to states
- ➢ Good response, so continued in 2021 also
- ➢ Funds to be used for:
  - ➢ new and ongoing capital projects
  - ➢ settling pending bills in ongoing capital projects

Important info:
States spend 1.5 times more than Union.
States employ 5 times more people than Union.

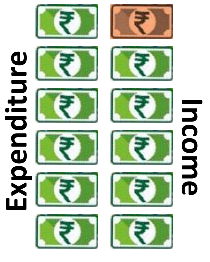


Monetization of Deficit

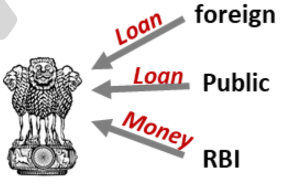
Arguments in support of using MoD:
- Greater govt spending speeds up economic recovery.
- It prevents crowding out effect. Enough credit will be available for private sector investment.
- Controlling fiscal deficit and debt to GDP ratio will prevent credit rating downgrade.

Arguments against using MoD:
- Increased money supply will increase risk of inflation.
- Increased Rupee supply will devalue rupee in forex markets.
- It will disincentivize fiscal consolidation. It may set a bad precedent for future.

Way forward:
- MoD should be the last resort.
- Alternatives should be explored: disinvestment, asset monetization, higher taxes, etc.
- Ensure productive use of money for higher growth multiplier effect.

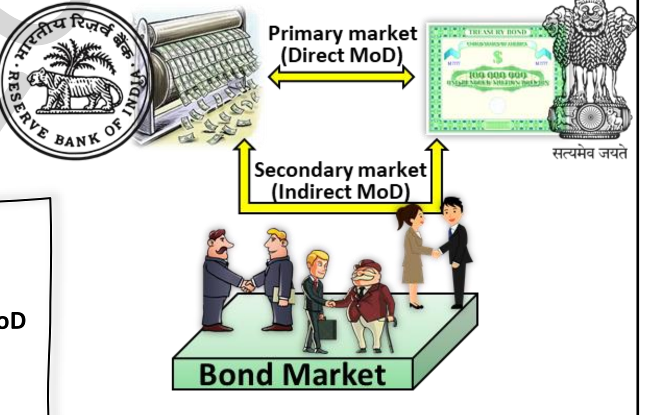


Deficit: excess of expenditure over income
Deficit financing: arranging this excess money.
Options: Foreign; Public; RBI; etc.
Monetization of Deficit: money comes from RBI
- Direct MoD: money comes directly from RBI
- Indirect MoD: money comes via Bond market



MoD is a form of non-debt financing because:

	Present	Future
Loan	A $\overset{Bonds}{\underset{Money}{\rightleftarrows}}$ B	A $\overset{Bonds}{\underset{Money}{\rightleftarrows}}$ B
Monetization	A $\overset{Bonds}{\underset{Money}{\rightleftarrows}}$ B	Nothing



Facts for Prelims:
- ✓ India stopped using direct MoD in 1997.
- ✓ FRBM Act, 2003 barred direct MoD.
- ✓ 2017 amendment to FRBM Act allowed direct MoD
- ✓ MoD is a form of non-debt financing.
- ✓ MoD prevents crowding-out effect.
- ✓ MoD can cause inflation.

Helicopter money
- non-repayable money transfer from central bank to govt
- Printing large sums of money and distributing it to public
- aim is to boost domestic demand
- helps improve GDP growth rate
- helps economy get out of liquidity trap

GST

Achievements:

- **Created a common national market:**
  - uniform tax rates and procedures
  - removes hurdles in inter-State transactions
- **Removed Cascading Effect of Taxes:**
  - Tax paid on inputs is deducted from the tax payable on the output
- **Improved Logistics efficiency:**
  - E-way bill made inter-state transport easy
- **Increased tax revenue:**
  - Over 1 lakh crore being collected each month
- **Increased tax base:**
  - Increased from 66 lakh to 1.3 crore
- **Improved Cooperative federalism:**
  - GST council is a shining example of centre-state cooperation

Challenges:

- **Items exempted:**
  - Petrol, Diesel, alcohol etc.
- **Multiple tax slabs:**
  - 0, 5, 12, 18, 28, cess on luxury and sin goods
  - Items frequently transferred between slabs
- **Tax evasion:**
  - Traders claiming excessive Input tax credit by fake invoices
- **Compensation cess issue:**
  - GST shortfall due to lockdown created friction b/w centre and states

Way forward:

- **Rationalise structure:**
  - reduce the number of tax slabs, move towards single rate
- **Tackle frauds:**
  - Use AI and big data analytics to identify ITC frauds
- **Petroleum products:**
  - Consider bringing petroleum products under GST regime

Mains 2013:
Discuss the rationale for introducing the Goods and Services Tax (GST) in India. Bring out critically the reasons for the delay in roll out for its regime.

Mains 2017:
Explain the salient features of the constitution (One Hundred and First Amendment) Act, 2016. Do you think it is efficacious enough 'to remove cascading effect of taxes and provide for common national market for goods and services'? (2017)

Mains 2019:
Enumerate the indirect taxes which have been subsumed in the goods and services tax (GST) in India. Also, comment on the revenue implications of the GST introduced in India since July 2017?

Mains 2020:
Explain the rationale behind the Goods and Services Tax (Compensation to States) Act of 2017. How has COVID-19 impacted the GST compensation fund and created new federal tensions?

GST

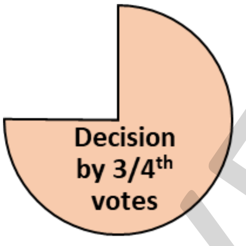
- By **101st** Constitution Amendment Act
- Makes India one unified **common market**
- **Destination** based tax
- Four slabs of **5, 12, 18, 28%**
- India has **dual GST model** (both Centre and States administer GST)
- Intra-state: CGST and SGST
- Inter-state: IGST
- Imported: IGST

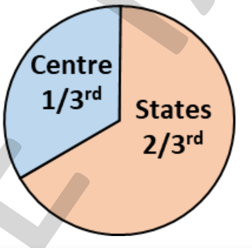
GST Network

- Manages **IT system** for GST
- Established in **2013** as a **private** company
  51% private; 24.5% Centre; 24.5% States
- 2018: Cabinet approved **100% govt** ownership; but implementation delayed

GST Council

- Constitutional body (article **279-A**)
- Decisions **binding** on Centre & States
- Chair: Union **FM**
- **FMs** of all States/UTs are members
- ~~Finance~~ **Revenue Secretary** is Ex-Officio Secretary to the GST Council





Prelims 2011:

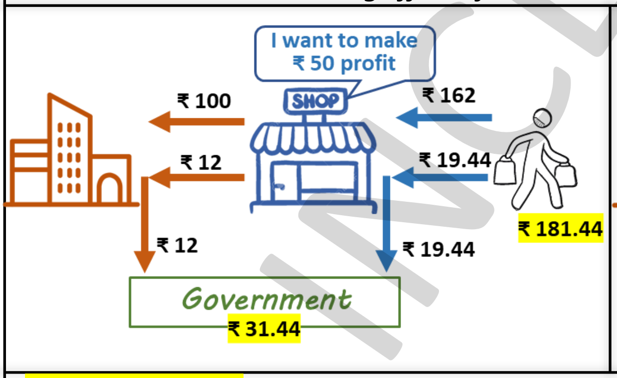
Which one of the following is not a feature of **"Value Added Tax"**?

(a) It is **multi-point destination-based** system of taxation.
(b) It is a tax levied on **value addition at each stage** of transaction in the production distribution chain.
(c) It is a tax on the **final consumption** of goods or services and must ultimately be borne by the **consumer**.
$\boxed{\text{(d)}}$ It is basically a subject of the central government and the state governments are only a facilitator for its successful implementation.

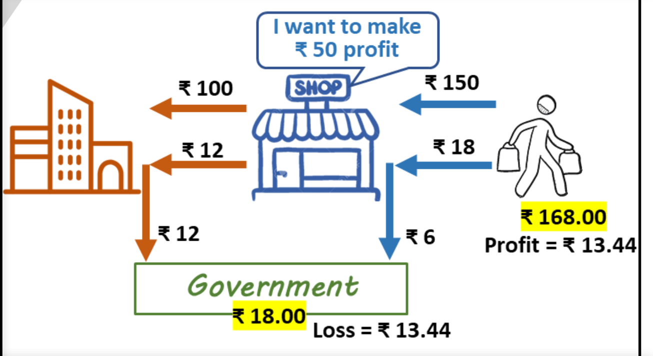
National Anti-Profiteering Authority:

- Under GST Act, 2017
- It was made for two-years (now extended).
- Chairman, four Technical members.
- Appeals against its orders are made in High Courts.

Without GST *Cascading effect of taxes*



Since July 1, 2017 *Tax on value addition*



Prelims 2017:

What is/are the most likely **advantages** of implementing GST ?

1. It will **replace multiple taxes** collected by multiple authorities and will thus **create a single market in India**.
2. It will **drastically reduce the 'Current Account Deficit'** of India and will enable it to increase its foreign exchange reserves.
3. It will enormously increase the growth and size of economy of India and will enable it to **overtake China** in the near future.

Select the correct answer using the code given below:

$\boxed{\text{(a) 1 only}}$ (b) 2 & 3 only (c) 1 & 3 only (d) 1, 2 & 3

Advantages of GST:

✓ It will reduce tax on Goods
✓ It will increase Tax revenue

Prelims 2018:

Examiner intended: Supplies taxable at a 'NIL' rate of tax (0% tax)

Consider the following items:

1. Cereal grains hulled
2. Chicken eggs cooked
3. Fish processed and canned
4. Newspaper containing advertising material

Which of the above items are exempted under GST?

(a) 1 only (b) 2 and 3 only

(c) 1, 2 and 4 only (d) 1, 2, 3 and 4

Non-taxable under GST:

1. Petroleum products
2. Alcohol
3. Real estate#
4. Electricity

 # Note:

- No GST on sale of completed property
- 12% GST on sale of under construction property

Taxes subsumed under GST

Taxes related to Centre	Taxes related to States
1) Central Excise duty	1) State VAT
2) Duties of Excise (Medicinal and Toilet Preparations)	2) Central Sales Tax
3) Additional Duties of Excise (Goods of Special Importance)	3) Luxury Tax
4) Additional Duties of Excise (Textiles and Textile Products)	4) Octroi and Entry Tax (all forms)
5) Additional Duties of Customs (commonly known as Countervailing Duty)	5) Entertainment and Amusement Tax (except when levied by the local bodies)
6) Special Additional Duty of Customs (SAD)	6) Taxes on advertisements
7) Service Tax	7) Purchase Tax
8) Central Surcharges and Cesses so far as they relate to supply of goods or services.	8) Taxes on lotteries, betting and gambling
	9) State Surcharges and Cesses so far as they relate to supply of goods or services.
	For Prelims, underlined taxes are important

Reverse Charge in GST

Normally, Supplier pays GST

Reverse Charge: buyer pays GST, if supplier not registered under GST

Prelims Economy page-7

GST Compensation Cess

Why GST Compensation Cess?

- GST is destination based tax
- Some states would lose revenue
- Cess to compensate states for loss of revenue due to implementation of GST
- Assumption: 14% annual growth
- For five years 2017-22
- Now will be extended to repay 1 lakh crore loan taken by Centre and passed to states.

Cess on selected goods (mostly sin goods)

↓

Consolidated Fund of India

↓

Public Account of India (GST Compensation Cess a/c)

Non-lapsable

↓

States

15th Finance Commission

Finance Commission:
- quasi judicial constitutional body (article 280)
- constituted by President after every five years
- Report is advisory, not binding
- Members are eligible for reappointment
- 1st FC of India: 1951, K. C. Neogy

Qualification and selection procedure:
- Parliament decides (not Constitution)
  - Finance Commission Act, 1951
  - No committee of LoP, CJI, etc.
- Chairman:
  - experience in public affairs
- 4 members:
  - HC judge (is / was / qualified)
  - knowledge of finance
  - knowledge of economics
  - experience in financial matters and administration

Recommends President on:
- distribution of net proceeds of taxes between Centre and states
- principles to govern grants-in-aid from Centre to states
- measures to augment Consolidated Fund of States to supplement resources of local bodies on the basis of recommendations made by SFC
- Any other matter referred by President

13th FC	Dr. Vijay Kelkar	2010-15
14th FC	Dr. Y. V. Reddy	2015-20
15th FC	N. K. Singh	2020-26

First time FC gave recommendation for 6 years

Report: FC → President → Both houses (with action taken)

Recommendations

Criteria	Weightage
Income distance	45%
Population (2011)	15%
Area	15%
Forest & Ecology	10%
Demographic performance	12.5%
Tax effort	2.5%

Terms of reference:
- Review debt level of centre and states, and recommend a roadmap.
- Recommend performance-based incentives for states based on power sector, adoption of DBT, solid waste management, agri reforms, etc.
- Study the impact of GST on the economy.
- recommend funding mechanism for defence and internal security.

Vertical devolution:
Reduce state's share in divisible pool of central taxes to 41% from 42%. Reason: J&K and Ladakh will now get funds from Centre's share.

Horizontal devolution:
- Need-based criteria: Population (2011), Area, Forest & Ecology
- Equity-based criteria: Income distance i.e. distance of the state's income from the state with the highest income (based on Per capita income)
- Performance-based criteria: Demographic performance and taxation efforts

Local bodies:
- Divide grants b/w rural and urban local bodies in the ratio 67.5 : 32.5
- Give grants to all tiers of Panchayati raj

Disaster management:
- Set up 'Disaster Mitigation Funds' at National and State levels.
- Cost sharing based on 75:25 for all states; 90:10 for Himalayan & NE states.

Financial management:
- Fiscal deficit: Centre: 4% of GDP by 2026; States: 3% of GSDP by 2023
- independent Fiscal Council should be established to assess financial records

Defence:
Establish a non-lapsable Modernisation Fund for Defence and Internal Security (MFDIS) in Public Account of India

Health:
- At least 8% of state's budget for health.
- Constitute All India Medical and Health Service.

Prelims 2010:
Who of the following shall cause every recommendation made by the finance Commission to be laid before each House of Parliament?
(a) The President of India
(b) The Speaker of Lok Sabha
(c) The Prime Minister of India
(d) The Union Finance Minister

Prelims 2012:
According to Constitution, it is the duty of President to cause to be laid before the Parliament which of the following?
1. Recommendations of Union Finance Commission
2. Report of Public Accounts Committee
3. Report of CAG
4. Report of NC for Scheduled Castes

Select the correct answer:
(a) 1 (b) 2,4 (c) 1,3,4 (d) 1,2,3, 4

Prelims 2003:
The functions of the Finance commission is/are:
1. to allow the withdrawal of the money out of the Consolidated Fund of India
2. to allocate between the States the shares of proceeds of taxes
3. to consider applications for grants-in-aid from States
4. to supervise and report on whether the Union and State governments are levying taxes in accordance with the budgetary provisions

Which of these statements is/are correct?
(a) Only 1 (b) 2 and 3
(c) 3 and 4 (d) 1, 2 and 4

Prelims 2000:
The primary function of the Finance Commission is to:
(a) distribution of revenue between Centre and States
(b) prepare the Annual Budget
(c) advise the President on financial matters
(d) allocate funds to various ministries of Union & States

Prelims 2011:
With reference to the Finance Commission of India, which of the following statements is correct?
(a) It encourages the inflow of foreign capital for infrastructure development
(b) It facilitates the proper distribution of finances among the Public Sector Undertakings
(c) It ensures transparency in financial administration
(d) None of (a), (b) and (c) is correct in his context

Prelims 2010:
Which one of the following authorities makes recommendation to the Governor of a State as to the principles for determining the taxes and duties which may be appropriated by the Panchayats in that particular State?
(a) District Planning Committees
(b) State Finance Commission
(c) Finance ministry of that State
(d) Panchayati Raj Ministry of that State

Prelims 2011:
The Constitution (73rd Amendment) Act, 1992, which aims at promoting the Panchayati Raj Institutions in the country, provides for which of the following?
1. Constitution of District Planning Committees.
2. State Election Commissions to conduct all panchayat elections.
3. Establishment of State Finance Commission.

Select the correct answer:
(a) 1 only (b) 1 and 2 only
(c) 2 and 3 only *(correct)* (d) 1, 2 and 3 *(official key)*

Prelims 2012:
Which of the following are among noticeable features of recommendations of 13th Finance Commission?
1. A design for Goods and Services Tax, and a compensation package linked to adherence to the proposed design.
2. A design for the creation of lakhs of jobs in the next ten years in consonance with India's demographic dividend
3. Devolution of a specified share of central taxes to local bodies as grants

Select the correct answer using the codes given below:
(a) 1 (b) 2,3 (c) 1,3 (d) 1,2,3

Prelims 2015:
With reference to the 14th Finance Commission, which of the following statements are correct?
1. It has increased the share of States in the central divisible pool from 32 percent to 42 percent.
2. It has made recommendations concerning sector specific grants.

Select the correct answer using the code given below.
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

Grants recommended by 15th FC (no need to learn figures)

Grant	2021-26
Local govt grants	4.3 lakh crore
Revenue deficit grants	2.9 lakh crore
Disaster mgmt. grants	1.2 lakh crore
Sector specific grants	1.3 lakh crore
State specific grants	0.5 lakh crore

Sector specific grants:
(✓13th FC; X 14th FC; ✓15th FC)
Health > School education > higher education > agri reforms > roads > Judiciary > Statistics > Aspirational districts

Retrospective Tax

Parliament enacted Taxation Laws (Amendment) Act, 2021 to scrap 2012 retrospective tax law.

Retrospective tax:
- Tax effective from an earlier date
- To act against companies that misused tax laws (due to some loophole or lack of clarity).

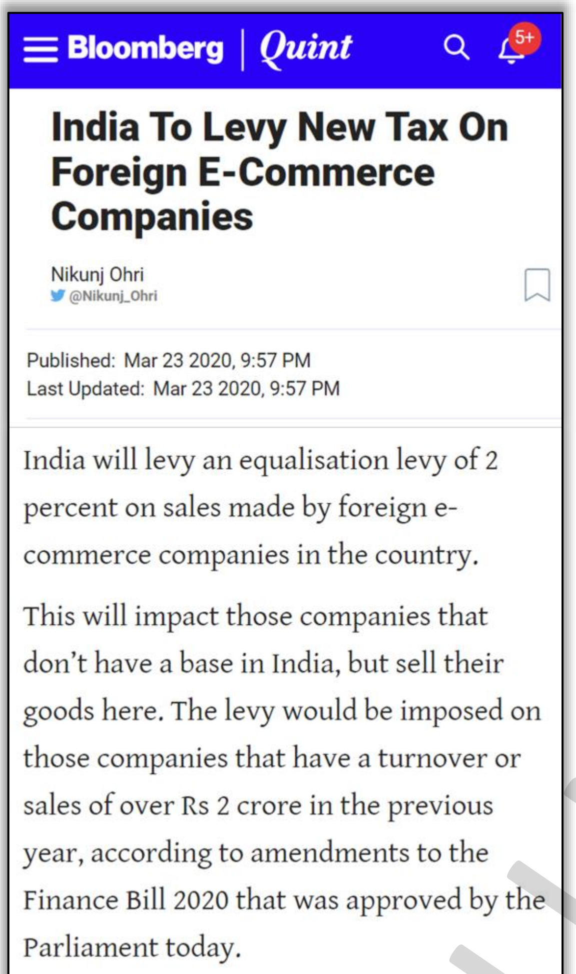
Taxation Laws (Amendment) Act, 2021:
- Govt will withdraw retrospective tax demand for deals done before 2012
- Govt will refund any amount already collected
- Company will have to withdraw all litigations
- Offshore transactions after 28 May 2012 will remain taxable

Arguments in support of retrospective amendments:
- Countries have right to tax activities involving their assets.
- It cautions other companies against tax avoidance/BEPS measures
- Vodafone deal was done in Cayman islands, a tax haven, specifically to evade tax.
- Boosts govt revenue, money can be used to boost economic activity/infra.

Problem with retrospective amendments:
- Legal disputes at national and international level
- Damages India's reputation as attractive business destination
- Tax uncertainty reduces business confidence
- FDI/Investment will reduce

Way forward:
- Bring stability in tax laws and investment policies.
- Tackle BEPS by other measures like Equalization levy and Global Minimum tax.
- Sign robust BIT with major countries to avoid future disputes.

Background:
- **2007:**
  - Vodafone purchased Hutch's share in telecom company Hutch-Essar for $11 billion
  - Both foreign companies; deal happed in Cayman islands, but assets were based in India
  - Indian govt served notice to Vodafone for tax demand.
- **2012:**
  - SC ruled in favour of Vodafone
  - Through Finance Act 2012, govt retrospectively amended IT Act, 1961
- **2012-2021:**
  - More cases opened. e.g. against Cairn Energy
  - Vodafone and Cairn went to international arbitration, won the cases.
- **2021:**
  - July 2021: French court ordered freezing of Indian govt assets.
  - August 2021: Govt brought Taxation Laws (Amendment) Act, 2021



Bloomberg | Quint

India To Levy New Tax On Foreign E-Commerce Companies

Nikunj Ohri
@Nikunj_Ohri

Published: Mar 23 2020, 9:57 PM
Last Updated: Mar 23 2020, 9:57 PM

India will levy an equalisation levy of 2 percent on sales made by foreign e-commerce companies in the country.

This will impact those companies that don't have a base in India, but sell their goods here. The levy would be imposed on those companies that have a turnover or sales of over Rs 2 crore in the previous year, according to amendments to the Finance Bill 2020 that was approved by the Parliament today.

Equalization Tax

Steps taken by India to prevent tax avoidance:

- ✓ GAAR (General Anti-Avoidance Rules)
- ✓ POEM rules (Place of Effective Management)
- ✓ APA (Advance Pricing Agreement)
- ✓ Digital Service Tax (Equalization levy)

GAAR:
Tax officials can deny tax benefits, if a deal is found without any commercial purpose other than tax avoidance.

POEM:
Place of effective management. To target companies that are registered abroad, but managed from India.

Advance Pricing Agreement:
Agreement between company and govt on Transfer Pricing methodology

Equalization levy (Digital Service Tax):

- ❑ 6% tax on online advertisements services offered by non-resident entities.
- ❑ 2% on foreign e-commerce companies
- ❑ In 2019, France introduced 3% GAFA tax
- ❑ Response: USA launched Section 301 investigation

Prelims 2018:

With reference to India's decision to levy an equalization tax of 6% on online advertisement services offered by non-resident entities, which of the following statements is/are correct?

1. It is introduced as a part of the Income Tax Act.
2. Non-resident entities that offer advertisement services in India can claim a tax credit in their home country under the "Double Taxation Avoidance Agreements".

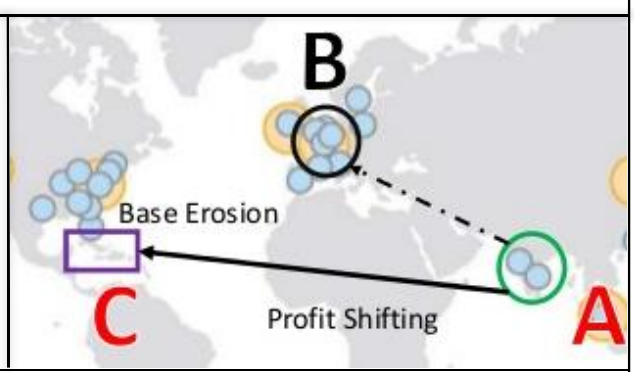
Select the correct answer using the code given below:

(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

BEPS: Base Erosion and Profit Shifting

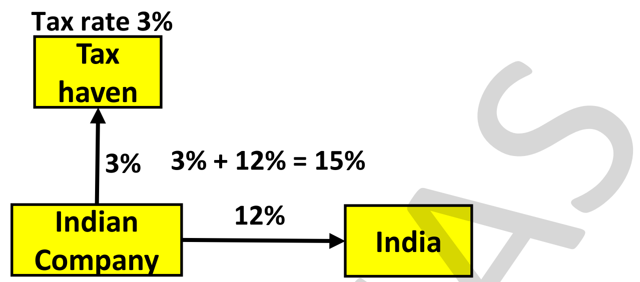
Companies shifting profits from higher-tax jurisdictions to lower-tax jurisdictions, thus "eroding" the "tax-base" of the higher-tax jurisdictions.

Tax-base of India erodes when a company shifts profits to tax-haven like Cayman islands.



Global Minimum Tax

- ❖ Over 130 countries, including India, have agreed to impose global minimum corporate tax of 15%.
- ❖ GMCT is an international agreement to ensure that MNCs pay at least 15% tax on profits.



It will apply to company's overseas profits.
Countries are free to impose any domestic tax rate.

Benefits:

- ➢ It will act as a check on tax havens and discourage profit shifting by MNCs.
- ➢ It will end 'race to the bottom' where countries reduce tax rates and labour rights to attract investment.
- ➢ It will encourage countries to compete on positive issues like better skilled manpower, ease of doing business, etc.

Challenges:

- ➢ Building global consensus among countries will be difficult and time consuming.
- ➢ Socio-economic development in underdeveloped countries will slow down as attracting FDI will become difficult.
- ➢ Countries will need to amend their domestic tax laws (can't demand tax without legal sanction)
- ➢ Companies will raise price of goods/services due to lowering of net income.

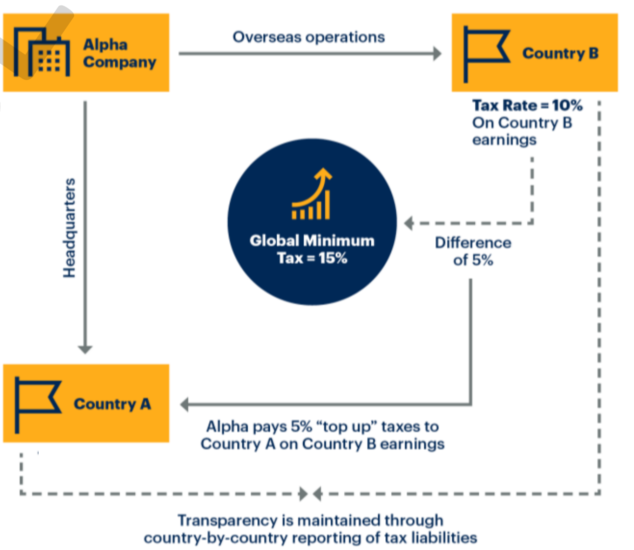
Impact on India:

- ➢ FDI in India: no impact, as corporate tax rate (22%) is more than 15%
- ➢ FDI from India: India will benefit is foreign country has tax rate less than 15%
- ➢ Some estimates suggest that India loses $10 billion annually due to tax abuse by MNCs.

From Prelims page-80

Global Minimum Tax:

- ➢ backed by G7 and G20 in their latest summits
- ➢ will apply to companies' overseas profits.
- ➢ Countries are free to impose any domestic tax rate.



Prelims 1997:

The Minimum Alternative Tax (MAT) was introduced in the Budget of the Government of India for the year:

(a) 1991-92 (b) 1992-93
(c) 1995-96 (d) 1996-97

Minimum Alternate Tax:

- ➢ Aim is to bring into the tax net "zero tax companies" (too much tax exemption)
- ➢ Applies to domestic as well as foreign companies
- ➢ Pay 15% (of book profits) as MAT if its less than 15%
- ❑ Introduced by Finance Act, 1987
- ❑ Withdrawn by Finance Act, 1990
- ❑ Reintroduced by Finance Act, 1996

India reduced Corporate tax in 2019:

- ❑ ***Existing companies***: 22% (25.17% effective)
- ❑ ***New Manufacturing companies***: 15% (17.01% effective)
- ❑ ***Condition***: will not avail any incentive or exemptions.

Equalization levy

(Digital Service Tax)

Equalization levy:
- Introduced by Finance Act, 2016
- 6% tax on online advertisements services offered by non-resident entities.
- 2% on foreign e-commerce companies (provision introduced by Finance Act, 2020)
- Compliance burden is on the company.

Rationale:
- Existing tax laws were framed keeping in mind brick and mortar business models.
    - Existing tax laws are not suitable for cross-border online services.
- By using user data of Indians, companies are making huge profit.
- Source of income is in India, hence should be taxed here itself.
- Other countries too are imposing it, e.g. in 2019, France introduced 3% GAFA tax.

Issues:
- It may come into conflict with some DTAAs (double taxation avoidance agreement)
- Foreign company can't claim tax credit in its home country under DTAA.
    - Reason: introduced under Finance Act, and not Income tax act.
- USA launched Section 301 investigation (USA can take tariff and non-tariff action)

Capital Gains Tax

Capital gain:	***Example of capital assets:***	***Capital gains tax applies?***
gain that arises from the sale of a 'capital asset'	Property, vehicles, patents, trademarks, machinery, jewellery	X inheriting a property ✓ selling that property

Prelims 2012:
Under which of the following circumstances may 'capital gains' arise?
1. When there is an increase in the sales of a product
2. When there is a natural increase in the value of the property owned
3. When you purchase a painting and there is a growth in its value due to increase in its popularity

Select the correct answer:
(a) 1 only $\boxed{\text{(b)}}$ 2 and 3 only (c) 2 only (d) 1, 2 and 3

Short/long term capital gains tax?
1 year:
→ Shares/bonds etc
2 years:
→ immovable property
3 years:
→ others

- Budget 2018 re-introduced LTCG on sale of equities (removed in 2005)
- 10% LTCG when shares sold after 1 year.
- Initial 1 lakh LTC gain is exempted.

Arguments in support:
- Even STCG is taxed at 15%
- It will increase govt revenue.
- It won't impact small investors (initial 1 lakh is exempt)
- Big investors will be encouraged to invest in more productive activities

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Centre's over-reliance on cesses, surcharges put state finances at risk

2 min read . Updated: 07 Jul 2020, 05:55 AM IST

Asit Ranjan Mishra

The share of states in Centre's gross tax revenue (GTR) fell sharply from 36.6% in FY19 to 32.4% in FY20

TOI OPEN APP

CAG: 40% of cess collections not going to designated funds

TNN | Updated: Sep 26, 2020, 02:30 IST

NEW DELHI: The Comptroller and Auditor General has pulled up the government for diverting a large chunk of the money it collected as cess to the general pool making it difficult to ensure that the funds were used for the intended purpose. It also said the Centre had overstated its revenue and transferred a lower share of Goods and Services Tax (GST) to the states than it should have.

Cess and Surcharge

Both cess and surcharge are extra tax/charge levied on a tax

Tax	Surcharge	Cess
For any purpose	For any purpose	*For specific purpose*
Shared with States	*Not shared*	*Not shared*
Goes to CFI	Goes to CFI	Goes to CFI

Gross Tax Revenue

Divisible pool　*Surcharge and Cess*

Share of Cess and Surcharge in GTR:
10% in 2010-11 ; 16% in 2020-21
(Figures exclude GST Compensation Cess)

Remember: **Centre needs to transfer 42% of divisible pool, not 42% of GTR.**

Cess → CFI → Designated fund → Expenditure

Constitution: **Article 270 allows Centre to keep full amount of Cess and Surcharge**
Parliament: **makes law to create cess and its designated fund**

Issues:

- ❑ **Their usage has increased in the past few years. States protest as these are not shared with states.**
- ❑ **They are imposed for State list subjects like agriculture, rural roads, etc.**
- ❑ **CAG reports have pointed out:**
    - ❑ **Cess is not always used for the stated purpose**
    - ❑ **Retaining them in CFI for long period can lead to underestimation of Centre's fiscal deficit.**
- ❑ **Purpose is not specific but general and vague like, environment, education, etc.**
- ❑ **Interchangeable naming used, for example, Finance Act, 2016 introduced "a surcharge to be called the Krishi Kalyan Cess"**

Way forward:

- **Distinction between cess and surcharge should be maintained.**
- **Purpose should be specific and clearly stated.**
- **Periodic review and Sunset clause for all cess and surcharge.**
- **Cess garnering low revenue, e.g. less than Rs 50 crore, are administrative burden, and should be abolished.**

Direct Tax

Direct tax:

- tax that is paid directly to the authority imposing it.
- e.g. Income tax, wealth tax, security transaction tax, etc.

Need for Direct Tax reforms:

- Income tax: exemption are too many and complex.
- Corporate tax: high tax rate discourages investment; exemptions make govt. lose revenue
- Low tax base: compliance is complex; scope of leakages
- Litigations: too many tax related litigations, low success rate of appeals (30%)

Steps taken:

- Project Insight by Income Tax department: use of big data to identify tax evaders
- Honoring the Honest platform to reduce scope of corruption in tax disputes.
- Vivad se Vishwas Act 2020 to settle direct tax disputes.
- Corporate tax reduced if exemptions are not availed.

What more can be done?

- Bring a simple Direct Tax code on lines of GST
- Explore taxing agricultural income above certain threshold

Honoring the Honest

Transparent Taxation – Honouring the Honest:

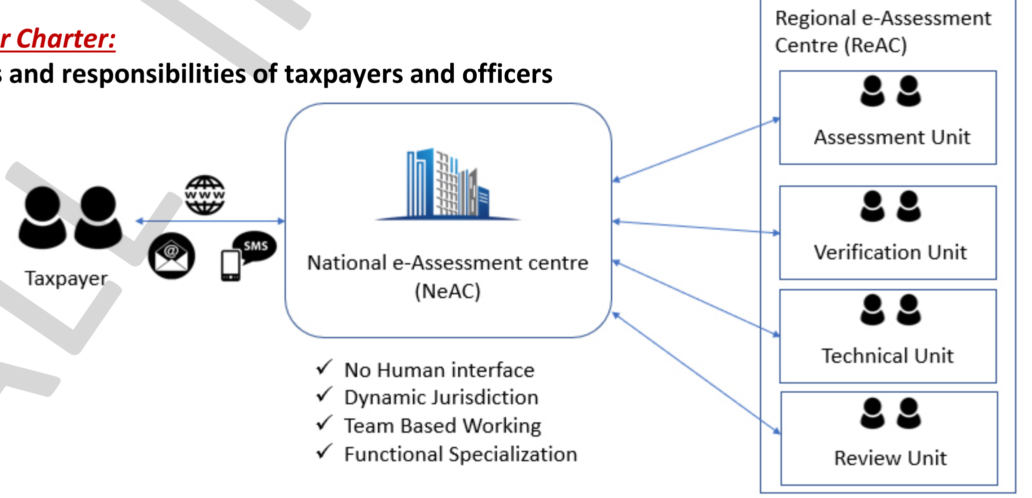
- Computerized case selection
- Complete anonymity
- No need to visit officer
- Appeals: randomly allotted; team-reviewed

Exceptions:

- International tax
- Black money and Benami property
- Serious fraud, major evasions, sensitive & search matters

Taxpayer Charter:

- rights and responsibilities of taxpayers and officers



Taxation

Direct tax

Incidence *(Burden)*
Impact *(Responsibility)*

Indirect tax

Incidence   Impact

Prelims 2009:

Consider the following:

1. Fringe Benefit Tax
2. Interest Tax
3. Securities Transaction Tax

Which of the above are Direct Taxes?

(a) 1 only   (b) 1 and 3 only
(c) 2 and 3 only   (d) 1, 2 and 3

Prelims 2001:

Consider the following taxes:

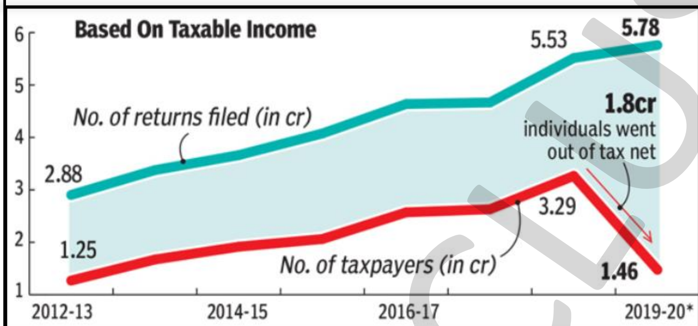
1. Corporation tax
2. Customs duty
3. Wealth tax
4. Excise duty

Which of these are Indirect Taxes?

(a) 1 only   (b) 2 and 4   (c) 1 and 3   (d) 2 and 3

Ignore these two points for Prelims 2021:

- ❑ FBT (2005-09): paid by companies for non-cash benefits that they gave to employees
- ❑ Interest Tax (1974-2000): paid by banks on interest income



*Estimates | Number of tax-return filers who don't pay tax now stands at 4.3 crore – a 3X jump in 8 years

How many people pay income tax?

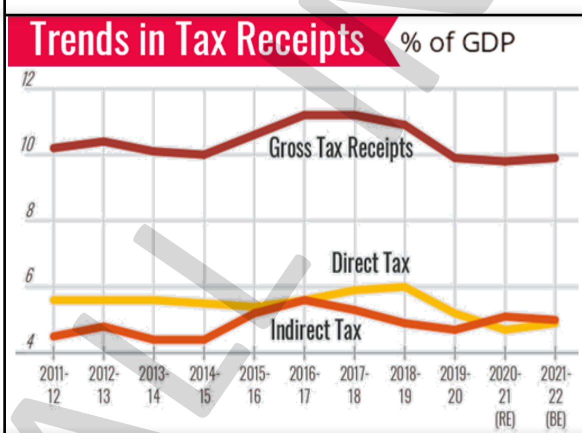
- ❑ 5.8 crore file IT return
- ❑ 1.5 crore pay IT

Tax expenditure:

- ❑ opportunity cost of giving exemptions, deductions, etc.

Be careful with wordings:

- ❑ Just 1.5 crore Indians actually pay tax? No
- ❑ Reason: "Everyone" pays indirect tax



For Prelims just remember:

Approximate values*: Direct + Indirect = Gross

5% + 5% = 10%

Including states: 5% + 10% = 15%

**Figures may slightly vary due to change in size of GDP*

Trend in (Direct/Indirect/Gross) tax-to-GDP ratio?

- ❑ No clear trend (lines are almost horizontal)

Don't confuse it with Tax buoyancy

$$\text{Tax buoyancy} = \frac{\%\text{ change in tax revenue}}{\%\text{ change in GDP}}$$

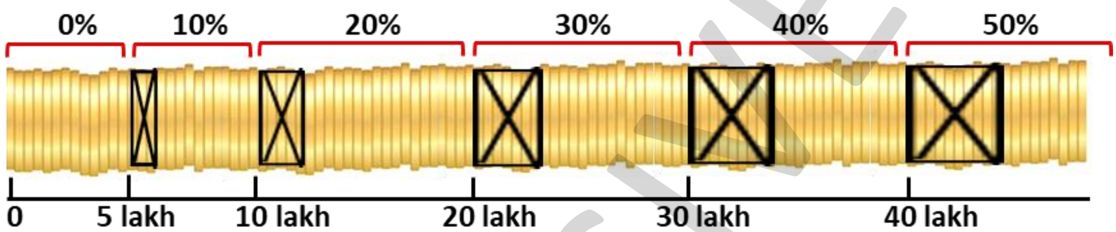
Form 26AS, Form 16, SARAL and TRACES are related to? Income Tax

Turant Customs? Initiative of CBIC, for faster customs clearances. e.g. use of faceless assessment.

Progressive Tax

Progressive tax	Rich pays more % of income as tax	Income tax	0 % of income	15% of income	35% of income
Proportional tax	Rich and poor pay same % of income as tax	Corporate tax (approx.)	25% of income	25% of income	25% of income
Regressive tax	Rich pays small % of income as tax	GST 	1% of income	0.01% of income	0.00001% of income

Note: Corporate Tax in India is 'not' Proportional Tax; Imaginary figures used for explanation purpose



Prelims 1996:

Redistribution of income in a country can be best brought through:
(a) progressive taxation combined with progressive expenditure
(b) $\boxed{\text{progressive taxation}}$ combined with $\boxed{\text{regressive expenditure}}$
(c) regressive taxation combined with regressive, expenditure
(d) regressive taxation combined with progressive expenditure

Tax & Inflation

More tax → Less money with people → Less inflation

Less tax → More money with people → More inflation

Angel Tax

- ❑ To prevent money laundering
- ❑ Introduced in 2012, by amending IT Act, 1961
- ❑ 30% of investment in startups above fair value
- ❑ Abolished in 2019? No (weakened, not abolished)

Angel investing	Venture Capital
Individual Investor	Group of Investors
Invests own money	Invests money of group
In very early stage	In early to late stage
Does not get control	Gets some control

General comparison, don't learn for Prelims

Vishwas Schemes

- ❑ Vivad se Vishwas Scheme:
  - ❑ to settle direct tax disputes
- ❑ Sabka Vishwas Scheme:
  - ❑ to settle indirect tax disputes

Income Tax Litigations

Monetary limit for filing appeal:

- ❑ 50 lakh for Appellate Tribunal
- ❑ 1 crore for HC
- ❑ 2 crore for SC

National Monetization Pipeline

Govt has launched NMP, with a target to raise Rs 6 lakh crore over 2022-2025.

National Monetization Pipeline:

- Limited period lease of govt assets to private sector.
- Expected sectoral share: 27% roads, 25% rail, 15% power.
- NMP is not privatization, as ownership will remain with govt.
- Disinvestment and non-core assets have not been included in NMP.

Advantages of asset monetization:

- Help raise money:
  - for creation of new infra / National Infra Pipeline
  - without losing ownership of assets
- Operations and maintenance:
  - no longer a burden on govt
  - Public will experience better quality
- Optimum utilization of assets:
  - Many assets are sub-optimally utilized
  - Private sector will fully harness their potential

Challenges:

- Valuation of assets:
  - Estimating correct valuation of assets will be difficult
- More user charges:
  - Because private sector operates on profit motive
- More govt infra:
  - Money raised will be used to create more govt infra, hence increase burden on govt
- Lack of independent regulator:
  - in sectors like roads / railways will discourage private investment.
- Threat of monopolization:
  - Few business houses may control most of the big assets
- Miscellaneous:
  - Encroachment on govt assets; job loss of people currently employed in operations.

What needs to be done:

- Frame model agreement for each sector:
  - Include flexibility for unseen events like disasters
  - Clearly state quality standards to be maintained by private player
  - Robust mechanism for grievance redressal and dispute resolution
- Attract investment:
  - Increase investment limit for institutional investors e.g. SEBI restricts insurance funds from investing only 3% in Reits/Invits
  - Give income tax benefit for retail investors investing in Reits/Invits
  - Bring Reits/Invits under IBC

Global examples:

- Australia raised $17 billion through Asset Recycling initiative.
- Indonesia recently introduced Limited Concession Scheme as an alternative to PPP.

Asset monetization models:

- **Direct Contractual models:**
  - **OMT** Operate-Maintain-Transfer: e.g. Toll-Operate-Transfer for National **Highways**
  - **OMD** Operate-Maintain-Develop: e.g. OMD agreements for **Airports**
  - **Long term lease** agreements: e.g. for **Stadiums**
- **Structured Financing model:**
  - **Reits**: Real Estate Investment Trusts
  - **Invits**: Infrastructure Investment Trusts

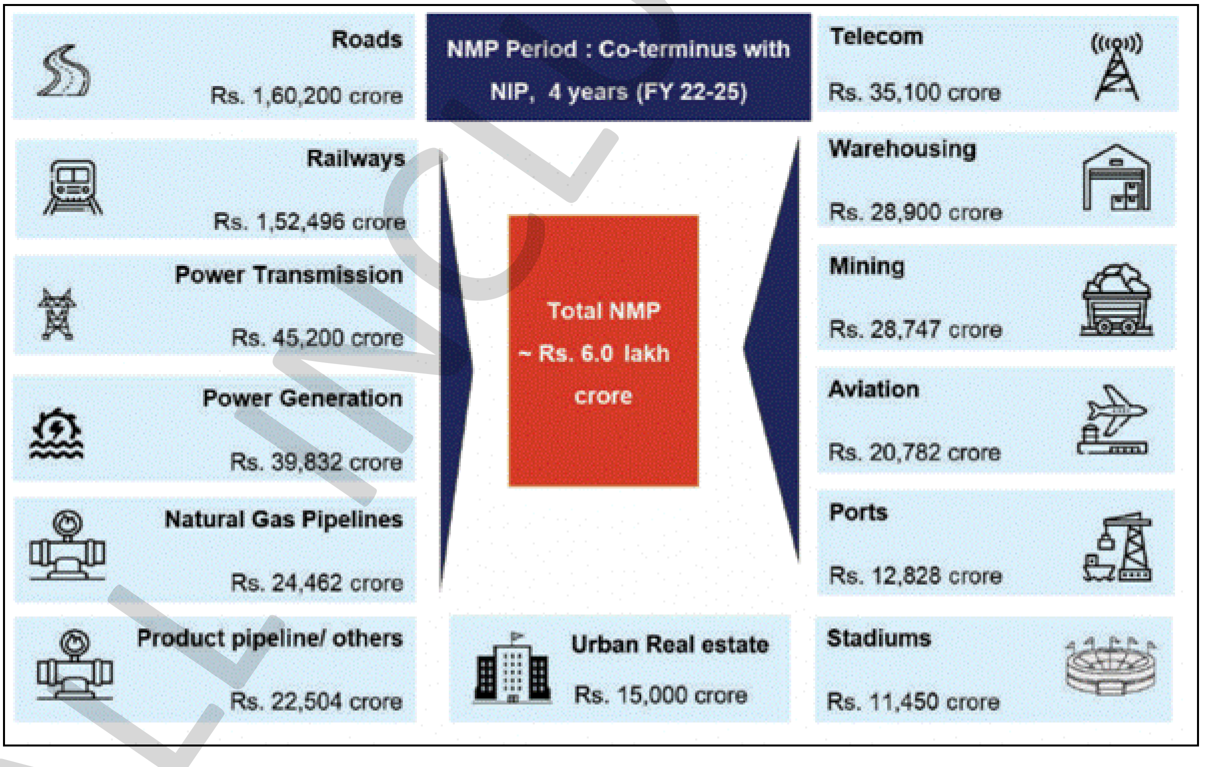
Following is from Prelims pag-82

National Monetization Pipeline:

- limited period transfer of Brownfield Infrastructure Assets
- This asset monetisation for four years FY 2022-25 may fetch Rs 6 lakh crore
- Remember: govt is "not" selling assets. Govt is giving assets on "rent".

National Infrastructure Pipeline:

- List of major (>100 crores) infra projects, expected to be implemented in India by 2025.
- Includes projects of Centre , States and private sector.
- Total estimated expenditure is Rs 111 lakh crore.

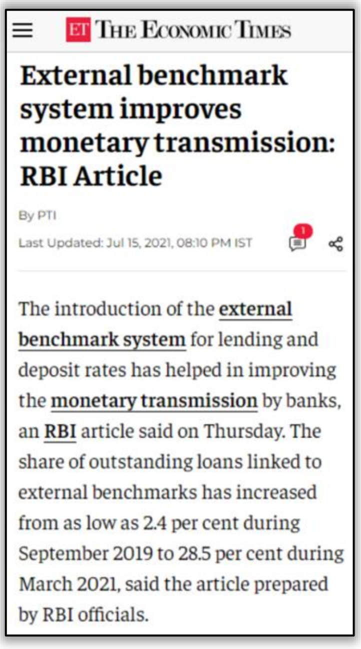


- Investment: buying shares of a company
- Disinvestment: selling shares of that company
- Strategic disinvestment: disinvestment with change in management control
- Privatization: change in ownership

Monetary Policy Transmission

Monetary policy transmission: process through which, policy action of the central bank is transmitted, to meet the ultimate objectives of inflation and growth.

- ❑ **Expansionary monetary policy:** Lowering interest rates to encourage economic activity.
- ❑ **Contractionary monetary policy:** Increasing interest rates to control production and consumption.



ET THE ECONOMIC TIMES

External benchmark system improves monetary transmission: RBI Article

By PTI

Last Updated: Jul 15, 2021, 08:10 PM IST

The introduction of the external benchmark system for lending and deposit rates has helped in improving the monetary transmission by banks, an RBI article said on Thursday. The share of outstanding loans linked to external benchmarks has increased from as low as 2.4 per cent during September 2019 to 28.5 per cent during March 2021, said the article prepared by RBI officials.

RBI policy rates → Bank interest rates → Economic activity → Inflation

2010:

- ➢ **Base rate** system introduced
- ➢ Consider cost of **all funds** with the bank

2016:

- ➢ **MCLR** Marginal Cost of Funds Based Landing Rate
- ➢ Consider cost of only **new funds**

2019:

RBI asked banks to follow some **external benchmark:**

- ➢ Repo rate
- ➢ T-bill 3/6 months yield
- ➢ Rates published by FBIL Financial Benchmarks India Ltd.

Note:

Both Base rate and MCLR were internal benchmarks, they were calculated by banks themselves.

RBI Surplus Transfer

- ❑ Under **section 47** of RBI Act, 1934, RBI transfers its surplus to the central govt.
- ❑ RBI transferred 99k crore to central govt as surplus of 9 months ending March 31, 2021.
- ❑ Two years ago RBI transferred Rs 1.76 lakh crore.

Background:

- ❑ Usually RBI kept most of its profit with itself, for any future contingency.
- ❑ But after **Malegam Committee 2013**, most of it used to be transferred to govt.
- ❑ **Bimal Jalan Committee 2018** revised Economic Capital Framework:
  - ➢ Realised equity: 5.5 - 6.% of balance sheet
  - ➢ Economic capital: 20-24.5% of balance sheet

  After reserving the above, RBI should transfer the surplus to govt.

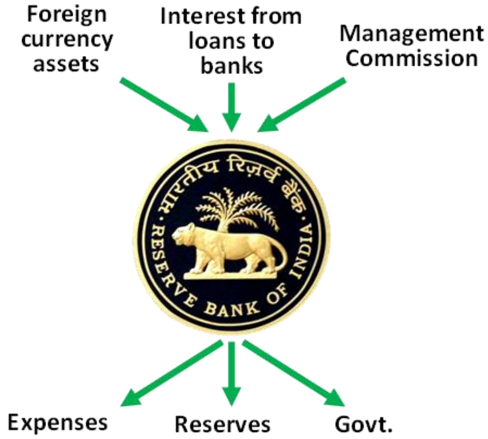
Benefits:

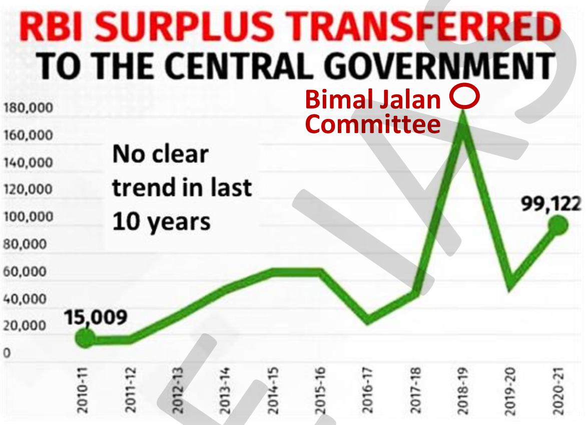
- ➢ It **reduces** govt's **need to borrow** money → low fiscal deficit, low crowding out effect.
- ➢ Higher spending by govt acts as **stimulus to economic growth**.

Risks:

- ➢ It reduces RBI's ability to tackle any **future financial shocks**.
- ➢ It makes markets lose **confidence in RBI** as an autonomous institution.

Reserve Bank of India





RBI:

- ❑ Recommended by Hilton Young Commission
- ❑ Commenced operations on 1 April 1935
- ❑ First Governor Sir Osborne Smith
- ❑ Nationalised on 1st January 1949 by RBI (Transfer to Public Ownership) Act, 1948

All four Financial regulators are statutory bodies:

RBI → RBI Act, 1934	IRDAI → IRDAI Act, 1999
SEBI → SEBI Act, 1992	PFRDA → PFRDA Act, 2013

❑ **Financial year of RBI:**

→ Earlier from 1 July – 30 June

→ Now 1 April – 31 March (from 1 April 2021)

❑ **Section 7 of RBI Act, 1934:**

→ Empowers govt to issue directions to RBI

→ Used only once till now (in October 2018)

❑ **Section 47 of RBI Act, 1934:**

→ Transfer profit to Govt. (after other things)

Bloomberg | Quint

In A First, RBI To Buy State Government Bonds Via Open Market Operations

Advait Rao Palepu
@advait_palepu

Published: Oct 09 2020, 12:04 PM
Last Updated: Oct 09 2020, 10:28 PM

In a first-of-its-kind measure, the Reserve Bank of India will buy bonds issued by state governments via secondary market open market operations, to ensure they don't face rising interest costs amid high borrowings.

Operation Twist:

- ❑ To reduce long-term interest rates.
- ❑ RBI sold short-term G-Secs and purchased long-term G-secs, of equal amount.

Open Market Operations:

Sale/purchase of G-secs in open market by RBI, to adjust liquidity / money supply / interest rates.

State Development Loans:

- ❑ Bonds issued by state governments
- ❑ Gives higher interest than G-Sec
- ❑ Eligible as Bank's SLR quota

Consolidated Sinking Fund:

- ❑ Set up by RBI in 1999-2000
- ❑ To enable states to easily repay debts
- ❑ States put 1-3% of outstanding loans annually

Prelims 2013:

In the context of Indian economy, 'Open Market Operations' refers to

(a) borrowing by scheduled banks from RBI

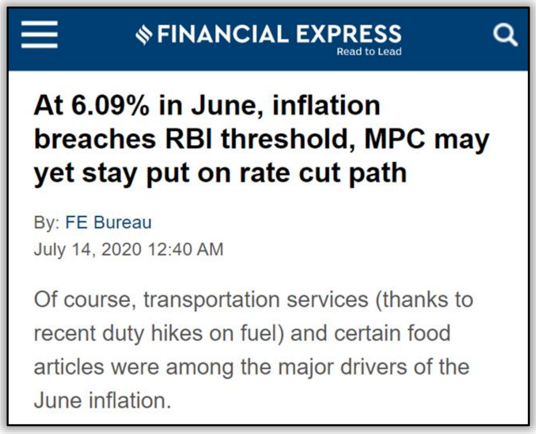
(b) lending by commercial banks to industry & trade

(c) purchase and sale of govt. securities by RBI

(d) None of the above

See class-21 for Inflation

Inflation Targeting



FINANCIAL EXPRESS
Read to Lead

At 6.09% in June, inflation breaches RBI threshold, MPC may yet stay put on rate cut path

By: FE Bureau
July 14, 2020 12:40 AM

Of course, transportation services (thanks to recent duty hikes on fuel) and certain food articles were among the major drivers of the June inflation.

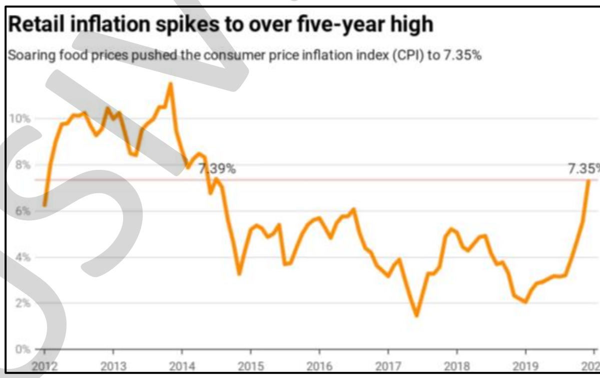
- ❑ Central Bank changes <u>policy rates</u> to keep inflation in a target band.
- ❑ India adopted inflation targeting in <u>2016</u>.
- ❑ <u>Target:</u>
  - → <u>CPI</u> 4 ± 2%
  - → Reviewed every <u>5 years</u>
  - → Decided by? <u>Government</u>, after consulting RBI
- ❑ <u>Failure:</u>
  - → Either limit crossed for 3 consecutive quarters
  - → RBI will explain reasons, actions, future.
  - → ~~Governor will resign~~

Monetary Policy Committee:

- ❑ Statutory body under <u>RBI Act, 1934</u>
- ❑ <u>RBI:</u> Gov. ; Dy. Gov. in-charge of MP ; One officer
- ❑ <u>Govt:</u> Three; 4 years; no reappointment
- ❑ Must meet at least <u>4 times</u> a year

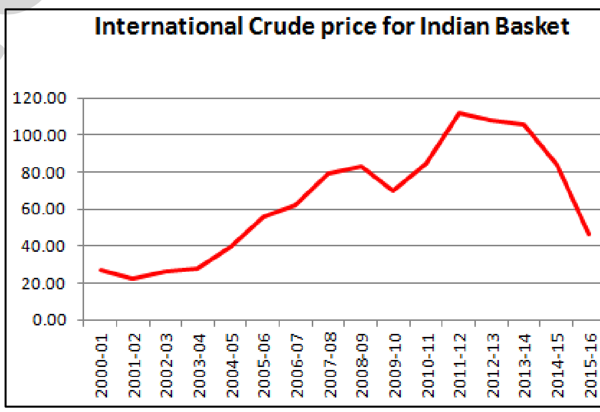
Benefits:

- ➢ It helped <u>bring down inflation</u> from 9-10% to 4-5%
- ➢ It brings <u>macro-economic stability</u>.
- ➢ Moderate level of inflation <u>promotes economic growth</u>.
- ➢ It brings stability to inflation expectation, leading to <u>better policy planning</u>.



Issues:

- ➢ <u>Food inflation</u> is mostly due to <u>supply disruptions</u>. This impacts CPI, but it is not in control of MPC.
- ➢ It ignores other factors like <u>crude oil price</u>, price of imports, etc. (2014 inflation fall)
- ➢ In a <u>developing country</u>, central bank must maintain balance between inflation and <u>growth</u>.



Way forward:

- ➢ Better monetary policy transmission
- ➢ Coordination between monetary & fiscal policy

Why CPI?

- ➢ more consumer oriented
- ➢ 46% weightage to food items
- ➢ includes services also

Forex reserves

- India's forex reserves have been at record high of around $640 billion.
- Rising since 1991 reforms, but substantial rise has been witnessed in last 2-3 years.

RBI is responsible for managing forex reserves under:
- RBI Act, 1934
- Foreign Exchange Management Act,1999

Reason for recent rise:
- Increase in foreign investment as FDI & FII, after corporate income tax rate cut in 2019.
- Reduced demand (and price) for imported products, especially crude oil, during pandemic.
- Record remittances from Indian diaspora exceeding $80 billion annually

Importance of forex reserves:
- Helps meet obligations for imports.
- Increases investor confidence in macro-economic stability
- Large reserves help RBI reduce volatility of rupee in forex market

Problem with large reserves:
- Low income from reserves, e.g. 1/3rd of reserves are in low-yield US investments
- Much of the increase is due to inflow of Hot money, which can easily move out anytime. (e.g. if US Fed increases rates)
- India's forex reserves are built from capital account surplus, China's from current account surplus

Surplus BoP helps build forex reserves

Exports > Imports

Prelims 2013:
Which one of the following groups of items is included in India's foreign-exchange reserves?
(a) Foreign-currency assets, SDRs and loans from foreign countries
(b) Foreign-currency assets, gold holdings of the RBI and SDR's
(c) Foreign-currency assets, loans from the World Bank and SDRs
(d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

Forex reserves of India consists of:
- Foreign Currency Assets (92%)
- Gold (6%)
- Special Drawing Rights (SDRs)
- Reserve Tranche Position

Forex reserves:
China $3.3 trillion; India $590 billion

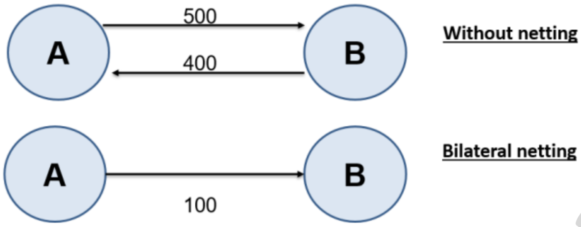
Prelims 2020:
"Gold Tranche" (Reserve Tranche) refers to
(a) A loan system of the World bank
(b) One of the operations of a central bank
(c) Credit system granted by WTO to its members
(d) Credit system granted by IMF to its members

Special Drawing Rights:
- International reserve asset; created by the IMF in 1969
- To supplement its member countries' official reserves
- Symbol XDR, but its not a currency
- Dollar (40%), Euro, Sterling, Yen, Yuan

Prelims 2010:
Which of the following are treated as artificial currency?
(a) ADR (b) GDR (c) SDR Both ADR and SDR

Prelims 2016:
Recently, which one of the following currencies has been proposed to be added to the basket of IMF's SDR?
(a) Ruble (b) Rand (c) Indian Rupee (d) Renminbi

Bilateral netting



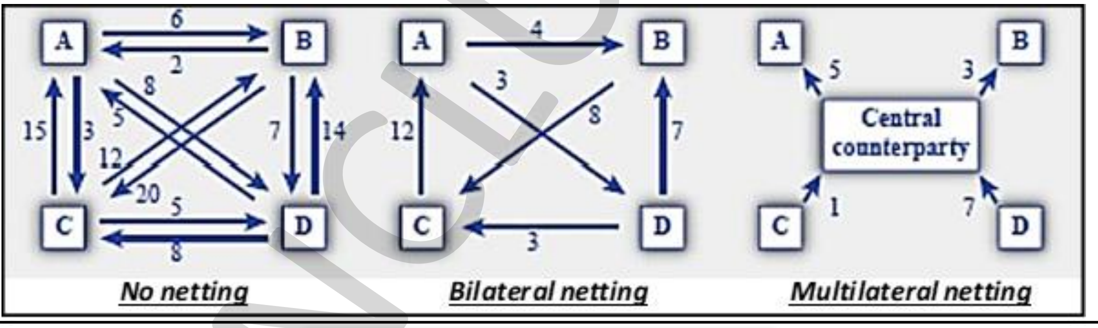
Bilateral netting of financial contracts:

- Allows two parties to **offset claims** against each other, to determine a **single net payment**.
- Earlier India did not allow bilateral netting for financial contracts (multilateral netting allowed)
  - Banks had to **set aside more money** for OTC trades
  - This increased **systemic risk** during defaults.

Bilateral Netting of Qualified Financial Contracts Act, 2020:

- It allows bilateral netting of financial contracts.
- It will **reduce capital burden** on banks
  - Banks will be able to give **more money as loans**
- It will reduce hedging costs in financial markets
  - Indian **OTC derivatives market** will become more attractive
- It helps India meet its **commitment to G20** for derivative market reforms
  - **Other countries** like US, UK, Japan allows bilateral netting

- **Netting:** combining multiple payments into a single payment
- **Bilateral netting:** two parties doing netting
- **Multilateral netting:** multiple parties doing netting through a central counterparty



Corporate Bond market

Benefits:

- Meets investment needs
- Less pressure on banks/govt
- Less Asset Liability Mismatch for banks
- Cheaper than bank loan due to no intermediary
- Less exposure to foreign currency loan

Why Corporate bond market is underdeveloped in India?

- Narrow investor base:
  - Retail investors account for only 3% of issuance
- Dominated by govt:
  - Govt securities constitute half the bond market
- Private placement:
  - 95% of issues are through private placement
- Time period:
  - most bonds are for short period of 2-5 years

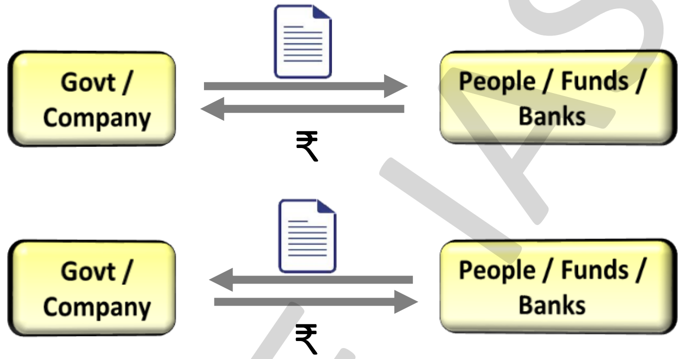
Way forward:

- Accept recommendations of committees like **HR Khan com. 2016**
- Allow banks to pledge corp bonds with RBI in **LAF**
- Central **database** of all corp bonds be made available freely
- Encourage long duration corp bonds by **simplifying listing requirements**
- Encourage retail investors to invest through **mutual funds**
- Create **debt market index** on similar lines to sensex and nifty

Bond ; G-Sec ; T-bill

India's corporate bond market is shallow:

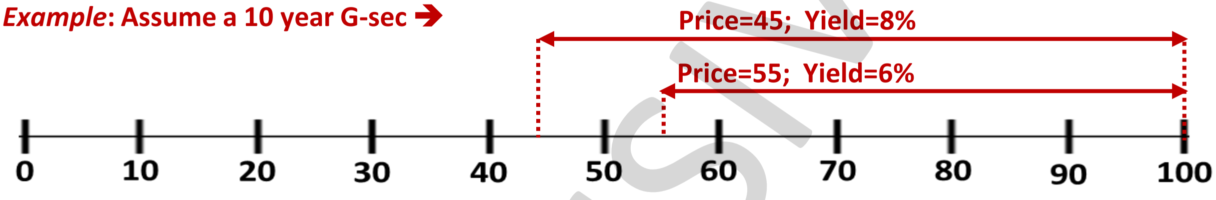
- Most bonds are privately placed
- Most bonds are held to maturity



Bond: A financial instrument of indebtedness, just like a loan agreement

Bond price and yield are inversely related

***Example*: Assume a 10 year G-sec ➔**



Types of Bond ?

- **Zero-coupon bond**: Give ₹600 now, get ₹1000 later
- **Coupon Bond**: Give ₹800 now, get ₹1000 later, in b/w you also get ₹30 every 6 months
- **Floating Rate Bond**: Give ₹800 now, get ₹1000 later, in b/w you also get something every 6 months.

FRBs issued by RBI in July 2020 have NSC rate as base and 0.35% over it. (6.80 + 0.35% = 7.15%).
Here coupon rate will be reset every 1 January and 1 July, i.e. after every 6 months.

Government securities (G-sec) ?

- **Bonds** issued by Government.
- They are considered as **risk-free**.
- Tenure less than 90 days : **Cash Management Bills**
- Tenure less than 1 year : **T-bills** (issued by only centre)
- Tenure more than 1 year : **dated securities** (issued by both centre and states (State Development Loans))

Treasury Bills:

- Zero-coupon; issued at discount
- T-bills tenure : 14, 91, 182, 364 days.
- **14 day T-bills are non-marketable.**

Can NRIs invest in G-sec?

- Yes, but with some **restrictions**.

Prelims 2018:

Consider the following statements:

1. RBI manages and services Govt. of India **Securities** but not any State Government Securities.
2. **Treasury bills** are issued by Govt. of India and there are no treasury bills issued by State Govts.
3. **Treasury bills** offer are issued at a discount from the par value.

Which of the statements given above is/are correct?

(a) 1 and 2 only (b) 3 only $\boxed{\text{(c) 2 and 3 only}}$ (d) 1, 2 and 3

Priority Sector Lending

- To ensure that formal credit reaches all sectors of economy, RBI mandates that, banks gives certain proportion of loans, to specified sectors.
- Why? because certain sectors are not 'attractive' enough for profitable operations.
- PSL sectors:
  - Agriculture, MSME, Education, Renewable energy, etc.
- PSL target:
  - 40% for Public/Private/foreign banks
  - 75% for RRBs and SFBs
- Banks not able to achieve PSL targets can:
  - Give shortfall to RIDF (maintained by NABARD)
  - Buy PSL certificates from another bank (that exceeded its target)

Recent changes: *(Benefit? Think!)*

- New additions:
  - Up to Rs 50 crore loans to startups
  - Setting up Compressed Biogas plants
  - Solarization of grid-connected agri pumps
- Higher weightage to loans given in districts with low credit flow.
- Bank loans to NBFCs, which is further given as loan to certain Priority sectors, will be treated as achievement of PSL target of bank.

Banking Ombudsman

Ombudsman: official appointed by govt to settle disputes

Prelims 2010:
With reference to the institution of Banking Ombudsman in, India, which one of the statements is not correct?
(a) The Banking Ombudsman is appointed by RBI.
(b) The Banking Ombudsman can, consider complaints from Non Resident Indians having accounts in India.
(c) The orders passed by the Banking Ombudsman are final & binding on the parties concerned.
(appeal to Dy Gov)
(d) The service provided by the Banking Ombudsman is free of any fee.

Banking Ombudsman:
- quasi judicial authority, appointed by RBI
- for customer complaints against banks
- Type of ADR mechanism; 22 offices
- Introduced in 1995 u/s 35A of BR Act 1949
- Revised scheme in 2006
- For Commercial Banks, RRBs, Coop banks

One Nation, One Ombudsman:
RBI to merge three Ombudsman:
Banks, NBFCs, Digital transactions

Internal Ombudsman Scheme 2018:
Commercial banks to appoint IO
To address grievances within the bank

Benefits:

- Capital, managerial competence
- Less pressure on PSBs to give corporate loans
- More competition among banks, more choices for customers

Problem:

- Connected lending, Circular banking
- More NPAs, ultimately depositors or govt will lose
- Concentration of economic power in hands of few corporates

The Indian EXPRESS

Bank licences for corporates: RBI group ignored advice of experts

Rajan, Acharya said that the proposal to let industrial houses into banking will lead to "connected lending" which, according to them, is "invariably disastrous" and would further "exacerbate the concentration of economic (and political) power in certain business houses".

By: ENS Economic Bureau | New Delhi |
Updated: November 24, 2020 8:34:39 am

On Monday, former Reserve Bank Governor Raghuram Rajan and ex-Deputy Governor Viral Acharya criticised the proposal, saying that all the experts consulted by the IWG except one "were of the opinion that large corporate/ industrial houses should not be allowed to promote a bank". "Yet it recommends change," they said, in a note posted on Rajan's Linkedin site.

Business Standard

RBI panel suggests hike in promoter stake cap to 26%, non-promoter to 15%

Raghu Mohan | Mumbai | Last Updated at November 21 2020 03:16 IST

The cap on promoters' stake in private banks has been proposed to be raised to 26 per cent from 15 per cent over a period of 15 years. For

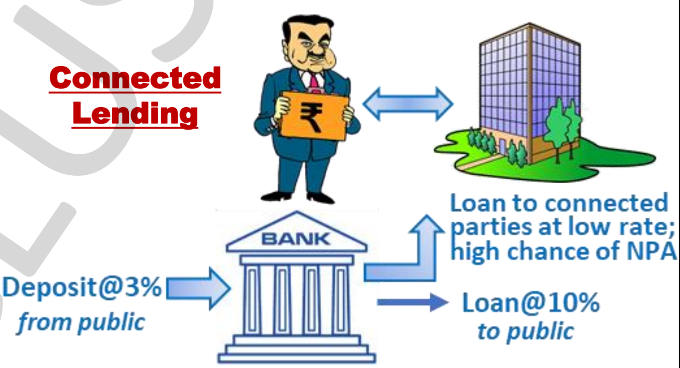
Banking License

Issued by
- ❌ Finance Ministry
- ✔ RBI

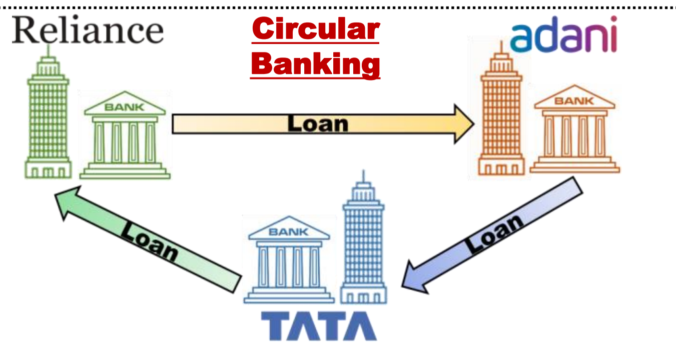
Under law
- ❌ RBI Act, 1934
- ✔ BR Act, 1949

	Benefit	Problem
Banking license to large company	Recapitalization	Connected lending Circular banking
Banking license to large NBFC	Cheap funds; Help in ALM	Owned by large companies

Connected Lending



Circular Banking



Bank Nationalization	Old Private Banks	New Private Banks
1947: most banks private; loan to rich, not poor 1969: govt. nationalized 14 biggest private banks e.g. PNB, Canara 1980: some more private banks nationalized e.g. Punjab & Sind	Not nationalized due to small size; Survive even today e.g. Dhanlaxmi, Federal	1991: economic reforms 1993: many new private banks opened e.g. ICICI, Axis, HDFC

NBFC

NBFC:

A company registered under Companies Act, 1956 engaged in the business of loans and advances.
It differs from banks as:

- NBFCs cannot accept demand deposit.
- They do not form part of payment and settlement system.
- Their depositors do not get deposit insurance facility of DICGC.

Importance of NBFCs:

- Cater to the diverse financial needs of bank-excluded customers
- Reach out to areas inaccessible to regular banking.
- Long term loans to infra projects

Issues with NBFCs:

- Asset-Liability mismatch:
  - NBFCs rely on short term financing to fund long term investments.
- Supply side:
  - Mutual Funds are reluctant to invest in NBFCs since ILFS defaulted on its repayments.
- Customer side:
  - Inability of small borrowers to repay loans taken from NBFCs (mostly informal sector!)
  - Delays in completion of infra projects financed by NBFCs.
- Regulation:
  - RBI doesn't regulate all the NBFCs. Some are regulated by SEBI and IRDAI also.

Steps taken:

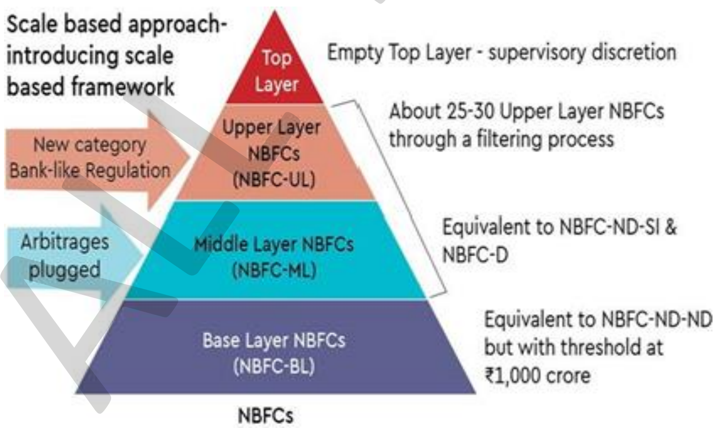
- RBI issued Liquidity management framework for NBFCs
- Special Liquidity Scheme
- Partial Credit Guarantee Scheme
- Targeted long-term repo operations

Way forward:

- Create a separate regulator to monitor risk across the financial sector (recommendation by Financial Sector Legislative Reform Commission)
- Plug and play approach for big infra projects (all regulatory clearances are granted before the project is awarded to private developers)
- Use 'Health score' method proposed by Economic Survey 2019-20 to get early warning of rising risk.

RBI unveils PCA framework for NBFCs effective Oct 2022

- Applicability:
  - All deposit-taking NBFCs (excluding government companies)
  - All non-deposit taking NBFCs in the middle, upper and top layers.
- Parameters: same three as banks



Four-Tier regulatory framework:

RBI has introduced a scale-based regulatory framework for NBFCs, it will be effective from 1 October, 2022.

Why was it needed?

- ILFS & DHFL crisis lowered credibility of NBFC sector.
- To prevent systemic risk, large NBFC need similar regulation as Banks.

FINANCIAL EXPRESS Read to Lead

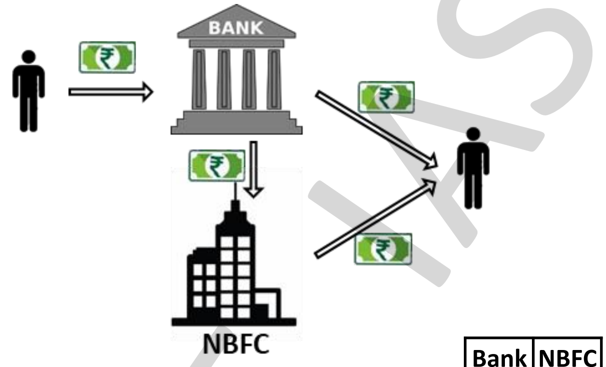
RBI proposes 4-layered framework for regulation of shadow banks

By: FE Bureau
January 23, 2021 4:30 AM

Going further, the next layer — the upper layer — will consist of NBFCs which are identified as systemically significant among NBFCs.

Non-Banking Finance Company

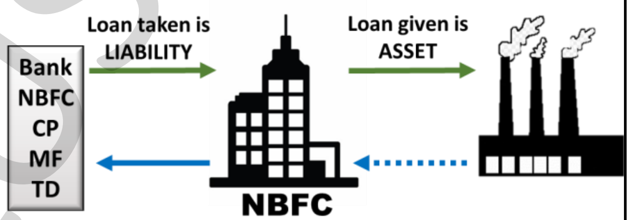
Company engaged in business of loans & advances



Every NBFC must be registered with RBI under RBI Act, 1934?	False
NBFCs cannot take deposits from public?	False
RBI limits the term and interest that NBFCs can pay to depositors?	True

	Bank	NBFC
Accept Demand Deposit	✓	X
Issue cheque drawn on itself	✓	X
Part of Payment & Settlement System	✓	X
Deposit insurance from DICGC	✓	X
Take Term Deposit	✓	✓

- ❑ ***Special Liquidity Scheme:*** SPV will purchase short term papers from NBFCs.
- ❑ ***Partial Credit Guarantee:*** Offered by Govt. to PSBs for purchasing assets of NBFCs to prevent distress sale.
- ❑ ***Emergency Credit Line Guarantee Scheme:*** Offered by National Credit Guarantee Trustee Co. Ltd. to lenders for giving loans to MSMEs.



Prelims 2010:

With reference to NBFCs in India, consider the following statements:

1. They cannot engage in the acquisition of securities issued by Govt.
2. They cannot accept demand deposits like Savings Account

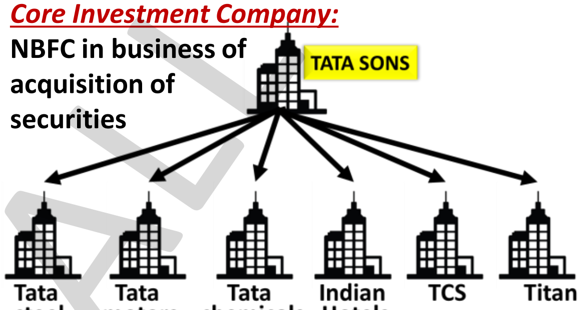
Which of the statement given above is/ are correct?

(a) 1 only $\boxed{\text{(b) 2 only}}$ (c) Both 1 and 2 (d) Neither 1 nor 2

- ❑ 15% SLR for Deposit taking NBFC (No CRR for any NBFC)
- ❑ 15% CAR for Deposit taking NBFC, or Systematically Important NBFC (Asset size > ₹ 500 crore)
- ❑ Housing Finance Company: NBFC for housing loans
- ❑ P2P lending platform? Peer-to-Peer loans, instead of loan from some institution

Core Investment Company:

NBFC in business of acquisition of securities



Deposit insurance

Banks are the bedrock of economy

mint Subscribe Sign in

DICGC to pay up to ₹5 lakh to account holders of 21 insured banks

The banks shall submit a claim list by 15 October and update the position as on 29 November. Photo: iStock

1 min read . Updated: 22 Sep 2021, 01:02 PM IST

The Indian EXPRESS SUBSCRIBE Epaper

Changes to deposit insurance laws: How account holders will gain

The Union Cabinet has cleared changes to the deposit insurance laws to provide funds up to Rs 5 lakh to an account holder within 90 days in the event of a bank coming under the moratorium imposed by the RBI.

Written by Sunny Verma , Edited by Explained Desk | New Delhi |
Updated: July 31, 2021 8:26:53 am

Recent changes:
- ❑ 2020: 1 lakh → 5 lakh
- ❑ 2021: within 90 days of bank put under moratorium

Deposit insurance:
- ❑ Compulsory insurance purchased by banks for their depositors.
- ❑ Covers all banks operating in India.
- ❑ Does not cover deposits of Govt / inter-bank, etc.
- ❑ 1993: 30,000 → 1 lakh. 2020: 1 lakh → 5 lakh

Benefits:
- ❑ Protects depositors; retains faith
- ❑ Less chances of bank run

When?
- ❑ Bank closes/liquidates
- ❑ Placed under moratorium
- ❑ Money given within 90 days

DICGC Act, 1961
- ❑ Deposit Insurance & Credit Guarantee Corporation
- ❑ founded in 1961
- ❑ fully owned by RBI

Premium?
- ❑ 12 paisa per ₹ 100
- ❑ Paid by bank
- ❑ Can't be passes on to customers

How much?
- ❑ ₹ 5 lakh per depositor per bank
- ❑ add all accounts in that bank
- ❑ covers both principal and interest

Prompt Corrective Action

- ➢ Introduced by RBI in 2002
- ➢ Revised in April 2017

Parameters: *(not important for exam)*
- ➢ Capital Adequacy Ratio
- ➢ Common Equity Tier-1 ratio
- ➢ Net NPA
- ➢ Return on Asset

Example of restrictions:
- ➢ Can't give dividends to shareholders
- ➢ Can't open new branches
- ➢ Compensation to Directors
- ➢ Curbs on lending and deposits (extreme cases)

PCA framework applies to:
- ✓ Public Sector Banks
- ✓ Private Banks
- ✓ Small Finance Banks
- ✓ Payment Banks
- ✓ Foreign banks in India
- ❖ It does not apply to Co-operative banks and NBFCs.
- ❖ For Cooperative banks, there is Supervisory Action Framework
- ❖ For NBFCs, RBI will bring something by 2022.

Above was from Prelims course, following is for Mains

Main idea: tackle problems before they attain crisis proportions.
- ❑ RBI has revised PCA norms for commercial banks, to be effective from January 2022.
- ❑ Introduced by RBI in 2002; revised in April 2017; and now in 2021
- ❑ Based on the risk threshold, the RBI may prescribe mandatory corrective actions
- ❑ Aim is to identify poor financial health of banks and take timely action to prevent NPAs

Problem with PCA:
- ❑ Restrictions and loss of market reputation can further decline performance of the bank.

Recent changes:
- ❑ Applicability: Payments banks and small finance banks (SFBs) have been removed
- ❑ Parameters: Return on assets will no longer be a criteria

50 years of Bank Nationalization

Bank nationalisation:

- ❑ Modern banking system in India has its roots in colonial era.
- ❑ 1806: SBI was founded as Bank of Calcutta
- ❑ 1921: Named as Imperial Bank of India
- ❑ 1955: became state owned, renamed as SBI
- ❑ 1969 & 1980: two waves of bank nationalisation
- ❑ In 1980, PSBs had 91% market share; OPBs 9%

Today, PSBs account for 70% of the market share in banking.
SBI is the only Indian bank in global top 100 banks. (China has 18)

Was bank nationalization beneficial?

In the period between 1969-1980:

- ❑ Number of rural branches became 10 times (1,443 to 15,105).
- ❑ Credit to rural areas became 20 times.
- ❑ Credit to agriculture became 40 times.

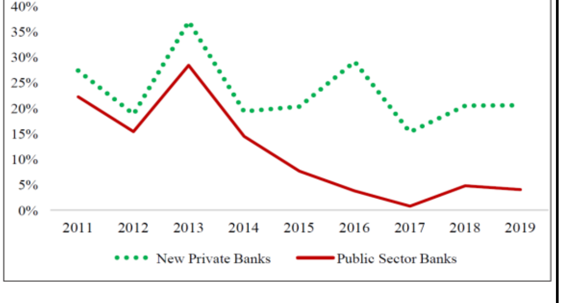
Why PSBs need urgent attention?

In the year 2019:

- ❑ PSBs accounted for 95% of reported bank frauds.
- ❑ PSBs had gross NPAs of Rs. 7.4 lakh crore (80% of total).
- ❑ Every rupee of taxpayer money invested (by govt. as equity) in PSBs lost 23 paise.
- ❑ Every rupee of investor money invested in NPBs gained 9.6 paise.

- ❑ Since 2013, credit growth among PSBs has declined significantly.
- ❑ Low credit growth has impacted economic growth.

Figure 5: Bank Credit Growth (per cent)



Problems faced by PSBs:

- ❑ Less strategic and operating freedom due to govt. ownership.
- ❑ Excessive restriction on recruitment & pay prevents talent attraction.
- ❑ Implicit promise of bailout brings inefficiency.
- ❑ Fear of scrutiny of decisions by CVC and CAG.
- ❑ Fear of harassment under veil of vigilance investigation.

Suggestions:

- ❑ GPS: use geo-tagging and GPS to monitor collaterals.
- ❑ Common database on collaterals: to prevent double-pledging of collateral.
- ❑ Use FinTech: create PSBN on lines of GSTN to enable use of AI, ML, etc.
- ❑ Employee: give ESOPs to encourage decision making.
- ❑ Talent: allow campus hiring from MBA colleges; allow lateral entry of professionals.

Bank Merger

- April 1, 2020: merging of 10 PSBs into four comes into effect
- 2017: SBI's 5 associate banks and Bharatiya Mahila Bank merged with SBI
- Since 2017: 27 → 18 → 12

Committees?

- Narasimham committee 1991: 2-3 global, 8-10 national, multiple regional banks
- P J Nayak committee 2014: Privatise or merge some PSBs
- Alternative Mechanism Panel 2017: headed by Union Finance Minister to oversee merger proposals of public sector banks

Benefits of Bank merger:

a) Banks:
  a) Operating cost will reduce: less top management, less branches
  b) Lower NPA ratio as strong banks absorbing losses of weaker banks.
  c) Competitiveness will increase due to lower costs and wider reach
  d) Ease in meeting BASEL III norms.

b) Economy:
  a) Bigger banks can withstand economic shocks better.
  b) External commercial borrowings will reduce as Indian corporates will borrow more domestically. Reason: bigger banks can give bigger loans.
  c) It will help create globally competitive banks.

c) Government:
  a) Less pressure on govt. to recapitalize banks.
  b) Monitoring less number of PSBs will be easier.

Problem with bank mergers:

a) Resistance from bank unions; job losses; less vacancies
b) Actual NPA recovery won't increase, only ratio will get better.
c) Failure of big bank is more dangerous than failure of small banks.
d) Global competitiveness of big banks may decrease as weak banks may weaken the strong bank.

Additional comments:

- Bank merger is not panacea to problems of PSBs.
- The root cause of inefficiency of PSBs should be addressed.
- PSBs are subject to dual regulation of RBI and Finance Ministry.
- Focus should be on other more serious challenges facing PSBs like high NPA, frauds, political interference, low talent attraction and retention, etc.
- Mission Indradhanush launched in 2015 to reform PSBs and enable them to compete with private sector banks:
  1) Appointments: Get talented people from private sector, separate posts of CEO and MD, to check excessive concentration of power.
  2) Bank Boards Bureau: to recommend selection of chiefs of PSBs. To help banks in developing strategies, raising funds, mergers, etc.
  3) Capitalisation: Government to infuse more money into PSBs by recapitalisation. Reason? High NPA, BASEL-III
  4) De-stressing: Check infra sector problems to check NPAs. Strengthening the asset reconstruction companies. Development of a vibrant debt market.
  5) Empowerment: Providing greater flexibility and autonomy to PSBs in hiring manpower.
  5) Framework of Accountability: Assessing PSB’s performance on growth, NPA ratio, diversification, human resources initiatives, etc.
  6) Governance reforms: Banker’s Retreat or Gyan Sangam conferences between the bankers and government officials for resolving the banking sector issues.

Non-Performing Assets

How are stressed assets classified?

Delay in repayment	Classification
1 – 30 days	SMA-0
31 – 60 days	SMA-1
61 – 90 days	SMA-2

**SMA = Special Mention Account*

NPA for	Classification
Up to 12 months	Substandard asset
More than 12 months	Doubtful asset
Considered uncollectible	Loss asset

Reason for NPAs?

- **Borrower:**
  - genuine business losses;
  - wilful default; fraud; diversion of fund
- **Lender:**
  - inadequate capacity to evaluate projects;
  - Poor lending practice (sub-prime lending; lending under pressure)
- **External:**
  - Natural calamity (pandemics, earthquake, floods)
  - Change in govt. policy (demonetisation)

Steps taken:

- **Recognize:**
  - AQR 'Asset Quality Review' to correctly report NPA
  - CRILC 'Central Repository of Info on Large Credit' for info sharing on NPA
- **Recover:**
  - Insolvency and Bankruptcy Code, 2016
  - Fugitive Economic Offenders Act, 2018
- **Recapitalize:**
  - PSBs recapitalized with Rs 2.11 lakh crore in 2017 and 70,000 crore in 2019
- **Reform:**
  - Mission Indradhanush (see class-49)

Way forward:

- PSBs: Focus on PSBs to control NPA (In 2019, 80% of all NPAs were in PSBs)
- GPS : use geo tagging and GPS to monitor collaterals.
- Database: Common database on collaterals to prevent double pledging of collateral.
- FinTech : create PSBN on lines of GSTN to enable use of AI, ML,
- Expertise: develop better in-house expertise for loan evaluation, allow lateral entry of professionals

Stressed Assets

Delay in repayment	Classification
1 – 30 days	SMA-0
31 – 60 days	SMA-1
61 – 90 days	SMA-2

NPA for	Classification
Up to 12 months	Substandard asset
More than 12 months	Doubtful asset
Considered uncollectible	Loss asset

ET THE ECONOMIC TIMES

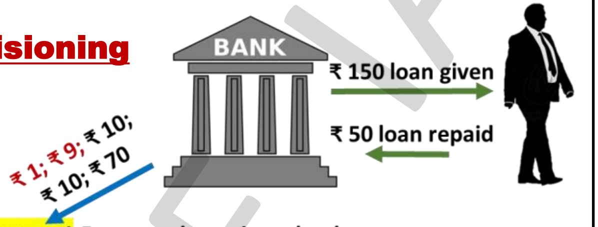
RBI clears fog on special provisioning

Synopsis

An SMA2 loan which has been given moratorium and is not serviced by the borrower becomes an NPA by March 30. Such a loan will attract a total provisioning of 10% — of which 5% will be as of March-end and another 5% at the close of the June quarter.

By SUGATA GHOSH
ET Bureau
Last Updated: May 06, 2020, 08:32 AM IST

Provisioning



Provision account

For every loan given, bank keeps some money in a separate account.
Why? To reduce the shock in case someone does not repay the loan.

Gross NPA = 100
Provisions = 10
Net NPA = 90
PCR = 10/100 = 10%

Provision Coverage Ratio = Provision / GNPA
High PCR is good (bank is not vulnerable)

THE HINDU BusinessLine

Banks write off ₹5.85-lakh crore over last 3 years

Our Bureau | New Delhi | Updated on March 08, 2021

Recovery amounts to little over ₹68,000 crore

Write-off

- ❑ Bank has made 100% provision
- ❑ No longer NPA on balance sheet
- ❑ Bank still has right to recovery

SARFAESI Act, 2002

The Indian EXPRESS

Co-operative banks can use Sarfaesi Act to recover dues: Supreme Court

The SC held that all such cooperative banks involved in the activities related to banking are covered within the meaning of 'banking company'.

By: ENS Economic Bureau | New Delhi |
May 6, 2020 3:01:10 am

A five-judge Constitution Bench of the Supreme Court (SC) on Tuesday ruled that all co-operative banks in the country could make use of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (Sarfaesi) to make recovery against defaulting persons.

Securitization And Reconstruction of Financial Assets and Enforcement of Securities Interest:

- ❑ For recovery of money from loan defaulters
- ❑ Banks can sell collateral (except agri land), without intervention of courts

- ❑ Security? A tradeable financial asset, e.g. shares
- ❑ Securitization? conversion of an asset, especially a loan, into marketable securities. (2008 GFC !)
- ❑ Asset reconstruction? Converting bad asset into performing asset.

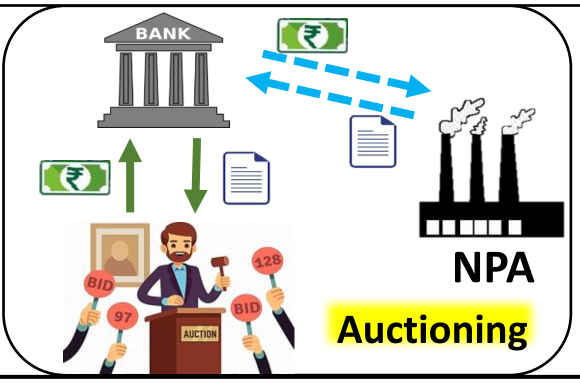
Asset Reconstruction Company:

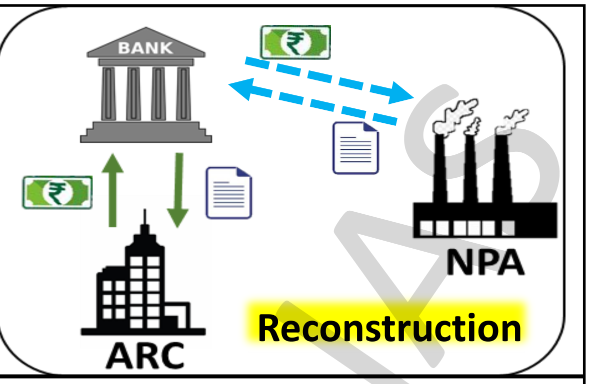
- ❑ Buys bad assets from Banks
- ❑ Improves management, sale, etc.
- ❑ Registered with RBI under SARFAESI Act, 2002
- ❑ ARC India Ltd. Set up in 2002, was the first ARC
- ❑ 100% FDI by automatic route permitted in ARCs.

Bad Bank:

- ❑ A national ARC to buy large NPAs of banks.
- ❑ aka Public Sector Asset Rehabilitation Agency)

Caution: PARA and Bank Investment Company are different





Insolvency and Bankruptcy Code, 2016

- ***Insolvency?*** inability to pay the dues
- ***Bankruptcy?*** legal declaration of insolvency
- ***Liquidation?*** process of winding up an entity

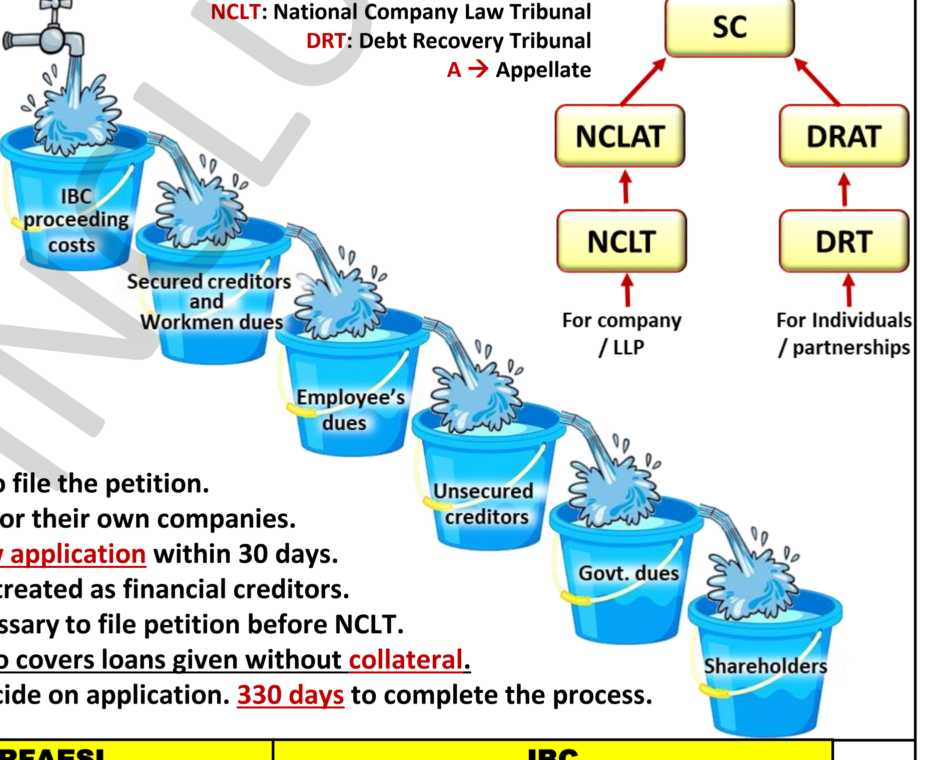
- ☐ **IBC:** time-bound process to resolve insolvency
- ☐ Govt. suspended initiation of fresh insolvency proceedings under IBC, due to Covid.

IBC Process:
- Petition before NCLT
- Committee of Creditors (CoC) constituted.
- Resolution Professional (RP) takes charge.
- CoC approves resolution plan.
- Failure leads to liquidation.

Pre-packs under IBC: Agreement between secured creditors and potential investors
- ☐ Existing management retains control in the mean time
- ☐ Problem? No public bidding; less transparency; fair value; rights of other creditors

Waterfall model:
it gives order of priority for repayment of dues

NCLT: National Company Law Tribunal
DRT: Debt Recovery Tribunal
A → Appellate



Facts for Prelims:
- ✓ Company itself can also file the petition.
- ✓ Promoters cannot bid for their own companies.
- ✓ Creditors can withdraw application within 30 days.
- ✓ Home buyers are now treated as financial creditors.
- ✓ Rs 1 crore default necessary to file petition before NCLT.
- ✓ Unlike Sarfaesi, IBC also covers loans given without collateral.
- ✓ 14 days for NCLT to decide on application. 330 days to complete the process.

SARFAESI	IBC
Only for secured financial creditors	Also for unsecured and non-financial creditors
DRT for both individuals and companies	DRT for individuals; NCLT for companies

Insolvency and Bankruptcy Code, 2016

IBC 2016 provides for a time-bound process to resolve insolvency.

Major amendments made to IBC since its enactment in 2016:

- Promoters cannot bid for their own companies.
- Creditors can withdraw application within 30 days.
- Home buyers are now treated as financial creditors.
- 14 days for NCLT to decide on application. 330 days to complete the process.

How has IBC performed?

- Cases resolved:
    - Of 3,600 companies admitted for resolution; 800 liquidated; 190 resolved.
- Better recovery rate:
    - IBC recovered 42.5% of amount, compared to 14.5% under SARFAESI;
    - Creditors recovered Rs 1.6 lakh crore against 0.77 lakh crore assets, i.e. 207% of realizable value.
- Early settlement:
    - IBC proceedings take 340 days on an average as compared to the duration of 4.3 years earlier.
    - Threat of loss of managerial control is forcing companies for early settlement of defaults.
- Easy exit:
    - Improved business climate by allowing easier exit. Economic Survey 2016 highlighted the 'Chakravyuha challenge' (exit problem) of Indian economy.

Issues:

- In five years of IBC regime, lenders took 61% haircut on claims
- Lack of uniformity in decision making process of the CoC.
- Delays in admission of cases in NCLT, and in appeals to NCLAT and SC.
- About 50% vacancy in NCLT. (29/63)
- Absence of provisions for cross-border insolvency resolutions
- Minimum 10% or 100 homebuyers are needed to initiate the process.

Way forward:

(Recommendations of a Parliamentary standing committee)

- Set limits on haircuts as per global standards.
- Create a code for CoC
- Self-regulatory body to oversee RPs.
- Adopt UNCITRAL model law on cross-border insolvency
- Strengthen rights of home-buyers, e.g. Developer must provide list of homebuyers so that 10% buyers can be mobilised.

GN Bajpai committee on IBC

Committee has identified goals of IBC as:

- Resolution of the distressed asset
- Balancing the interests of stakeholders.
- Availability of credit
- Promotion of entrepreneurship

Key recommendation: (not important)

- IBBI should create a standard framework, with real time data on time, cost, recovery, to evaluate success of IBC.
- Non-quantifiable outcomes, such as behavioural changes in debtors and creditors, need to be studied.

Pre-packs in IBC

- Parliament has amended IBC to allow use of "pre-packs" to resolve insolvency of MSMEs.
- Pre-pack: secured creditors and owners of the business agree to sell the business to an interested buyer before going to NCLT.

Benefits:

- Reduces cost of bankruptcy proceedings in court; provides faster resolution than CIRP.
- It will reduce burden on NCLT, already struggling to deal with pending cases.

Issues:

- Existing management may create hurdles for outside investors seeking information to potentially invest in the company.

Way forward:

- PIRP should be rolled out to all corporations over time, not just MSMEs.
- Forensic audits must be done, since control of the firm remains with the same management.

Pre-pack Insolvency Resolution Process (PIRP)	Corporate Insolvency Resolution Process (CIRP)
Secured creditors & owners enter into agreement	Resolution through open bidding system
Company owner remains in control	Resolution Professional takes over
120 days deadline	270 days deadline

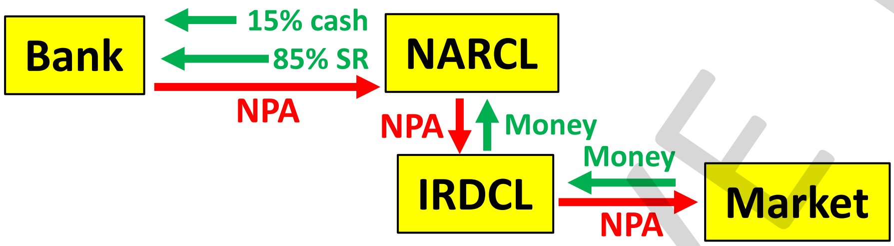
Bad Bank

Benefits:

- It will reduce NPAs of Banks.
- Banks will be able to give more loans, hence faster economic recovery.
- It will improve valuation of Banks, hence help in privatisation.
- It will acquire only large NPAs (>500 crore), will not push other ARCs out of work.

Issues:

- It simply shifts NPAs from govt banks to govt company (PSBs have 51% stake in NARCL).
- Shifting of NPAs without accountability of banks, will increase reckless lending by banks.



National Asset Reconstruction Co Ltd:

- ❑ incorporated under Companies Act
- ❑ has applied to RBI for ARC license
- ❑ 51% ownership by PSBs

India Debt Resolution Co Ltd:

- ❑ will manage the assets
- ❑ engage turnaround experts
- ❑ 49% ownership by PSBs

Government:

- X will infuse equity
- ✓ will guarantee security receipts

Security Receipts:

- ❑ Guaranteed by Govt (Rs 30,600 now)
- ❑ Guarantee valid for 5 years
- ❑ Can be invoked in case of resolution or liquidation
- ❑ Will cover shortfall between face value of SR and actual realization
- ❑ SRs are tradeable

Mechanism:

- ❑ NARCL will acquire assets by making offer to lead bank.
- ❑ Once the proposal of NARCL is accepted, IDRCL will be engaged for management and value addition.

Sudarshan Sen Committee:

- ❑ Set up in 2021 by RBI
- ❑ Study the role of ARCs in debt resolution

NARCL will reconstruct only those assets which are 100% provided for by the lenders and not classified as fraud or amid a liquidation process. But, 25th September 2021 news: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Business Standard

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RBI permits lenders to sell fraud loans to ARCs, paves way for resolution

Subrata Panda | Mumbai | Last Updated at September 25 2021 02:18 IST

Topics

RBI | Asset reconstruction companies ARCs | Reserve Bank of India


The Indian EXPRESS SUBSCRIBE Epaper

M Narasimham, who passed away Tuesday, was father of banking reforms

M Narasimham was the first and only governor to be appointed from the Reserve Bank cadre. He served as the 13th RBI Governor for seven months between May and November 1977 prior to the joining of IG Patel as the Governor.

By: Express News Service | Mumbai |

April 21, 2021 12:08:57 pm

Narasimham Committee

Some recommendations

1991: Narasimham Committee-I

- ➢ 4-tier hierarchy for banks
- ➢ Reduce SLR; Deregulate interest rates
- ➢ Set up Asset Reconstruction fund

1998: Narasimham Committee-II

- ➢ Merge strong PSBs, but not strong with weak
- ➢ Set up Asset Reconstruction Companies
- ➢ SARFAESI Act passed in 2002

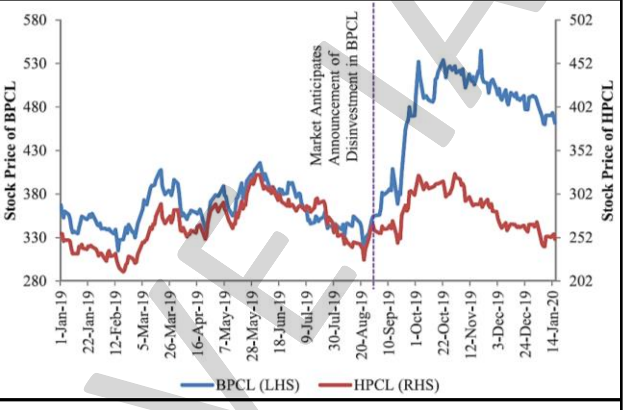
Privatization & wealth creation

Basic Principle of privatization:

- ✓ Government should exit sectors where competitive markets have matured.
- ✓ Currently, there are about 264 CPSEs under 38 different Ministries/Departments.

Benefits of privatization:

- ✓ Government gets money to invest in public infra.
- ✓ Company's performance increases (better tech & management).
- ✓ Example: BPCL's share price shot up in anticipation of improved efficiency.
- ✓ Between 2014-19, BSE CPSE Index gained 4% while BSE Sensex gained 38%.



Evolution of Disinvestment Policy in India:

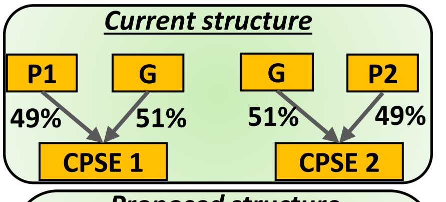
- ❑ 1991-1999: sale of minority stake through auctions.
- ❑ 1999-2004: strategic disinvestment; 13 PSUs and 17 hotels sold
- ❑ 2004-2014: disinvestment to raise resources to meet social needs of people.
- ❑ 2016: DIPAM's guidelines on various modes of disinvestment:
    - Listing of PSU's to increase accountability
    - Disinvestment to meet minimum public shareholding requirement of 25%
    - Use of ETF
    - Strategic disinvestment
    - Merger and acquisitions among PSUs in the same sector
    - Buy-back of shares by large PSUs having huge surplus
    - Monetization of select assets of PSUs to reduce debt
- ❑ NITI Aayog classified PSUs into "high priority" and "low priority", based on:
    - a) National Security
    - b) Sovereign functions at arm's length,
    - c) Market Imperfections and Public Purpose.

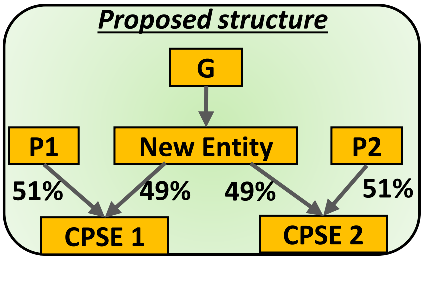
UK model of privatization:

- ➢ IPO
- ➢ Direct sale to private company
- ➢ Employee buyout (selling share's to employees)

Suggestion: Corporatization of Disinvestment
(like Singapore's Temasek)

- ➢ Government should transfer its stake in CPSEs to a separate corporate entity, managed by an independent board.
- ➢ This will bring professionalism to the disinvestment process.





Disinvestment

- Investment: buying shares of a company
- Disinvestment: selling shares of that company
- Strategic disinvestment: disinvestment with change in management control
- Privatization: change in ownership

Govt plan:

a) Government will exit non-strategic sectors.
b) Strategic sectors will have 1-4 PSUs (other PSUs will be merged or privatized)
c) Government gave list of 18 strategic sectors grouped under three heads:
    i. Mining: coal, oil, minerals, metals
    ii. Manufacturing: Steel, petroleum, fertilizer, power generation, ship building, defence equipment
    iii. Service: banking insurance, Telecom, power transmission, etc.

The main objectives of disinvestment in India are:

a) To reduce financial burden of the sick, loss-making PSU's on Government (e.g. Air India)
b) To improve public finances (reduce fiscal deficit)
c) To introduce competition and market discipline (no more help by govt., 3G spectrum was given to MTNL/BSNL 1.5 years before others)
d) To fund growth, social sector welfare (NIF 2005: 75% for welfare, 25% for other PSUs)
e) To encourage a wider share of ownership (more owners, more responsibility of management)
f) To depoliticize non-essential services (telephone connection)

Argument in support of Disinvestment	Counter-argument
Government has no business being in business	Private monopoly will exploit the common man.
Private sector is more efficient. e.g. telecom and civil aviation.	We see loss making PSUs, but we ignore private companies that closed down.
Why waste tax-payers money on PSUs?	Why sell profit making PSUs?
Profit making PSUs get good price, no one will buy a loss making PSU	Future dividends will decrease.
Government should sell only loss-making PSUs.	Who will buy a company deep in debt. Make them better, and then sell.
Disinvestment helps in controlling fiscal deficit.	This does not address the 'reason' for high fiscal deficit.
Privatisation improves business sentiments. More investments will lead to more jobs, higher GDP growth.	Privatization will lead to lob losses and reduce aggregate demand in the economy.

Way forward:

- Efforts should be made for revival of sick PSUs.
- Monetize the assets of loss-making PSUs; use this money for their modernization.
- Use ETF route to raise money, e.g. Bharat-22
- Instead of outright exit, go for disinvestment in tranches.
    - Hindustan Zinc: Privatized; took over by Vedanta in 2002; immensely successful; world's 2nd largest zinc producer; Government still has 29% stake but is planning to sell this also.
- Disinvestment Commission under G.V. Ramakrishna 1993:
    - Privatization should be for strengthening the public sector.
    - Ruled out privatization of core industries and highly profitable PSUs,
    - Proceeds should be used for restructuring other PSUs or spending on rural infrastructure. It should not be used for the government's revenue expenditure.

Urea subsidy

- 1957: Fertilizer control order passed under ECA 1955; helped in Green revolution
- 1973: oil crisis → fertilizer price increased, consumption fell → yield fell → food price rise
- 1977: government intervened by subsidizing manufacturers
- 1991: Import of complex fertilizers decontrolled; urea imports still canalized

	Non-urea	Urea
Subsidy given to?	▪ Manufacturer	▪ Manufacturer
Subsidy based on?	▪ Nutrient Based subsidy scheme ▪ Amount of nutrients in fertilizer	▪ Urea Policy ▪ Difference between selling price and cost of manufacturing
Import?	▪ Open General Licence ▪ Private companies free to import	▪ Canalized ▪ Only 3 PSUs can import

Issues:

❑ High subsidy burden:
  - ❑ Of the Rs 80,000 crore fertilizer subsidy bill, 54,000 crore is on urea.

❑ Demand estimation:
  - ❑ Inaccurate estimation of demand of urea leads to shortages in the market.

❑ Excessive use:
  - ❑ high subsidy makes urea much cheaper than other fertilizers. Damages soil health, causes nitrogen pollution.

❑ Promotes inefficiency:
  - ❑ subsidy is based on cost of production. So producers have no incentive to be efficient.

❑ Diversion:
  - ❑ urea meant for farming is diverted to industry; smuggled across border.

Steps taken? New Urea Policy 2015

Way forward:

- Decanalize urea imports.
  - It will allow supply to respond quickly to changes in demand. More importers will being in competition, reduce price.
- Bring Urea under NBS scheme.
  - Give subsidy based on nutritional content, not cost of production. This will bring in efficiency, and reduce price.
- Land records:
  - speed-up digitization of land records for efficient subsidy transfer by DBT and to link with Soil Health card.
- Foreign plants:
  - set up urea plants in gulf countries where gas price is much cheaper. e.g. Oman India Fertilizer Company

Fertilizer Subsidy

The Indian EXPRESS | SUBSCRIBE Epaper

Explained: How fertiliser subsidy works

The government proposes to limit the amount of fertilisers each farmer can buy during a cropping season. What is the objective of this move, and what will its implications be, including on the subsidy bill?

Written by Harish Damodaran | New Delhi |
Updated: October 20, 2020 7:26:06 am

Prelims 2020:

With reference to chemical fertilizers in India, consider the following statements:

1. **At present, the retail price of chemical fertilizers is market-driven and not administered by the Government.**
2. **Ammonia, which is an input of urea, is produced from natural gas.**
3. **Sulphur, which is a raw material for phosphoric acid fertilizer is a by-product of oil refineries.**

Which of the statements given above is/are correct?
(a) 1 only (b) 2 and 3 only (c) 2 only (d) 1, 2 and 3

Fertilizer consumption:

N:P:K ratio: Ideal 4:2:1 Actual 6.7 : 2.4 : 1

Fertilizer Subsidy

Non-Urea
- Money is given by Govt. to fertilizer manufacturers
- On what basis? amount of nutrients in their fertilizer

Urea
- Money is given by Govt. to fertilizer manufacturers
- On what basis? difference between selling price and cost of manufacturing

Ministry of Chemicals and Fertilizers

Market-linking of fertilizer prices

Posted On: 06 DEC 2019 6:05PM by PIB Delhi

As far as market-linking of urea prices is concerned, the MRP of urea is statutorily fixed by the Government. The MRP of 45 kg bag of urea is Rs.242 per bag (exclusive of charges towards neem coating and taxes as applicable) and the MRP of 50 kg bag of urea is Rs.268 per bag (exclusive of charges towards neem coating and taxes as applicable).

As far as market-linking of P&K fertilizers is concerned, the Government has implemented Nutrient Based Subsidy (NBS) Policy w.e.f. 1.4.2010 for Phosphatic and Potassic (P&K) Fertilizers. Under the NBS Policy, the Government announces a fixed rate of subsidy (in Rs. per Kg basis), on each nutrient of subsidized P&K fertilizers, namely Nitrogen (N), Phosphate (P), Potash (K) and Sulphur (S), on annual basis taking into account all relevant factors including international prices, exchange rate, inventory level and prevailing Maximum Retail Prices of P&K fertilizers. The per Kg subsidy rates on the nutrients N, P, K, S is converted into per Tonne subsidy on the various subsidized P&K fertilizers covered under NBS Policy. Under the Policy, MRP of P&K fertilizers has been left open and fertilizer manufacturers/marketers are allowed to fix the MRP at reasonable rates as per market dynamics. At present 21 grades of P&K fertilizers namely DAP, MAP, TSP, MOP, Ammonium Sulphate (produced by M/s FACT and M/s GSFC), SSP and 15 grades of NPKS complex fertilizers are covered under the NBS Policy.

As far as the role and extent of the Private Sector in Fertilizer production is concerned, Private Sector is producing 44.46% of total Urea Production; 56.58% of Di Ammonium Phosphate(DAP) of the total DAP production; and 57.49% of Complex Fertilizers of the total Complex Fertilizers produced in 2019-20 (upto Oct., 2019).

	Non-urea	Urea
Subsidy given to?	▪ Manufacturer	▪ Manufacturer
Subsidy based on?	▪ Nutrient Based subsidy scheme ▪ Amount of nutrients in fertilizer	▪ Urea Policy ▪ Difference between selling price and cost of manufacturing
Import?	▪ Open General Licence ▪ Private companies free to import	▪ Canalized ▪ Only 3 PSUs can import

New Urea Policy 2015:
Increase local production; efficiency in production; rationalize subsidy, etc.

Steps taken:
- Soil Health Card scheme
- Four new urea plants to come up by 2021.
- Gas price pooling all plants get gas at same price
- Coal gasification based urea plant at Talcher.
- DBT at Point of Sale
- Neem Coated Urea

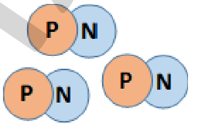
Fertilizers are Essential Commodities? Yes
Fertilizer Control Order 1957 was issued under Essential commodity Act, 1955.

Department of Fertilizer:
Under Ministry of Chemicals, not MoA&FW
Ensures adequate & timely availability of Fertilizers

2018 DBT system:
- Show Aadhaar or KCC at retail point (PoS machines)
- Enter details into system, including quantity taken
- Govt will then give subsidy to ~~retailer~~ manufacturer.

Of the Rs 80,000 crore fertilizer subsidy bill, 54,000 crore is on urea.

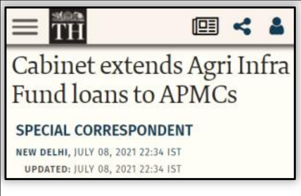
Complex fertilizer
Two or more nutrients in chemical combination
e.g. di-ammonium phosphate



Nitrogen Use Efficiency:
- ratio of crop nitrogen uptake, to total input of nitrogen fertilizer.
- High number is good.

Prelims 2016:
Why does govt. promote use of Neem-coated urea in agriculture?
(a) Release of Neem oil in soil increases nitrogen fixation by soil microorganisms
(b) Neem coating slows down rate of dissolution of urea in soil
(c) Nitrous oxide, which is a greenhouse gas, is not at all released into atmosphere by crop fields
(d) It is a combination of weedicide & fertilizer for particular crops

Neem Coated Urea:
- ❑ Neem coated urea slows down nitrogen release, so plants absorb more.
- ❑ Less diversion to industry; less consumption by farmer; low subsidy burden


TH
Cabinet extends Agri Infra Fund loans to APMCs
SPECIAL CORRESPONDENT
NEW DELHI, JULY 08, 2021 22:34 IST
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Agriculture Infrastructure Fund

Govt initiatives for agri infra:
- ❑ Subsidized seeds, fertilizers.
- ❑ PM Krishi Sichai Yojana
- ❑ PM Gram Sadak Yojana
- ❑ PM Fasal Bima Yojana

- Central Sector Scheme; MoA&FW
- For (i) post-harvest infra
  (ii) Community farming assets
- e.g. cold storage, warehouses, packaging units, etc.
- Rs 1 lakh crore loans to be given, during 2020-29, by banks, to farmers, FPOs, SHGs, etc.
- 3% Interest subvention and credit guarantee

Types of agri infra:
- Input based infra: seeds, fertilizers, pesticides
- Resource infra: irrigation, pumps, machinery
- Physical infra: storage facilities, road connectivity
- Institutional infra: bank loans, crop insurance, marketing support (APMCs)

Share in total agri credit:
- Highest share (40%) is of southern region
- Lowest share (02%) is of North-east region

Reasons:
- NE has just 2.7% of India's gross cropped area
- KCC loans are given against land documents, but community ownership of land is prevalent in NE

Prelims 2011:
In India, which of the following have the highest share in the disbursement of credit to agriculture and allied activities?
(a) Commercial Banks 79%
(b) Cooperative Banks 15%
(c) Regional Rural Banks 5%
(d) Microfinance Institutions 1%

Agri credit

Some efforts to increase formal agriculture credit:

- ✓ 1969: Bank Nationalization; Agri credit became 40 times within 10 years
- ✓ 1974: Priority Sector Lending introduced (33.33%)
- ✓ 1975: Regional Rural Banks established
- ✓ 1982: National Bank for Agriculture and Rural Development (NABARD) established
- ✓ 1998: Kisan Credit Card for timely and simplified loans
- ✓ 2006: Interest Subvention Scheme (2% to farmers; extra 3% for credit discipline)
- ✓ 2006: Joint Liability Groups Scheme for farmers who don't have land rights

Result? Formal farm credit increased from 8% in 1947 to 72% today.

Issues related to agricultural credit:

- Non-institutional sources: still 28% agri loans are from money lenders etc.
- Landless: Lack of collateral is still a problem for tenant farmers, sharecroppers, landless laborers
- Diversions: Diversion of agri loans for non-agri purposes. Creates problems like debt overhang.
- Loan waivers: frequent farm loan waivers worsens the credit culture
- Neglect of allied sectors: Allied sectors have 42% share in agri output, but get only 7% of agri loans
- Regional disparity: states in eastern and NE regions get low agri credit as % pf their agri-GDP
- Kisan Credit Card: only 45% farmers have operative KCCs

Way forward:

- Land records: Speed up digitization of land records
- Land leasing: Adopt Model Land leasing Act framed by NITI Aayog
- Allied sectors: Set sub-targets under Priority sector lending for allied activities
- Example of China: *(can be used in many answers)*
  - Compared to India, average farm size in China is smaller, still their agri productivity is higher.
  - Consolidation of small farms by long-term leasing of land to cooperatives and agri-business companies.
  - Outsourcing major farming operations (e.g. ploughing, planting & harvesting) to farm service providers.
  - Use of large-scale mechanization and high yield seeds.
  - Inflation indexed General-input subsidy and Income support on per hectare basis.

Farm loan waivers

Arguments in support	Arguments against
▪ Reduces suicides ▪ Reduces tendency to borrow from moneylenders, no debt trap ▪ Prevents distress sale ▪ Banks get relief from NPA ▪ Corporate NPAs can be written off, why not farm loans	▪ Credit culture weakens ▪ Fiscal deficit worsens ▪ Investments in productive sectors suffers ▪ Benefits only few farmers ▪ Domino effect / opens Pandaro's box ▪ Inclusion & exclusion errors

Farmer Producer Organization

Recently, govt. has approved a scheme "Formation and Promotion of FPOs".

What are FPOs?

- A producer organization is a legal entity formed by primary producers.
- FPO is a PO with farmers as members. There are about 5,000 FPOs in India.
- Concept of FPO begun during 2011-12, when 250 FPOs were formed from 2.5 lakh farmers. Its success encouraged govt. to promote more FPOs.
- Ashok Dalwai committee on doubling farmers income recommended formation of 7,000 FPO by 2022.

Scheme for formation and promotion of FPOs:

- Central Sector Scheme under MoA&FW
- Aims to create 10,000 new FPOs in five years.
- 15% in aspirational districts, at least one FPO in each of them.
- "One District One Product" concept will be used to support processing, marketing, branding & export.
- Each FPO to get upto Rs 18 lakh financial assistance and credit guarantee facility upto Rs. 2 crore.

Other steps taken:

- Integration of e-NAM with FPOs and warehouses.
- 100% income tax exemption for 5 years for FPOs having annual turnover less than 100 crore.

Challenges faced by FPOs: (can also mention general problems of agri)

- ❑ Mobilizing farmers to become part of FPO.
- ❑ No provision to cover business risks of FPOs. (crop insurance protects crops, not business)
- ❑ Poor managerial skills in people hired to run the FPO. (chosen by farmers, talented managers don't want to work in rural areas)
- ❑ Unable to take benefits of govt schemes due to lack of information.
- ❑ Lack of basic infrastructure like storage, transport, processing, etc.

Way forward:

- Exempt FPOs from certain statutory compliances for first few years of operation.
- Single window for obtaining various licenses required by FPOs.
- Training of managers through skill development courses, industrial visits.
- Certificate courses on FPO management in agri universities.

Why promote FPOs?

- ❑ 85% farmers in India are small and marginal. Individually, they lack bargaining power.
- ❑ But as a legal company:
  - They procure in bulk
  - They can do food processing
  - They can hire professional managers
  - They can sell under a brand
- ❑ In short, economies of scale increases their bargaining power.
- ❑ They are shareholders of the company, so they enjoy profits.

Livestock

Recently, 20th Livestock census was conducted by MoA&FW.

Livestock sector in India:

- Total Livestock population is 53 crore.
- Contributes 31% to agri GDP.
- Gives livelihood to 20 million people.
- 23% of agri households (with less than 0.01 hectares land) have livestock as main income source.

Importance of livestock:

- Food:
  - milk and eggs, which are otherwise expensive for daily consumption
  - cattle dung provides fuel for cooking
- Income support:
  - gives additional income especially in arid areas
  - livestock is more equitably distributed than land
- Reliability:
  - Regular source of income, not seasonal like farming
  - more reliable than rainfed agriculture;
  - less vulnerable to climate change
- Economic shocks:
  - selling livestock acts as guard against falling into poverty

Issues: *(input and output)*

- Fodder: lack of quality fodder at affordable price
- Disease: frequent outbreak of diseases like Foot & Mouth, Brucellosis
- Low yield: Milk yield of Indian cattle is half the global average
- GHG emissions: methane emissions
- Insurance: only 6% livestock (excluding poultry) has insurance cover
- Liability: becomes liability after productive life

Steps taken:

- National Animal Disease Control Programme to vaccinate 60 crore livestock against Foot & Mouth disease.
- Dairy Processing and Infra Development Fund to increase milk processing facilities.
- Fodder Development scheme
- Rashtriya Gokul Mission for bovine breeding and dairy development
- Pashu Sanjivani to give health cards to milch animals
- E-Pashu haat portal to link farmers and breeders of indigenous breed

Dairy sector:

- 1965: National Dairy Development Board in Anand Gujarat
- 1970: Operation Flood launched
- 1998: India became largest producer of milk in the world
- Today India has largest bovine population and is largest producer of milk.
- Only 36% milk goes to organized sector.

How to handle excess supply?

Convert to skimmed milk powder for longer shelf life and for exports, as otherwise its perishable. [Can't suddenly increase demand for alternates like UHT, cheese, etc]

Mains 2013:

India needs to strengthen measures to promote the pink revolution in food industry for better nutrition and health. Critically elucidate the statement.

Challenges:

- ❑ Creating standard policies for meat production and export,
- ❑ Standardizing quality and safety aspects of meat and poultry
- ❑ Creating infrastructure for modern slaughter houses, meat testing facilities and cold storages

Agri-Exports

*Approx figures

Silviculture	Forest
Sericulture	Silkworms
Pisciculture	Fish
Apiculture	Bees
Aviculture	Birds
Horticulture	Fruits/Veggies

Yellow	Edible oil
White	Milk
Pink	Meat
Green	Foodgrains
Grey	Coffee/Leather
Blue	Fish

India has consistently maintained trade surplus in agricultural products

Agri Exports:	Agri Imports:
2.5 lakh crores	1.5 lakh crores
10% of agri GDP	05% of agri GDP
2.3% global share	1.9% global share

High domestic demand, so:

Fruits: #2 in production, #23 in exports

Wheat: #2 in production, #34 in exports

I read I forget, I see I remember | See explanation of this PDF on YouTube www.youtube.com/c/allinclusiveias

Agri exports

Why promote agri exports?

- Better prices for farmers
- Job creation by food processing

Issues:

- **Production:**
  - can't supply in bulk (small holdings); no stable supply (rainfed agri)
- **Transport:**
  - poor condition of rural roads; lack of cold storage; high logistics cost (14% of GDP compared to 9.5% in USA); long waiting time at ports
- **Non-tariff barriers:**
  - Strict sanitary and phytosanitary standards in USA and Europe
- **Sustainability:**
  - Virtual water export through agri products.
  - Rising domestic demand

Agri Export Policy 2018:

- Aims to double agri exports from $30 billion (2018) to $60 billion by 2022. ($40 billion in FY21)
- Bring stability to trade policy
- Improve quality of logistics infra
- Focus on product specific clusters; involve small farmers
- Promote value added exports and organic products
- Marketing and promotion of brand India
- Create agri-startup fund and encourage private investment.
- Involve state governments; include agri exports in State export policies

Agri marketing

What is agricultural marketing?

- It means transfer of agricultural produce from farmer to consumer.
- Mainly, it happens in following three ways:
  - a) Traditional marketing method: through number of intermediaries
  - b) Cooperative based marketing: through NAFED, other cooperatives
  - c) New models: eNAM, FPOs, Contract farming, eChoupal, etc.

Issues:

- Too many intermediaries. Low income for farmer, high price for consumer.
- Absence of real time market info; lack of awareness/access to new information channels
- Lack of coldchain/warehousing facilities leads to uncontrolled cycles of excesses and shortages, which leads to price volatility.
- High post-harvest losses, Rs 92,000 crore as per ICAR estimates.
- Stock limits imposed under ECA creates scope for harassment by govt officials.
- MSP announced for 23 crops but procurement done mainly for wheat and rice.
- APMC: not in some regions; market fees is charged; Licensing barrier for new traders, cartelization; inadequate infra like cold storage

Steps taken:

- Model APMC Act 2003 to guide states for APMC reforms
- e-NAM as a united national market for agricultural commodities.
- State's initiatives to help direct sale by farmer to consumer, e.g. Apni mandi in Punjab
- 22,000 rural haats are being upgraded into Gramin Agricultural Markets (GrAMs), will remain outside APMC.
- Agmarknet as single window for agri marketing related information
- Scheme for Formation and Promotion of Farmer Produce Organizations (FPOs)
- Kisan rail and kisan Udaan schemes: to ensure quick transport of perishable goods

APMC:

- A market committee, constituted by States under law, to oversee trade in certain agricultural commodities.
- Most states in India have APMCs (not in Bihar, Kerala, Manipur).
- They were introduced to prevent exploitation of farmers due to pressure from creditors, perishability of produce etc.
- They ensure fair prices and timely payments to farmers for their produce.
- They provide facilities like auction halls, warehouses, soil testing, etc.

Three Farm Laws

Now repealed

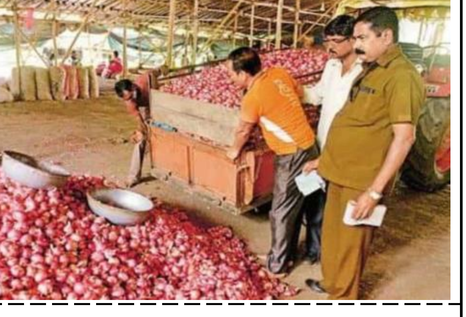
Farmer's Produce Trade & Commerce (Promotion & Facilitation) Act, 2020	Farmers (Empowerment & Protection) Agreement on Price Assurance & Farm Services Act, 2020	Essential Commodities (Amendment) Act, 2020
❑ Farmer can sell outside APMC/State (even without auction) ❑ Farmer can directly sell online ❑ Anyone (with PAN card) can purchase directly from farmer. ❑ State can't impose fee on sale outside APMC ❑ Dispute between farmer and trader to be resolved through SDM/ADM ❑ States will have to shut down APMC? No ❑ It will end MSP system? No	❑ Farming agreement between farmer and buyer before production (One crop season to 5 years) ❑ Price and process of price determination must be mentioned in the agreement. ❑ Disputes: Resolution board → SDM → DM ❑ No action can be taken against farmer's land for recovery of any dues.	❑ Regulate certain food items only under extraordinary circumstances: war, famine, natural calamity, extraordinary price rise. ❑ Price rise: → Perishable: 100% → Non-Perishable: 50% → Increase calculated over last 1 or 5 year average # Seeds, Fertilizers, Food items # Jute, Cotton hank yarn, # Petroleum products, # Drugs, ~~Masks, Sanitizers~~

Background

Farming (weather dependent; seasonal income; can't store hold for long)
Distress sale (Fraud; Inequality; Information asymmetry; Asset loss)
Exploitation (of poor farmer by Big farmer/trader/moneylender)

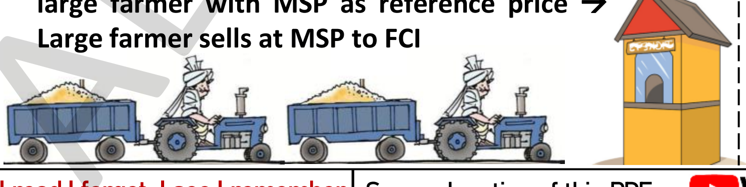
Solution:

- ❑ So govt. devised system of APMC in 1960s/70s
- ❑ First sale in a designated mandi area, through auction
- ❑ APMC committee: 50% farmers, some traders, some govt. officials
- ❑ Problem: license barrier; cartels
- ❑ To break cartel, govt. introduced own trader, i.e. FCI (gets rates from Govt.)



Still many imperfections:

- ❑ Limited capacity at counter, long wait, no storage, officials prefer big farmer over small.
- ❑ Small farmer left behind → Sells produce to large farmer with MSP as reference price → Large farmer sells at MSP to FCI



Model APMC Act 2003:

- ❑ free to sell outside APMC, free to sell to anyone. Some states adopted with modifications. Some delisted certain items from APMC like fruits and vegetables.

e-NAM:

- ❑ Launched in 2016, electronically connected thousands of APMCs.

Minimum Support Price

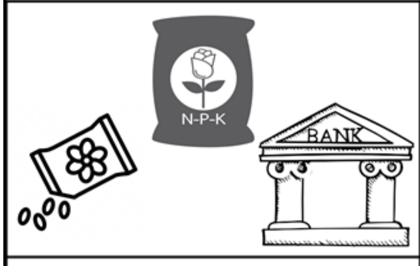
- A <u>market intervention</u> by Govt. to insure farmers against sharp fall in farm prices.
- It is announced at the beginning of sowing season on recommendation of <u>CACP</u>.
- 14 kharif crops, 6 rabi crops, two commercial crops and FRP for sugarcane.

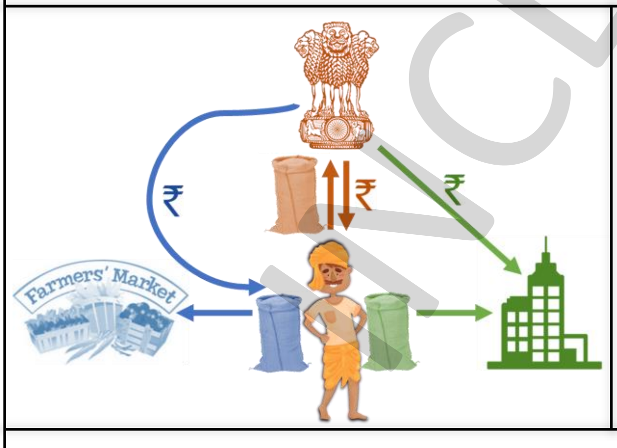
Importance of MSP:

- By acting as a safety net, it <u>prevents farm distress</u>.
- Procurement is necessary to distribute food grains through <u>PDS</u>.
- Helps maintain <u>buffer stocks</u> for national <u>food security</u>.

Issues:

- <u>MSP</u> announced for 23 crops but procurement done mainly for wheat and rice.
- Only <u>6-10% farmers</u> are able to sell at MSP
- High <u>food subsidy</u> burden
- <u>Diets</u> now more focussed on wheat and rice, instead of coarse grains

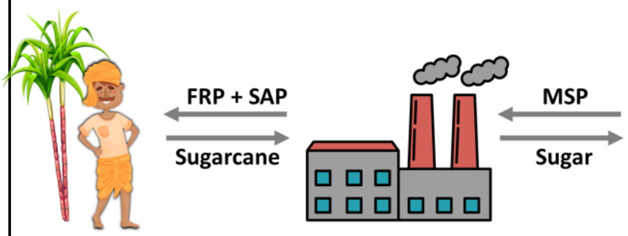
		
A2 [actual] Money that farmer actually spends (seeds, fertilizers, interest, etc.)	**A2 + FL** [family labour] Add assumed cost of family labour	**C2** [comprehensive] Add assumed cost of rent on owned land, interest on owned capital



<u>PM-AASHA:</u> (Pradhan Mantri Annadata Aay SanraksHan Abhiyan)

- <u>Price Support Scheme</u> – physical procurement by Centre and States.
- <u>Private Procurement & Stockist Scheme</u> – physical procurement by private companies; Govt will compensate private companies.
- <u>Price Deficiency Payment Scheme</u> – farmers are paid the difference between the MSP price and sale/modal price on disposal in notified market.

Sugarcane



Fair and Remunerative Price:

- By Centre, on recommendation of CACP
- Under Sugarcane Control Order 1966
- Factors: production cost, recovery of sugar/molasses/bagasse, margins, etc.
- 2009: FRP replaced Statutory Minimum Price

State Advised Price: by State govt

Minimum Selling Price (MSP) of sugar:

- Under Sugar Price (Control) Order, 2018
- For sale by sugar mills at the factory gate

Prelims 2003:

Consider the following statements:

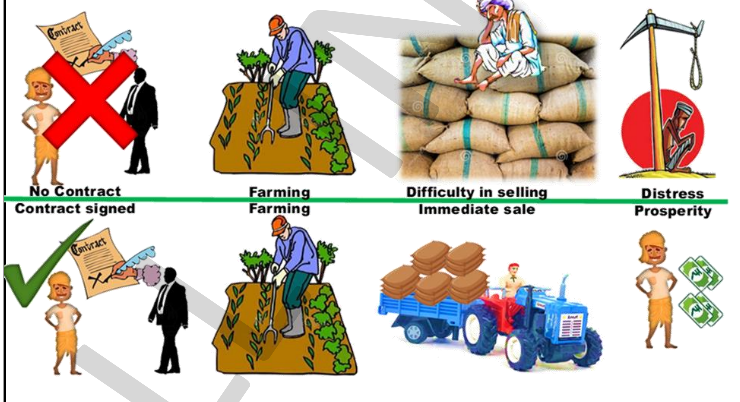
1. Molasses is a by-product of sugar production process.
2. Bagasse obtained in sugar mills is used as fuel in boilers to generate steam for sugar factories.
3. Sugar can only be produced from sugarcane as the raw material.

Which of these statements are correct?

(a) 1,2 (b) 2,3 (c) 1,3 (d) 1,2,3

Jute Packaging Material Act, 1987: 100% of foodgrains and 20% of sugar shall be mandatorily packed in jute bags

Contract Farming



'Model Contract Farming Act, 2018':

- It includes horticulture, livestock, dairy, poultry, fishery.
- It prohibits transfer of land from farmer to buyer.
- It keeps Contract Farming agreements outside APMC Acts of states.
- Stockholding limits will not be applicable to purchases made under Contract Farming.
- Tamil Nadu is the first state to enact a Contract farming law on lines of Model Contract Farming Act, 2018.

Fisheries

Fisheries:
- India is the second largest producer of fisheries.
- Contributes 6.5% to agri GDP.
- Contributes 5% to India's exports (20% of agri exports).
- Provides livelihood to 16 million people.
- 65% comes from inland sector, 35% from marine.
- Fisheries is in State list under 7th schedule. Hence, States manage inland and costal fisheries, while Centre manages fisheries in EEZ

Importance: employment, food security, nutrition, medicines & health supplements

Issues:
- Use of traditional fishing practices, hence low yield.
- Weak infra like cold storage; 20% post-harvest loss
- Also see class-11 blue economy

Draft National Fisheries Policy 2020:
- Govt to frame Fisheries Management Plans by using ecosystem approach to fisheries.
- Encourage PPP in fisheries sector.
- Cluster-based approach to develop aquaculture.
- Frame fish product standards as per international food safety standards

Pradhan Mantri Matsya Sampada Yojana:
- Launched in September 2020 for five year period.
- Genetic improvement of commercially important fish.
- Promoting Fish Farmers Producer Organizations (FPOs).
- Modernize post-harvest infra.
- Start-up promotion in Fisheries sector.

Fisheries subsidy

Fisheries subsidies are criticised because:
- They deplete fish resources by encouraging overfishing.
- They contributes to destructive practices like bottom trawling.
- Example of fisheries subsidy: fuel tax exemptions, boat modernisation, port renovation…

WTO negotiations on fisheries subsidies
- ❑ Launched in 2001 at the Doha Ministerial Conference.
- ❑ India supports elimination of irrational subsidies.
- ❑ India's position on elimination of fisheries subsidies:
  - ❑ Food Security concerns: Unlike rich nations, India's subsidy are minimal and are given only to small and marginal fishermen.
  - ❑ Common but Differentiated Responsibility: Rich countries have exploited fisheries more, hence must pay higher cost.
  - ❑ Fishing activity in territorial waters must be exempted from WTO agreement.
  - ❑ Special and differential treatment (S&DT) must allow longer time, 25 years, to developing countries to stop subsidies.
  - ❑ Countries engaged in distant water fishing should stop their subsidies for 25 years in areas beyond their EEZ.

OECD research suggests that instead of harmful subsidies, subsidising fishing communities' access to trade and business can provide the greatest benefits.

Soil Health Card

Need:

- N:P:K ratio of soil is 6.7 : 2.4 : 1 . Ideally this should be 4:2:1 (excessive use of urea)
- Excessive use of NPK fertilizers at cost of micro-nutrients and manure.
- High fertilizer subsidy bill, about Rs 80,000 crore annually.

Scheme:

- Soil testing is done, and farmers are given printed SHC, every 2 years.
- SHC has crop-wise recommendation on nutrients needed by soil.
- Aim is to restore soil health by judicious use of fertilizers.

Benefits:

- Reduces input cost: by preventing excessive use of fertilizer
- Increases revenue: higher yield due to improved soil health.
- Encourages crop diversification

How has the scheme performed?

- 22 crore cards distributed
- Fertilizer use reduced by 10%; crop yield increased by 5%
- Cost of cultivation decreased by 16-25% in rice, 10-15% in oilseeds & Pulses.
- Annual testing capacity increased from 1.8 crore to 3.3 crore soil samples.

Seeds

Three stages of seed production:

- Breeder seeds: by ICAR
- Foundation seeds: by National Seeds Corp. and private companies
- Certified seeds: by state governments

Laws:

- Seeds Act, 1966: regulates quality of certified seeds
- PPVFR Act, 2001: (Protection of Plant Varieties and Farmers' Rights Act) protects the intellectual property rights of plant breeders. Section 39 allows farmer to save, use, sow, resow, exchange, share or sell farm-saved seeds except the brand name.

Issues:

- Dependence on traditional seeds, which have low productivity, and need high amount of fertilizers and pesticides.
- Hybrid and GM seeds are expensive and non-regenerative, hence need to be purchased every year; near monopoly of GM crop companies
- Lack of certification. More than half seeds sold in India are not Certified.
- Low Seed Replacement Ratio, of around 20%. SSR is percent area sown using certified seeds, other than farm saved seeds.

Seed Bill, 2019:

- It will replace Seed Act 1966 and PVVFR Act 2001.
- It aims to regulate quality of seeds and facilitate their production and supply to farmers.
- Mandatory certification from lab, instead of self-certification.
- Mandatory registration for seeds sold in market.
- Farmer can claim compensation in case of non-performance of seeds, under Consumer Protection Act.
- Farmers can sell farm seeds without registration, but cannot sell under brand name.
- Govt. can regulate price in special situations like abnormal price rise.

Edible oil

- 2/3rd of India's edible oil demand is met by imports.
- Most of it is palm oil, soybean oil and mustard oil; mainly from Indonesia & Malaysia

Reasons for import dependence:
- Cheap imports lead to fall in market price
- Domestic oilseed production is stagnant for last five years.
- Farmers get better price on other crops like maize, chickpea.
- Most of the oilseed farmers are small and marginal, who can't afford quality seeds.

Schemes:
- National Mission on oilseeds and oil Palm
- Integrated scheme of oilseeds, pulses, oil palm and maize

Way forward:
- Import control by fixing annual import limits.
- Include cooking oil in PDS can boost procurement at MSP.
- Extend oilseed cultivation to fallow areas.
- Ashok Dalwai committee recommendations:
  - Impose cess on palm oil imports; use it to incentivise domestic cultivation
  - Promote all three sources of edible oil:
    - Primary source: Oilseeds
    - Secondary source: Rice bran, cotton seeds, etc.
    - Tree borne oils: Palm, coconut, etc.

Palm oil

Why focus on Palm oil?
- Half the edible oil import is palm oil.
- Palm gives 10-40 times more oil per hectare compared to other oilseed crops
- It has more carbon sequestration potential than most other oilseed crops

National Mission on Edible Oils - Oil Palm:
- Special focus on N-E India and A&N Islands.
- Financial assistance of Rs 29,000/hectare for planting material
- Price assurance to the oil palm farmers

Challenges in domestic cultivation of Palm oil:
- Palm tree is suitable for equatorial regions, not India.
- Deforestation is needed to clear land for palm tree plantations.
- Invasive species for India, may impact biodiversity.

Steps taken for Palm oil:
- 1986: Technology Mission on Oilseeds
- 1991: Oil Palm Development Program
- 1995: National Research Centre for Oil Palm
- 2004: Integrated scheme for Oilseeds, pulses, oil palm, maize
- 2011: Oil Palm included under Rashtriya Krishi Vikas Yojana
- 2014: National Mission on Oil Palm
- 2015: 100% FDI under automatic route allowed in palm oil tree
- 2021: National Mission on Edible Oils - Oil Palm

Technology in Agriculture *(input process output)*

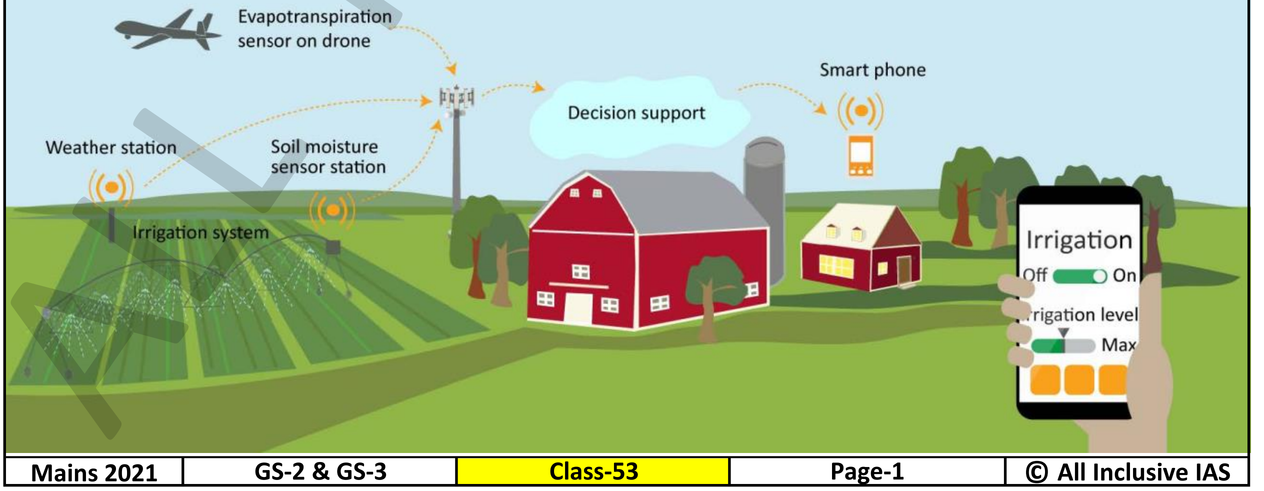
- Happy seeder machine can sow wheat without need to burn paddy stubble.
- In Direct Seeding of Rice technique, there is no need of submerging field with water.
- Solarization of water pump, e.g. PM-Kusum yojana
- Soil testing to show deficiency/excess of nutrients in soil e.g. Soil Health Card scheme
- Irrigation system can be now controlled by mobile phone. Moisture sensor in ground helps know irrigation requirement.
- Biotech and genetic engineering have resulted in pest resistance and increased crop yields.
- Mechanization has led to efficient tilling, harvesting, and a reduction in manual labor.
- Processing machinery has reduced wastage.
- Artificial Intelligence for accurate and area specific weather prediction.
- Space tech to get updates on crop production, site suitability for expansion, weather updates, identify crops suitable for different areas.
- Use of modern technology for crop production forecasting: (pib.gov.in)
    - FASAL is used for crop production forecasting of field crops while CHAMAN is for horticulture crops.
    - FASAL: Forecasting Agri output using Space, Agro-meteorology & Land based observation
    - CHAMAN: Coordinated Horticulture Assessment & Management using geo-iNformatics.
- Green revolution was possible due to tech: High Yield Variety, chemical fertilizers, pesticides

Precision Agriculture

- Precision farming: inputs are used in precise amount, to get increased yields.
- It is site-specific crop management technique, using variety of sensors, GPS, remote sensing, data processing, sprayers, automated farm machines (tractor, combines etc).

Benefits:

- Farming:
    - by matching farming practices to crop needs (e.g. fertilizer inputs)
- Environment:
    - by reducing environmental footprint of farming (e.g. limiting leaching of nitrogen)
- Economics:
    - by boosting competitiveness through more efficient practices (e.g. less use of fertilizers, pesticides, water)



Farm mechanization

Govt aims to double farm mechanization per hectare in next 10 years.
Farm mechanization in different countries: 40% India, 57% China, 95% USA

Benefits:

- **Manpower**: less expense on farm labour
- **Productivity**: Tractors, Combines help in increasing farm productivity
- **Soil health**: Rotavator machine mixes stubble with soil, increasing its fertility
- **Environment**: Happy seeder machine can sow wheat without need to burn paddy stubble.

Challenges:

- **Small size of land holdings** makes use of machinery impractical (average size of operational holdings was just 1.08 hectares in 2015-16)
- **Low income** of farmers makes investment difficult (average monthly income per agri household is about Rs 6,500)
- Taking **loans** is difficult, and available at high interest rate
- High cost of fuel (**diesel**) and unreliable **power supply** makes machines useless.
- Farmers have low **awareness** about machines suitable for small farm sizes

Steps taken:

- **Sub-mission on Agriculture Mechanization** to promote farm machines among small and marginal farmers.
- **FARMS-App** developed to connect farmers with Custom Hiring Service providers to take machines on rental.

Way forward: Consolidate land holdings; Rental model for machines

Agristack

- MoA&FW is in the process of creating Agristack for the agriculture sector.
- **Agristack:**
  - collection of technologies and digital databases
- **Components:**
  - **Farmer stack**: farmer data with Aadhaar as unique identifier
  - **Farm stack**: geospatial info of each farm
  - **Crop stack**: crop data linked to farms
  - **Land records**, govt **schemes** like SHC, PM-FBY, PM-Kisan, etc.

> Ministry of Agriculture & Farmers Welfare
>
> Government is in the process of finalising 'India Digital Ecosystem of Agriculture (IDEA)' which will lay down a framework for Agristack
>
> This Ecosystem shall help the Government in effective planning towards increasing the income of farmers in particular and improving the efficiency of the Agriculture sector as a whole
>
> Posted On: 03 AUG 2021 6:46PM by PIB Delhi

Potential benefits: *(think of all stakeholders)*

- **Farmers** will be able to get all services from a single platform.
- **Companies** (fintech, fertilizers, pesticides...) will get all info of potential market.
- **Policy** formulation will become easier with all data at one place.

Concerns:

- **Landless** farmers will not be covered. Digital land records have accuracy issues.
- In absence of data protection **law**, companies could use this data in any way they want.
- It is the **companies**, and not the small and marginal farmers which will be the real beneficiaries. e.g. raise interest rates when farmer's condition is not good, offer goods when he sells produce.

Way forward: Data protection; consult with farmer groups and states

Rainfed agriculture

Rainfed agriculture:
- dependent on rainfall for farming

Data:
- 60% farmers rely on rainfed agriculture
- 50% gross cropped area is under rainfed conditions
- 90% pulses , 80% oilseeds, 40% rice is produced by rainfed agriculture.

Issues: *(think of one farmer dependent on rain, and another having irrigation)*
- Rainfall is unpredictable, varies in intensity and frequency.
- Low yield of crops compared to irrigated areas.
- Low investment in infra, less procurement by govt.
- Hybrid seeds and chemical fertiliser are suitable for area with plenty of water.
  e.g. Chemical fertilisers simply burn out the soil without sufficient water.

Steps taken:
- 'Har Khet ko pani' under PM Krishi Sinchayee Yojana
- Organic farming and ZBNF Zero-Budget Natural farming is being promoted by govt.
- Rainfed Area Development Programme uses Integrated Farming System to increase productivity and reduce risks associated with climatic variabilities.

Way forward:
watershed management (class-38), revive traditional methods of rainwater harvesting, encourage SHGs and cooperative societies…

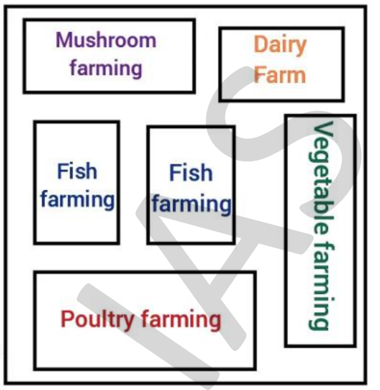
Cropping pattern

Cropping Pattern: is the proportion of area under various crops at a point of time.

Factors determining cropping pattern in India:
- Physical factors: Climate, slope, soil type, rainfall pattern
  - Bajra in Rajasthan, rice in Assam
  - Cotton in black soil in Maharashtra/Gujarat; Wheat/Rice in loamy soil of Punjab/Haryana
- Irrigation facilities: water guzzling crops where water is available
  - Rice in Punjab and Haryana, sugarcane in Maharashtra
- Government Policies: MSP, procurement, export restrictions
  - Open procurement policy for wheat and rice, and FRP for sugarcane.
- Technology:
  - High Yield Variety wheat in 1960s, Bt cotton in last 20 years.

Issues:
- Monocropping of wheat/rice in Punjab/Haryana
- Soil quality has deteriorated due to increased water use (free electricity)
- Water scarcity created due to cultivation of sugarcane in Marathwada region.
- Diet has more of wheat/rice, less of nutrient rich coarse grains

Integrated Farming System



Integrated farming:

- Crop production is integrated with livestock at same place
- Output of one system is used as input of another system
- Aim is :
    - to improve income of farmer
    - to reduce impact on environment

Benefits:

- Less expenditure on inputs, hence less debt.
- Better soil health as chemical fertilizers are not used / used in less quantity.
- Nutritional security for the farmers family – eggs, meat, fish as a protein source.
- Ultimately, Every farm household becomes self-reliant in 6F's (Food, Fodder, Feed, Fuel, Fibre and Fertilizer).
- Risk reduction as income comes from multiple sources (e.g. drought, excess rain, pest attack)
- Farming becomes profitable, less chances of distress migration to cities.

3. एकीकृत कृषि प्रणाली (आइ० एफ० एस०) किस सीमा तक कृषि उत्पादन को संधारित करने में सहायक है? (उत्तर 150 शब्दों में दीजिए)

How far is Integrated Farming System (IFS) helpful in sustaining agricultural production? ***Mains 2019*** (Answer in 150 words) 10

Pesticides

- Pesticides are chemical compounds that kill pests such as insects, rodents, fungi.
- India is 4th largest producer of pesticides
- Highest pesticide consumption: Maharashtra > UP > Punjab > Haryana
- Insecticides Act, 1968 regulates insecticides to lower risk to human and animal health.

Problem with Pesticides:

- Rising use: Warmer climate → more pests → more pesticides usage
- Poisoning: 7,000 deaths in 2019 due to pesticides poisoning
- Environment: water bodies get polluted due to farm run-offs and infiltration
- Regulation: Agri is in State list, but Pesticide is in Union list

Steps taken:

- Anupam Verma committee to review 66 pesticides banned in other countries, but allowed in India.
- 46 harmful pesticides have been banned by the Union govt.
- Govt has ratified the ban on 7 POPs used as pesticides.

Way forward:

- Promote alternatives like bio pesticides such as neem and plant-based formulations like Repline, Neemark and Indene.
- Educate farmers about safe use and optimum quantity as per crop.
- Pass Pesticide Management Bill which has provisions to regulate industry, monitor poisoning and compensate the victims.

Agri education

- Recently PM advocated teaching agricultural education at middle school level.
- Currently provided through agricultural universities, 3 central and 65 state.

Importance of agricultural education:

- Efficiency: Easier introduction of techniques like micro-irrigation, ZBNF, etc.
- Food processing: skilled manpower is needed for post-harvest processing
- Revenue: better branding and marketing helps farmers get better price
- Manpower: creates dedicated manpower for research in agri universities

Challenges:

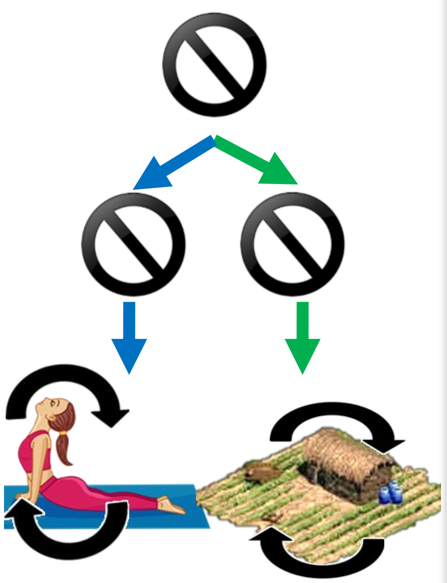
- Lack of formal employment opportunities
- Not attractive enough for students, teachers, researchers
- Inadequate funding and infra support by states to agri universities.

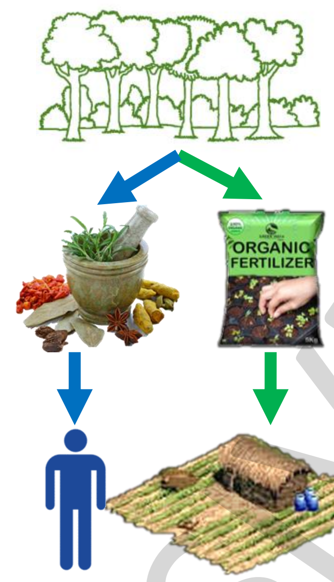
Govt. initiatives:

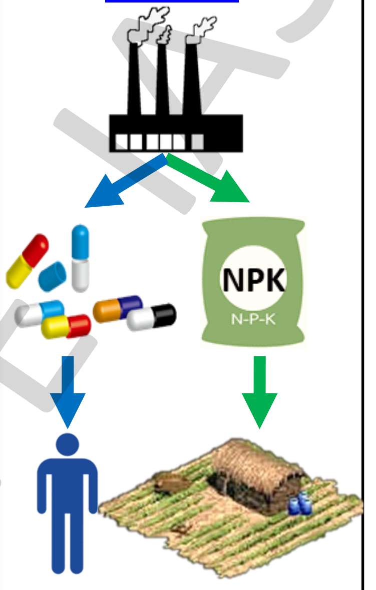
- Model act for agricultural universities framed by ICAR in 1966, revised in 2009.
- National Agri Higher Education Project (NAHEP) by ICAR with World Bank assistance, to strengthen state agri universities.
- Student READY (Rural Entrepreneurship Awareness Development Yojana) scheme to give practical experience of agriculture and entrepreneurship to undergraduate students.

ZBNF vs Organic farming

Zero-Budget Natural Farming	Organic Farming	Conventional Farming
Yoga	Ayurveda	Allopathy

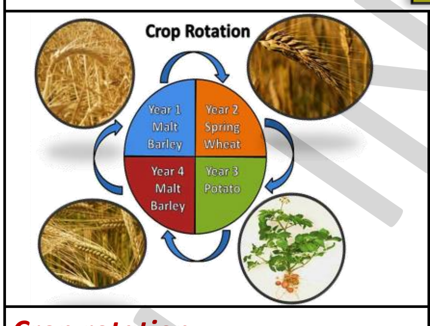


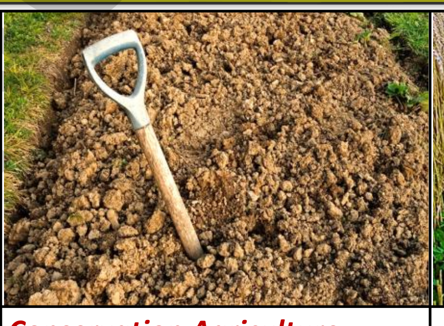




	Organic inputs from farm itself	Organic inputs from outside	Chemical inputs from outside
Benefits	❑ Low cost ❑ No debt trap ❑ Same as Organic f.	❑ Less soil erosion (more SOM) ❑ Less nitrate pollution ❑ Less pesticides	❑ High yield ❑ Off-season also ❑ Pest control
Issues	❑ Yield: Low yield/acre, especially in first few years ❑ Weather dependent; No off-season crops ❑ Risks of fluctuations in output, food shortages, inflation		❑ Pesticides ❑ Eutrophication

Sustainable Agriculture





Crop rotation
- ❑ On same land, grow different crops in different season/year
- ❑ Maintains nutrients, prevents disease

Conservation Agriculture
- ❑ Minimum tillage
- ❑ Maintain permanent Soil cover
- ❑ Diversification of plant species

Planting cover crops
- ❑ Crop grown to protect (cover) soil, rather than for purpose of being harvested

Integrated Pest Management
- ❑ Using natural enemies, using beneficial microbes, crop rotation, etc.

Permaculture
- ❑ Permanent agriculture
- ❑ Replicating natural ecosystem's stability in agriculture

Vermicomposting:
- ❑ Using earthworms to convert organic waste into manure

Prelims 1999:
Which one of the following agricultural practices is eco-friendly?
(a) Organic farming
(b) Shifting cultivation
(c) Cultivation of high yielding varieties
(d) Growing plants in glass-houses

Prelims 2020:
In the context of India, which of the following is/are considered to be practices of eco-friendly agriculture?
1. Crop diversification 2. Legume intensification
3. Tensiometer use 4. Vertical farming
Select the correct answer using the code given below:
(a) 1,2,3 (b) 3 (c) 4 (d) 1,2,3,4

Prelims 2017:
Which of the following practices can help in water conservation in agriculture?
1. Reduced or zero tillage of the land
2. Applying gypsum before irrigating field
3. Allowing crop residue to remain in field
Select the correct answer:
(a) 1,2 (b) 3 (c) 1,3 (d) 1,2,3

Prelims 2012:
Consider the following agricultural practices:
1. Contour bunding
2. Relay cropping
3. Zero tillage
In the context of global climate change, which of the above helps in carbon sequestration in the soil?
(a) 1,2 (b) 3 (c) 1,2,3 (d) None of the above

Prelims 2018:
With reference to the circumstances in Indian agriculture, the concept of "Conservation Agriculture" assumes significance. Which of the following fall under the Conservation Agriculture?
1. Avoiding the monoculture practices
2. Adopting minimum tillage
3. Avoiding the cultivation of plantation crops
4. Using crop residues to cover soil surface
5. Adopting spatial & temporal crop sequencing/rotation
Select the correct answer:
(a) 1,3,4 (b) 2,3,4,5 (c) 2,4,5 (d) 1,2,3,5

Prelims 2020:
What are the advantages of zero tillage in agriculture?
1. Sowing of wheat is possible without burning residue of previous crop.
2. Without the need for nursery of rice saplings, direct planting of paddy seeds in wet soil is possible.
3. Carbon sequestration in soil is possible
Select the correct answer:
(a) 1,2 (b) 2,3
(c) 3 (d) 1,2,3

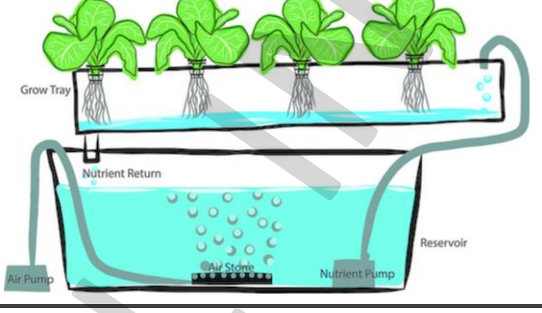
Hydro/Aqua/Aero ponics

General Benefits:
- 90% less water
- Less space
- Faster growth
- Controlled environment
- No weeds

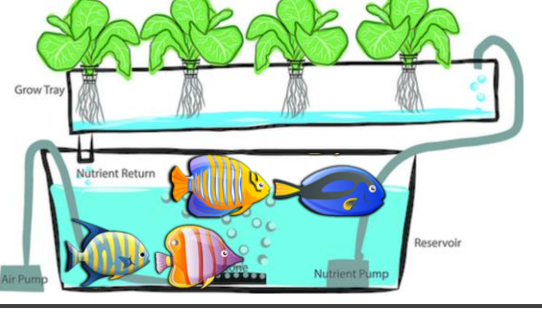
Challenges:
- Technical know-how
- Capital intensive

Aquaman 😂 rides on fish

Hydroponics

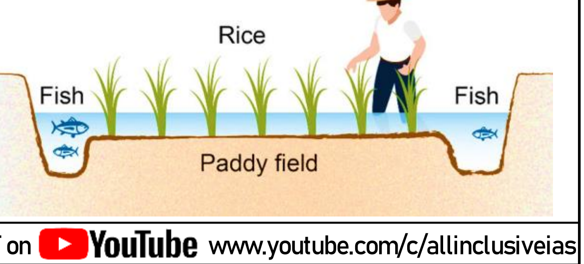


Aquaponics

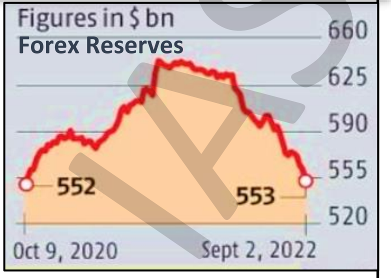


Aeroponics

Rice-fish farming



Rupee Slide



Reasons for recent fall of INR

- **Higher import bill:**
  - Rising price of crude oil, edible oils, etc due to Ukraine war
- **Higher Current Account Deficit:**
  - Widening CAD due to rising trade deficit
- **US Fed's tighter monetary policy:**
  - It led to FPI outflow from Indian financial markets

Impact of Rupee depreciation:

- **Costlier oil:**
  - Larger payments need to be made for importing crude oil and edible oil
- **Higher inflation:**
  - Costlier crude oil increased transport costs; edible oil lead to food inflation
- **Further widening of CAD**
  - India is a net importer, so weaker rupee increased import bill even further
- **Decline in forex reserves** ($80 billion fall in 6 months)
  - Due to selling of dollars by RBI and a higher import bill

Steps taken:

- **Fiscal policy action by Fin Min:**
  - Customs duty on import of gold increased
  - Excise duty on export of petroleum items increased
- **Monetary policy action by RBI:**
  - Policy rates hiked by RBI (Repo rate hiked by 140 basis point in during May-July)
  - Forex market interventions to reduce volatility and smoothen rupee's fall.

What can be done?

- **Cheaper oil:**
  - Import cheaper oil from Russia
  - Increase ethanol blending to reduce demand for crude oil
- **Alternative Payment mechanisms**
  - Explore Rupee-Rouble arrangement to settle dues in rupees instead of Dollars
  - Conduct currency swap with other countries (Framework for CS in SAARC was approved in 2019)
- **Boost exports**
  - Weaker rupee is good opportunity to increase exports

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Prelims 2012:
The price of any currency in international market is decided by
1. World Bank
2. Demand for goods/services provided by the country concerned
3. Stability of the government of the concerned country
4. Economic potential of the country in question.

Which of the statements given above are correct?
(a) 1, 2, 3 and 4 **(b) 2 and 3 only** (c) 3 and 4 only (d) 1 and 4 only

Convertibility of Rupee:
Conversion to other currencies
Current account → fully convertible
Capital account → partially convertible

Full convertibility:
- Benefit: capital inflow
- Problem: more volatility

Prelims 2019:
Which of the following is "not" the most likely measure the Govt / RBI takes to stop slide of Indian rupee?
(a) Curbing imports of non-essential goods and promoting exports
(b) Encouraging Indian borrowers to issue rupee denominated Masala Bonds
(c) Easing conditions relating to external commercial borrowing
(d) **Following an expansionary monetary policy**

Prelims 2019:
In the context of India, which of the following factors are contributors to reducing the risk of a currency crisis?
1. The foreign currency earnings of India's IT sector
2. Increasing the government expenditure
3. Remittances from Indians abroad

Select the correct answer using the code given below.
(a) 1 only **(b) 1 and 3 only**
(c) 2 only (d) 1, 2 and 3

FEMA 1999
- Regulates foreign exchange transactions
- Classifies all forex transaction as capital or current account transactions.
- All transactions by resident Indian, that do not alter his assets or liabilities outside India, are current account transactions.

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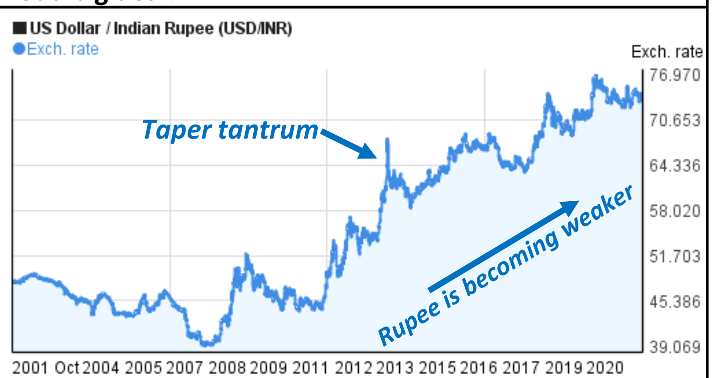
Currency Manipulator

- A country deliberately influencing exchange rate to gain "unfair trade advantage".
- Designation given by WTO, IMF, WB, UN, etc.? No. It's just the USA.
- Many countries were/are in the list, not a big deal.

For Prelims, please remember:
- ✓ Stronger rupee means rupee moving from 60 to 50.
- ✓ Weaker rupee means rupee moving from 60 to 70.
- ✓ It is generally advantageous for India / China to have weak currency.
- ✓ RBI's dollar reserves are near lifetime high ($630 billion)
- ✓ Rupee is near lifetime low ($1 = ₹76)



Fixed Exchange rate system:	Managed floating (dirty float):	Free Floating:
Currency's value is fixed by Central Bank against the value of another currency	Central Bank intervenes to prevent volatility (India: 1993/94)	Central Bank does not intervene

Technically: Devaluation is done intentionally in fixed rate system, but depreciation happens by itself (market forces) in floating rate system.
For exam: don't get into this technicality unless the questions demands so.

Hot money

Hot money:

- ❑ **Flow** of funds from one **country** to another, to earn **short-term profit**
- ❑ Reason: **interest rate** differences or anticipated **exchange rate** shifts.

Prelims 2021

Indian Government Bond **yields are influenced by** which of the following?

1. Actions of United States Federal Reserve
2. Actions of Reserve Bank of India
3. Inflation and short-term interest rates

Select the correct answer:

(a) 1 and 2 only (b) 2 only
(c) 3 only $\boxed{\text{(d)}}$ 1, 2 and 3

Carry trade:

- ➢ Borrow money at low interest rate
- ➢ Invest that money in assets giving higher return

When US Fed increases rates:

- ➢ US bonds will give more yield (return)
- ➢ **Indian bonds** will become **less attractive**
- ➢ Global funds will pull money out of Indian bonds.
- ➢ Rupee will become weaker. Dollar will become stronger.
- ➢ To prevent such FPI outflow, **RBI may increase rates**.

US Fed Taper tantrum of 2013:

US Fed announced that it will taper its policy of quantitative easing

- US Fed will feed less money into the economy
- US Fed will reduce purchase of Treasury bonds
- i.e. demand for Treasury bonds will reduce
- i.e. price of Treasury bonds will reduce
- i.e. yield of Treasury bonds will increase

***Result**: FPI outflow from India, Rupee fell*

Prelims 2021

The effect of **devaluation** of a currency is that it necessarily

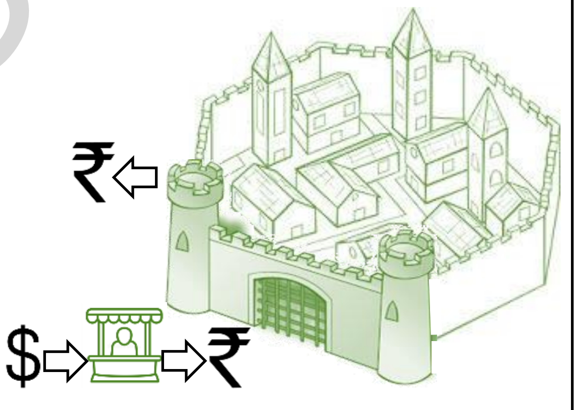
1. improves the competitiveness of the domestic exports in the foreign markets.
2. increases the foreign value of domestic currency
3. improves the trade balance

Which of the above statements is/are correct?

$\boxed{\text{(a)}}$ 1 only (b) 1 and 2 (c) 3 only (d) 2 and 3

Sterilization

- ❑ Huge inflow of foreign currency can damage economy
  - ➢ Currency will appreciate
  - ➢ Inflation
  - ➢ Exports will become uncompetitive
- ❑ To prevent such damage
  - ➢ RBI will withdraw excess money supply
  - ➢ This is called sterilization



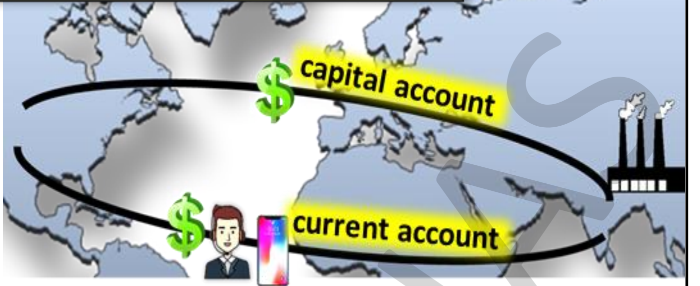
MSS

Market Stabilization Scheme

- ❑ It was introduced in **2004**
  - ➢ due to huge capital inflows since 2002.
- ❑ In **2016**, after demonetization
  - ➢ its limit was increased from 30k crore to 6 lakh crore.
- ❑ It is a **monetary policy tool** of RBI
  - ➢ To **withdraw excess liquidity** (money supply)
  - ➢ By **selling Market Stabilization Bonds** (MSBs are just like T-bills/G-secs, hence part of govt debt)
- ❑ **Money** raised by MSBs is **not transferred to govt**
  - ➢ It is kept with RBI for buyback

Current Account vs Capital Account

- BoP
  - Capital Account → Assets
  - Current Account
    - Goods — *Merchandise*
    - Services — *Invisibles like Tourism, profit from assets*
    - Transfer payments — *Remittances, Gift, Grants*



Can a country have Trade deficit and Current Account surplus simultaneously?
Yes, if earnings from Services and Transfers are more than Trade deficit

Prelims 2013:
Which of the following constitute Capital Account?
1. Foreign loans 2. FDI
3. Remittances 4. Portfolio investments
Select the correct answer.
(a) 1, 2 and 3 (b) 1, 2 and 4
(c) 2, 3 and 4 (d) 1, 3 and 4

Prelims 2014:
With reference to Balance of Payments, which of the following constitutes Current Account?
1. Balance of Trade 2. Foreign Assets
3. Balance of invisibles 4. Special Drawing Rights
Select the correct answer.
(a) 1 only (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 4

Capital Account Convertibility

Convertibility of INR:
- **Current account → fully convertible**
- **Capital account → partially convertible**

Capital Account Convertibility:
Freedom to convert domestic currency to foreign currency, and vice-versa, for capital account transactions.
Full CAC: removing all restrictions on convertibility of currency

What would full convertibility mean for rupee?
- **There will be no limit on inflow or outflow of capital for various purposes.**
- **Rupee exchange rate will be left to market factors without any regulatory intervention.**

Advantages of full convertibility:
- **Sign of Stable and Mature Economy**
  - **It will show that Indian economy is strong enough to handle unrestricted movement of capital**
- **Increased Liquidity in Financial Markets**
  - **Global investors will find it easier to invest in financial markets in India**
- **Improved Employment and Business Opportunities**
  - **FDI will increase, and bring with it advanced tech and job opportunities**
- **Easy Access to Foreign Capital**
  - **Indian companies will find it easier to take foreign loans at lower interest rates.**

Disadvantages of full convertibility:
- **High Volatility**
  - **Forex rate will become more volatile in absence of regulatory control**
- **Higher currency risk**
  - **Size of foreign loan will increase if rupee depreciates**
- **Negative impact on Exports**
  - **Export-oriented economies (India, China) prefers weaker currency to boost exports**
  - **Rupee appreciation can reduce competitiveness of Indian exports**

Is India Ready?
Our ability to adopt full convertibility depends on strength of our economy, including:
- **Optimum levels of forex reserves**
- **Consistently surplus Current account deficit (CAD); Export competitiveness**
- **Fiscal consolidation; Better control on inflation**

To become a global economy, India needs higher integration with global economic system.
Making rupee fully convertible is a step in that direction.

Virtual Digital Assets

Budget 2022 has imposed 30% tax on any income from transfer of any virtual digital asset

Virtual Digital Asset: (general definition)

- It is a digital representation of an item that has value in a specific environment.
- It can be digitally traded, transferred or used for payment or investment purposes.

Benefits:

- Broad definition
    - Not just crypto, but all types of digital assets are covered
- More revenue for govt
    - Govt will collect more tax, which can help control fiscal deficit

Challenges:

- Peer-2-Peer transactions
    - No mechanism exists to track such transactions
    - People will use this path to avoid paying tax
- Profit from Mining operation
    - Lack of clarity on costs and profits due to crypto mining activity
- Competition from CBDC
    - Central Bank Digital Currency are not covered under this tax
    - Tax will disincentivise people from investing in crypto assets
- Concerns remain:
    - Money laundering and terror financing concerns related to crypto assets still remain

Way forward:

- Legal status of Crypto assets should be finalized at the earliest.
- Central Bank Digital Currency can be launched by RBI to promote financial inclusion.
- A comprehensive framework for governing VDAs is necessary for more clarity.
- Spread awareness in public about risks due to price volatility of virtual assets.

From Prelims class

Virtual Digital Assets

- May or may not be using crypto/blockchain technology
- Flat 30% tax on digital asset gains
- Loss? can't set off against gains
- Gift? recipient will pay tax
- Applicable on CBDC? No

Why is govt not calling cryptocurrency as currency?

Something is currency only if it is issued by RBI (even if its crypto). CBDC will be currency.

Adjusting capital loss: (Long term vs Short term)

(This is not important)

- LTCL can be adjusted against LTCG
- STCL can be adjusted against both LTCG and STCG

Digital Banks

Note: For any question on Fintech, Neo bank, Digital bank, payments, etc, student can use points from "Financial Inclusion" in class-21 pg-05

[July 2022] NITI Aayog has proposed a licensing and regulatory regime for digital banks, with "Financial Inclusion" being the main aim.

Does India need Digital Banks?

- **Limitations of Neo-Banks:**
  - They are dependent on obsolete core banking system of partner banks
- **Low credit penetration:**
  - It remains a challenge, especially for 6.3 crore MSMEs

Prevailing model: (Neo-Banks)

- Neo-banks model has emerged due to
  - regulatory vacuum
  - absence of digital bank licence
- NITI report highlights following challenges in 'partnership model' of neo-banking:
  - Limited Revenue Potential
  - Potential obsolescence of the partner bank's Core Banking System
  - High Cost of Capital & No Entry Barrier

The report recommends following approach:

1) Issue 'Restricted' licence
   - Impose restriction in terms of volume/value of customers serviced
2) Create regulatory Sandbox
   - Include all licensees in a regulatory sandbox enacted by RBI
3) Issue 'Full-scale' licence
   - Subject to satisfactory performance in the sandbox

Neobanks

- Fintech firms that provide banking service
- Totally digital, no physical branches
- They don't have banking license
- They partner with banks to provide banking services
- No "neo-bank" license given by RBI
- e.g. RazorpayX, Niyo, etc.

I read I forget, I see I remember | See explanation of this PDF on YouTube www.youtube.com/c/allinclusiveias

Prelims 2022	Current Affairs	Economy	Page-24	© All Inclusive IAS

Financial Services Institutions Bureau

Background for understanding, not to be written in exam:

- A General Manager at National Insurance Company challenged the appointment of a person junior to him for Director's position by the BBB
- Delhi HC ruled that BBB is not the competent authority for selections to insurance companies.
- So Centre dissolved BBB, and created FSIB. But practically it was just a name change.

From PT-365 Economy class-4

Banks in India:

- 12 public sector banks
- 22 private sector banks
- 46 foreign banks
- 56 regional rural banks
- 1,485 urban cooperative banks
- 96,000 rural cooperative banks
- 2.1 lakh ATMs

Banking regulatory powers in India are NOT ownership neutral

- All commercial banks are regulated by RBI under BR Act 1949.
- Additionally, PSBs are regulated by FinMin under SBI Act 1955, Banking Companies Act 1970, Bank Nationalisation Act 1980
- Hence, PSBs are subject to dual regulation of RBI & FinMin
- All sections of BR Act 1949 do not apply to PSBs, hence:
    - RBI cannot remove directors/management of PSBs
    - RBI cannot supersede Board of PSBs
    - RBI cannot liquidate or force merger of PSBs
    - RBI cannot give/revoke license to PSBs

Banks Board Bureau:

- It is a statutory body? No!
- Est. in 2016 on recommendation of RBI appointed PJ Nayak Committee
- To select and appointment Board members for various FIs in public sector (Banks, insurance co, AIFIs, etc)
- Recommend measures to improve governance in these institutions.
- Assist in capital raising, deal with bad loans, etc.

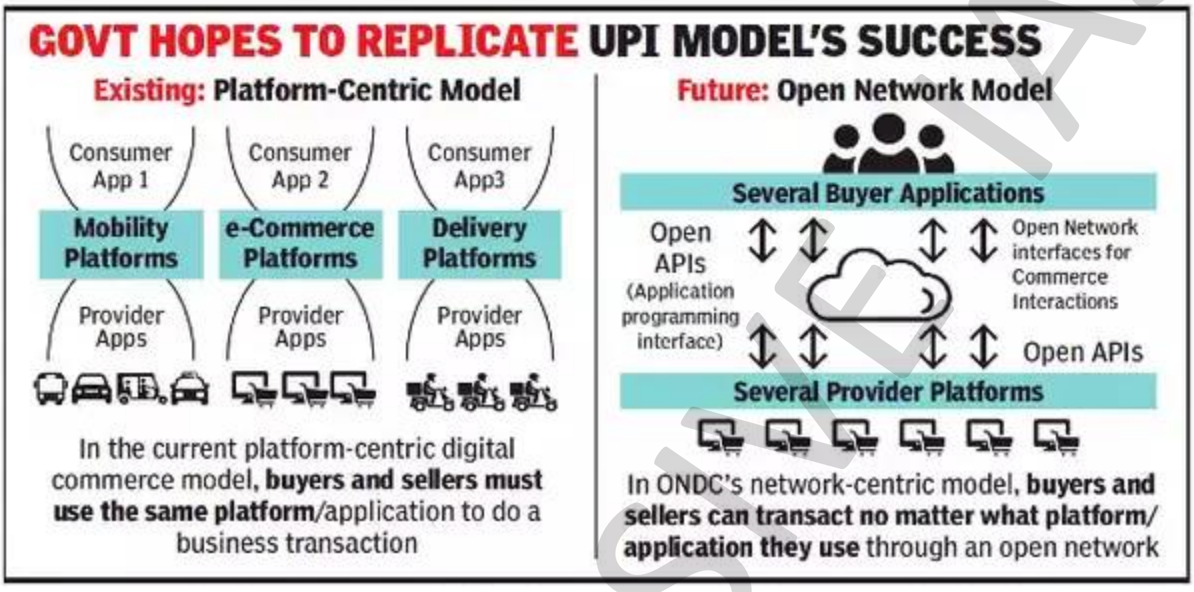
Some initiatives to improve conditions of PSBs

- Mission Indradhanush 2015
- Banks Board Bureau
- Separate posts of Chairman and Managing Director
- Enhanced Access and Service Excellence, EASE Reforms Index
- Central Repository of Information on Large Credits (CRILC)
- Insolvency and Bankruptcy Code, 2016
- Fugitive Economic Offenders Act, 2018
- Recapitalisation and Recapitalisation Bonds

For any Banking related question, use points from:

Class-49 pg-6,7 and Class-50 pg-01

Open Network for Digital Commerce



ONDC:

- ❑ **It is an open network for e-commerce activities.**
  - ▪ **It uses open protocols, just like http for internet, and UPI for payments.**
- ❑ **Buyer & seller can use any application of their choice to do e-commerce transaction.**
  - ▪ **Currently, buyer & seller use same application (Amazon/Flipkart) to do transaction.**
- ❑ **ONDC will standardize operations like**
  - ▪ **cataloguing, inventory management, order management, order fulfilment.**
- ❑ **More choice for buyers**
  - ▪ **Buyers can discover multiple sellers for same product**
- ❑ **Promotes local sellers**
  - ▪ **Those not on amazon/Flipkart will also be able to sell online**
  - ▪ **Buyers will prefer purchasing from local sellers**

Challenges

- ❑ **It is a complex project**
  - ▪ **UPI is only digital. But ONDC also involves logistics**
- ❑ **Competition from big players**
  - ▪ **Making people to shift to new platform will be difficult**
- ❑ **More choice may not matter:**
  - ▪ **More number of sellers may not improve buyer experience as product remains same.**
- ❑ **Past failures:**
  - ▪ **Similar initiative by start-ups have failed in the past.**
- ❑ **Trust/Accountability issues:**
  - ▪ **Lack of mechanism to address customer complaints and returns.**
- ❑ **No significant capital infusion:**
  - ▪ **Amazon/Flipkart spent billions to create a loyal customer base.**
  - ▪ **No such capital infusion is expected to promote ONDC**

E-Commerce

Benefits/importance of e-commerce:

- **More choice to customers:**
  - People can buy products not available in local area
- **Job creation through gig economy:**
  - Cab drivers, food delivery boy, household services (Urban Company)
- **Efficient logistics:**
  - Modern warehouses, inventory management practices, order tracking, etc.

Challenges:

- Local businesses suffer due to low demand
- Duopoly of Amazon/Flipkart, Zomato/Swiggy, Ola/Uber, etc.
- Anti-competitive practices like predatory pricing, fake reviews, etc
- Misuse of customer data by companies in absence of data protection law
- Supply of fake or substandard products

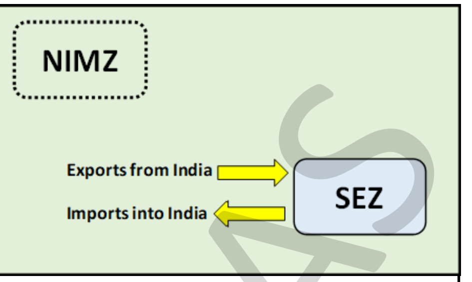
Steps taken:

- ONDC is being created to end dominance of big players
- Equalization levy imposed on foreign firms
- Consumer Protection Act 2019 covers e-commerce transactions

Emerging trends:

- **10 minute delivery:**
  - promotes rash driving, endangers road safety
- **Drone delivery:**
  - overhead cables, bird hits, crash accidents

Special Economic Zone



Special Economic Zones:
- Duty free area deemed to be foreign territory for trade, tariffs, etc.
- Can be set up for manufacturing as well as services.
- India began setting up SEZs in 2000
- They are approved under SEZ Act, 2005
- Approx 450 approved, 268 operational

Export Processing Zone:
- EPZs were similar to SEZs to today.
- Asia's first EPZ was est in 1965 at Kandla

Note:
New name of Kandla port is Deendayal Port
It is in Gulf of Kutch, not Gulf of Cambay

NIMZ	SEZ
National Mfg Policy 2011	SEZ Act 2005
For Industrial growth	For exports
Domestic territory	Deemed foreign territory

DESH Bill 2022:
- Development of Enterprises and Services Hub
- Govt plans to replace SEZ Act 2005 with a new law
- Two important changes:
  - removal of positive net foreign exchange requirement
  - easier access to domestic markets. Payment need not be in forex.
- Many of the proposed changes are necessary to be WTO compliant.

Benefits of creating SEZ
- for Company: Simpler compliances, Lower tax, single window clearances from Centre/states
- for Economy: job creation, inflow of forex

Data:
268 operational SEZs employs 25 lakh people
30% of India's exports are from SEZs

But why create separate area? Businesses in India often face challenges like:
- absence of quality infra
- multiplicity of controls and clearances
- unstable fiscal regime (duties on import/export changes frequently)

Challenges faced by SEZs?
- Half the land allocated to SEZs remain unutilized
  - Provide flexibility to use land for purposes like affordable housing.
- Full customs duty is charged for domestic sale
  - Allow best available FTA rates (Free Trade Agreement)
- External Commercial Borrowing (ECB) is permitted only for selected SEZ infra
  - Allow ECB for entire SEZ infrastructure
- To be eligible for benefits, SEZ units must have positive Net Foreign Exchange
  - Eligibility for benefits should be linked to employment generated, investment in R&D, etc.
- Constraints of paying only in dollars to consume services from a firm in SEZ
  - Allow payment in rupee for services (just like goods); amend the SEZ Act

Baba Kalyani committee recommendations:

a) Set up SEZs as 3Es (Employment & Economic Enclaves) i.e. shift focus from exports to economy and employment.
b) Incentives should be based on investment, employment, technology, value addition, etc.
c) Improve connectivity to remote SEZs.
d) Frame policies to avoid competition with similar schemes like NIMZ.
e) Allow use of rupee in transactions with domestic firms.

With global business turning against China, it important to use full potential of our SEZs to attract companies looking to shift their manufacturing base outside China.

Corporate Social Responsibility

Concept:
- Companies are part of society, they operate in society, and earn from society.
- Hence, Companies have moral obligation to work for betterment of society.

CSR in India:
- With Companies Act 2013, India became first country to make CSR compulsory.
  - Before 2013, CSR was considered as a philanthropic activity, done voluntarily.
- Role of CSR committee in company:
  - frame CSR policy and monitor its implementation
  - recommend amount of funds to be spent

Significance of CSR:
- Benefits society:
  - Health, education, poverty
- Benefits nation:
  - Environment, Heritage conservation, support during disaster mgmt (eg covid)
- Benefits company:
  - Higher investor confidence
  - Boosts companies brand image in eyes of customers, builds customer loyalty
  - Low attrition, higher employee motivation, employees speak positively about their workplace
  - Positive coverage in local and national media
  - By reducing poverty, new buyers for company's products are created
  - By skilling the locals today, company gets skilled workforce tomorrow
  - By planting trees near company office, area becomes less prone to flooding

Challenges:
- Regional disparity:
  - Companies prefer spending CSR money in their main area of operation
  - But real need of CSR is in remote undeveloped areas
- Inadequate capacity:
  - Companies lack manpower willing to give time for educating or skilling locals
- Considered as charity:
  - Companies simply donate money to PM-CARES, PM Nat. Relief Fund, etc
  - They don't try to bring any social change at grassroot level
- Misuse of funds:
  - Funds are diverted to shady NGOs in name of CSR activities
  - Funds spent on social awareness programs are actually used for marketing company products (sanitation is important, so use this product)

CSR

- Companies Act, 2013 made CSR compulsory
- India first country to make CSR compulsory.
- For Indian and Foreign companies in India.
- Overseen by Ministry of Corporate Affairs
- Violation is civil wrong
- 2% of average profit of last 3 years.
- For which companies?
  - Annual sales > 1000 crore
  - Net worth > 500 crore
  - Net profit > 5 crore

(Schedule 7 of Companies Act 2013)

CSR quota includes money spent on:
- Health, education, poverty, environment, heritage, disaster management, etc.
- PM-CARES? Yes
- PM Nat. Relief Fund? Yes
- CM Relief Fund? No
- NDMA / SDMA? Yes
- Covid related activities? Yes

Civil Aviation

India is 3rd largest domestic aviation market after USA and China

Importance:

- Helps in regional development, promotes tourism
    - UDAN scheme increases air connectivity in tier II and III cities
- Connects strategic areas:
    - eg Hilly areas, N-E India, A&N islands, etc
- Efficient logistics can open new business opportunities:
    - eg Amazon same day delivery; Zomato Legends (inter-city food delivery)
- Employment generation
    - Pilots, crew, ground support, etc.

UDAN (Ude Desh Ka Aam Naagrik) Scheme 2016:

- Regional Connectivity Scheme to connect un-served & under-served airports at affordable prices
- 419 UDAN routes connect 67 airports and heliports
- 350 new city pairs are now scheduled to be connected under the scheme,

Steps taken:

- 100% FDI under Automatic route for Ground Handling Services
- Digi yatra platform: use of facial recognition instead of boarding pass at airports
- AirSewa app: all info about air travel in one place
- New airports: eg Jewar airport is being developed as India's biggest airport
- Airport operations: AAI has leased 8 airports to private companies

Challenges:

- High jet fuel price makes air travel expensive
- Congestion in major cities like Delhi & Mumbai
- Security concerns sometime leads to harassment of passengers, especially PwDs

Tourism

Tourism Development Index: India's rank 54 out of 117
40 World Heritage Sites: 32 : Cultural, 7 : Natural, 1 : Mixed

Significance of Tourism:

- **Regional development**
  - with tourist inflow, govt develops infra like road, piped water, etc.
- **Employment generation**
  - guides, eateries, taxi, etc.
- **Diplomacy**
  - Promotes India's Soft Power
- **Economy**
  - brings much needed dollar inflow

Scope for Tourism / Some initiatives

- **Medical Tourism**
  - attract patients from South Asia, Middle east and Africa
- **Theme-based tourism**
  - Swadesh Darshan Scheme: 15 circuits have been created like Buddhist circuit, N-E circuit
- **Religious tourism**
  - PRASHAD Scheme: Pilgrimage Rejuvenation And Spiritual Heritage Augmentation Drive
- **Film Tourism**
  - India as destination for film shooting, due to variety of terrain (hills to desert)
- **MICE**
  - Meetings, Incentives, Conferences, Exhibitions

Challenges:

- **Pandemic**
  - fear of contacting communicable diseases discourages international tourism
- **Poor infra**
  - poor condition of road, railway stations, public toilets
- **Condition of historical sites**
  - Most of the historical sites are in dilapidated condition
- **Vested groups**
  - Campaigns are run to pull down monuments like Taj Mahal
- **Unsafe place**
  - Multiple reports in international media show India as unsafe place for women