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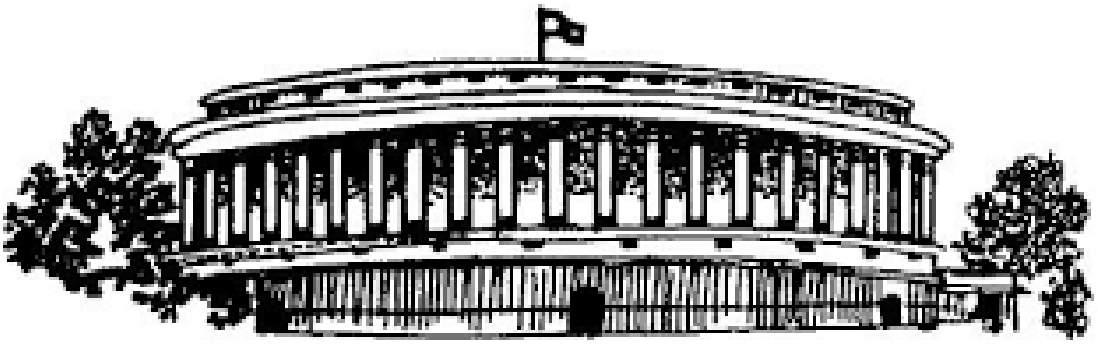

MAINSTORMING - 2017

ECONOMY & AGRICULTURE

(PART- I)

SHANKAR IAS ACADEMY™

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I N D E X

MAINSTORMING -2017

Economy & Agriculture - Part I

1. NOVEMBER - 2016

1.1 Revival of FRBM Act

Why in news?

- In a bid to reinforce the commitment to fiscal consolidation, a committee to review the contours of the FRBM Act was instituted.
- The committee is about to submit its report by the end of the current month.

What is FRBM Act?

- The FRBM Act was first introduced in India in December 2000 to rein in burgeoning government deficits both at the Centre and in the States.
- Enacted in 2003, the FRBM Act institutionalized fiscal discipline, by seeking to eliminate revenue deficit and to bring down fiscal deficit to a manageable 3% of GDP by FY08 from 5.7% of GDP in FY03.
- However, during the international financial crisis of 2008, as government spending became critical to revive growth amid sharp decline in private investments, the deadline for attainment of the target was pushed forward and later suspended.

What are the changes to be incorporated?

- The following issues need to be reflected upon.
- **Point-based target -** A debate originated on whether it would be appropriate to impart flexibility to the government by adopting a range-based target as opposed to a point-based target for fiscal deficit.
- **A point target** infuses fiscal discipline by limiting the room for government manoeuvres and provides an unambiguous signal to the bond markets.
- A focused policy communication will result in a ratings upgrade for the India and lower cost of borrowing for the private sector, which is important for new capital and investment formation.
- **Appropriate fiscal deficit target -** Given that the total supply of funds through household financial savings and sustainable capital flows are estimated at 10-12% of GDP and demand for excess funds from the corporate sector is estimated at 4-6% of GDP, a consolidated fiscal space of around 6% of GDP exists for States and the Centre put together.
- This implies a 3% headline fiscal deficit target for the Centre and States each. Hence an appropriate fiscal deficit target should be set.
- **Need for guiding principle -** A binding spending rule along with a medium-term debt range that takes into account the specific institutional setting in each country would help to enhance the policy credibility and facilitate effective monitoring that would ensure stability, fairness and efficiency.
- It would help the governments to adopt a countercyclical approach and limit the scope for creative accounting.

- Regarding a debt sustainability rule, a ceiling on government debt at 60% of GDP can get adopted over the next three years with indicators of sustainable debt serving as guiding principles, in line with the **Maastricht Treaty guidelines.**

- **Independent constitutional body –** An independent reviewer, a Fiscal Council, to oversee the adoption of rule-based fiscal policy and to recommend future course of public policy advocacy.

- A well-designed fiscal council with strict operational independence will boost fiscal accountability and transparency and will further add to the sovereign's credence and rating potential.

- The upgraded FRBM framework will enhance the efficacy of India's fiscal policy and significantly reduce the twin-deficit vulnerability.

- A rule-based system with room for independent advisory and oversight can transform India's fiscal architecture and create enablers for germination of green field investment appetite.

1.2 Demonetisation

Why in news?

Citing the increase in the circulation of black money in the country, Prime Minister had initiated the demonetization policy on November 8.

What is demonetisation?

- Demonetisation is a radical monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one.

- e.g When the European Monetary Union nations decided to adopt Euro as their currency.

- However, the old currencies were allowed to convert into Euros for a period of time in order to ensure a smooth transition through demonetisation.

When currency was demonetised before in India?

- January 1946- Rs.1,000 and Rs.10,000 banknotes, which were in circulation were demonetized primarily to curb unaccounted money.

- In 1978 the then government demonetised Rs 1,000, Rs 5,000 and Rs 10,000 notes which was also aimed at tackling the issue of black money.

- The main difference between then and now is that currency of higher denomination was barely in circulation, unlike the Rs 500 and Rs 1000 note today.

- India has one of the highest levels of currencies in circulation at over 12% of GDP and of this cash, 87% is in the form of Rs500 and Rs1,000 notes.

What was the current move?

- Rs 500 &Rs 1000 notes will be replaced with new 500 and 2000 currency notes.

- A close to 50 days' time was given for exchange.

- The unaccounted money was subjected to 200% taxation.

- There were also withdrawal limits which were to be periodically revised.

Why is it demonetised?

- The widespread use of cash in high denominations has led to an **artificial increase** in the cost of goods and services which was reflected in the government's success in bringing out Rs 1.25 lakh crore of unaccounted money.
- Progressive **shift to a cashless economy** with a greater focus on electronic transactions is being envisaged.
- Nullification of black money hoarded in cash
- Tackling of counterfeiting Indian currency notes
- Curbing of terror financing with fake currency notes
- Curbing Corruption.
- Curbing black money circulation during elections.
- Curbing corruption and black money in real estate.
- The removal of large bills will make several criminal and illegal activities **more costly** such as tax evasion, human trafficking, drugs, extortion and terrorism.

Why ban high value notes?

- Unaccounted money often used in any form of corruption or illicit deals usually takes the form of high-value notes, which in this case are the Rs 500 and Rs 1,000 bills.
- The Financial Action Task Force, a global body that looks at the criminal use of the international financial system notes that high-value bills are used in money laundering schemes, racketeering, and drug and people trafficking.
- India's black economy is estimated to be **$400-500 billion**, larger than several economies of the world, and almost $3.5 billion is spent in currency operation costs annually.
- In India, the Rs 500 and Rs 1,000 notes also constitute a huge percentage of the money spent by governments, political parties and candidates during general elections.
- A Centre for Media Studies report showed that nearly Rs 30,000 crore was spent during the 2014 general election, while official spending only accounted for Rs 7,000-Rs 8,000 crore.
- The most important fact, however, is that the share of large-value notes has only been increasing over the years.
- While some of this is no doubt due to the natural growth expansion of our economy, it also hints at the increasing size of the black money economy.

What led to demonetisation?

- Massive rollout of **PradhanMantri Jan DhanYojana (PMJDY)** which gave banking access to nearly the entire population.
- The **Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015** became a disappointment as it raked up only about ₹ 2,400 crore in taxes.
- The **Income Disclosure Scheme (IDS)** where a window of opportunity to declare their wealth amassed through various means is given to the people.

What are the challenges for RBI?

- To ship enough currency notes to ensure that bank branches are able to meet the tidal wave of demand
- The logjam may be particularly acute in rural areas where both bank branches and ATMs are in **short supply**.
- While **rural India** reportedly has 6 lakh villages and had 44 crore savings account holders, they were home to just 48,000 bank branches.
- The 12 lakh ATMs that are in operation across the country will also need to be **reconfigured** to dispense the new denominations.
- Add on the necessity of ID-proofing all the walk-in depositors and one can visualize the chaos at banks over the next couple of weeks
- There will be an **urgent need** for debit cards, electronic transfers and mobile payment platforms to be widely adopted.

What were the challenges for the government?

- On the other hand, there is **no good estimate** for how much of India's black money is in forms other than currency/physical notes such as gold, jewellery, land or any other form of wealth.
- While banning Rs 500 and Rs 1,000 notes will tackle the black money that is in the form of hard cold cash, it won't affect other forms of black money.
- On similar lines, this move will obviously have little effect on black money stashed away in foreign tax havens.
- At a time when private investment has been hit and with factory output contracting, scrapping high-value notes may prolong the **economic pain**.
- What the government needs to do now is to follow up the demonetization with a vigorous push to ensure **greater universal banking access**, and nudge the real estate sector to move towards greater transparency, besides offering more incentives to encourage electronic payments and use of cards.
- The challenge is not just in pulling out 85 per cent of the high-value currencies in circulation but also to ensure **a culture of compliance** progressively.

What are the problems?

- An important part of the fairness of this move was secrecy and surprise - announcing the decision as soon as it was logistically possible with new currency was crucial to its impact.
- The question is whether, in making confidentiality their top priority, the government failed to think through the numerous execution challenges that this mega move entailed.
- It would certainly have helped if the RBI had printed and despatched the new notes of ₹ 500 denomination ahead of the ₹ 2,000 to banks' currency chests.
- This, combined with printing an additional buffer stock of ₹ 100-denomination notes could have helped many small businesses, tradespeople and daily wage-earners manage this transition with just a single bank visit.
- All two lakh ATMs now require manual recalibration. The new notes could have been designed to the same dimensions as the old ones to avoid this logistical nightmare.

- A better communication strategy was needed to reassure the public after announcing a policy move of such import. In addition to the Prime Minister's televised address and the ministry's press conference, the RBI or the ministry could have circulated detailed FAQs on the transition and its intent, in regional languages, via district administrations.
- Many small businesses were in informal sector and are affected badly.
- Remote ATMs, shortage of cash and non-availability of lower demonimation currencies have severly affected rural population.
- Lack of viable digital security, digital literacy and digital protection legislations make the move towards cashless economy a dangerous process.
- Analysts suggest that demonetization is "merely" a one-time intervention that reduces stock and does nothing about flow i.e the fresh creation of black money with new currency).
- Therefore policies such as goods and services tax (GST), tax deducted at source (TDS) and PAN requirements, the Undisclosed Foreign Income Act, Benami Transactions (Prohibition) Amendment Act should be tightened.
- This should also be followed by crackdown on gold and real estate to make the demonetization meaningful.

1.3 Temporary hike in CRR

Why in news?

- The RBI has asked banks to set aside 100% of the deposits accrued between September 16 and November 11 as **incremental CRR**.
- RBI said the incremental CRR is intended to be a temporary measure within its liquidity management framework **to drain excess liquidity in the system** and shall be reviewed on December 9 or even earlier.

What is incremental CRR?

- The incremental CRR prescribes the reserve ratio based on the extent of growth in resources (i.edeposits).
- In the late 90s, a 10% incremental CRR was in operation, on the non-resident deposits to regulate (reduce) the flow of funds from overseas Indians.

What is the reason behind the move?

There could be three motivations for the move.

- First, the surplus in the banking system due to demonetisation, at about ₹ 5 lakh crore, was moving closer to the maximum absorption capacity of the central bank. The RBI had ₹ 7.5 lakh crore of government securities (G-Secs) prior to the demonetisation, which act as collateral to absorb banking system surplus through the reverse repo window.
- The RBI's estimate of deposit accretion going forward might have prompted them to announce a large CRR hike. This puts aside any discussion around RBI running short of G-Secs.
- Second, the process of putting in place other liquidity-absorption measures such as issuance of **Market Stabilisation Scheme (MSS) bonds** was taking time.
- And, third, the surplus rupee liquidity and sharply falling rates were also creating distortions in the forward premia and indirectly impacting the spot dollar-rupee rate. This liquidity-absorption measure could reverse some of these distortions.

- According to Crisil, between November 8 and 25, funds parked by banks with the Reserve Bank of India (RBI) under the reverse repo facility surged 10 times to Rs 1.5 lakh crore.
- As a result, by Friday, the 10-year **government security yield had fallen below the repo rate** of 6.25%.

What will be the implications?

- The CRR requirement for banks has temporarily risen by ₹ 3.2 lakh crore. The current CRR is 4 per cent or about ₹ 4.1 lakh crore.
- If the RBI maintains the CRR at 100% for a longer period, banks will soon have to face losses.
- That's because the CRR is the portion of deposit to be compulsorily deposited with the RBI for which it doesn't earn an interest.
- The CRR requirement is being applied with **retrospective effect**, which is always considered a bad move.
- Moreover, there **was no justification provided for why those particular dates** were chosen.
- While the CRR increase will lead to tighter liquidity and gilt yields moving up, neither of these positions is sustainable. That is because with each passing day more deposits are expected to come in, and with credit demand remaining low, gilt yields will fall.

1.4 Financial Resolution and Deposit Insurance Bill

Why in news?

- A new draft law (Financial Resolution and Deposit Insurance Bill) for resolution of financial firms has recently been released for public consultation by the Ministry of Finance, government of India.
- The proposed new regime seeks to protect consumers and public funds to the extent possible, while maintaining overall stability and resilience of the financial system.

What is the necessity of the Bill?

- Unlike traditional insolvency where affected parties are limited to the creditors of the insolvent entity, the impact of failure of a financial firm, for instance, a large bank or an insurance company is much wider and can have a domino effect on the economy. Such a situation is by no means implausible or far-fetched.
- The filing of bankruptcy by Lehman Brothers on September 15, 2008, was the first in a series of events, which precipitated the worst economic crisis in recent memory.
- As the stakes in cases of failures of financial firms are very high, the authorities responsible for resolution need to be equipped with necessary and appropriate powers to deal with such crises.
- In this background, the proposed new law provides for an array of resolution tools, which can be used by the "resolution corporation", composed of representatives of the various regulators, the Ministry of Finance, as well as independent subject matter experts, in order to revive a failing financial firm.
- This piece discusses two of these proposed tools, namely "bail-in" and "transfer of assets to another entity".

What is Bail-in?

- Bail-in is the corollary of the traditional tool of bailout.
- Bailout implies infusing funds from a public source into a failed financial firm that traditionally benefits the shareholders or uninsured creditors of the firm.

- As the government is often the primary source of such a liquidity injection, more often than not, taxpayers end up becoming financially liable for bailouts.
- As a consequence, the public authority or the government assumes most of the risk of failure that would otherwise be borne by the firm itself, and this reduces the incentive among the management of a firm to make sound and prudent business decisions, leading to the problem of moral hazard, widely touted as one of the central issues of the financial crisis of 2008.
- Experience shows that the comfort of the "too big to fail" status had led to a series of decisions which were misjudgment at best, and speculation at worst.
- Bail-in on the other hand moves away from the practice of using public funds and involves a number of restructuring mechanisms,
    1. including the cancellation or modification of liabilities owed by a firm (including converting instruments from one class to another and creating new securities),
    2. cancellation of contracts; and for central counter parties,
    3. haircuts on the margins and collaterals, and
    4. issuance of equity to the creditors.
- The tool of bail-in makes it incumbent upon creditors of the firms to assume at least part of the risk.
- Additionally, as bail-in impinges upon the substantial rights of creditors, it is imperative that this power is adequately circumscribed.
- The draft Bill envisages a host of safeguards, which must necessarily be complied with during the operation of this tool.
- Only certain specific types of debts can be written down, and liabilities like deposit insurance, wages and salaries, secured liabilities etc have been excluded from its purview.
- Further, the writing down of debts has to be done in accordance with the creditor hierarchy, and with due regard to "key attributes" identified by the Financial Stability Board (FSB), including the principle of "no creditor worse off than in liquidation", continuity of essential services, and protection of client funds.

What is Transfer of assets to another entity?

- This tool of resolution can assume a number of forms.
- For instance, it can be done in the form of a simple sale or purchase and assumption.
- Purchase and assumption is one of the most common modes of revival of a failing financial firm.
- The resolution corporation is responsible for overseeing such a transaction, which is carried out on the terms agreed between the resolution corporation and the third party.
- The features of this tool, as identified by the FSB, have been incorporated into the Bill, and include the power to transfer selected assets and liabilities of a non-viable firm to a third party, or to a bridge institution formed for this purpose. The distinctive feature of this transfer is that it does not require the consent of interested creditors or other parties.
- Segregating viable assets of the firm would also enable the resolution corporation and investors to take informed decisions about its health, and the exact amount of risk that is entailed.

- This may also serve the additional purpose of the non-viable assets to be liquidated while allowing continuity as a going concern.
- The draft Bill also provides for a number of other resolution tools such as
    1. creation of a bridge institution,
    2. merger or amalgamation,
    3. acquisition,
    4. liquidation, or any combination of these.
- The objective is for the resolution corporation to be in a position to take over the reins of the firm and the powers of the individual regulators, to direct an orderly resolution, by the time the firm reaches a stage of unviability and enters the process of resolution.
- These tools are by no means exhaustive, and must be applied keeping in mind various factors, such as a firm's type, peculiar characteristics, risk profile, the portfolio of creditors and investors, among others.
- Ultimately, the aim of this law is to steer away from a "one-size-fits-all" formula and devise the best possible solution, which takes into account the varied interests of creditors and consumers, while preserving the overall financial stability of the national economy.

1.5 Understanding India's fall in exports

What is the issue?

- There was a rise in export value in June 2016 in comparison to June 2015.
- But soon it declined during July 2016 and August 2016 in comparison to July 2015 and August 2015.

What is the trend?

- During April to October 2016, the growth in the dollar value of exports stagnated (0.02 per cent growth) relative to the corresponding period of the previous year.
- Over a relatively long period starting 2011-12 the dollar value of India's merchandise exports has been stagnant or declining.
- Clearly, the persistence of the Great Recession in the world economy has affected India quite adversely.
- But the period since March 2015 seems to have been worse than before.
- Thus, the growth in the dollar value of merchandise exports over 2015-16 was a negative 15.6 per cent, as compared with minus 1.3 per cent in 2014-15 and a positive 4.7 per cent in 2013-14.
- But what stands out, is the extreme volatility of export growth in recent years, with growth rates varying from a positive 21.8 per cent to a negative 15.6 per cent.

What are the factors behind this trend?

- **Limited diversification of India's export basket:** The top 10 principal exports in terms of commodity groups, account for as much as 78 per cent of total merchandise exports. What happens in the market for these commodities has a major impact on overall export performance.
- The second is that in recent times the export performance of some of these goods has either deteriorated or been characterised by a lack of dynamism. For example, four of India's lead exports (Engineering goods, Gems and jewellery, chemicals and readymade garments) registered negative or near zero growth rates during 2015-16.
- Their growth performance, as well as that of a commodity group like drugs and pharmaceuticals that was earlier showing export dynamism, has been indifferent or poor during recent months as well.
- While this was undoubtedly largely the result of the global recession, the importance of these commodity groups in the export basket affected aggregate export growth adversely.
- Thirdly, in the recent years, changed **global dynamism** have allowed few traditionally not so important goods to find a slot among India's principal exports for a brief period. Typical examples are iron ore and rice.
- Iron ore exports that were large because of demand from China and policy measures permitting such low value-added exports from India, have fallen because of the slowdown in China. '
- Rice exports boomed, because the policy adopted by the previous government to offer subsidies to farmers raised prices in Thailand and helped India to displace it as the world's leading rice exporter. But that advantage is now waning with the Thai government choosing to aggressively dispose of accumulated stocks in an environment of improved production.
- **Crude jolt:**For long India has been importing crude and petroleum products because its requirements have far exceeded domestic production.
- Crude is imported and refined domestically and to the extent that some petroleum products thus obtained are more than the domestic demand for such products after accounting for imports, the balance is exported.
- However, with India's demand for petroleum products increasing, the volume of export has fallen.
- This has resulted in a collapse in the value of petroleum product exports from $60.7 billion in 2013-14 to $47.3 billion in 2014-15 and $27.1 billion in 2015-16. That too has contributed to the fall in the dollar value of merchandise exports.
- Thus, an unusual combination of factors has intensified the adverse impact that the global recession has had on India's export performance. All of them point to weaknesses reflected most starkly in India's poorly diversified export basket.

1.6 Equal pay for Equal work

Why in news?

The Supreme Court's ruled that temporary employees are entitled to regular pay scale as the permanent employees.

What was the ruling?

- The ruling was passed in cross appeals by the Punjab government and temporary workers.
- It says the principle of equal pay for equal work constitutes a clear and unambiguous right and is vested in every employee, whether engaged on a regular or a temporary basis.

- The specific ruling is for **those employed by the government**.
- The court also fully recognises that some workers could be permanent and others, temporary.
- The ruling has laid down many parameters to decide whether temporary hands are doing the same work as the regular employees before equal pay can be claimed. **The onus of proof is on the worker** who claims equal pay.

What is its significance?

- It reaffirms the concept of the **right to equality** enshrined in our Constitution.
- The **economy will get a boost** when workers are better paid.
- This sets **the norm for the private sector** as well.
- Once equal pay kicks in, the only reason employers have to keep some workers temporary and disgruntled is the need for flexibility, reducing the plight of temporary workers.
- Also if workers are enabled to upgrade their skills on a regular basis, such flexible employment terms would benefit them as well.
- A reform in labour laws to readjust the size of the workforce at short notice, hire new skills, scale up or down, depending on way demand moves, **will make India competitive**.

What is the problem in implementing?

- The two basic differences between the temporary and regular workers are that the temporary workers can be terminated any time without reason andget paid a fraction of what the regular workers get
- It would be natural to hope that the SC verdict would have an immediate effect.
- Unfortunately, this is unlikely to happen, due to the third difference between permanent and contract workersi.e**the access to collective bargaining.**
- As per the Trade Unions Act, 1926, any workman who works in a factory can join a union of that factory. But trade unions typically have only permanent workers as members.
- The reason cited is that contract workers are not employees of the employer in question (the manufacturing unit). Contract workers are hired by the labour contractor, who is empanelled with the employer as a supplier of contract labour, and who pays their salaries. Therefore "they should not find representation" in a union body formed for the purpose of negotiating with the said employer.

Can temporary/contractual workers participate in unions?

- Not being on the rolls of an employer does not disqualify a contract worker from being a member of a factory's union.
- Section 2 (g) of the **Trade Union Act**, which defines "workmen", for the purposes of a trade union, as "all persons employed in trade or industry **whether or not in the employment of the employer** with whom the trade dispute arises".
- The Gurgaon District Court in *ChanderBhan case* ruled that any workman employed by a factory — irrespective of whether he was a permanent worker or not, **was eligible to participate in union activities**.
- But the fact is**no union anywhere gives membership and voting rights to contract workers**.

Who are contractual workers?

- Contract labour was initially employed only for non-core work such as gardening, cleaning, and maintenance. Soon, they began to be increasingly employed in production as well. Workers protested.
- In response, the **Contract Labour (Regulation and Abolition) Act, 1970 (CL Act),** was enacted. It expressly prohibits the employment of contract labour for core production.
- But labour contractors easily circumvent this requirement through 'sham contracts'. It is a contract that may show a worker as having been hired for a cleaning job. But once he enters the factory premises, he is engaged in production work.

Why are they denied membership?

- In an industrial climate extremely **hostile to any union activity**, workers believe that forming a union that also includes contract workers is bound to provoke the management into even greater hostility.
- Managements refuse straight on to discuss with unionists any issues concerning contract workers.
- recent times, companies frequently terminate even a permanent worker for engaging in union mobilization. Therefore contract workers, who could be dismissed without any consequences, are hesitant to form unions.
- In most trade unionists, permanent workers themselves don't want to extend union membership to contract workers. In a factory, say, that employs 300 permanent workers and 1,200 contract workers, any union that gives voting rights to contract workers would **instantly marginalize permanent workers**.
- As a result, India's contract workers, with the exception of some PSUs in select sectors such as steel and coal, remain both heavily exploited and largely un-unionised, with the lack of unionisation and exploitation reinforcing each other.
- The CLAct was enacted to abolish contract labour. Ironically, it strengthened their exploitation by offering a legal operating framework to labour contractors.
- Before this legislation, temporary workers and permanent workers could make claims on their employer and negotiate as members of the same union. But the CL Act, introduced a distinction between an **'employer' and a 'principal employer'** and kept the door open for expansion of contractualisation.

What is the solution?

- The legislations and judicial pronouncements alone may not change things much in practice. The labour movement should come up with an answer to:
- how to unionize contract workers,
- who are in one factory today, in another the next&
- whose interests are all too easily played off against those of permanent workers?
- to truly reap the benefits.

1.7 Jobs vs Wages

Why in news?

The applicants with PhDs and other degrees were found among the application for government peon posts in Uttarakhand recently.

What is the issue?

- India doesn't have a jobs problem but a wages problem. Our official unemployment rate of 5% is not a fudge and anybody who wants a job generally tend to have one. But they don't get the wages they want or need.
- It is estimated that almost 85% of the 30 lakh applicants with PhDs, degrees, etc for government peon posts in Uttarakhand recently already had a job
- The creation of high-paying private sector jobs is being distorted by three faultlines in wages: Government vs private, nominal vsreal, and gross vs net.

Government vs Private Wages

- People at the bottom are 85 per cent of the numbers and greatly distort the labour market because Class 3 and 4 employees get paid more than 200 per cent of their private sector counterparts for the same job.
- They also have low performance accountability and high job security.
- The huge number of government job applications is not because people are running away from insecure low-paying private sector jobs but because people are running towards overly secure high-paying government jobs.
- Government employment should be public service with reasonable wages.

Nominal vs Real Wages

- Since we cannot take jobs to people in the short run, we need to take people to jobs.
- But the migration to cities is being negated by the huge mispricing of land that directly affects living, eating and commuting costs in India's few job magnets. We only have 50 cities with more than a million people versus China's 375.
- Mumbai, Delhi, Chandigarh can't compete with job magnets like Gachibowli, Mohali, Gurgaon and Bangalore because the new clusters combine an infinite supply of mixed use commercial and residential real estate (happiness includes that the commute time is a key component of happiness).

Gross vs Net wages

- For example, a monthly salary of Rs 15,000 per month in a cost-to-company salary world only ends up as aRs 8,000 bank credit because employers are required to make mandatory deductions of 45% salary for programmes like provident fund, Employees' State Insurance (ESI), Labour Welfare Fund (LWF), Employee Pension Scheme (EPS) etc.
- Government data suggests that workers with annual incomes of Rs 1.8 lakh do not have any saving and cannot live on less than half their salary. Therefore they prefer working for the informal sector where net salary is equal to gross salary.

What are the solutions?

- These fault lines distort high-paying formal private jobs and we need three regulatory interventions: **Faster urbanisation, lower regulations, and broader human capital**.
- Faster urbanisation in the sense that there should be **an increase to the number of Indian cities with more than a million people** from 50 to 200. High quality urbanisation like having real mayors, robust city finances, etc could create the virtuous cycle of higher formalisation, higher productivity and higher wages.
- As bribe has become a core feature of real estate, it has been bad for formal job creation and labour migration and demonetisation will bring down land prices, accelerate construction, and raise labour mobility.

- **Lower regulations** are important for job creation because most of our workers work in low-productivity enterprises that are not productive enough to pay the wage premium.
- Human capital is key. Neglecting primary school education for decades after Independence is a mistake being amplified by the new world of work that disproportionately values reading, writing, arithmetic and soft skills.
- Also there should be a time-bound monitoring on three overdue and impactful interventions in regulatory cholesterol by the ministry of labour.
    - The Establishment code is part of a PF account number and it's a 5 digit code. 27 different numbers issued to every employer should be replaced with a single Universal Enterprise Number.
    - 100 per cent paperless, presenceless, and cashless compliance for all state and Central labour laws should be achieved.
    - The provident fund and ESI reforms announced in the budget makes the employee contribution to the provident fund voluntary and creates competition for ESI and EPFO by allowing employees to choose alternatives like NPS and health insurance. Such measures should be encouraged
- Recent youth unrest — the idealisation of BurhanWani by Kashmiris and the reservation agitations by Patels, Jats, Gujjars — have roots not in a job emergency but a formal job emergency.

1.8 Is Merger the Solution to NPAs in Public Sector Banks?

Why in news?

The problem of public sector banks (PSB)'s non-performing assets (NPA is getting worse. In the last financial year 2015-16(FY16) their gross NPA ratio rose to 9.5%, compared to 5% in the FY15.

Is Merger Practical?

- Earlier, in 2009, the Rakesh Mohan-led Committee on Financial Sector Assessment had proposed that the RBI should create a conducive environment for mergers and amalgamations.
- The merger of PSBs had been recommended even earlier in 1998 by the M. Narasimham-led Committee.
- Thus, issues related to consolidating the Indian banking sector have been debated and discussed for many years and merger has been a preferred recommendation consistently.
- The government is of the opinion that merger is the only solution to address the health of the PSBs.
- What is the point in merging, for example, State Bank of Travancore and State Bank of Hyderabad with SBI, when in FY16 the two associate banks' gross NPA ratios were in fact lower than that of SBI?
- Mergers by themselves do nothing to address the issue of poor governance resulting in poor asset quality, except for the government can say that instead of, for example, 10 weak banks we now have five, the better banks having been made to swallow the weaker ones.

Is the bad bank effective ?

- The creation of bad bank may help transfer the bad debts and take care of the stressed assets, thereby helping the banks to start with a clean slate. This might not be enough.
- Unless the quality of management is improved, the banks are going to incur assets of poor quality.

What should be done?

- **Privatisation as an alternative -** The government could consider setting standards for the banking industry i.e., privatising some of the inefficient PSBs while rewarding profit-making ones.
- Privatising loss-making PSBs will have a deterrent effect on the staff and management of such banks.
- Also it will ensure that market discipline forces them to rectify their strategy, and this will have a ripple effect on other PSBs.
- It is time to reconsider whether all 27 PSBs are really required to serve the purpose of social banking in our country and at what cost.
- **Small and Payment banks -** Small banks and payment banks are expected to penetrate deep into rural India, and therefore the need for a brick-and-mortar commercial bank branch is diminishing.
- Thus, merger is not enough to tackle the NPAs, better management of public sector banks is of utmost importance. Privatisation can play a key role in addressing the problem of NPAs.

1.9 Banks on project finance

Why in news?

In the Banking Roundtable held last week, bankers made it clear that they are hesitant to go big on project financing.

What is project finance?

Project finance is the financing of long-term infrastructure, industrial projects and public services, in which project debt and equity used to finance the project, are paid back from the cash flow generated by the project.

Why are the banks hesitant in public financing?

- Bankers are clear that very few banks would go big on project financing until the government created the ecosystem for the resolution of issues.
- Due to the past experience in the recent years, bankers will now provide project finance only if they see a chance to recover their investment quickly in case things go wrong.
- The gross non-performing assets (NPAs) of the banking sector stood at Rs 6.3 lakh crore in the June quarter, and restructuring is on in barely a fraction of these cases. This seriously limits their lending capacity.
- Schemes such as strategic debt restructuring (SDR) and sustainable structuring of stressed assets (S4A) have not met with much success. Under these schemes, banks have not been able to
    - agree with promoters on valuation,
    - convert their debt into equity or
    - find managers or new buyers to run the businesses.
- It is not just bankers who are hesitant to fund large-scale projects; even promoters who have learnt their lesson the hard way will want all the safeguards in place before indulging in future projects.

What is the way ahead?

- The Insolvency and Bankruptcy Code (IBC), 2016, is expected to address some of these concerns.

- There is no shortage of demand for funds, which will only increase as the economy grows. However, bankers want tighter contracts so that borrowers understand that the money has to be repaid and that they cannot lead lavish lifestyles at the expense of banks.
- The future of financing projects should be governed by **take-or-pay contracts** and if things do not work out, the funds are to be returned.
- There are enough honest promoters out there who may have set up projects in good faith but are unable to get them going because of changes in the external environment or regulations or public protests. Therefore a more structured approach should be in place where access to natural resources, land, approvals and backward-forward linkages are in place before funds are committed.

1.10 Regional Connectivity Scheme (RCS)

Why in news?

The Ministry of Civil Aviation released the Regional Connectivity Scheme (RCS) with the objective of facilitating regional air connectivity by making it affordable.

What are the key features of the scheme?

- The airfare per RCS seat will not exceed Rs 3,500 and will be determined based on the flight distance.
- It will not be subject to any levies or charges imposed by the airport operators.
- The selected airlines will have to commit 50% of the seats on RCS flights as RCS seats.
- The number of RCS flights to be operated in a week must be at least three and at most seven.
- Benefits under the Scheme will be available for **a period of 10 years** from the date of its notification.

How will it be implemented?

- **Guiding principles** - RCS will be made operational only in states and at airports which are willing to provide concessions required under the Scheme. A Regional Connectivity Fund (RCF) will be created to subsidise operations under the RCS. The RCF will be funded by a levy or fee on certain domestic flights, at rates to be notified by the Ministry.
- Financial support to airlines will be provided in the form of
    - Concessions by central and state governments such as reducing excise duty on aviation fuel,
    - Concessions by airport operators such as not levying landing and parking charges, and
    - **Viability gap funding (VGF)** will be provided to the selected airline operators from RCF, and state governments will be required to reimburse the applicable share. VGF will be provided for three years from the date of commencement of operations of such RCS flights.
- The Scheme will be applicable to RCS airports and helipads. The list of RCS airports and helipads will be published after consultation with the state governments.

1.11 India - Cyprus DTAA

Why in news?

- Nearly three months after the Cabinet's approval to the signing of the revised double tax avoidance agreement yprus, India has now signed the new pact with the island nation, which is a popular tax haven.

- It was signed in Nicosia by High Commissioner of India to Cyprus and the Minister of Finance of Cyprus.
- Similar agreements have been signed with Mauritius and Singapore.

What are the provisions of the agreement?

- The protocol for the revised agreement will replace the existing agreement signed in June 1994.
- The new DTAA provides for **source-based taxation of capital gains** arising from alienation of shares, instead of residence-based taxation provided under the existing DTAA.
- However, a grandfathering clause i.e exemption clause has been provided for investments made prior to April 1, 2017, in respect of which capital gains would continue to be taxed in the country where the taxpayer is a resident.
- The treaty also expands the scope of the permanent establishments **to allow for source-based taxation of business income**.
- It **reduces the tax rate on royalty** in the country from which payments are made to 10% from the existing rate of 15%, in line with the tax rate under Indian tax laws.
- It updates the text of other provisions in accordance with the international standards and consistent policy of India in respect of tax treaties.
- The new DTAA will come into force after the completion of necessary internal procedures in both countries and is expected to be set in motion in India in respect of income derived in fiscal years beginning on or after April 1, 2017.

What is the significance of the deal?

- Cyprus is the **seventh top country** from which India gets maximum FDI inflow.
- But it was the only country to have been **blacklisted by India as a non-cooperative jurisdiction**, due to lack of effective exchange of information.
- India and Cyprus had entered into a tax treaty in 1994, and are obliged to exchange information. On November 2013, the Finance Ministry had notified Cyprus as a non-cooperative jurisdiction following failed discussions to secure the desired level of cooperation.
- The new pact provides for assistance between the two countries for collection of taxes.
- It also updates the provisions related to exchange of information to accepted international standards, which will enable exchange of banking information and allow its use for purposes other than taxation.

Is any country likely to benefit as a result of the amendment?

- Experts say the **Netherlands** may emerge as an alternative due the series of agreements with Cyprus, Singapore and Mauritius.
- The India-Netherlands treaty provides that if a company based in Netherlands holds less than 10% equity in an Indian entity, it would not attract capital gains on the sale of those shares to residents or non-residents.

- Even if it were to own more than 10% equity in an Indian company, the treaty allows it to sell the shares to a non-resident without attracting tax.

1.12 States' Right to Fiscal Autonomy vs Uniformity in Taxation

Why in news?

A recent nine-judge bench of the Supreme Court, in the context of entry tax, has upheld states' right to financial autonomy when it comes to designing their fiscal legislation.

What was the judgment?

- The judgment held that Article 301 of the Constitution does not apply to taxes. (Free trade between states ensured in Article 301)
- Therefore, imposition of entry tax cannot be said to be restriction on freedom of trade and commerce.
- The court has also overruled the concept of 'compensatory taxes' (developed in earlier decisions) holding that the concept of 'compensatory taxes' does not have any juristic basis.
- **(What are compensatory taxes?** Taxes are compensatory and valid if they are collected to provide certain service to the tax paying units. A test for deciding whether a tax is compensatory or not is to enquire "whether the traders are having the use of certain facilities for the better conduct of their business and paying not patently much more than what is required for providing the facilities.")
- Article 304 states that the Legislature of a State may by law

(a) impose on goods imported from other States or the Union territories any tax to which similar goods manufactured or produced in that State are subject not to discriminate between goods so imported and goods so manufactured or produced; and

(b) impose such reasonable restrictions on the freedom of trade, commerce or intercourse with or within that State as may be required in the public interest: Provided that **no Bill or amendment** for the purposes of clause **shall be introduced** or moved in the Legislature of a State **without the previous sanction of the President**.

- The court states that Article 304(a) and 304(b) **are to be read separately and the states do not require Presidential assent to impose entry tax**.

Will the judgment reduce the number of litigations?

- However, this landmark decision of the Supreme Court does not really put an end to the entry tax litigations. Because the validity of individual state law has to be decided by the smaller bench of the apex court based on guidelines laid down in this case.
- That is, **if entry tax is discriminatory in nature, it will still be unconstitutional.**
- For example, if entry tax is imposed on particular goods entering into the local area of a state and **there is no corresponding levy on the same goods manufactured within the state**, it is discriminatory, in which case the entry tax law of that state might still be unconstitutional.

How this will affect GST?

- Uniform and harmonious tax laws throughout the country are a key objective of the proposed goods and services tax (GST) laws as it would integrate India into a common national market.
- However, such need for harmonisation is often viewed by states in direct conflict with the principles of fiscal autonomy as incorporated in the Constitution of India.

- To achieve such objectives, a GST Council has been established to make recommendations in relation to GST, including the rates of tax, exemptions and model GST laws. (The GST Council consists of the Union Finance Minister, the Union Minister of State in charge of revenue or Finance, and the Minister in charge of Finance or Taxation of each State government.)

- However, in terms of the current constitutional scheme, **such recommendations are not binding on the Centre or the states** and they are expected to follow the same uniformly in the spirit of cooperative federalism.

- In the scheme of Indian federal and political structure, it is expected that any such recommendations may not be acceptable to one or more states.

- While the GST Council itself has been empowered to resolve any such disputes arising out of its recommendations, ultimately the Supreme Court would have the final say on such dispute.

- If the Supreme Court uphold the sovereign right of states to administer their GST laws in a consequent judgment, it would be a huge blow on the basic premise of GST — **uniformity and harmonisation** — and would lead to similar distortions as prevalent under the current tax regime.

- The Centre, states and the GST Council should agree to and **decide on an effective dispute resolution mechanism**, which would make it difficult for the Centre or states to evade the recommendations of the GST Council and would preserve the basic feature of GST – One Nation One Tax.

1.13 Draft- Banning of Unregulated Deposit Schemes and Protection of Depositors' Interests Bill, 2016

What is the need for the bill?

- The government had constituted an **Inter-Ministerial group** to identify gaps in the existing regulatory framework for deposit-taking activities and **to check unauthorised chit funds and Ponzi schemes**.

- And to suggest **administrative or legislative measures** including formulation of a new law to cover all relevant aspects of deposit-taking.

- The proposed bill is based on its recommendations.

What are its objectives??

- To define the term deposits in such a manner that deposit takers are restricted from **camouflaging public deposits** as receipts which are outside the purview of the Bill.

- But it is not the intention of this Bill to curb acceptance of money by an establishment in the ordinary course of business.

How is the definition redefined??

Definition of **Deposits** to mean the receipt of money as an advance or loan in any form which has to be returned after a specified time with or without any interest, bonus, profit or in any other form.

What are the revisions made??

- Seeks to rope in **CBI** for probe in certain cases involving fraudulent schemes.

- To set up of an **online database of information** on deposit taking activity in the country.

- Introduced a clause to give depositors first charge on any asset created from the deposits.

- It plans to **ban unregulated deposit schemes** and protect the interests of depositors.

- The bill stipulates that any deposit taker who promotes and accept deposits in an unregulated deposit scheme may be **punishable** with imprisonment for minimum term of two years which may be extended to 10 years and with a fine which may extend to twice the amount of aggregate funds collected from subscribers, members or participants in such schemes or arrangements.

- Being a **social welfare legislation**, prioritizes the interests of depositors over others.

What are the conditions to be fulfilled for CBI probe??

- Depositors, deposit takers or properties have to be **located** in more than one State or outside India

- The **total value** of the amounts involved is of a **magnitude** to significantly affect public interest

Why is this revision required??

- Proposing **strict measures** such as up to 10 years imprisonment and heavy penalty on operators of such schemes.

- Seeks to provide for a **comprehensive code** to ban unregulated deposit schemes.

- Protect the **interests of depositors**.

- If it becomes a law, it would override a clutch of existing laws, including those framed by the states.

1.14 How to clean up real estate?

Why in news?

Realty stocks have fallen almost a quarter after November 8, the day demonetisation was announced. One of the reason cited for the move was to reduce the prevalence of black money in real estate.

Prices could fall up to 25 per cent in the next one or two quarters, builders reckon.

What can be expected?

- PM has said that the next crack down will be on benami property.

- There is some talk doing the rounds that he may put a cap on cash transactions in the sector and anything above that will have to be paid in cheque.

- The government needs to move urgently on this promise and block black money in real estate in every possible way.

Why black money prevails in real estate sector?

- It was precisely because of this prevalence of cash in the business that kept large corporations away from it. In the 1990s, many of them had said they would monetise their idle land holdings to launch real estate strong projects but they backed once they found out that a large chunk of the dealings were in cash.

- The higher costs and the reasons for such a prevalence are -

    - More than the primary real estate market, cash is prevalent in the secondary market. Sellers routinely **under-declare the value in order to save on tax**. This is how black money gets generated.

    - It takes at least two years for a builder to get the mandatory sanctions from the government after he has purchased the land. During this period, the asset sits idle which **adds hugely to the builder's costs**.

- Moreover, builders normally **get credit at higher rates** than others. This is why most of them launch top-end projects — nobody these days seriously talks of affordable homes.
- Additionally, the **speed money** (bribe to speed up the process) paid by builders is always in cash and the amounts are huge. The builder needs to routinely replenish this cash, which he does by doing deals in black. This is a big reason why builders opt for cash, even in primary sales.

- Unless these problems are fixed, any attempt to root out black money from real estate will fail to address the situation fully.

What is the solution?

- With the crackdown on black money in real estate, which could trigger a demand meltdown, land prices will hopefully begin to cool. This could help builders come up with affordable homes.
- But for that, it is important to make all approvals transparent and remove all discretion from the hands of the bureaucrats. This will ensure that builders don't have to pay speed money and their land bank does not idle for long.
- Here, the states will have to take the lead — each state has its own sets of rules and regulations for real estate. That is why you will find that there are no pan-India builders in the country. Each chooses to do business in one or two states because it is not easy to get a fix on the rules and regulations in all the states.
- Regulation of builders, which protects home buyers, is important, but it is equally important to ensure that builders are not fleeced by errant politicians and bureaucrats.
- However, there is strong resistance to any change from the people who stand to lose from such a move — for obvious reasons.

1.15 Prohibition of Benami Property Transactions Act

Why in news?

Recently, Prohibition of Benami Property Transactions Act was passed as one of the measures to tackle black money.

What the new Benami Property Act says?

- Benami property is a property whose legal owner is not its actual owner.
- That is, while the asset is legally held in the name of a particular person (benamidar), it actually belongs to another person (beneficial owner) who has paid for it and continues to hold interest in it.
- Under the Act, the term 'property' has been defined comprehensively to include not only immovable assets such as land, flat or house but also movable assets such as gold, stocks, mutual fund holdings and even bank deposits.
- If the property is sold off, then the proceeds from it too are considered benami.
- Under the new Benami Act, property purchased in the name of a fictitious person or where the payment for the property has been made by someone who does not exist or cannot be traced too is considered benami.
- The Act covers all domestic benami property transactions conducted since 1988.

How the act impacts the family?

- If you have bought some property in the name of your spouse or child from your known sources of income, it will not be treated as benami.

- You can also buy property for your brother, sister, a lineal ascendant or a lineal descendant but that must be held jointly with you for it to be excluded under the Act.
- Lineal ascendants include your father, mother, grandparents, great-grandparents and so on and lineal descendants include your children, grandchildren, great-grandchildren and so on.
- Apart from that, property held by the karta or a member of the Hindu Undivided Family (HUF), the payment for which has been made by known sources of income of the HUF, too will not be treated as benami.

How earlier and new legal framework differs?

- Though the earlier Act provided for imprisonment of up to three years and/or fine for parties entering into a benami property transaction, the lack of an implementation machinery made the act unenforceable.
- Rules for making the Act operational, such as appointment of investigation authorities and the procedure for confiscation of property, were never framed. The Act could, therefore, not be implemented.
- Now, the new Benami Act provides a comprehensive implementation mechanism and if you indulge in such transactions you are sure to be punished.
- The Act gives the Initiating Officer (Assistant or Deputy Commissioner of Income Tax) the power to enquire into any person, place, documents or property in the course of investigation into any matter related to a benami property transaction.
- It also mandates officers from different government organisations such as the Customs and Central Excise departments, the narcotics department, RBI and SEBI to assist the authorities tasked with investigation.
- If the Initiating Officer is convinced that you hold a benami property, you will be issued a notice, and, if required, the property will also be provisionally attached.

What are the strict measures advocated in the act?

- If the available evidence confirms it, the Adjudicating Authority (appointed by the Centre) will order confiscation of property by the government.
- Apart from awarding imprisonment of up to seven years to the beneficial owner and the benamidar, others involved in the deal, too, will not be spared. A fine of up to a fourth of the market value of the property can be imposed on all parties.
- Those providing false information or documents to the authorities may be imprisoned for up to five years and face a fine of up to 10 per cent of the market value of the property involved.
- Appeals can however, be made against the decision. The Act provides for an Appellate Authority, appointed by the Central government, for this purpose.
- Further appeals lie with the relevant High Court but have to be made within 60 days from the decision of the Appellate Tribunal.
- Another point worth noting is that there's no way you can have a benami property back in your name.

- The new Act clearly forbids re-transfer of a property from the benamidar to the beneficial owner. And if a re-transfer does happen, it will be considered invalid.

1.16 Islamic Banking

Why in news?

RBI has proposed the opening of an 'Islamic window' in banks to 'gradually' introduce Sharia-compliant banking in India.

What is Sharia banking?

- Sharia banking refers to banking activity **that conforms to Islamic law or Sharia**.
- Usury is seen as the levying of unreasonably high interest rates while lending money.
- **Interest is Riba**, which in its current interpretation, covers all interest — not just excessive interest. Under Islamic law, a Muslim is prohibited from both paying and accepting interest.
- Thus, Sharia banking means money can only be parked in a bank without interest — and this money cannot be used for speculative trading, gambling, or trading in prohibited commodities such as alcohol or pork.

What is the rationale for Sharia banking?

- **The Sachar Committee report** released in 2006 said that Muslims hold 12.2% of accounts in public sector banks and 11.3% in private sector banks — lower than their share of 13.4% cent in the population as a whole.
- A large chunk of Muslims are, however, a part of the conventional banking system, and both pay and receive interest.
- This concept is **aimed primarily at devout Muslims** who do not participate in the conventional banking system due to religious restrictions, including not taking credit from banks to expand businesses.
- Some religious scholars have noted that the interest in the conventional banking systems is not the same as usury, and the levying and receiving of interest at a fixed rate is allowed.
- Large parts of the Islamic world, including Pakistan, adhere to conventional banking practices.
- Introduction of Sharia or Islamic banking could bring more Muslims into the banking system, and help in the inflow of institutional wealth from entities operating in the Islamic world to the Indian economy.
- Sharia banking is not restricted to Muslims alone, and other communities could be allowed to participate.

How can a bank work without interest?

- While banking itself is premised on charging interest, certain banks do structure their accounts in Sharia compliant ways. For those who want credit from a Sharia compliant bank the instrument of **Ijara** (Leasing or Renting) is available — in which the bank purchases the asset on behalf of the client and allows its usage for a fixed rental. After a mutually agreed time, the ownership of the asset is transferred to the client.
- Another instrument is the **Murabaha**, in which the asset is purchased by the bank at market price and sold to the customer at a mutually-decided marked-up cost. The client can repay in instalments.
- **Musharaka**is a joint investment by the bank and the client, in which both contribute to funding an investment or purchase, and agree to share the profit or loss in agreed-upon proportions.
- For savings accounts, there are two kinds of deposits. In one, customers can deposit their savings and allow the bank to use this money.

- In the other kind, the holder allows the bank to invest his money in specific projects and gets returns after a stipulated term based on how the business performs.

How prevalent is Sharia banking?

- A 2015 World Bank report estimated Sharia-compliant financial assets to be in the range of US $ 2 trillion. The Islamic Finance Industry has been expanding at a rate of 10%-12% annually.

- In many Muslim countries, Islamic banking assets have been growing faster than conventional banking assets. There has also been a surge of interest in Islamic finance in non-Muslim countries such as the UK, Luxembourg, South Africa, and Hong Kong.

What are the hurdles to implementing in India?

- There is some political opposition against its introduction.

- Because of the strict adherence to not paying or taking interest, Sharia banking will call for a **complete overhaul of the banking regulatorysystem**.

- There is also concern that India lacks **adequate manpower** trained in Sharia banking.

What are the steps taken?

- In a report submitted to the government in 2008, a committee headed by **RaghuramRajan** had suggested the need to have interest-free banking in India.

- **The Kerala government** had subsequently tried to co-promote an Islamic finance institution, but the move was challenged in the High Court.

- **The RBI** has now said that given the complexities, Islamic banking may be introduced in a gradual manner.

- A few simple products which are similar to conventional banking products may be considered for introduction through Islamic window of the conventional banks. Introduction of full-fledged Islamic banking with profit-loss sharing complex products may be considered at a later stage on the basis of experience

1.17 World Bank advises India to cut subsidies

Why in news?

World Bank has advised India to reduce its subsidies and import duties to become an export powerhouse, in its recent report titled "South Asia's Turn: Policies to Boost Competitiveness and Create the Next Export Powerhouse".

What is the South Asia's potential?

- South Asia with the increase in education levels, more than one million young workers enter the labour market each month.

- By 2030 more than a quarter of the world's working adults will live in South Asia.

- As the work force ages and labour costs rise in China and other East Asian countries, south Asia becomes the cheaper destination.

What are the findings in the report?

- The report says India made substantial progress in developing top of the value chain capabilities, such as becoming a global research and development hub for major auto-parts and electronics producers.

- But 80% of the region's export growth came from the sale of the same goods to the same destinations and the remaining 20% came from selling the same products to new markets.
- The region's export basket does not reflect the substantial transformation of production structures.
- South Asian countries have underperformed in terms of both the quantity and quality of their exports. Most firms in South Asia have low productivity.
- While the exports have increased in India, it has remained low in the rest of South Asia and quality has generally remained low and has declined for some countries.
- India's 14% annual export growth for the last decade puts it in the first tier of South Asian countries.
- High import tariffs on cotton and man-made fibres combined with ineffective duty drawback mechanisms have been the main constraint to the growth of the apparel sector in India.
- South Asia, led by India, could triple its share in global markets of electronics and motor vehicles and doubling its market share in wearing apparel (excluding textiles and leather) by 2030.

What are the recommendations?

- The World Bank report highlights four main policy levers to boost the productivity and thus the competitiveness of firms are
    1. To improve the business environment,
    2. Connect firms to global value chains,
    3. Leverage agglomeration benefits and
    4. Strengthen the capabilities of managers and workers.
- Policymakers can encourage the flow of resources to more productive firms by actively managing urbanisation and reducing constraints.
- Bridge the gap between agglomerations of firms and pools of qualified workers with easy access to key domestic and export markets.
- Invest more in training their workers, innovating new products and making greater use of the Internet to buy & sell.

1.18 Photocopy vs Copyright

Why in news?

A Division Bench of the Delhi High Court is scheduled to hear an appeal against a judgment which allowed a photocopying shop in Delhi University to continue to sell photocopied chapters from their books.

What is the case about?

- Publishing companies like Oxford University Press had approached Delhi High Court in 2012 to get a permanent injunction to restrain Rameshwari Photocopier on the premises of Delhi University from making copies of chapters of books published by these companies and selling them to students as "course packs".
- The publishers asked the court to ensure the university obtains permission to prepare course packs after paying dues, from the Indian Reprographic Rights Organisation (IRRO) - a copyright society that collects licensing fees on behalf of publishers.

What is the problem with the "course packs"?

- According to the publishers, the shop was violating their copyright and "competing" with the copyright holders by commercially exploiting their work and depriving them of revenues.
- The publishers also objected to the fact that the university had allowed the shop to operate on its premises, and make copies of books from its libraries and it is "adversely impacting" the publishing industry.

What was the photocopier's defence?

- It claimed that the course packs were only being used by teachers and students "in the course of academic instructions and for research purposes", which are part of "fair use" of copyrighted material under the Indian Copyright Act, 1957.
- It also argued that across the world, students were allowed to copy a limited number of pages from any work for use in research.
- DU by granting it licence to work on the university premises and issuing books for photocopying,had "permitted" it to create course packs.

What is the doctrine of "fair use"?

- The copyright law recognises the right of ownership of the producer/publisher on the material, and does not allow its reproduction without permission — except for **"exceptions".**
- International agreements such as the Berne Convention, and the Agreement on TRIPS allow countries to lay down these exceptions.
- Section 52 of the Indian Copyright Act states that "research or private study" and "by a teacher or a pupil in the course of instruction shall not constitute an infringement of copyright".

What was DU's defence?

- DU clarified that no "licence" was granted to the Photocopier.
- But the shop was allowed to run "keeping the interest of the students in mind".
- The university also said the "service of copying certain pages" was "necessary" because "purchasing individual books is expensive and several of the books are also out of print or not available in India".
- Teachers and students came to court in support of the photocopier. They said it was "unrealistic" to expect all students to buy all books that had been recommended, and that the course packs carried "very small" parts of the books — less than 10% of the total.

What was court's rationale in the judgment?

- It ruled that while photocopying was "reproduction of the copyright material" as defined under the Copyright Act, it was covered under the exception for "fair use".
- The Bench expanded the definition of "teacher and pupil" who are allowed to reproduce copyright work and said that the university as an institution was a "teacher".
- The court held that the course packs contained very limited parts of the books, and could not be said to be "competing" with the publishers.
- Significantly, the court held that since students could "copy out" large parts of the books by hand as study 'notes', the use of technology to "facilitate" the copying of extracts could not be said to violate the law.

What is the significance of the verdict?

- It has expanded the definition of terms in the Act to include the copying of work by educational institutions.
- This will help tens of thousands of students to continue to access study material that may not be readily available.
- The judgment discusses the balance between the "legitimate interests" of publishers and the right of students to get access to books.
- It has noted that copyright isn't a "divine" or natural right, but has been created under statute, which allows for exceptions to the right.

1.19 Globalisation and its ill effects

What is the issue?

- In fewer than six months, two mighty countries who pushed glabalisation suddenly appear to be reversing course.
- In championing such a reversal, Donald Trump and Nigel Farage of Britain identified major fault lines in the concept of globalisation and skilfully communicated them to the people.

What are the problems of Globalisation?

- A major problem with globalisation is that **it does not penalise bad actors.** The bankers and traders were responsible for the financial crisis. But no one was punished and the banks were bailed out **at taxpayer expense**. In a non-globalised world, there would have been serious penalties imposed on hundreds of individuals, including regulators.
- For example Greece. It went amok with highly irresponsible decisions that brought Euro to the brink. But in an irony, it was Greece's Prime Minister who made it appear as though the Eurozone banks were being too cruel. If a common man had borrowed money from a bank and defaulted on his obligations the bank would go after his collateral for cause.
- In globalisation, the common man sees a rigged system that is harsh on him but is lenient to elites who do far more damage.
- Another problem is the **hypocrisy**. Consider the case of a worker displaced when a plant moves its operations overseas. There is a provision for the host government to fund the worker's retraining. But attending school and learning new skills is fundamentally not an easy thing to do. Even if the worker does this and competes to find a job, he often loses out to an immigrant who is willing to work for far less. The common man sees a double standard at work: The government is giving assistance to the displaced worker with one hand but is taking it all away with the other with generous immigration policies that hurt the very worker who was to be helped by the retraining programme.
- **Indifference** - Elites dismiss complaints about outsourcing saying that it is a necessary by-product of globalisation. But the common man sees that this practice hurts people, families and communities like nothing else.
- **Neglection**- The common man is also deliberately forgotten for the greater good. The recent climate accord eliminates CFCs from use in commercial air conditioners. But doing so will mean that air conditioners will get far more expensive for the world's rising middle classes.
- Every policy has winners and losers. Globalisation was fine as long as there were more winners than losers.

- **Pride** - When common men took their issues to leaders in government, industry and the media, they were often dismissed, even branded racist or bigots for not coping with a changing world.

- So the losers in the globalisation battle formed a silent majority. They held their opinions from pollsters or even lied to them when asked. And on election day, they took their heartfelt disillusions to the privacy of the ballot box without having to fear recrimination from anyone.

1.20 KrishiVigyan Kendra

Why in News?

The Central government has announced opening of at least one KrishiVigyan Kendra in all districts of the country.

What are earlier measures?

- It includes providing advanced Agriculture technical assistance to the farmers near their farms itself. Besides, it has also announced opening of Apiary Development Centers in ten states.

- The government has called upon the farmers to use the residual husk after paddy farming to make organic fertilizer, in paper making and Card-board Industry and as animal feed. This will prevent the adverse effect of husk burning on the environment.

What are the features of KrishiVigyan Kendra portal?

- The portal aims to provide information and advisory to the farmers and facilitate online monitoring of the KVK activities.

- It provides provisions for online monitoring of KVKs.

- Reporting of major events of KVKs on regular basis and submission of monthly reports online.

- Provide information on different services being provided by different KVKs.

- Provide weather and market related information to the farmers and others. Government's forthcoming programmes will also be available on it.

- It will help create awareness about various programmes and benefit farmers and youth in joining different training programmes being organized by KVKs.

1.21 Import Duty On Wheat

Why in news?

The central government has scrapped the import duty on wheat.

Why the import duty was scrapped?

- The Centre recently announced zero import duty from the prevailing 10% to **improve domestic availability, check rising prices**and to address the concerns of **dip in buffer stock** of wheat and wheat-based products following two consecutive drought years.

- The big players in the wheat flour market had been demanding withdrawal of the duty, and this move was to suit their interests.

- The decision of scrapping the import duty ahead of the winter wheat crop is aimed at helping such agri-businesses by dumping wheat from foreign countries in India.

- Further this measure will reduce the price of wheat in the market.

How did the farmers react?

- Farmers' unions and agriculture experts are anguished over the Centre's decision to scrap the import duty on wheat as they fear that they will have to resort to distress sale during the rabi season.
- The All India KisanSabha said government agencies had failed to procure wheat at the minimum support price (MSP), and without an adequate number of open purchasing centres, farmers are **forced to sell their crop at lower prices**.
- Wheat traders are expecting imports to cross five million tonnes this year.
- The cost of imported wheat would be far below the MSP of ongoingrabi (Rs. 16,250 a tonne), resulting in **crashing domestic wheat prices** as the government has no effective procurement mechanism in many States.
- Thus the scrapping of duty would be detrimental to Indian agriculture as it will **hurt the income of farmers**.

1.22 Private food grain stock measurement

Why in news?

International Seminar on Approaches and Methodologies for Private Food Grain Stock Measurement to be held on 9th November, 2016 in New Delhi.

What is the need for food grain stock management?

- Information on food grain stocks is vital for food security and can influence the world prices of certain crops.
- There is a growing need to ensure stock-taking of domestic food availability which is both accurate and up-to-date. This would enable in framing adequate policies to handle with food shortages, excesses and also plan for future production.

Why private stocks matter?

- In India, stocks of grains and oilseeds are held by various stakeholders, including farmers, individual non-farmer households, the Government (Central and State), processing units, traders and exporters.
- Often, these entities are fragmented across the width and breadth of the country.
- Given the vastness of the country, the seasonal and regional nature of production and consumption, the operation of a large number of small to medium entities in the private sector, measuring privately held stocks has been a challenge.
- Adequate foodgrain stocks can help contain price rise. While stocks held by public agencies are fairly well known, those held by private entities are not.
- The growing involvement of multiple stakeholders, private stockists in particular, often leads to price volatilities.

How to measure private stocks?

- Strengthening Agricultural Market Information System, a G20 initiative was set up in 2011 with the task of improving agriculture market information and forecasting national and international level stocks.
- Reliable information on private foodgrain stocks is a challenge due to the non-existence of a scientific approach and methodology.

- While public stocks maintained as buffer are used to absorb supply shocks to dampen price spikes, the paucity of information on the volume of private stocks is used by private traders to 'rig' prices.
- The commercial storage and warehouses maintained by commodity exchanges and warehousing receipts by agencies such as the Warehouse Development and Regulatory Authority play a crucial role in stocking for private entities.
- Evolving a scientific approach and methodology for measuring stocks held privately and by commercial storage entities can help predict the direction of prices and the designing of appropriate public policy and business planning.
- The Philippines conducts sample surveys on a monthly basis to estimate private stocks of rice and maize. However, the suitability of this methodology for a large country like India has not been tested.
- The upcoming seminar in New Delhi organised by the FAO and the agriculture ministry will hopefully throw light on approaches and methodologies for India and will help design robust policies and focus on new technologies and their integration into the food grain stock data management system.

1.23 Kerala Declared Drought-Hit

Why in news?

All the 14 districts of Kerala have been declared drought-hit by the government.

What is the present condition of Kerala?

There is a deficit 34 per cent rainfall in the State during the South-West monsoon.

- During the North-East monsoon, it is projected that Kerela will have a deficit of 69 per cent rainfall even if 90 to 100 per cent rainfall is received in November and December.
- The State Disaster Management Authority, at its meeting under Chief Minister PinarayiVijayan decided to declare the entire State as drought-hit.
- A moratorium will come into effect on the agricultural loan taken by the farmers.
- The government will seek central aid to overcome the crisis.
- The District Collectors have been given a 26-point guideline to be followed for drought-relief.
- There has been no rain in October and if this situation continues, there will be drought-like situation, proclaimed by Indian Meteorological Department (IMD).
- The State was heading for a "severe" drought as Kerala had received deficient rains in the South-West monsoon.
- The North-East monsoon was yet to set in the State and had not received pre-monsoon showers.

What are the steps taken by the Kerela government?

- To tackle the situation, the government was also keen to encourage rain water harvesting.
- There has been an average reduction of 22 per cent water in the State's dams when compared to the water storage in September last year.
- The State was also gearing up to take measures to tackle scarcity of drinking water which is likely to be faced by the State due to deficient monsoon.

- The government also has plans to rejuvenate at least 10,000 private temple ponds of the total 40,000 in the State.
- The Chief Minister had convened a high-level meeting on October 13 to work out plans to meet the impending drought situation

1.24 Guidelines for Wind Power Projects

Why in news?

Ministry of New and Renewable Energy (MNRE) issued Guidelines for transparent bidding process for implementation of Scheme for setting up of 1000 MW Wind Power Project connected to inter-state transmission system (ISTS).

What is the scheme about?

- Ministry sanctioned a Scheme for setting up of 1000 MW ISTS connected Wind Power Project on 14 June 2016.
- The objective of the Scheme is to encourage competitiveness through scaling up of project sizes and introduction of efficient and transparent e-bidding and e-auctioning processes.
- It will also facilitate fulfilment of Non-Solar Renewable Purchase Obligation (RPO) requirement of non-windy states.
- In order to facilitate transmission of wind power from these windy states to non-windy states provisions have been made in the Tariff Policy to waive the inter-state transmission charges and losses for wind power projects.
- Under the guidelines the Wind Power Projects will be selected through open and transparent competitive bidding followed by e-reverse auction and the capacity may go higher than 1000 MW.

What is SECI?

- Solar Energy Corporation of India (SECI) is a PSU under the administrative control of the MNRE, set up on September 2011 to facilitate the implementation of JNNSM and achieve the target of it.
- It is the only PSU dedicated to the solar energy sector.
- It is responsible for implementation of schemes of MNRE which includes large-scale grid-connected projects under JNNSM, solar park scheme and grid-connected solar rooftop scheme.

1.25 Port Development Policy

Why in news?

The Ministry of Shipping held a consultation meeting with various stake holders on 'Policy for Award of Waterfront and Associated Land to Port Dependent Industries in Major Ports' in New Delhi.

What is the aim of the policy?

- The policy aimed at **bringing uniformity and transparency** in the procedure for awarding captive facilities at ports.
- The ambit of the Policy includes creation of new assets as well as **utilization of currently unutilised existing assets** such as vacant berths. The Policy will be applicable to all the Major Ports.

- The policy will enable optimal utilization of capacities in Major Ports and increase revenue to the Major Port Authority.

What are the existing guidelines?

- Under the existing guidelines for private sector participation in Major Ports issued by the Ministry of Shipping (MoS) in 1996 and 1998, provisions were made for allotment of waterfront and land on a captive basis to Port Based Industries including Central/State Public Sector Undertakings (PSUs) which fulfilled the prescribed eligibility criteria.

- A captive unit is a business unit of a company functioning offshore as an entity of its own while retaining the work and close operational tie ups within the parent company.

- Though some berths and facilities were set up in some Major Ports following these guidelines, the potential for development of such facilities is not yet fully realized.

- Hence the need for the new Policy for Award of Waterfront and Associated Land to Port Dependent Industries in Major Ports'.

What the new policy says?

- Under the new policy, concession will be granted to Port Dependent Industries (PDI) for setting up dedicated facilities in Major Ports for import and/or export of cargo and their storage before transportation to their destination, for a period not exceeding 30 years.

- Extension of concession period on conditions including under-utilization of asset as per the concession agreement may be allowed.

- After a maximum of 30 years of operation, the waterfront and associated land in a Major Port will be allotted for construction of berths, offshore anchorages, transhipment jetties, single point moorings etc.

- It will be as per the terms and conditions of the Concession Agreement (CA) to be entered into between the Port Authority and the PDI concerned.

What is the way ahead?

- The policy will help generate committed business for the Major Ports on a long term basis by facilitating the development and operation of dedicated port facilities by industries which are substantially dependent on a particular Major Port for import and/or export of their cargo and thus play a catalytic role in the eventual realization of the objectives of Port led development.

- Allocation of waterfront and associated land to port based industries on PPP/captive basis is one of the major areas which have been identified by the Ministry of Shipping for participation/investment by the private sector in Major Ports.

- Government of India has focused on Port led development through the **Sagarmala program** as a key enabler for economic growth.

- Optimal utilization of land and waterfront at the disposal of the Major Ports is of critical importance in this context.

2. DECEMBER 2016

2.1 Asia-Pacific Trade and Investment Report 2016

Why in news?

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) recently released Asia-Pacific Trade and Investment Report 2016.

What is ESCAP?

- The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is the regional development arm of the United Nations for the Asia-Pacific region.
- It was established in 1947 with its headquarters in Bangkok, Thailand.
- Made up of 53 Member States and 9 Associate Members, with a geographical scope that stretches from Turkey in the west to the Pacific island nation of Kiribati in the east, and from the Russian Federation in the north to New Zealand in the south, the region is home to 4.1 billion people, or two thirds of the world's population.

What is the condition of Asia Pacific?

- Asia-Pacific trade flows were **uncertain during sluggish global economic and trade growth**, downward movement of world commodity prices and an uncertain policy environment.
- Sluggish growth in trade is expected to continue **through to the end of 2016**.
- Rebounding somewhat, exports from Asia-Pacific are expected to increase by 4.5 per cent and imports by 6.5 per cent in developing countries of Asia and the Pacific in 2017, but the Report forecasts more modest growth in exports and imports in volume terms, at 2.2 per cent and 3.8 per cent, respectively.
- The report revealed that the region had improved its market share in the commercial services trade, with the services trade more than doubling between 2005 and 2015, from just under $600 billion to close to $1,400 billion.
- These aggregates, however, conceal the fall in the region's export and import of services by 4.5% and 4.9% in 2015, respectively, compared with the previous year.
- This fall was mainly due to persisting economic uncertainty resulting in the global decline in merchandise trade and a depressed demand for the services sector including transport.

What is the status of India?

- ESCAP said **international andintra-regional trade costs of India remained higher** compared with the trade costs of best-performing economies in Asia and the Pacific.
- However, it said in addition to India's robust economic growth and large domestic market, the Government's "Make in India" initiative and easing of FDI regulations for about 15 sectors including aviation, defence and pharmaceuticals may contribute to **the FDI attractiveness of India**.
- On the other hand, overseas investment from India contracted considerably by 36 per cent, which may reflect FDI diversion as Indian investors start to **invest more at home than overseas**.
- FDI inflows to India **expanded by 10%** on average during 2010-2015, while in 2015 inflows recorded an even stronger expansion at 27.8 per cent, which was significantly higher than the Asia-Pacific region's average 5.6 per cent.

- The services, construction development, computer software and hardware, and telecommunications sectors attracted the highest investments.

- In 2015, Indian goods **exports shrank by 17.2%**, which was close to twice as much as the Asia-Pacific region decline of 9.7%.

- However, it added that India was the largest partner with several economies in South Asia, such as Bhutan, Nepal and Sri Lanka. Since India is the fastest-growing emerging economy, it is somewhat expected to start filling the void in demand for intraregional exports that will emerge with the rebalancing of China's trade patterns.

What are the restrictive policies in operation?

- A worrying trend on another front is the increased usage of restrictive trade policies, especially non-tariff measures, within the Asia-Pacific region, which is partly driven by past distortive trade measures and current excess capacity in several key sectors.

- Additionally, the region is seeing a proliferation of preferential trade agreements (PTA), with Asia and the Pacific rim contributing to almost 63 per cent of world PTAs, curbing a momentum towards region-wide free trade, it added.

2.2 RBI's Financial Stability Report

Why in news?

The Reserve Bank of India's biannual Financial Stability Report has once again flagged the fact that risks to the banking sector remain worryingly "high".

What the central bank's assessment says?

- The central bank assessed that the risks have stayed "elevated due to continuous deterioration in asset quality, low profitability and liquidity."

- Given the central role commercial lenders have in the financial system — serving to harness public savings and direct the flow of crucial credit to the most productive industrial and infrastructure sectors — any systemic risk to the banking industry has the potential to ripple across the entire economy.

- The new assessment iterates that there has been no perceptible improvement in the health of domestic banks, even six months after the RBI's previous report had highlighted the sector's high vulnerability on account of the increase in capital requirement and worsening asset quality, spotlighting the need for urgent policy interventions.

How the bad loan problem is tackled?

- Some measures have been initiated and others are in the pipeline, including a draft Financial Resolution and Deposit Insurance Bill to address bankruptcy situations in banks and other financial entities.

- Still, there is every reason to prioritise the restoration of the sector's health as some of the risks inherent in banks may already be getting transferred to other segments of the financial markets, according to the RBI's report.

- A survey, of experts and market participants, conducted by the RBI in October-November reveals that among institutional risks, credit growth and cyber risk were seen as two key "high risk factors".

- The bank suggested that the "unhealthy parts of the troubled banks" could be separated from the healthier assets and put into a 'bad bank' to prevent systemic contagion.

- With the RBI pointing out that banks saddled with bad loans were likely to remain "risk-averse" and find themselves lacking the capital needed to lend more to meet credit demand in the economy, the regulator and the government will need to work in close concert to expeditiously resolve this vital legacy issue.

2.3 Long -Term Capital Gains tax

Why in news?

- Prime Minister suggested that people earning from financial markets must make a "fair contribution" to nation building which was interpreted as higher taxes on income from capital markets.
- But the Finance Minister soon clarified that the government does not plan to impose a long-term capital gains tax.

What is LTCG tax?

If capital assets like stocks, bonds, land, residential property etc are sold after 36 months from the date of acquisition, then the profits from the sale are termed as long term capital gains (LTCG) and the tax levied on them are LTCG tax.

What is the current scenario?

At present, equity investments held over one year do not attract any LTCG tax, while the tax rate on short-term capital gains is at 15%. However, all traders and investors pay a securities transaction tax (STT), which ranges between 0.017 and 0.125%, on their capital market transactions.

What is the consequence of imposing?

- On its own, it is not a bad idea to levy tax on LTCG from stock market transactions.
- In India, where the welfare demands on the state exchequer are far more onerous, but just about 500,000 citizens pay income tax above Rs 5 lakh.
- Also, investments in other asset classes such as debt, real estate and gold attract LTCG tax, albeit with inflation indexation benefits.
- The idea of not levying LTCG tax was one of the recommendations of the Vijay Kelkar-led task force on direct taxes in 2002.
- There is a thought that since everyone is paying the Securities Transaction Tax (STT), there shouldn't be capital gains tax.
- But, the logic does not hold water as there are various levies on gold and jewellery as well as real estate.
- Also, it is only the more prosperous class of Indians who invest in equities, and when they earn profits there is no reason why they should not be taxed.
- Similarly, foreign investors who make profits by investing in Indian markets should also be paying tax.
- While most developed countries tax such profits, the problem is wrong timing.
- That is because Indian markets have been witnessing a massive outflow of foreign portfolio investments as a result of Demonetisation, US presidential elections results and the Federal Reserve rate hike.
- Even before the government announced demonetisation, there were concerns about the iffy nature of India's economic recovery.
- Therefore what the markets need at present is stability in tax policy not speculations.

2.4 Indian Enterprise Development Service

Why in news?

Government approved cadre review and formation of the Indian Enterprise Development Service (IEDS) in the Office of Development Commissioner, **Ministry of Micro, Small and Medium Enterprises.**

What is the need?

- Creation of the new cadre and change in structure will **help achieve the vision of 'Startup India', 'Stand-up' India and 'Make in India'**.
- Will enhance the capacity and efficiency of the organisation and also help in achieving growth in the MSME sector through a dedicated cadre of technical officers.
- The Service has been created by absorbing 11 trades, recruitment to which had been done differently, following different rules.
- The work of the officers of the department has changed over the years and **there is need to have a cadre which works for the development of enterprise and thinks holistically**.
- The Indian Enterprise Development Service, will have a cadre strength of **617 officers,** 6 of which will be at the level of joint secretaries.
- These officers will man **72 field offices** of the Development Commissioner and the **headquarters in Delhi.**
- Out of the 72 field offices, 30 are MSME development institutes and 28 branch institutes.

2.5 Financial Data Management Bill, 2016

Why in news?

A committee set up under the Department of Economic Affairs has recommended the creation of a statutory body that will standardise data from all financial sector regulators in a single database and will provide analytical insights based on the data.

Financial Data Management Bill, 2016

- The report of the committee to study the financial data management legal framework in India, suggests the passage of a Bill in Parliament—the Financial Data Management Centre Bill 2016.
- The bill proposes to create a statutory body.
- Subject to the provisions of this Act, or any other law for the time being in force, **it shall be the duty of the Data Centre to take measures to standardise data from regulators in consultation with the regulators.**
- It will enable financial service providers to submit data in a standardised electronic format, analyse the data and maintain a financial system database.

What are the powers of Financial Data Management Centre?

- The powers of the Financial Data Management Centre (FDMC) will include the establishment, operation and maintenance of the financial system database along with collecting financial regulatory data and providing access to it.
- The body will also provide analytical support to the **Financial Stability and Development Council (FSDC) on issues relating to financial stability.**

- In 2015, when the FSDC first suggested the creation of such a body, the Reserve Bank had objected to sharing company-specific data with the body as it was not statutory in nature, and sharing such data would be a breach of confidentiality.

2.6 National Financial Reporting Authority

Why in news?

The recent report of Parliament's standing committee on finance on the Companies (Amendment) Bill 2016 has reopened what appeared to be the settled position on auditor regulation.

What is the issue?

- The Companies Act 2013 provides for setting up a National Financial Reporting Authority (NFRA).
- The ministry of corporate affairs issued rules that will give the National Financial Reporting Authority (NFRA) an overarching role to regulate chartered accountants and set standards.
- The current regulator ICAI is against it.
- NFRA has a larger remit than NACAS (National Advisory Committee on Accounting Standards), which it is meant to replace. NACAS only recommends accounting standards. NFRA will set accounting and auditing standards, monitor and enforce compliance with the standards, and oversee the accounting profession's record of ensuring compliance.
- The authority will also have the power to investigate misconduct committed by any member or firm of chartered accountants.
- It will take away significant regulatory powers from the Institute of Chartered Accountants of India (ICAI). What has worried the CA community the most is the fact that in cases where the NFRA initiates the investigation, no other institute or body can initiate or continue any proceedings.

Why ICAI is against it?

They are of the view that NFRA should not be given the power of investigation as the ICAI is doing the same work. Also, the multiplicity of regulators will not serve any purpose as steps suggested by the government are already being undertaken by the institute.

Why self-regulation is detrimental?

- Self-regulation works only up to a point. Society expects that the professions will police themselves effectively as a deviant conduct damages the reputation of an entire community, so there is incentive for them to punish the bad guys.
- But there is a lot to commend in this market-based argument. Unfortunately, the market fails quickly in a self-regulatory mechanism. An individual member engaging in aberrant conduct is unlikely to be deterred unless the punishment is swift and appropriate.
- Neither is probable because the **members elect representatives who decide whom to punish** and what the punishment should be.
- It is no longer the well-intentioned mechanism at work. The **political process** takes over and there will inevitably be compromises.
- More importantly, self-regulation hurts those outside the accounting community. Investors and lenders are often victims of dodgy accounting and incompetent auditing.

- They would have **no confidence in the fairness** of the process when their complaints are heard by other accountants. For this reason, many who have suffered at the hands of accountants are unlikely to have even complained to the ICAI. This is the reason for a relatively **low number of complaints**.

Why new regulator is desirable?

- That is why in most countries outsiders oversee the work of accountants. The Public Company Accounting Oversight Board (PCAOB) in the US and the Financial Reporting Council (FRC) in the UK are examples of effective outside regulation.
- The ICAI and its members will be the biggest beneficiaries of external regulation. When there is **greater assurance** that improper conduct will be punished, the value of the ICAI's franchise will go up.
- They don't have to fear losing clientele. They can expect to be paid more for being strict. They can **invest more in training and technology** and pay their employees better. Eventually, inferior firms will drop out of the audit market.
- NFRA can **enhance investor protection** by effective oversight of accounting and auditing. It will fill a critical gap in the current arrangements by enforcing compliance with standards. Dumping NFRA will be a clear case of regulatory capture by the accounting industry.
- Accounting is one of the professions most threatened by **automation**. The Bank of England's chief economist said that chances of accountants being replaced are "a whopping 95 per cent".
- Outsourcing regulation will free resources for the ICAI to work on developing new and complex skills needed in the uncertain world of technology.
- Therefore ICAI should facilitate NFRA's work by training expert witnesses who can provide independent opinion in disciplinary cases.

2.7 Regulating the Digital Payment system

Why in news?

Demonetization has resulted in larger dependency on Digital payments.

What are the requirements of digital transaction regulatory framework?

- It needs a comprehensive legal framework assessment that can identify and set out the rights and obligations of each payment system participant in the ordinary course of business and in adverse conditions is a robust one.
- It will have to cover the wide range of instruments and test them for conflict such as with the new insolvency and banking laws.
- Seamless cooperation between the bodies involved in policy and regulatory development must be forged.
- The playing ground for entrepreneurs must be levelled so as to provide confidence, stability and integrity in the financial system.
- This will enable participants in a payment system to move in their own orbits performing functions that when interwoven ensure that the country has an efficient, secure and reliable payment system that reduces the cost of exchanging goods and services

What is the role of RBI?

- RBI is the sole regulator for the payments industry space and derives its power to oversee the payments industry from the Payment and Settlement Systems Act (2007) and its accompanying regulations.

- Several circulars and guidelines have been issued for the regulator to govern prepaid instruments, intermediaries and the payment system operator.

- Electronic wallets and mobile banking are exempted from KYC compliance for transactions under Rs20,000 and has relaxed the security measure of requiring two-factor authorization to only when one loads money from other banking instruments.

- RBI has also ensured there is not much float pending with prepaid instruments by requiring certain prepaid instruments to seek its approval and exempting those that facilitate simultaneous settlement and clearance.

What should be done?

- Although the regulator is at present vested with powers to call out a systemic risk posed by a participant in the payments space, it may also do well to identify certain payment systems as critical and afford them systemic important status.

- Such singling out will ensure that their failure in a nascent payment industry does not trigger further disruptions among system participants and stretch to larger financial markets.

- The regulator must also set up an end customer protection/guarantee fund so she is protected when the largest participant/debtor in the payment system fails.

- Further, in tune with the self-regulated entrepreneurship that the government is encouraging, the system participant should be encouraged to submit a self-certification assessing and disclosing the technical risks it faces at an enterprise level that can balloon into systemic risks.

- The payments terrain therefore should expand and be enabled by regulations to accommodate new kinds of participants in the system.

2.8 Imperatives for job creation in India

What is the issue?

Job creation should be the top priority of central and State governments. They should be judged principally on this parameter

What to Do?

- **Promote the growth of stronger clusters and networks of small enterprises -** Small and micro enterprises are desirable because they create more employment per unit of capital, they enable citizens to create jobs for themselves and earn incomes with less state expenditure, and their growth can be widespread in all regions and in many sectors thereby making growth more inclusive.

- Small and micro enterprises can overcome limitations in accessing markets, in obtaining resources, and in developing their capabilities by organising into effective clusters i.e both geographic and virtual, and also by connecting on technology enabled platforms.

- The quality of clusters and cooperative associations of enterprises in India is much weaker than in other countries where small enterprises have provided the backbone of their faster industrial growth.

- In addition to 'easing conditions for doing business', government policies must promote the formation of strong clusters and networks.

- **Promote the growth of a 'life-long learning' system -** The content of work is changing dynamically in many industries. Even mass skilling systems to produce large numbers of skilled persons risk turning out skilled yet unemployed people.

- Government assistance should be directed towards enterprises that prove their capabilities to dynamically offer learning and skills that result in sustained employment, rather than payments for numbers of 'skilled' persons produced who may not be employed.

- **Develop better social security systems -** Enterprises need flexibility to adjust their workforce to remain competitive in a dynamic environment. On the other hand, the government has the responsibility to ensure the social and economic welfare of citizens, and insufficiency of stable jobs is already creating social problems.

- The two requirements - flexibility for enterprises and an adequate safety net for citizens - can be met with better social security systems. The design of the systems should also facilitate citizens to learn new skills so that they remain employable when jobs change.

- **Promote the rapid use of technology -** They can enable the formation of platforms of enterprises including large ones; they can facilitate the development and delivery of 'just-in-time, needs aligned' learning modules; they can enable micro enterprises to access the formal financial system; and they can also enable delivery of better social security services.

- **A 'whole of government' approach is necessary to create jobs -** Jobs will emerge from interactions of many drivers in the economy - the growth of enterprises, life-long learning systems and social security, as well as the quality of physical infrastructure and the ease of doing business.

- Therefore job creation policies must be coordinated at the top of the system, at the level of the PMO at the centre and chief ministers in the States.

- Systematic methods must be applied by governments at all levels for consultative policy formulation and implementation. Systematic methods for multi-stakeholder policy formation, such as 'regulatory impact analysis' and the German 'capacity works', will speed up the production of outcomes. They will be the turbo-chargers for India's jobs growth engines.

2.9 Labour in Informal Sector

Why in news?

India's informal sector has been affected greatly by demonetisation.

What is an informal sector?

The informal sector is the part of an economy that is neither taxed, nor monitored by any form of government. Unlike the formal economy, activities of the informal economy are not included in the GDP of a country. The informal sector can be described as a grey market in labour.

Why employing labourers informally is preffered?

- Despite high growth, most sectors chose to employ labour informally because it lowered their overall costs.

- Routing wages and salaries away from cash payments and towards formal channels such as bank accounts, electronic and mobile payments will create a formal culture of employment, but in the process obviously lead to higher costs for firms.

What is the situation of labourers in informal sector?

- Approximately 83% of India's labour force is in informal sector, despite 25 years of modest growth in a seemingly liberalized economy.

- National Sample Survey Office data shows little has changed over the years in the nature of employment, as size the of the informal labour market remained significantly high and predominant in the economy overall.

- In 2004-05, the unorganized sector comprised of 87% of the workforce, while in 2011-12 this had changed to 83%
- The growth in organized employment was, however, overwhelmingly informal in nature.
- Most jobs created in the high growth period of the last decade have been informal in nature, even in the organized sector.
- Within the unorganized sector, nearly all the increase was, expectedly, informal in nature.
- Informal employment in the non-agricultural sector increased by 27%.
- This implies that the benefits of Indian economic growth are concentrated among a few, while a growing proportion of the population has been relegated to living as working poor.

What should be done?

- **Labor reforms -** Studies identified the lack of labor reforms as the main culprit that has kept employment in India low and informal.
- Poor labor laws have often been restraining the Indian manufacturing Industry.
- Lack of labour reforms has generally meant multiple labour legislation that deter hiring of labour.
- Even in those states of India that achieved a high labour reform index, like Gujarat and Andhra Pradesh, the jobs that were created were overwhelmingly informal in nature.
- Therefore labor reforms are not enough.
- There is a need to make serious efforts at facilitating a widespread environment that will develop a formal culture in India's labour markets.
- Demonetisation has the potential to become one such serious policy intervention.
- Demonetisation is forcing employers in the country to reconsider employment contracts. There needs to be a simultaneous push from the formal financial institutions such as banks, payment interfaces such as National Payments Corporation of India to facilitate the adoption of new payment methods.
- Each firm will have to assess its internal fundamentals to evaluate what the short-term costs of going formal entail while achieving operational and dynamic efficiency to remain in business in the long run.

2.10 MSME policy

What is the present scenario?

- The MSME sector contributes 8 per cent to the GDP, whilst employing more than 80 million people.
- It accounts for 40% of India's manufacturing and 45% of exports
- Growth in micro and small enterprises has been consistent over the past five decades due to a combination of government support, implementation of technological enhancements, and support by the banking sector.
- In 2016, initiatives have been taken by the Centre as well as State governments to improve 'ease of doing business' and to make Micro, Small and Medium Enterprises (MSMEs) more globally competitive – such as
    1. the Udyog Aadhar Memorandum framework for revival and rehabilitation of MSMEs, which enables banks/creditors to identify enterprises in the stage of initial stress and thus take corrective action, and

2. A Scheme for Promoting Innovation, Rural Industry and Entrepreneurship (ASPIRE), among others.

What should be done?

- The Centre must notify the Micro Small and Medium Enterprises Development (Amendment) Bill, 2015, which seeks to enhance the existing limit for investment in plant and machinery, considering inflation and the dynamic market situation.
- At the moment, there is no integrated approach for the development of MSMEs.
- Therefore, the Centre should come out with one comprehensive policy.
- Several areas of concern relating to the GST law and its implementation, must be addressed.
- It is equally important to provide special incentives for the promotion of export, such as freight subsidy and marketing support.

2.11 US Fed Rate Hike– Impact on India

Why in news?

The United States Federal Reserve's decided to raise interest rates by a quarter point. It was accompanied by a statement that there will be more and faster increases in 2017.

What is the current global scenario?

- The United States president-elect, Donald Trump, said he won't allow H1B visa holders to replace US workers.
- Crude oil prices touched $57 a barrel, their highest in a year and a half. And India's factory output shrank 1.9%.
- Indirectly, it will cause a rise in prices all-around, because a lot of goods move on trucks.
- And the IIP dip in October is worrying because the predictions for November are already dire.

What is the impact of Fed reserve decision on India?

- **Economy -** Dollar outflows could weaken the rupee, and hold the RBI back from cutting interest rates as that could lead to further outflows.
- With crude prices on the rise, a weak rupee will inflate the import bill and put pressure on the government's finances.
- **Market -** An increase in US Fed rate will be negative for emerging markets in general, India included.
- That is because a rate hike will improve the yields on US government bonds.
- In other words, the bonds will offer a better rate of return than before. This could prompt global money managers to shift a part of their money into US government bonds.
- More often than not, fund managers sell a part of their holdings in emerging market equities and deploy that money in US bonds.
- **Companies -** For an exporter, a stronger dollar would mean higher earnings in rupee terms.
- But stiff competition and anemic demand in most export markets means that exporters won't have much to cheer about.

- Imported raw material such a copper, aluminum and machinery can turn expensive, potentially squeezing margins of companies dependent on them to make products.
- This may lead to hike in prices of goods such as cars and televisions.
- The rupee's slide can also hurt companies with foreign currency loans as repaying in dollars will get costlier.
- **Startups -** An increase in US Fed rate will likely lead a shift of part of their capital and even their focus away from markets such as India towards the US.
- The limited liability partners such as large pension funds and insurance companies which used to invest in venture capital and private equity funds may do so now in funds focused at home, than in Asia.
- This may likely to lead to more consolidation, shutdowns, and lowering of valuations of Indian startups.
- **Investments -** A stronger dollar could negatively impact gold prices.
- Hence, financial planners suggest staying away from the yellow metal for the time being.
- Equities could be volatile in the short term, but investors should stick with their investments in quality companies.
- Higher interest rates in the US will make capital more costly, and affect Indian companies that hope to get funds from there.
- Several agencies, including the Reserve Bank of India, have already reduced their projections of growth for the country's GDP.

2.12 Raising revenue from land-based financing

What is Land-based financing?

- Land-based financing is, the government should capture increases in land values that are the result of changes in regulations, provision of infrastructure or population growth and invest it back in the city.
- Indian cities have a history of such practices. Recently, it has been described in a government of India document "Value Capture Policy Framework".

What is the need?

- The implementation of the goods and services tax (GST) **will lead to the abolition of entry taxes and other local body taxes.**
- This has raised considerable concern among local bodies, especially in Maharashtra, that rely heavily on them for revenue.
- While these taxes are incorporated in the GST and will be devolved to the government of Maharashtra, there are high chances they will not be devolved any further.
- So, in this context, land-based financing mechanisms might be used as an alternative for buoying the revenue of local bodies.

What is Floor Space Index?

- One instrument that this Value Capture Policy Framework mentions is charging for additional floor space index (FSI).
- FSI determines **the amount of built-up space allowed to a developer on a plot of land.**

- This instrument allows local governments to charge developers for building more than the basic FSI that is free of charge.
- The municipal corporation of Greater Mumbai (MCGM) uses this instrument extensively and there are high possibilities of other cities adopting it in the near future.

What were the issues faced?

- Developers can purchase additional 0.5 FSI and can further purchase 35% fungible compensatory FSI. Both have to be purchased from the MCGM.
- The MCGM splits half the revenue from additional 0.5 FSI charged with the state government.
- Revenue from fungible compensatory FSI, earlier exclusively kept by the MCGM, is now being shared with the state following a notification that the state government.
- **This has led to a decline in budget estimates from this source. It is also against the the principle of decentralization.**
- Further, in the post-GST India, the chances of state governments taking away the revenue accruing to local bodies are likely to increase.
- Second, revenue from these charges taken together is greater than property-tax collections for the MCGM
- If we include the state government's share, the collections from these charges as a percentage of property tax will be much more.
- One must note that these charges are all on new properties, thus, **there is a likelihood of burdening new homebuyers** if the incidence of these charges is on them.

What should be done?

- While making decisions, governments should not be satisfied with increasing revenue alone, but must examine the impact of such policies on housing markets.
- In wielding these instruments for raising revenue, the government should be mindful of their distortionary effects too.

2.13 Government measures to fight unemployment

What is the threat of automation?

- Around 47% of total employment in the US, around 64 million jobs, have the potential to be automated perhaps within a decade or two. Europe is already facing a crisis of jobs.
- India's pace of job creation pales in comparison with the millions entering the workforce each year and, according to the World Bank, **69% of jobs in India are threatened by automation**.
- If automation eliminates a substantial fraction of the jobs that consumers rely on, or if wages are driven so low that very few people have significant discretionary income, then it is difficult to see how a modern mass-market economy could continue to thrive.

What is a Universal Basic Income?

- One way of managing social tensions is for governments **to implement a guaranteed minimum income for all citizens.**

- Also known as universal basic income (UBI) or a guaranteed basic income, the idea of an income for all has been around for years.
- It was backed by the Left and even libertarian thinkers and is beginning to gain traction again among economists.

What are its advantages?

- Proponents feel that a cash boost – universal basic income **mitigates the political problem of creating jobs and it provides disposable income** that can be used to pay for goods and services.
- The idea appeals to some conservatives because,
    1. it boosts the economy,
    2. it is easier to administer and
    3. it can potentially downsize the bureaucracy which currently manages a range of welfare programmes.

What are its disadvantages?

- UBI has been criticised and reckoned as unfeasible on two grounds.
    1. It **reduces beneficiaries' incentive to work** and encourages delinquency.
    2. It would be too expensive to implement in mass societies.

What are the counter arguements?

- Studies have shown **additional income does not really reduce the incentive to work.** Research shows that people in the US used cash transfers for mostly housing and food costs and that less than 1% of the money was spent on alcohol or drugs.
- Poor families that received up to $15,000 a year at Dauphin, Canada in 1970s, the hospitalisation rates fell, high-school completion rates increased. And those with full-time jobs did not reduce the number of hours they worked.
- **Implementing basic income is, of course, expensive.** An unconditional $10,000 basic income for all adults in the US would cost around $2 trillion.
- This cost, can be offset to an extent by reducing or eliminating numerous federal and state anti-poverty programmes – but it would still require around $1 trillion in new revenue.
- Governments will need to tax businesses a lot more, rather put this burden on workers and employees who already pay for existing welfare programs.

Is it feasible for India?

- In India, the costs seem prohibitive and as the **country grapples with more foundational issues** like ease of doing business, addressing education and skill deficits and kick-starting investments while banks are stuck with bad loans.
- But given high poverty levels and the anger among youth that will inevitably rise, the policymakers will need to serious consider basic income, or at least some form of it.
- A basic income of Rs. 10,000 per year – about three quarters of the official poverty line – **would entail a cost equivalent to 10% of GDP,** far more than the 4.2% that the government spends on explicit subsidies.
- He writes that discontinuing some or all of the subsidies while retaining expenditures on health, education and rural and urban development programmes can secure a reasonable basic income for all.

- Research shows poor families in Madhya Pradesh which received unconditional cash transfers ended doing more labour and work.
- There was also a shift from casual wage labour to more self-employed farming and business activity and there was also **reduction in migration caused by distress**.
- As developed countries increasingly warm to the idea (Finland to implement its version in 2017), policymakers may find it difficult to avoid discussing guaranteed minimum income.

2.14 Regulating Power Subsidies

Why in news?

An expert panel comprising senior officials from states and industry is studying the ways to reduce leakages in power subsidy.

How power subsidies are given?

- Currently, subsidy is calculated as the **difference between energy sold and amount collected**.
- State governments give subsidies to power distribution utilities for selling electricity to consumers at less than the procurement cost or for free in some cases.
- However, subsidy payments by states are not made regularly, adding to the financial woes of distribution utilities.
- In fair business practice, state electricity regulators declare subsidy amount at the beginning of every financial year and the state governments are obligated to make quarterly payments to electricity distribution companies.
- But when the subsidy payment is delayed, financial conditions of discoms deteriorate.

Why the Power ministry has constituted an expert committee?

- The expert committee, set up by the ministry to suggest ways to increase electricity demand and consumption, is examining subsidising the target consumers in a manner similar to what has been done in the case of LPG cylinders for plugging leakages and bringing down the subsidy burden.
- The Niti Aayog and industry experts have been advocating the scheme to lower subsidy, prevent its misuse and strengthening power distribution utilities.
- Under the direct benefit transfer scheme for cooking fuel, LPG cylinders are sold at market rates after which bank accounts of the consumers eligible for subsidy are credited with the amount of subsidy.

2.15 Indian Jute Industry

What is the history of Jute Mills in India?

- The first jute mill in the country was set up by Scotsman George Acland when he installed spinning machinery brought from Dundee at Rishra in Bengal in 1855.
- That was the Victorian era when the industry here saw its first phase of growth.
- Unlike any other traditional industry, which may have come within the ambit of various technology missions, most jute mills have stayed beyond the pale of any meaningful modernisation.

What are the issues?

- The government continues to dilute mandatory jute bag procurement under the outworn Jute Packaging Mandatory Act (JPMA), 1987, and
- duty-free imports of sacking bags from Bangladesh and Nepal grow at a fast clip.
- As jute factories the machines are of Victorian age that generate much "dust and fibre particles".
- Trade union leaders are left with no alternative but to draw the attention of the government and the public of high degrees to occurrences of diseases such as tuberculosis and asthma among workers.
- The stubborn refusal by mill owners to invest in modernisation and genuine product diversification has got much to do with the assurance of regular procurement of jute bags by the government's agencies for packing of food grain and sugar under JPMA.
- Therefore the owners of jute mills in the country are afraid of competition from alternative materials and imports.
- They want government support, particularly in its procurement of jute bags, in perpetuity.

What are the measures taken by the Government?

- The government provides incentives for replacement of old machines from time to time so that the industry is equipped to cut conversion cost, improve product quality, introduce new jute products in blends with other natural fibres, and make factories healthy work places.
- As for the current financial year, the government has issued the order that 90% of food gain and 20% of sugar will have to be "compulsorily" packed in Jute bags.

2.16 Analysis of Crop Insurance Scheme - PMFBY

What is the performance of previous schemes?

- Before the launch of this initiative, the National Agriculture Insurance Scheme (NAIS) and Modified NAIS (MNAIS) were not serving the farmers' interests well.
- The sum insured under MNAIS, particularly for risky crops and districts, was meagre.
- It was based either on the quantum of crop loans or on the capping of the sum insured.
- The crop damage assessment based on crop cutting experiments was time-consuming.
- The compensation to farmers often took several months or even more than a year to reach.

What are the changes in PMFBY?

- The government launched a new crop insurance scheme, PM's Fasal Bima Yojana (PMFBY), in February 2016, with a view to de-risk agriculture from the uncertainty of nature.
- A technical committee in each district decides the "scale of finance" for the sum insured taking into account all the costs incurred by the farmers.
- The premiums are based on an statistics, without any capping.
- Bids are invited from public and private insurance companies to decide the premiums.

- The premiums so discovered are then subsidised for farmers, who pay only 2% for kharif crops, 1.5% for rabi crops and 5% for annual commercial crops including horticulture crops.
- The rest is paid by the government, divided equally between the Centre and state governments.
- High technology including smartphones, GPS, drones and satellites will be used for accuracy, transparency, and faster assessment.

What is its performance?

- PMFBY insured for a total sum of Rs 1,08,055 crores including 35.5 million farmers, which is an increase of almost 193% over kharif 2013 and 40% over kharif 2015.
- Within this the number of non-loanee farmers increased by more than six times.
- The area insured also increased from 16.5 million hectares (mha) in kharif 2013 and 27.2 mha in kharif 2015 to 37.5 mha under PMFBY.
- All these indicators point that the programme is going in the right direction and at the correct pace.
- If this rate is kept, India may have half of its cropped area insured within three to five years.

What are the drawbacks of PMFBY?

- The first problem encountered with this scheme is that the actuarial premium.
- Instead of coming down with the increasing scale of coverage, has gone up, sharply, from 9.8% in kharif 2015 to 14.9% in kharif 2016.
- This defies the very logic of insurance that premiums should drop when scale increases.
- It is also found that the states which completed the tendering process early got premium rates ranging from four to eight per cent, but the states which were late got much higher premium rates, touching as high as 20%.
- The litmus test of any insurance scheme lies in how quickly it can assess crop-damages of farmers and how fast it can settle their claims.
- The assessment of the damages is done by eye-inspection. Drones proposed were not employed.
- Under the guidelines, smart phones had to be issued to field officials , but they were not.
- States had to pay premiums to companies in advance, but in many cases they were not.
- As a result, only a miniscule of affected farmers got compensation till now.
- Unless a bold policy is matched by effective implementation, it may not deliver fully.

2.17 Digitization of Agriculture

What is the condition of agriculture?

- Agriculture accounts for nearly 15% of India's gross domestic product.
- It constitutes 10% of the overall exports.
- 58% of rural households depend on the sector as their principal means of livelihood.
- And most importantly it feeds 1.2 billion people.

Why there is an increase in demand?

- Driven by a growing population, the sector has seen an increase in demand.
- But, India continues to face bottlenecks in feeding nutritious food to a large percentage of the population, leading to issues around chronic undernourishment and malnutrition.
- To feed the undernourished population, India would require a 3-4% increase in food supply.
- With the population expected to grow even further, the strain on the sector is likely to increase in the coming years.
- **Diet diversification -** The common trend is that rising incomes lead to diet diversification, i.e., from staple grains towards poultry, fruits, vegetables and dairy products.
- Dairy segment requires significant investments to improve its productivity and to ensure it sustains its growth to meet demand requirements in the coming years.
- Substantial gaps in availability of livestock feed and competition for acreage from food crops pose threats to dairy production.
- **Edible oil:** Despite India being one of the largest producers of oilseeds in the world, it imports around 55-60% of domestic edible oil consumption requirements.
- This poses a major challenge. High import dependence – uncertainty in supply and potential for significant variability in prices.
- **Pulses:** A meagre increase in the land under production, added with plateauing yield growth, pose major challenges to increasing pulses production.
- Inability to infuse major improvements in yields could see a shortfall of as much as 11 million tonnes of foodgrains by 2025.
- At the same time,others issues like double cropping, lack of crop rotation, are putting further pressure on fertility and yields.

What should be done?

- **Use of technology -** Technologies such as **automation, decision support system and agriculture robots** are being widely adopted in the sector globally.
- Farmers are using the Internet of Things and smart sensors to get access to valuable information like soil moisture, nutrient levels and status of farming equipment.
- The sector is also ripe for the **use of big data analytics and artificial intelligence.**
- Thus, the logical step for the sector, in India, would be to build an all-inclusive digital platform.
- It will be able to provide end-to-end services for farmers — from selecting crops, optimising plantation timings, seeding and fertilization rates.
- All the data collected during a crop cycle can be compared with other farmers who grow the same crop in similar conditions.
- Lessons learnt from one field can be applied automatically to another to maximize output. Such an approach can help to improve the yield by 20-30%.

What are the advantages?

- Thus, establishing such a digital platform will not only help improve yields and meet the growing demand, but also will be a game changer for the sector.
- Firstly, it will help to track produce from farm to the table. In the process, **it will reduce wastage in the value chain and improve food safety**.
- Technology can help detect pathogens and allergens before they reach consumers.
- The current wholesale market format suffers from a transparency challenge. The information gap is a barrier to the entry of new players and, hence, increased competition and better price discovery.
- A holistic digital platform can thus help address these and catapult Indian agriculture to the next level.

2.18 Over-Fortification of Food

Why in news?

Food Safety and Standards Authority of India (FSSAI), a Union Health Ministry body, made public a draft **Food Safety and Standards (Fortification of Foods) Regulations 2016** that specifies that all fortified food, manufactured, packed, labelled, handled, distributed and sold, ought to adhere to a minimum set of standards.

What is food fortification?

- The fortification of food is the practice of deliberately increasing the content of an essential micronutrient, ie. vitamins and minerals in a food irrespective of whether the nutrients were originally in the food before processing or not, so as to improve the nutritional quality of the food supply and to provide a public health benefit with minimal risk to health.
- The enrichment is synonymous with fortification and refers to the addition of micronutrients to a food which are lost during processing.

What is the need for standards?

- The World Bank's "Nutrition at a Glance" research report states that **India loses over $12 billion in GDP to vitamin and mineral deficiencies**.
- 48% of children under the age of five are stunted, 43 per cent are underweight, 20 per cent are wasted, and more than 1 in 4 infants are born with a low birth-weight.
- According to the proposed regulation, the target foods to be fortified also include rice, maida, vanaspati and atta, which would be enriched — in different combinations — by iron, iodine, zinc, vitamin A, vitamin D, folic acid etc.,

What is Over-fortification?

- Benefits apart, FSSAI's move comes in the wake of concerns of "over-fortification" of food.
- The U.S.-based Nonprofit Environmental Working Group's review of fortified foods currently on the market found that young children are **at risk of consuming too much of three nutrients** — vitamin A, zinc and niacin.
- In their analysis, the group warned that fortified breakfast cereals were a key source of excessive intake because the amounts calculated for adults, not children.
- Pregnant women and older adults may also be consuming too much vitamin A from other fortified foods.
- Vitamin A, zinc, and niacin are all necessary for health, **but excessive doses can cause toxic symptoms**.

What are the Ill-effects of excessive intake?

- Routinely ingesting too much vitamin A from liver-supplements can, lead to liver damage, skeletal abnormalities, peeling skin, brittle nails and hair loss.
- In older adults, high vitamin A intake has been linked to hip fractures.
- Taking too much vitamin A during pregnancy can result in developmental abnormalities in the foetus.
- High zinc intake can impair copper absorption and **negatively affect red and white blood cells and immune function**.
- Niacin is less toxic than vitamin A and zinc, but consuming too much can cause short-term symptoms such as rash, nausea and vomiting.

What is the issue in implementation?

- The permissible range of nutrients that were allowed to be added are well below the body's maximum tolerable limits.
- So even if a person were to eat just over-fortified food all day, it would still be below the required dietary allowance. Therefore over-fortification wouldn't be a problem in India.
- The problem is when the top manufacturers of processed food can be made to comply with the requirement, it is difficult to bring **cottage industries or smaller manufacturers under it**.

2.19 Problems over Royalty

Why in news?

A new battlefront is opening up between Monsanto and a section of Indian seed companies that are sub-licencees of the US life sciences giant's proprietary Bollgard-II (BG-II) Bt cotton technology.

What NSAI argues?

- The National Seed Association of India (NSAI), representing domestic seed firms has claimed that the power to fix royalty or 'trait value' payable to the developer of any plant genetic modification (GM) technology lies with the Protection of Plant Varieties & Farmers' Rights (PPVFR) Authority.

What is their rationale?

- The reason for this is that **Section 3 of the Indian Patents Act, 1970** specifically excludes from patentability any "method of agriculture or horticulture" and "plants and animals in whole or any part thereof other than micro-organisms but including seeds, varieties and species and essentially biological processes for production or propagation of plants and animals".
- On the other hand, Section 2 (za) of the **PPVFR Act, 2001** clearly defines a plant variety to include "transgenic (i.e. GM) variety".
- GM crops such as Bt cotton, therefore, receive intellectual property protection (IPR) only under the PPVFR Act.
- By implication, trait value payable to the GM technology supplier is a matter to be decided by the PPVFR Authority.
- There is, in fact, a section 26 in the Act relating to the determination of benefit sharing between the supplier of a unique genetic material and the breeder/seed company who has used this in the development of his variety.

- The PPVFR Authority has the powers to stipulate the amount of such benefit sharing, which obviously extends to prescribing a reasonable trait fee payable by the breeder.

What is Monsanto's argument?

- The above interpretation has, however, been completely rejected by Monsanto.
- It contends that the PPVFR Act, deals only with providing IPR protection to varieties, which refer to "a plant grouping…within a single botanical taxon (i.e. species, family or class)".
- Moreover, "varieties" excludes micro-organisms that cover bacterium such as Bacillus thuringiensis or Bt, whose genes have been incorporated into cotton hybrids.
- A breeder can develop a hybrid or variety containing the Bt genes and seek IPR protection for the same under the PPVFR Act. But the GM trait per se (the technology for inserting the Bt or any other alien genes into the genome of the host plant) is not covered by this Act.
- A modified gene sequence cannot be considered as a plant grouping and the PPVFR Act has no provision conferring the authority the power to protect or regulate GM traits.
- Benefit sharing provisions, too, are triggered only for a registered variety/hybrid that may contain GM traits, but not for the GM traits per se.
- Monsanto has sublicensed its BG-II Bt technology — which was granted an Indian patent in February 2008 – to 49 companies.
- According to Monsanto, trait fees are governed by technology licensing agreements bilaterally executed between it and individual seed companies.

2.20 Hurdles for BharatNet

Why in news?

Parliamentary standing committee on information technology has expressed displeasure over lack of attention of the Department of Telecommunications (DoT) towards funding of BharatNet project.

What is BharatNet project?

- BharatNet is a project to provide an affordable broadband connectivity of 2 Mbps to 20 Mbps for all households by connecting **2.5 lakh gram panchayats with the optic fibre network**
- The entire project is being funded by Universal service Obligation Fund (USOF), which was set up for improving telecom services in rural and remote areas of the country.
- The objective of USOF is to facilitate the delivery of e-governance, e-health, e-education, e-banking, Internet and other services to the rural India.

What is the current status?

- As of December, less than 25% of the gram panchayats linked with optic fibre network, had active internet connectivity.
- A survey conducted by a think-tank and IIT-Delhi suggested that the use of BharatNet was in single-digits across areas surveyed.
- With the current model of BharatNet, while the government may be able to have infrastructure laid as per its target, it may not be able to provide active connectivity in hinterland areas.

- The survey also eveals that only one third of them use internet and nearly 70 per cent of non-users do not have any intention to use internet in near future.

What are the problems?

- Considering the fact that **NOFN (national optic fibre network) Project** is one of the critical pillars in the context of the Digital India mission, the DoT cannot afford any delay in implementation of the NOFN Project for want of funds.
- According to the report, less than 40% of the announced fynds are so far allocated for **USOF**.
- **Universal Access Levy (UAL)** is a percentage of the revenue earned by the telecom operators under various licenses
- Since adequate amount of fund is already available under UAL, the DoT should have taken proactive initiatives for allocation of sufficient funds from UAL to USOF schemes.
- The USOF is funded from two streams – 1. budgetary allocation, and 2. UAL.
- The UAL had a balance of app. Rs 43000 crore, and in its original report had recommended transfer of a part of this fund to the USOF.
- But the department is completely silent on the recommendation of the committee to pursue transfer.

3. JANUARY -2017

3.1 Corruption Perceptions Index

Why in news?

The Annual Index of Transparency International has placed India on the watch list for its inability to curb mega corruption scandals and petty bribery.

What is Transparency International (TI)?

- Transparency International (TI) is an international non-governmental organization founded in 1993 and based in Berlin, Germany.
- The major aim of transparency international to take action to combat corruption and prevent criminal activities arising from corruption
- It publishes the Global Corruption Barometer and the Corruption Perceptions Index, Global Corruption Report and Bribe Payers Index.
- The corruption perception index was created in 1995.
- The CPI defines corruption as the misuse of public power for private benefit.
- It annually ranks the countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

How is the index compiled?

- The index is compiled by using the data of the World Bank, the World Economic Forum (WEF) and other such institutions.
- Countries are scored in a scale ranging from 0 to 100, 0 being highly corrupt and 100 very clean.

What are the highlights of CPI-2016?

- This year's results highlight the connection between corruption and inequality, which feed off each other to create a vicious circle between corruption, unequal distribution of power in society, and unequal distribution of wealth.
- The Corruption Perceptions Index 2016 covers acuities of public sector corruption in 176 countries.
- **India position -** India, sharing rank 79 with Belarus, Brazil and China, scored 40 out of 100. India has marginally improved over last year's score of 38. However the rank slipped from 76 in 2015 to 79 in 2016. But since eight more countries were evaluated in 2016 (176 countries) from previous 168 countries, the rank cannot be taken as the judgment base.
- The condition of **India showed growth with inequality** but the poor performance and the low score echoes the country's inability to deal with petty and large scale corruption and scandals.
- About 70% of the total 176 countries in the index are below the mid-point of the scale. The global average score was a concerning 43, indicating rampant corruption in a country's public sector.
- Countries with a lower score are estimated to be more corrupt, generally characterized by exemption for corruption, weak institutions and poor governance.
- The index also showed that majority of Asia Pacific countries were placed in the bottom half of the Corruption Perceptions Index 2016.
- Besides, 19 out of 30 countries in this region scored 40 or less out of 100.
- **The most corrupt countries -** According to the Transparency International's index, Somalia, South Sudan, North Korea and Syria are allegedly the most corrupt countries in the world. Somalia has held this position for the past 10 years.
- **The most non-corrupt countries -** Denmark and New Zealand were tied in the first place as the world's most non-corrupt countries with their spotless public sectors. Finland, Sweden and Switzerland are following them in the list.

3.2 World Bank Growth forecast

Why in news?

- The World Bank has cut its 2016-17 economic growth forecast for India to 7% from 7.6%. Notably, India maintains the distinction of being the fastest growing emerging market economies of the world, bypassing China

What is the reason for the downgrade?

- Slowdown in consumption and manufacturing due to demonetization
- Demonetisation has suffocated the vast informal economy, which employs up to 80% of Indians
- Decline in private investment and credit constraints due to impaired bank balance sheets.

What are the reforms that can bring about growth rebound?

- The passage of the bankruptcy and insolvency code, the liberalization of FDI norms across sectors, the passage of the Goods and Services Tax (GST) Amendment Bill and flexible inflation targeting
- Spending on Infrastructure and promotion of make in India campaign will bring the growth

Conclusion

- The Indian economy is, however, set to recover its momentum subsequently, with growth projected to accelerate to 7.6% in FY18 and further strengthen to 7.8% in FY20, according to the World Bank's Global Economic Prospects report.

3.3 Paperless Budget

Why in news?

The Union government is discontinuing the practice of providing printed copies of the annual Economic Survey and the Budget to the media and the public.

What is the need?

- Parliament has been reducing the print run of all documents. It is an attempt to go green.
- It is in line with a recommendation of a Parliamentary Standing Committee on Finance, which asked the government to print fewer copies of the Economic Survey and the Budget.
- Consequently the government has been reducing the print run in past two years, up to 60%. This was achieved by limiting the allocation of Budget copies to just three per media house.
- It is in line with other initiatives like Faster Adoption and Manufacturing of Electric Vehicles (FAME), carbon tax on petroleum products and other targets set for renewable energy capacity creation.
- It will bring down the barriers to the implementation on the right to information front.

What are the disadvantages?

- The total cost of printing the Budget documents is around 70 lakh. Therefore this move will not lead to huge savings.
- Instead of stopping printing, the government could have linked the printing of Budget documents to sustainable agro-forestry i.e finding sustainable solutions like using dead trees only than resorting to superficial curbs on consumption.
- The Economic Survey and the Union Budget are two of the most critical documents. Curbing the print version inhibits distribution of information that help people to understand the government's functioning and efficiency.
- Though the subscribers have been increasing at a faster rate, still only a small minority of people has access to the Internet.
- True goal of going green can only be achieved if the government shift to a paperless way of functioning instead of discontinuing the printing of Budget documents.

3.4 Vote on Account

Why in news?

- Election commission reminded the government of a **2009 advisory** which said vote-on-account instead of a full-fledged budget is presented ahead of elections as per convention.
- In an election year, like it was in 2009, the Government would instead present a vote on account (VOA) or an interim budget.

What is a vote-on-account?

- VOA literally means a vote on the accounts of the government.
- During parliamentary elections years, till a new government takes over, the caretaker government needs funds for various routine items of expenditure like staff salaries.
- According to the Constitution, the government cannot spend any money without Parliament's approval.
- Hence, VOA is taken whereby a government gets parliamentary approval to run the government for a few months.

What are the restrictions on a VOA?

- Typically, no changes are made to tax and duty structures and no new schemes are announced in vote-on-account.
- However it can extend coverage or allocate more money to an existing scheme.

Why VOA is used?

- Constitutionally, there is no distinction between a caretaker government and a regular one.
- The government could technically present a full budget.
- However, by convention, a government that is at the end of its tenure opts for a vote-on-account since it is regarded as improper that an outgoing government should impose its policies on its successor.
- Also in election years a full budget would tempt governments to resort to populism and may spend rampantly.
- Interim budgets have also been used by governments taking office just before the financial year begins to get Parliamentary approval for immediate spending.

How is a VOA different from interim budget?

- VOA and interim budget are often interchangeably used.
- VOA generally deals only with the expenditure side of the government's budget, whereas an interim budget includes both expenditure and receipts.
- Generally, a VOA is for two or three months, usually till the time it is replaced by a regular budget.
- It cannot be for a period longer than six.

3.5 FRBM review committee

- A committee headed by N.K. Singh which was formed by the government to review and give recommendations on the Fiscal Responsibility and Management Act (FRBM) has submitted its report. The committee had broad terms of reference to analyse the Act in terms of uncertainty and volatility in the global economy.
- The report is not in the public domain yet it is believed to be in favour of fiscal consolidation but not sacrificing growth.

What is FRBM Act?

- The FRBM Act is a fiscal sector legislation enacted by the government of India in 2003, aiming to ensure fiscal discipline for the centre by setting targets including reduction of fiscal deficits and elimination of revenue deficit. It is a legal step to ensure fiscal discipline and fiscal consolidation in India.

- The targets set under the Act were postponed several times in later years though some other goals of the Act including phasing out of government borrowing from the RBI were implemented.

Why FRBM became necessary?

- The FRBM Act was enacted in 2003 as rising government borrowing and the resultant government debts have seriously eroded the financial health of the government. High revenue deficit due to higher expenditure on subsidies, salaries, defence etc. compelled the government to make big borrowing from early 1990s onwards. With inadequate revenues, government resorted to high level of borrowing.

- The borrowing again produced high interest payments. In this way, interest payments became the largest expenditure item of the government. To arrest this financial weakness in its budget, the government has taken some serious deficit cut targets by introducing a law in the form of the FRBM.

What the FRBM says?

- The FRBM rule set a target reduction of fiscal deficit to 3% of the GDP by 2008-09. This will be realized with an annual reduction target of 0.3% of GDP per year by the Central government. Similarly, revenue deficit has to be reduced by 0.5% of the GDP per year with complete elimination by 2008-09. Later, the target dates were reset and budget 2016-17 aims to realise the 3% fiscal deficit target by March 2018.

- The Act gives slight flexibility to the government regarding the realisation of the target as well. It gives the responsibility to the government to adhere to these targets. The Finance Minister has to explain the reasons and suggest corrective actions to be taken, in case of breach. Following are the provisions of the Act in detail.

- The government has to take appropriate measures to reduce the fiscal deficit and revenue deficit so as to eliminate revenue deficit by 2008-09 and thereafter, sizable revenue surplus has to be created.

- Setting annual targets for reduction of fiscal deficit and revenue deficit, contingent liabilities and total liabilities.

- The government shall end its borrowing from the RBI except for temporary advances.

- The RBI not to subscribe to the primary issues of the central government securities after 2006.

- The revenue deficit and fiscal deficit may exceed the targets specified in the rules only on grounds of national security, calamity etc.

- Though the Act aims to achieve deficit reductions prima facie, an important objective is to achieve inter-generational equity in fiscal management. This is because when there are high borrowings today, it should be repaid by the future generation. But the benefit from high expenditure and debt today goes to the present generation. Achieving FRBM targets thus ensures inter-generation equity by reducing the debt burden of the future generation.

- Other objectives include: long run macroeconomic stability, better coordination between fiscal and monetary policy, and transparency in fiscal operation of the Government.

3.6 Banking sector reforms

What are the problems faced by Indian banks?

- **Policy issues**- Banks face what has been termed as 'double financial repression'- issues with policies of Statuary Liquidity Ratio and Private Sector Lending policies

- **Structural issues**- Governance issues, rising stressed assets (Non- Performing Assets) and lack of diverse funding sources for infrastructure

- The Reserve Bank of India (RBI)'s Financial Stability Report has pointed out that the gross non-performing loans of the Indian banking industry rose to 9.1% in September, thus pushing the overall stressed loans to 12.3% from 11.5%.
- The report has also said that the public sector banks may record the highest bad loans and lowest capital adequacy ratio, a measurement of capital against risk-weighted assets, among all banks.
- **Problem of NPAs -** High percentage of NPAs in bank due to following reasons
  1. Overleveraged balance sheets- overenthusiastic borrowing and lending
  2. Stalled projects leading to stressed assets for banks
  3. Faulty reporting mechanisms leading to worsening of situation before NPAs are reported
  4. Nexus between bankers and corporate- deliberate defaulting

What are the reform measures taken?

- **Gyan Sangam -** It is a forum where the highest officials from public sector banks, the government and the Reserve Bank of India, meet to discuss issues facing the sector, the objective of the event is to promote an informal academic environment for interaction among professionals and regulators.
- It was initiated in 2015 and was followed by a second conclave this year.
- **Mission Indradhanush -** Mission Indradhanush is a 7-pronged plan to address the challenges faced by public sector banks (PSBs). Many of the measures taken were suggested by P J Nayak committee on Banking sector reforms as indicated.
- The 7 parts include appointments, Banks board bureau, capitalisation, de-stressing, empowerment, framework of accountability and governance reforms (ABCDEFG)
- Appointments - separation of posts of CEO and MD to check excess concentration of power and smoothen the functioning of banks; also induction of talent from private sector
- **Bank Boards Bureau** - will replace the appointments board of PSBs.
- It will advise the banks on how to raise funds and how to go ahead with mergers and acquisitions.
- It will also hold bad assets of public sector banks.
- It will be a step into eventual transition of the bureau into a bank holding company. It will separate the functioning of the banks from the government by acting as a middle link.
- The bureau will have three ex-officio members and three expert members, in addition to the Chairman.
- **Capitalisation -** Capitalisation of the banks by inducing Rs 70,000 crore into the banks in the next 4 years
- Banks are in need of capitalisation due to high NPAs and due to need to meet the new BASEL- III norms
- **De-stressing -** Solve issues in the infrastructure sector to check the problem of stressed assets in banks
- **Empowerment -** Greater autonomy for banks; more flexibility for hiring manpower
- **Framework of accountability -** The banks will be assessed on the basis of new key performance indicators. These quantitative parameters such as NPA management, return on capital, growth and diversification of business and financial inclusion as well as qualitative parameters such as human resource initiatives and strategic steps to improve assets quality.

- **Governance Reforms** – Gyan Sangam conferences between government officials and bankers for resolving issues in banking sector and chalking out future policy

3.7 Demonetisation and Nepal

Why in news?

India has asked Nepal to lift the ban it has imposed on new Indian currency notes of Rs 500/2,000 to mitigate the problems in Nepal.

What is the issue?

- Indian government's announcement of demonetisation has affected all sections in Nepal.
- Indian currency used to be freely accepted and often preferred to the Nepalese rupee.
- One of the main reasons for the widespread acceptance of the Indian currency is that there are many satellite towns on either sides of the border that have a shared or rather inter-dependent economy, a common consumer market, and inter-connected families.
- Those affected by demonetisation include family members of the large Nepalese workforce in India, Hindu and Buddhist pilgrims from Nepal, the Nepalese patients and students.
- According to media reports in Nepal, the NRB delegation sought an exchange facility, where Nepal citizens could turn in old notes of up to Rs 25,000.
- There appears to be little hope for small savers in an economy, which also is largely cash-driven.
- Nepal's central bank, which has declared that it only has around 30 million INR, has stopped transacting or exchanging Indian currency since the ban.
- Later it banned the exchange of India's new Rs 500 and Rs 2,000 currency notes. This added to the existing problems. Therefore Indian government wants Nepal to lift the ban to ease the situation.

3.8 Merchant Discount Rate in Petrol Pumps

Why in news?

The All India Petroleum Dealers Association recently announced that **petrol pumps across the country would not accept credit or debit cards** in protest against the Merchant Discount Rate, the burden of which was placed entirely on the dealers.

What is Merchant Discount Rate?

- **The rate charged to a merchant by a bank for providing debit and credit card services.**
- The merchant must set up this service with a bank, and agree to the rate prior to accepting debit and credit cards as payment.
- At the moment the charges are one per cent on all credit card transactions and 0.25-1 per cent on all debit card transactions.

Why the dealers protest?

- After the demonetisation exercise began, the government had waived the service tax on the MDR surcharge from December for card-based payments up to Rs. 2,000 and got banks to waive the MDR charges on debit cards till December 31, 2016.

- Banks are expecting some revenue in return for facilitating transactions through point of sale (PoS) devices.
- Fuel dealers raised a red flag on the **decision by certain banks to levy the MDR of up to one per cent on card payments.**

What is the way ahead?

- Petroleum outlets are particularly important for a push as they handle nearly Rs. 2 lakh crore of cash a year.
- In a situation where people are cash-strapped and the government is nudging them towards alternatives, the uncertainty of the sort created at fuel pumps should be avoided as it could lead to a crisis of confidence.
- Last February the Cabinet had given the **nod for rationalising MDR charges**. An expert panel to recommend legislative and other changes was constituted in August and it mooted greater transparency in fees for digital payments, protection for private data of consumers, a mechanism to ensure they will not be liable to pay for unauthorised transactions or system errors, and the creation of a new payments regulator.

3.9 Tax on Cosmetic & Medicine

Why in news?

A question of whether a product is cosmetic or medicine for tax purposes arose over the products of Johnson & Johnson.

What is the issue?

- The revenue authorities of Rajasthan imposed 12.5% VAT on two products of Johnson & Johnson, 'Shower to Shower', Savlon and 'Listerine' mouthwash.
- They maintained that these were not medicines which are entitled for a lower tax which is generally 4 or 5 %.
- The Tax Board upheld the view, against which the company appealed to the high court.

What is the company's defence?

- It argued they have medicinal value as shown in the licence granted to it and are special products for specific purposes.
- It further submitted that similar products like Nycil, Vicks and others have been granted tax benefits by other courts.

What was the revenue authority's rationale?

- The revenue authorities stated that the presence of a small percentage of chemicals does not make the products medicine.
- These products are available in ordinary shops and are not commonly understood as medicines.
- The court agreed with this view and dismissed the appeal of the company.
- It also dismissed the appeal of the authorities that Savlon was also a cosmetic.
- The judgment said that Savlon is an anti-septic formulation with curing properties and hence a medicine.
- This issue, as it deals with the tax matters of products sold over the counter, it cannot be decided under the central excise law.
- Ultimately it is the state law which decides the issue.

3.10 Capital Gains Tax

Why in news?

- The Prime Minister suggested that capital market participants should make a 'fair contribution' to nation building in the form of capital gains tax.
- This has had stock market investors in a state of jitters expecting capital gains tax to be slapped on their long-term gains from the market.
- The Finance Minister later played down these fears by saying that there was no plan to impose long term capital gain tax on equities.

What is Capital Gains Tax?

- Any profit from the sale of a capital asset is deemed as 'capital gains'.
- A capital asset is officially defined as any kind of property held by an assesse, excluding goods held as stock-in-trade, agricultural land and personal effects.
- Normally if an asset is held for less than 36 months, any gain arising from selling it is treated as a short-term capital gain (STCG) and taxed in your hands.
- It becomes a 'long-term' capital gain (LTCG) if the asset is held for 36 months or more.
- Shares and equity mutual funds alone enjoy a special dispensation on capital gains tax. In their case, a holding period of 12 months or more qualifies as 'long-term'.
- Current tax laws state LTCG arising on the sale of listed equity shares or equity oriented mutual funds are exempt from tax if you have paid Securities Transaction Tax (STT) on the sale transaction.
- STCG from such shares and funds is also taxable at a flat 15 per cent (plus surcharge and cess).
- The short-term capital loss from financial assets can be set off against any other capital gain.

Why is it important?

- The monthly income is subject to income tax.
- So is the dividend and interest that one earns from investments.
- But suppose the assets one owns do not pay out any regular income by way of interest or dividend, but instead deliver returns by way of price appreciation on the asset, one makes profit when he sell them.
- Capital gains tax is designed to ensure that such windfall profits do not escape the tax net.
- Long-term capital gains on equities is probably exempted, to encourage Indian households to park more of their savings in the stock market, so it can be put to productive use.
- For a saver in India, shares and equity mutual funds are about the only investments where you can hope to make return without much taxation.
- Therefore, any decision to slap a LTCG on equity shares or funds will shut the only avenue for tax-free returns.
- But on the flip side, only 0.7% of the household disposable income in India goes into shares and mutual funds, according to RBI data.
- Also India is home to mere 3 crore equity investors.

- So, it is quite legitimate to ask why shares should get a tax-free status, while small savings and bank FDs are taxed.

3.11 Changes in tax treaties on FPI

Why in news?

The government has finally brought in changes to Double Tax Avoidance Agreements DTAAs, to ensure that foreign investors using DTAAs with Mauritius and Singapore do not get away without paying capital gains tax on their investments.

Double Taxation Avoidance Agreement (DTAA)

A DTAA, also referred to as a Tax Treaty, is a bilateral economic agreement between two nations that aims to avoid or eliminate double taxation of the same income in two countries.

General anti-avoidance rule (GAAR)

GAAR is a concept which generally empowers the Revenue Authorities in a country to deny the tax benefits of transactions or arrangements which do not have any commercial substance or consideration other than achieving the tax benefit.

Changes in the Tax Treaty

- The DTAAs with these countries were amended this fiscal to the effect that capital gains that arise from shares purchased after April 1 by foreign investors based in these countries can be taxed in India.
- There is, however, a 50 per cent concession on the tax rate from April 1, 2017 to March 31, 2019, if the investors are able to show that they have a substantial presence in these countries. From 2019-20, these investors will be taxed at the full domestic capital gains tax rate.
- Capital gains tax of at least 7.5 per cent can be charged on short-term gains from equity of investors from Mauritius and Singapore over the next two years and 15 per cent thereafter.
- There will be no capital gains tax on investments held for more than a year, in line with domestic regulations.
- The second impact is through the General Anti Avoidance Rules (GAAR) that will be applicable on income earned in 2017-18, relating to tax assessment year 2018-19. While investments prior to March 31, 2017, are protected from GAAR, any tax benefit that arises from this April due to innovative tax arrangements can be scrutinised and questioned by the taxman.

Will it affect flows?

- While these changes are pretty significant, they might not impact flows materially.
- FPIs have had sufficient time to realign their investment routes. In 2016, FPIs' investment in Indian equity, at 20,568 crore, was among the lowest in recent years.
- While it could be partly due to the lacklustre returns of Indian equity markets last year, the rule changes could also have influenced flows.
- In 2016, equity investments of FPIs from Mauritius declined 5.95 per cent to ₹ 3,90,323crore from ₹ 4,15,001 crore towards the end of 2015.
- On the other hand, investments of FPIs from the US increased 5.49 per cent and those from Luxembourg saw a significant jump of 9.35 per cent, implying that alternate routes are already becoming popular.

Implications

- These regulatory changes do not appear to have impacted the investment strategies of FPIs, which mostly moved in tandem with sectoral returns.
- According to NSDL, foreign investor stakes in the metals and mining sector increased 86 per cent in 2016 as prices of these stocks surged last year.
- However investments in software services dropped 9.82 per cent in 2016 as the sector struggled with growing competition. Consumer durables, healthcare and textiles are other sectors where FPIs reduced their holdings.
- Foreign investors using the Mauritius and Singapore routes will have to pay capital gains tax on fresh investments, albeit at a reduced rate for some time. Tax authorities will also have more power to question investments through shell companies set up in tax havens.

3.12 Relaxation in Angel Investment Rules

Why in news?

- **To give a fillip to start-up funding,** the Securities and Exchange Board of India (SEBI) has relaxed its rules for investment by angel funds, allowing them to invest in up to five-year old entities.

What is 'Alternative Investment Funds'?

- **Anything alternate to traditional form of investments** (such as stocks, bonds etc.,) gets categorized as alternative investments.
- Alternative Investments Funds come under the SEBI (Alternative Investment Fund) Regulations 2012.

Who is an 'Angel Investor'?

- **Angel fund, a sub-category of AIF,** encourages entrepreneurship in the country by financing small start-ups at a stage where such firms find it difficult to obtain capital from traditional sources of finance such as banks.
- An angel investor is **an affluent individual who provides capital for a business start-up,** usually in exchange for ownership equity or convertible debt.
- The capital angel investors provide maybe a one-time investment to help the business propel and carry the company through its difficult early stages. Essentially, **angel investors are the opposite of venture capitalists.**

What's in the latest SEBI circular?

- The regulator has made **amendment to SEBI (AIF) Regulations, 2012,** following which the definition of start-up for angel funds investments will be similar to one of Department of Industrial Policy & Promotion (DIPP), as given in their start-up policy.
- Accordingly, angel funds can invest in start-ups incorporated within five years, which was earlier three years.
- **To diversify risks,** SEBI has also allowed angel funds to make overseas investments, up to 25% of their investible corpus, in line with other AIFs.
- There are many start-ups that require a smaller amount of validating proposition. So, bringing down the limit to Rs.25 lakh from Rs.50 lakh will help such companies raise funds at the initial stage of development.

- Also, the minimum tenure of angel funds' investments in start-ups has also been lowered from three years to one year. And the upper limit for the number of angel investors in a scheme has been increased from 49 to 200.

Why this amendment is much needed?

- In order to further develop the alternative investment industry and the start-up ecosystem in India, SEBI, in March 2015 constituted a committee of experts called **Alternative Investment Policy Advisory Committee** under the chairmanship of N.R.Narayana Murthy.
- Considering the recommendations in the report, the SEBI board, in November, had approved amendments to AIF regulations with respect to angel funds.
- The amendments are part of SEBI's larger efforts to **encourage young entrepreneurship in the country,** and provide founders with access to private and eventually public funds.

3.13 National Small Savings Fund

Why in news?

The Union Cabinet has given its approval to exclude States/UTs from NSSF investments from 01.04.2016.

What is NSSF?

- Prior to April 1999, the disbursement of loans against small savings made to the States and repayment of such loans were recorded in the capital account of the Consolidated Fund of India.
- The on-lending to States from the small savings collections was treated as part of Central Government's expenditure and added to Central Government's fiscal deficit.
- Therefore an increase in small savings collections led to an increase in fiscal deficit.
- Hence National Small Savings Fund (NSSF) in the Public Account of India was established with effect from 1999.
- All small savings collections are credited to this Fund.
- Similarly, all withdrawals under small savings schemes by the depositors are made out of the accumulations in this Fund.

What is the issue?

- The Fourteenth Finance Commission (FFC) recommended that State Governments be excluded from the investment operations of the NSSF.
- The NSSF loans come at an extra cost to the State Government as the market rates are considerably lower.
- The Union Cabinet in accepted that this recommendation will be examined in due course in consultation with various stake holders.
- Barring Arunachal Pradesh, Delhi, Kerala and Madhya Pradesh, the other State Governments/UTs expressed a desire to be excluded from NSSF investments.

What is the current move?

- The involvement of States which are excluded from operations of National Small Savings Fund with effect from 1.4.2016 would be limited solely to discharging the outstanding NSSF debt obligations as on 31.3.2016 (FFC Recommendation).

- The loan contracted by States till 31.3.2016, from the National Small Savings Fund will stand completely repaid by the Financial Year 2038-39.
- Arunachal Pradesh shall be given loans to the tune of 100% of NSSF collections within its territory, whereas Delhi, Kerala and Madhya Pradesh shall be provided 50% of collections.
- NSSF in the future shall, with the approval of Finance Minister, invest on items the expenditure of which is ultimately borne by Government of India and the repayment of principal and interest thereto would be borne from the Union budget.
- The States/UTs with legislators, except Arunachal Pradesh, Delhi, Kerala and Madhya Pradesh, shall be excluded from NSSF investments from 01.04.2016.
- It also approved providing a one-time loan of Rs. 45,000 crore from NSSF to Food Corporation of India (FCI) to meet its food subsidy requirements.

What is the effect?

- Once states are excluded from NSSF investments, the investible funds of NSSF with GoI will increase.
- Increased availability of the NSSF loan to GoI may reduce the GoI's market borrowings.
- The States will however, see an increase in market borrowings.
- Any increase in yields due to an increased demand for loanable funds in the market from Centre and States combined would be marginal.
- The reduction of FCI's borrowing cost equivalent to the extent of the interest differential will be reflected in the GoI's savings on the Food Subsidy Bill.
- Implementing the decision to exclude states from NSSF investments and extending the loan will entail no additional cost. Instead a reduction in the food subsidy bill of the GoI is anticipated.
- 26 other States and Puducherry who are eligible to borrow from the market have preferred to stop taking loans from the NSSF.

3.14 India's Foreign Trade

Why in news?

RBI released a data on the condition of Indian foreign trade

What is the situation?

I. Merchandise Trade

1. **Exports**

- In consonance with the revival exhibited by exports in the last three months, during December, 2016 **exports continue to show a positive growth** of 5.72% in dollar terms and 7.79% in Rupee terms as compared to December,2015.
- Non-petroleum exports during April - December 2016-17 **showed an increase** of 2.2%.
- The growth in exports is negative for USA (-1.21%), China (-7.45%) and EU (-6.27%) but exhibited positive growth in case of Japan (3.79%) for October 2016 over the corresponding period of previous.

2. Imports

- Imports during December 2016 were 0.46% higher in Dollar terms and 2.43% higher in Rupee terms over the level of imports in December, 2015.
- Oil imports during April-December, 2016-17 was **10.76% lower** than in the corresponding period last year.
- Non-oil imports during April-December 2016 were 6.42% lower than previous year.

II. Trade in Services

Exports i.e Receipts during November registered a positive growth and imports i.e Payments during the period also increased as compared to negative growth of 7.51% during October 2016.

III. Trade Balance

- The trade balance in both merchandise and Services i.e. net export of Services for November, 2016 was estimated to be lower than that of previous year.
- Also the overall the trade balance has improved. Taking merchandise and services together, overall trade deficit for April- December 2016-17 is 36.78% lower in Dollar terms than the previous year.

3.15 New Trade Policy

What is the need for new trade policy?

- The technological and socio-economic changes are re-defining the very concepts of productivity and employment.
- Developing country firms no longer have the luxury of time to slowly adapt to change. e.g It took several years to complete the transition from VHS to DVD in India in 1990s but a rapid transition happened from DVD to new media.
- A new group of young middle-class consumers is defining consumer patterns globally and is highly adaptive to new products and technologies.
- Automation and artificial intelligence are increasing in the production of goods and services.
- Therefore India needs to seriously review its overall trade strategy, both in terms of trade promotion schemes and activities, as well as the design of trade agreements and negotiating priorities going forward.

What are the drawbacks of current policy?

- Trade promotion schemes in India essentially amount to rewarding businesses with incentives after the export activity. This design is flawed because,
    1. It means that the trade promotion incentives are not designed to help a firm attain export competitiveness but reward already successful exporters to improve their margins from trade.
    2. It is not designed for strategic interventions based on value-addition and employment achieved by the firm. Thus it reduces the current regime to being an immediate-term measure rather than a longer-term programme.
- Trade promotion activities remain confined to the traditional 'trade fairs'.
- India's trade promotion environment has not invested in low-cost manufacturing facilities for the development of prototypes. Neither in marketing support for such new products and innovations targeting a global customer base.

- The designs of India's existing trade agreements are archaic.
- The Indian narrative around trade negotiations remain fixated on tariffs that are increasingly less important for market access gains. The new barriers are related to technical and quality standards.
- India has been relatively less successful in leveraging this strength to attract foreign direct investment and associated technology transfers to emerge as a global production hub.
- MNCs attracted by the size of the Indian consumer base often do not expand operations in India to serve as one of their major manufacturing locations.
- The ability to do all this well and fairly quickly would determine India's ability to undertake structural change and push for longer-term competitiveness in the first half of this century.

What should be done?

- A trade policy designed to foster successful structural change would have to have the following features
- It should reward value-addition, and promote employment in activities with higher returns to labour i.e more productive sectors.
- It should promote investment in innovation and new product development and help such products find a global market.
- It should ensure fair market access for Indian products subject to stringent technological and quality standards in global markets.
- It should leverage domestic economies of scale to attract FDI in sectors with higher returns to labour.

3.16 Report on Industrial Policy

Why in news?

The Standing Committee on Commerce submitted a report on 'Industrial Policy in the Changing Global Scenario' recently.

What are the recommendations?

- **Industrial reforms -** Reforms must be taken up to ensure transparency in the allocation of natural resources, an open, competitive mechanism must be undertaken, along with greater disclosure of the approval process for industries.
- Other reforms include industry-friendly land acquisition frameworks by state governments, anti-corruption reforms, better inter-ministerial coordination, and judicial, financial and efficient public procurement reforms.
- The National Manufacturing Policy must be reoriented to promote smart manufacturing, which includes zero emission, zero-incident, and zero-defect manufacturing.
- **R&D -**. India's manufacturing value addition of $226 billion is low, compared to China's $1,923 billion and USA's $1,856 billion. In addition, India spends 0.8% of its GDP on research and development, compared to 1.2% by China and 2.6% by USA.
- Therefore the government needs to provide an enabling environment for private enterprises to invest in technology creation in order to achieve high value addition.
- Special focus must be placed on machine tools, heavy electrical equipment, transport and mining equipment.

- **FDI in small enterprises -** The recent measures taken to promote foreign direct investment (FDI) mainly benefit large industries. The government may take measures to promote FDI in the small and medium enterprises sector.
- In addition, for FDI in any industry, the ownership may be allowed to be transferred to the Indian partner after a specified period (15-20 years), including the transfer of technology.
- Foreign investors may be encouraged to source their inputs other than technology, from within India.
- **Simplification of laws -** Presently, 35 laws govern the industrial sector. This impedes the setting up of new industries and also affects their survival.
- A single window system should be established to give all statutory clearances.
- The labour laws and social security laws should also be reviewed.
- **Inclusion of MSME sector -** The Micro, Small and Medium Enterprises (MSME) sector accounts for about 45% of the manufacturing output of the country, and about 40% of the total exports.
- However, the sector faces issues such as lack of access to credit, technology, infrastructure, and skill development, among others. The access to finance for the MSME sector should be supplemented by alternative sources such as private equity, venture capital and angel funds.
- The definition of MSMEs should be revised, and a dynamic definition may be developed which is indexed to inflation and international best practices.
- **Skill Development -** By 2020, the median age in India is projected to be 28.1 years, as compared to China (38.1 years), Japan (48.2 years) and USA (37.3 years). The planned skill development would help India make productive use of its young population, majority of which is currently in unorganised sector.

3.17 Income Inequality

Why in news?

A report titled 'An economy for the 99%' is released by the rights group Oxfam, ahead of the World Economic Forum (WEF) annual meeting.

What are the findings?

- **Rich -** The total wealth in the India stood at $3.1 trillion and the total global wealth was $255.7 trillion.
- India's richest 1% now hold 58% of the country's wealth. Only 57 billionaires in the country have the same wealth ($216 billion) as that of the bottom 70% population.
- The figure is higher than its global equivalent of about 50%.
- Globally, just eight billionaires have the same wealth as the poorest 50% of the world.
- It said that since 2015, the richest 1% has owned more wealth than the rest of the planet.
- Over the next 20 years, 500 people will hand over $2.1 trillion to their heirs i.e larger than gross domestic product (GDP) of India.
- **Poor -** Meanwhile, in the past two decades, the richest 10% of the population in China, Indonesia, Laos, India, Bangladesh and Sri Lanka have seen their share of income increase by over 15%.
- On the other hand, the poorest 10% have seen their share of income fall by almost 15%.

- Due to a combination of discrimination and working in low-pay sectors, women's wages across Asia are between 70% and 90% of the men's.
- **Women -** India suffers from a huge gender pay gap and has one of the worst levels of gender wage disparity i.e men earning more than women in similar jobs, with the gap exceeding 30%.
- Women form 60% of the lowest-paid wage labour but only 15% of the highest wage earners in India. This means women are not only poorly represented in the top bracket of wage earners but also experience wide gender pay gap at the bottom.
- It also said that more than **40% of women** who live in rural India are involved in **agriculture and related activities**.
- However, as they are **not recognised as farmers** and do not own land.
- They have **limited access** to government schemes and credit, restricting their agricultural productivity.
- There is also a routine use of **forced girl labour** in the world's largest garment firms that have been linked to cotton-spinning mills in India.
- Also as per ILO, there are 5.8 million child labourers in India.

What were the recommendations?

- The report urged the Indian government to end the extreme concentration of wealth to end poverty, introduce inheritance tax and increase the wealth tax as its proportion in the total tax revenue is one of the lowest.
- The Indian government must crack down on tax dodging by corporates and rich individuals to end the era of tax havens.
- It must generate funds to invest in health care and education and increase its public expenditure on health from 1% of GDP to three% and on education, from 3% of GDP to 6%.
- It is time to build a human economy that benefits everyone, not just the privileged few.

3.18 Drought guidelines and Management Plan

Why in news?

Tamil Nadu was declared drought-hit recently by the state government. Earlier Kerala also was declared drought-hit due to deficit South-West Monsoon.

What is Drought?

- There is no universally accepted standard definition of drought because of its varying characteristics and impacts.
- A drought is a period of below-average precipitation in a given region, resulting in prolonged shortages in its water supply, whether atmospheric, surface water or ground water.
- Drought is a recurrent feature of climate and occurs in all climatic regimes.
- Drought is a temporary aberration unlike aridity, which is a permanent feature of climate.

Why drought is different from other disasters?

Unlike other natural disasters, drought is different in the sense that

- It is difficult to determine the beginning and end of the event
- Duration may range from months to years
- No single indicator can identify the onset and severity and its impacts
- Spatial extent is usual greater than that for other hazards
- Impacts are difficult to quantify and they usually magnify when events continue from one season to the next.

Why drought recurs in India?

- **High average annual rainfall** of around 1,150 mm. No other country has such a high annual average.
- **Concentration -** About 73% of the total annual rainfall is received in less than 100 days during the south-west monsoon and the geographic spread is uneven.
- **Variability** in rainfall as compared to Long Period Average (LPA) exceeds 30% in large areas of the country and is over 40- 50% in parts of drought prone Saurashtra, Kutch, and Rajasthan.
- Around 33% of the cropped area in the country receives less than 750 mm rain annually making such areas hotspots of drought.
- **Rain-Fed Agriculture -** Inadequacy of rains coupled with adverse land-man ratio compels the farmers to practice rain-fed agriculture in large parts of the country.
- Irrigation, using groundwater aggravates the situation in the long term as groundwater withdrawal exceeds replenishment.
- **Harvesting -** Traditional water harvesting systems have been largely abandoned.

What are the impacts of drought?

- **Economic -** Production losses in agriculture, loss of income resulting in reduction of purchasing power especially among those dependent on agriculture. It also has a multiplier effect on other sectors dependent on agriculture for raw material.
- **Environmental -** Decreased water levels in reservoirs, canals, ponds are the primary environmental impacts leading to decreased availability of drinking water and water for other needs. It will also cause loss of forest cover etc.
- **Social -** Migration of population, withdrawing children from schools, postponement of marriages, sale of assets etc. It will also lead to inadequate food leading to malnutrition and other health hazards.

When is a drought declared?

The drought is assessed on availability of drinking water, availability of irrigation water, availability of fodder, availability of food grains & energy sector requirement.

Drought may be declared by the State Government at these levels.

The following four indicators are usually applied in combination for drought declaration.

1. **Rainfall Deficiency -** A departure in rainfall from its long-term averages is taken as the basis for drought declaration. The State Government could consider declaring a drought

- If the total rainfall received during the months of June and July is less than 50% of the average rainfall for these two months.
- If the total rainfall for the entire duration of the rainy season of the state is less than 75%.

2. **Area under Sowing -** Drought conditions could be said to exist if along with the other indicators, the total area sown by the end of July/August is less than 50% of the total cultivable area.
3. **Normalized Difference Vegetation Index (NDVI) -** The National Agricultural Drought Assessment and Monitoring System (NADAMS) issues NDVI. These reports provide quantitative information on sowings, surface water spread and District / Tehsil / Taluk /Block level crop condition assessment along with spatial variation in terms of maps.
4. **Moisture Adequacy Index (MAI) -** It is based on a calculation of weekly water balance, is equal to the ratio of Actual Evapo Transpiration (AET) to the Potential Evapo Transpiration (PET) following a soil–water balancing approach during a cropping season.

What are the classifications of drought?

In the literature, droughts have been classified into three categories in terms of impact.

- **Meteorological drought** is defined as the deficiency of precipitation from expected or normal levels over an extended period of time.
- **Hydrological drought** is best defined as deficiencies in surface and subsurface water supplies leading to a lack of water for normal and specific needs. Such conditions arise, even in times of average precipitation when increased usage of water diminishes the reserves.
- **Agricultural drought**, triggered by meteorological and hydrological droughts, occurs when soil moisture and rainfall are inadequate during the crop growing

What are the Relief Measures taken?

The state governments submit reports on drought condition with all the relevant information and the government of India extends support via various ministries based on these reports. They include

- Allocation of additional days of work under MGNREGA to households in drought affected areas
- Diesel Subsidy Scheme for farmers in affected areas.
- Enhancement of ceiling on Seed subsidy
- Moratorium on farm loans and arrangement for crop loss compensation.
- The public distribution mechanism should be strengthened to provide food and fodder as a measure to sustain the rural economy.
- The government should initiate actions to recharge the groundwater table by building check dams and providing pipeline water and other irrigation facilities.
- Interventions for saving perennial horticulture crops

- Implementation of additional fodder development programme
- Flexible allocation under Rashtriya Krishi Vikas Yojana (RKVY) and other centrally sponsored schemes for undertaking appropriate interventions.
- Availability of seeds and other inputs for kharif.
- SDRF/NDRF funds should be released.

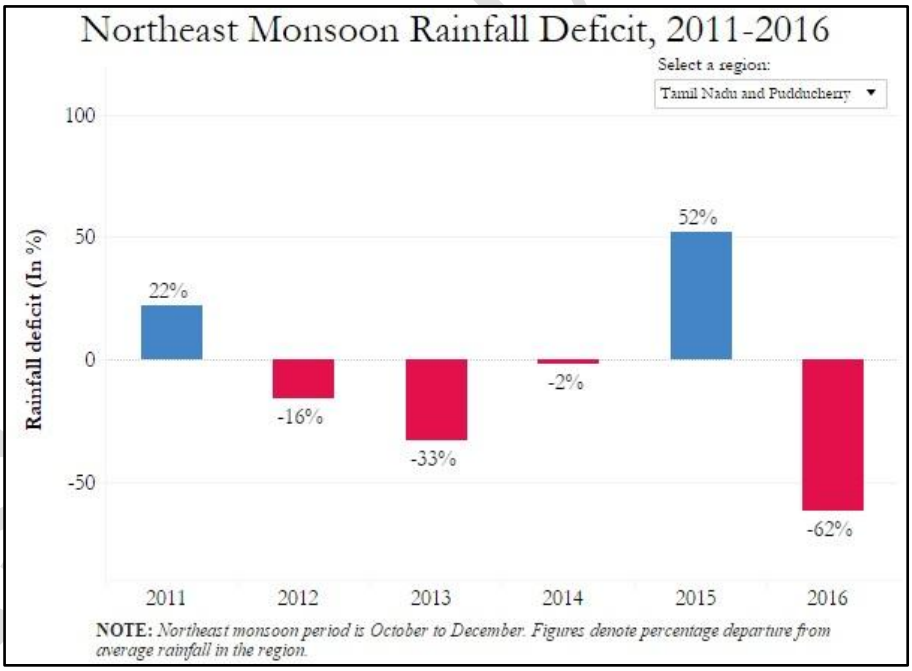
3.19 Tamil Nadu declared Drought-Hit

Why in news?

The Tamil Nadu government declared a drought on 10 January, 2017.

What is the cause of Drought?

- The retreating northeast monsoon in 2016 was **the worst ever over the last 140 years,** according to IMD records.
- Northeast monsoon was 45 percent short of the average for this period, the state worst hit being Tamil Nadu, where **rainfall for the season was 62 percent short of normal.**
- Even the southwest monsoon – which was classified as normal across India – was 19 percent deficient in Tamil Nadu.



How badly was Tamil Nadu affected?

- After losing the 'kuruvai' crop due to the Cauvery row, **the farmers are on the verge of losing the 'samba' too due to an unprecedented drought.** With spike in farmer deaths due to debt coupled with cash crunch, Tamil Nadu's farm sector is now in the midst of a huge crisis.
- Hit by shortages from both monsoons, Tamil Nadu, where the winter crop depends more on the northeast monsoon than in any other Indian state, reported **a 33 percent drop in the winter sowing of rice,** according to latest crop sowing situation report.

What are the reliefs measures announced?

- The CM has announced a slew of relief measures, including **waiver of land tax** for farmers, to tackle drought situation in the State.
- As huge funds were required to protect people from drought, **assistance from the Centre would be sought** and a petition sent to the Centre at the earliest.
- The measures to tackle drought include efforts to convert crop loans from cooperative banks and commercial banks into medium term loans.
- The days of work for workers under the National Rural Employment Guarantee Scheme would be increased to 150 days from the existing 100 days to ensure livelihood for farmers affected by drought.
- The State government has made allocations for various domains for mitigating the effect of drought. Funds have been allocated especially for improving resources for drinking water.

3.20 Farmers and Farm Labourers Suicide – NCRB Report

Why in news?

- **More than 72% of farmers who commit suicide have less than two hectares** of land, latest data on farmer suicides compiled by the National Crime Records Bureau (NCRB) shows.
- NCRB report also said that, **Agricultural labourers are more likely to commit suicide** because of "Family Problems" and "Illness" than the rest of the population in India.

What is the share of land under cultivation?

- According to landholding census by the Ministry of Agriculture, **67.1% of all landholdings are marginal — smaller than 1 hectare**.
- While 17.9% are small (1-2 hectares). Medium (2-10 hectares) and large (over 10 hectares) holdings are 14.3% and 0.7% of the total respectively.

What does the NCRB report say?

- Farm labourers are also more likely than farmers to fall into the trap of moneylenders and end their lives.
- **Small farmers were 45.2% of all farmer victims,** while marginal farmers made up 27.4%.

What are the causes of suicide?

- According to the data, **family problems and illness** were responsible for nearly 60% of the deaths which is well above the national average of 43%.
- Other prominent causes of suicide among agricultural labourers were Alcoholic Addiction, Poverty, Bankruptcy or Indebtedness from Financial Institutions/Moneylenders etc.,
- In a general sense, **farmers who have alternate sources of livelihood may cope** with the crisis better when compared to those who may depend almost entirely on farming. This may be one of the factors separating the marginal from the small farmers.

What is the state-wise distribution?

- **Agricultural labourers in Maharashtra were the most suicide prone,** followed by Madhya Pradesh, Tamil Nadu, Andhra Pradesh, Karnataka, Gujarat and Kerala.

- These states together accounted for 82.6% of all such suicides in the country during 2015.
- Goa, Manipur and West Bengal, besides all Union Territories except Puducherry, reported no incident of suicide by agricultural labourers during 2015.

How to solve this crisis?

- Our policies should encourage **integrated pest management,** an approach that focusses on combining biological, chemical, mechanical and physical means to combat pests with a long-term emphasis on eliminating / significantly reducing the need for pesticides.
- **In Vietnam,** over 2 million of the Mekong Delta's rice farmers adopted a **"no spray early" rule,** curbing insecticide applications within the first 40 days of rice planting. Predatory beetles that commonly prey on rice pests were sustained, encouraging the crop while cutting pesticide use by over 50 per cent.
- The local fertilizer industry needs support — timely delivery of subsidies would improve working capital requirements, enabling them to manage costs through internal sources rather than external loans.
- State seed policies should focus on **encouraging contract farming,** along with identification of new genotypes for treating pest and disease syndromes, as well as adverse weather conditions.
- Precision-farming techniques like Systematic Rice Intensification (SRI) can help increase seed production in this regard.
- Our **farm equipment policy needs to be re-tailored** with a focus on manufacturing farming equipment and implements that are currently imported.
- Subsidies should be rerouted to ensure lower collateral requirements, longer moratoriums and payback periods for farmers seeking to buy equipments.
- Companies with a **corporate social responsibility focus on agriculture** can be further encouraged to invest in capacity-building initiatives and skill development.
- We need to ensure that institutional financing is available and accessible. States should seek to establish early warning signals and monitoring farmers. **Village-wise lists of deeply indebted farmers must be prepared** annually to identify farmers on the flight path to penury and potential suicide.
- NABARD, along with the local administration, should be tasked with analysing such lists for macro and local policy interventions, along with devising timely **loan restructuring initiatives, insurance claim settlements** and better counselling.

3.21 Silk Self Reliance

Why in news?

The recent Union Budget announcement of a rise in customs duty on import of raw silk from five per cent to 15 per cent has brought cheer to silk farmers in the southern states.

What is Silk?

- Silk is made of proteins secreted in the fluid state by a caterpillar, popularly known as 'silkworm'.
- These silkworms feed on the selected food plants and spin cocoons as a 'protective shell' to perpetuate the life.
- Man interferes this life cycle at the cocoon stage to obtain the silk.
- Silk production is regarded as an important tool for economic development of a country as it is a labour intensive and high income generating industry.

- Geographically, Asia is the main producer of silk in the world and produces over 95 % of the total global output.
- Bulk of it is produced in China and India, followed by Japan, Brazil and Korea. China is the leading supplier of silk to the world.
- India is the second largest producer of silk and also the largest consumer of silk in the world.

What are the types of Silk?

- There are five major types of silk of commercial importance. These are,
    1. Mulberry
    2. Tropical Tasar
    3. Oak Tasar
    4. Muga
    5. Eri
- Except mulberry, other non-mulberry varieties of silks are generally termed as vanya silks.
- India is home to silkworms that produce all five of the major commercial types of silk in the world.
- Mulberry silk accounts for more than 90% of the total silk production in both India and the world. The worms that produce this silk are domesticated and usually raised in greenhouses, where they feed solely on mulberry bushes.
- Although it is not as highly prized, tasar silk is another key industry in many regions of India.
- However, this type of silkworm is somewhat rare in India and China is the world's largest producer of oak tasar silk.
- Eri silk is predominantly used by tribes in northern India.
- Muga silk has a beautiful golden color and is very highly prized, due to the fact that the worms that produce it only exist in India's Assam region.
- Mulberry silk is produced mainly in the states of Karnataka, Andhra Pradesh, Tamil Nadu, Jammu & Kashmir and West Bengal.
- Non-mulberry silks are produced in Jharkhand, Chattisgarh, Orissa and north-eastern states.

How will the rise in customs duty benefit the domestic industry?

- It will directly benefit farmers and reelers, as this will stabilise the price of cocoons and raw silk in the domestic market.
- Our imports will get reduced and, thereby, it will be an encouragement and inspiration for local rearers to go for import substitutes and buy bivoltine silk.
- It will also boost production-gradable silk in the domestic market, as the increase in duty will bring down the dependence on imported raw silk.
- The rise in import duty will also encourage farmers to take up sericulture on a larger scale and contribute towards quality raw silk production and attaining self-sustenance.
- In total, we are aiming to eliminate imports by 2022.

What is the present demand for silk?

- India is the largest consumer of raw silk in the world.
- Consumption was 28,733 tonnes in 2011-12, while our production was 23,060 tonnes. Of this, mulberry silk output aggregated 18,272 tonnes (79.2 %). The remaining 4,788 tonnes (20.8 %) was Vanya silk.
- The balance of the requirement was met through imports.
- About 5,700 tonnes, particularly mulberry silk of international quality, is imported from China.

What are the measures taken by the Central Silk Board?

- To bridge the gap between demand and supply they have set a target of producing 32,000 tonnes of raw silk, an increase of 39% over the current production during the 12th Five Year Plan.
- The government has planned to encourage silk farmers through various programmes - Cluster Promotion Programme, Catalytic Development Programme, Rashtriya Krishi Vikas Yojana and others.

3.22 Making Fertilizers cost effective

What is the issue?

- Due to gas scarcity and the difficulty of gas pricing, fertilizer production in India does not inspire confidence for fresh investment. Thus, no fresh investment has happened for the past two decades.

What is the problem in production?

- India is the world's largest importer of fertilizers.
- Since the main ingredient in urea is natural gas, which India lacks, there is large import dependence.
- It imports nearly 10 million tonnes of urea annually i.e one-third of its domestic consumption.
- Also as gas represents 80% of the cost of urea production, even a one-dollar per unit increase in price increases the cost of urea by 10-15% of its international price.
- So, cost-efficient gas is vital for the viability of producing urea in India.

What is the condition of domestic reserves?

- Around 10 years ago, huge gas reserves were discovered in the Krishna-Godavari basin, off the east coast of India.
- The total reserves were supposed to be in excess of 80 trillion cubic feet.
- This could transform not just fertilizer production but could also meet the cooking, lighting and automobile gas.
- However due to various reasons and disagreements on the price of gas no new fertilizer capacity has come up to take advantage of India's gas find.

What is the problem in importing gas?

- **Volatility** - At any given point, the price of gas can vary from half a dollar to $15 for various end-consumers in the world.
- The benchmark is the spot or futures price at Henry Hub, a natural gas pipeline hub in Louisiana, US. But even that is quite volatile.

- Long-term fixed price contracts are not very common.
- **Infrastructure** – The transport of gas itself is very costly either through pipeline or in liquefied form.
- **Subsidy** - Farmers in India pay a highly subsidized price for urea, about Rs5,000 a tonne. This implies a subsidy of 60-70% on the international price of urea.
- This large gap is reimbursed to the supplier by the government.
- Food and fertilizer subsidy makes up about 12% of the Union budget, (fertilizer alone was Rs1 trillion).
- Due to this huge burden, domestic producers often face great delays in getting reimbursed by the government. That delay can be deadly to domestic producers, as it represents a substantial part of their revenue.
- On the other hand, foreign suppliers of urea have to be paid instantly, since otherwise they would stop supplying to India.

What has the government done?

- The government has tried to reform by moving to a nutrient-based subsidy regime to reduce dependency on urea.
- There is now talk of paying **cash subsidy directly to farmers** using Jan Dhan Yojana bank accounts but there are problems in identifying beneficiaries.
- In spite of them, there is one move which is worth recounting. It is the **joint venture between India and Oman** to produce 1.6 million tonnes of urea in Oman. It commenced 11 years ago.
- Since it is expensive to import gas it is planned to convert that gas into urea in situ, and import the urea instead. This production in Oman is completely dedicated to India.
- India also signed a long term contract to utilize gas at less than a dollar per unit.
- It now accounts for almost one-fifth of India's import of urea.

What should be done in future?

- This is now being replicated at the Chabahar port in Iran to produce another million tonnes of urea using Iranian gas near the port.
- This approach of converting India's vulnerable situation of import dependence for gas, into a joint venture on foreign shores that have abundant gas is a win-win for all.
- Though it goes against the spirit of Make In India, it makes ultimate strategic sense.
- It can be applied to address India's food security by encouraging agriculture-production joint ventures in land-abundant countries.

3.23 Model Land Leasing Bill

Why in news?

The central government is persuading the state government to enact the model land leasing law proposed by **NITI Aayog**.

What is the objective?

- The bill aims to protect the interest of farmers by enabling farmers and farming groups to lease their land for cultivation through a legal document, without dilution of ownership.
- Since Land is a state subject, the model law should be enacted by all states.

What is the need of this bill?

- Land is not only the state subject but also an emotive issue in our country. Thus the legislation on land should satisfy all the stakeholders.
- The need for new law arises after the government failed to amend the land acquisition law, 2015. The amendment was criticized for facilitating the corporate to acquire any land.

What are the provisions?

- The bill **legalizes land leasing** and terms of lease to be determined mutually by landowner and tenant farmer.
- It allows automatic resumption of land on expiry of agreed lease period, without requiring any minimum area criteria.
- The bill entitles and facilitates **tenants access to short–term credit** and crop insurance, based on a simple lease agreement
- At present, in a natural calamity, the entire compensation amount is deposited in the name of the landowner and farmers do not get anything. But the model law ensures the tenants get access to institutional credit, insurance and compensation, without impacting the legal ownership right of the holder.
- The Bill would allow leasing in and leasing out of land for agriculture without any restrictions.
- It is also likely to propose **setting up of tribunals** for disputes, if local settlement mechanisms like Panchayats fail.
- The model law remove clause of adverse possession of land in the land laws of various states.
- The bill also has provisions for termination of leasing based on certain conditions.
- NITI Aayog had consulted the states on the basis of land leasing laws enacted by respective states to make the draft legislation adoptable to all states. Thus it fosters co-operative federalism.

4. FEBRUARY-2017

4.1 Key Features of Budget 2017-2018

Why in news?

The 2017 Union Budget was presented by Finance Minister ArunJaitley on February 1st, which is a month earlier than it is usually done.

What were the key features?

- Finance Minister introduced the budget by listing out the achievements of the government at the end of the half term, followed by pointing out the challenges in the upcoming year and finally presented the roadmap for the next year.
- **Achievements** - According to him, during the 1st of 2016-17 -

1. CPI-based inflation declined from 6% to 3.4%
2. GDP grew at 7.2 %
3. India's Current Account Deficit declined from about 1% of GDP to 0.3% of GDP
4. FDI grew 36%, despite 5% reduction in global FDI inflows.
5. Foreign exchange reserves have reached 361 billion US Dollars as on January, 2017
6. Measures against black money launched
7. Fiscal consolidation efforts were taken

- **Reforms during last year** -
  1. Passage of the Constitution Amendment Bill for GST
  2. Demonetisation
  3. Enactment of the Insolvency and Bankruptcy Code
  4. Amendment to the RBI Act for inflation targeting
- **Budget Reforms -**
  1. Presentation of Budget advanced to 1st February
  2. Merger of Railways Budget with General Budget
  3. Removal of classification of plan and nonplan expenditure to facilitate a holistic view of allocations for sectors and ministries.
- **Challenges in 2017-18 -**
  1. Economic and political developments like **Brexit & change of administration in US**
  2. Plans to **increase US Federal Reserve rate** that may lead to lower FDI and higher outflows of funds.
  3. Uncertainty of **price of crude oil** and other commodities
  4. Growing **protectionism**i.e against globalization
- **Roadmap & Priorities**
  1. Agenda for 2017-18 - "Transform, Energise and Clean India" **(TEC India)**
  2. TEC India seeks to transform the quality of governance and quality of life of our people, energise various sections of society, especially the youth and the vulnerable, clean the country from corruption, black money and non-transparent political funding
  3. **Ten distinct themes** are formulated to bring out this agenda.
- **Farmers -**
  1. A sum of Rs. 10 lakh crore is allocated as credit to farmers, with 60 days interest waiver.
  2. NABARD fund will be increased to Rs. 40,000 crore.
  3. Government will set up mini labs in **KrishiVigyanKendras for soil testing.**

4. A dedicated **micro irrigation fund** will be set up for NABARD with Rs 5,000 crore initial corpus.
5. Irrigation corpus increased from Rs 20,000 crore to Rs 40,000 crore.
6. **Dairy processing infrastructure fund**wlll be initially created with a corpus of Rs. 2000 crore.
7. Issuance of **soil cards** has gained momentum.
8. A model law on contract farming will be prepared and shared with the States.
9. Coverage of National Agricultural Market (e-NAM) to be expanded from 250 markets to 585 APMCs.

- **Rural Population –**

1. The government targets to bring 1 crore households out of poverty by 2019.
2. 5 lakh farm ponds will be taken up under the MGNREGA.
3. Over Rs 3 lakh crore will be spent for rural India.
4. MGNREGA to double farmers' income.
5. Steps to ensure participation of women in MGNREGA up to 55%.
6. **Space technology** will be used in a big way to ensure MGNREGA works.
7. The government proposes to complete 1 crore houses for those without homes via PradhanMantriAwaasYojana.
8. Will allocate Rs. 19,000 crore for PradhanMantri Gram SadakYojana in 2017-18.
9. The country well on way to achieve 100% rural electrification by March 2018.

- **For youth**

1. Will introduce a system of **measuring annual learning outcomes** and come out with an innovation fund for secondary education.
2. Focus will be on 3,479 educationally-backward blocks.
3. **Innovation Fund** for Secondary Education to encourage local innovation
4. Colleges will be identified based on accreditation.
5. **SWAYAM platform** to enable students to virtually attend courses taught by the best faculty.
6. National Testing Agency to conduct all entrance examinations for higher education institutions.
7. PradhanMantriKaushalKendras to be extended to more than 600 districts across the country.
8. Skill Acquisition and Knowledge Awareness for Livelihood Promotion programme (**SANKALP**) to provide market relevant training to 3.5 crore youth
9. Skill India mission was launched to maximise potential by setting up 100 India International centres.
10. **Incredible India 2.0 Campaign** to promote tourism and employment.

- **Poor and Underprivileged**

1. Rs. 500 crore allocated for MahilaShakthiKendras.

2. Under Maternity Benefit Scheme, Rs. 6000 will be transferred to pregnant women who undergo institutional delivery and vaccinate their children.
3. A sum of Rs. 1.8 lakh crore allocated for women and children.
4. Elimination of tuberculosis by 2025 targeted.
5. Health sub centres, numbering 1.5 lakh, willl be transformed into health wellness centres.
6. Two AIIMS to be set up in Jharkhand and Gujarat.
7. Will undertake structural transformation of the regulator framework for medical education.
8. Allocation of around Rs. 52,000 crore for Scheduled
9. Aadhaar-based smartcards to senior citizens to monitor health.
10. National Housing Bank to refinance individual housing loans of about Rs. 20,000 crore

- **Infrastructure -**

1. A total allocation of around Rs. 40 lakh crore for infrastructure.
2. Total allocation for Railways is Rs. 1,3 lakh crore.
3. **No service charge** on tickets booked through IRCTC.
4. **Raksha coach** with a corpus of Rs. 1 lakh crore for five years (for passenger safety).
5. Unmanned level crossings will be eliminated by 2020.
6. 3,500 km of railway lines to be commissioned this year up from 2,800 km last year.
7. **SMS-based** "clean my coach service" is put in place.
8. **Coach mitra** facility will be introduced to register all coach related complaints.
9. By 2019 all trains will have bio-toilets.
10. 500 stations to be made differently-abled friendly.
11. Railways will offer competitive ticket booking facility.
12. Rs. 64,000 crore allocated for highways.
13. **High speed Internet** to be allocated to 1,50,000 gram panchayats.
14. **New Metro rail policy** will be announced with focus on innovative models of financing.
15. **A DigiGaon initiative** to provide tele-medicine, education and skills through digital technology.
16. Incentive schemes like M-SIPS and EDF for creating an eco-system to make India a global hub for electronics manufacturing.
17. A new and restructured Central scheme with a focus on export infrastructure, namely**, Trade Infrastructure for Export Scheme (TIES)** will be launched in 2017-18.

- **Energy sector**

1. A strategic policy for crude reserves will be set up.
2. Rs. 1.26,000 crore received as energy production based investments.
3. Trade infra export scheme will be launched 2017-18.

- **Financial sector**

1. Bill on resolution of financial firms will be introduced in this session of Parliament.
2. The shares of Railway PSEs like IRCTC, IRFC and IRCON will be listed in stock exchanges.
3. Foreign Investment Promotion Board **(FIPB) will be abolished.**
4. A Computer Emergency Response Team for our Financial Sector (CERT-Fin) will be established
5. PradhanMantri Mudra Yojana lending target fixed at Rs 2.44 lakh crore for 2017-18.

- **Digital Economy -**

    1. The government will introduce two schemes to promote BHIM App - referral bonus for the users and cash back for the traders.
    2. **Negotiable Instruments Act** might be amended.
    3. DBT to LPG consumers, Chandigarh is kerosene-free, 84 government schemes are on the DBT platform.
    4. To introduce law to confiscate the within the country assets of the **economic offenders who flee India**.
    5. Proposed to create a **Payments Regulatory Board** in the Reserve Bank of India.
    6. **Aadhar Pay**, a merchant version of Aadhar Enabled Payment System, will be launched shortly.

- **Public Service -**

    1. Head post office as the central office for rendering passport service.
    2. A Centralised Defence Travel System to help our soldiers and officers in online ticket booking
    3. Web based interactive Pension Disbursement System for Defence Pensioners.

- **Affordable Housing And Real Estate Sector -**

    1. Under the scheme for profit-linked income tax deduction for promotion of affordable housing, carpet area instead of built up area of 30 and 60 Sq.mtr. will be counted.
    2. For builders for whom constructed buildings are stock-in-trade, tax on notional rental income will only apply after one year of the end of the year in which completion certificate is received
    3. For Joint Development Agreement signed for development of property, the liability to pay capital gain tax will arise in the year the project is completed

- **Transparency In Electoral Funding -**

    1. Maximum amount of cash donation, a political party can receive, will be Rs.2000/- from one person.
    2. Political parties will be entitled to receive donations by cheque or digital mode from their donors.

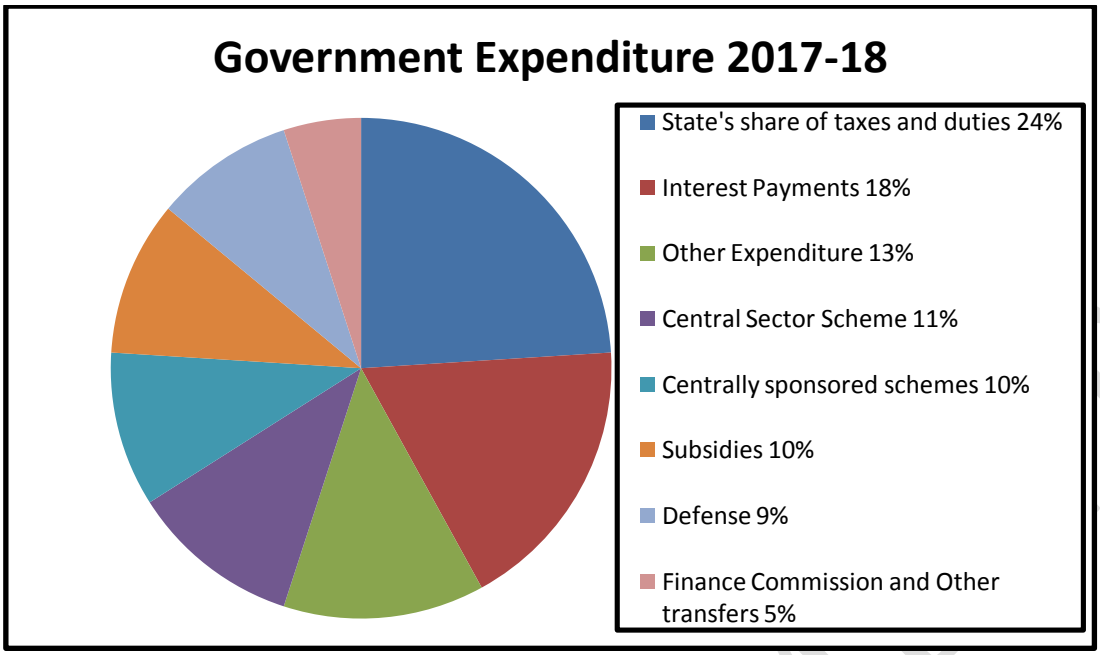
3. Amendment to the Reserve Bank of India Act to enable the issuance of electoral bonds in accordance with a scheme that the Government of India would frame in this regard.
4. Exemption from payment of income-tax to the political parties would be available only if they fulfil these conditions.

- **Tax proposals**

1. India's tax to GDP ratio is not favourable.
2. Only 45% of registered companies have filed returns for 2016-17.
3. Proportion of direct tax to indirect tax is not optimal.
4. Individuals numbering 1.95 crore showed an income between Rs. 2.5 lakh to Rs. 5 lakh.
5. Only 1.72 lakh people showed income of more than Rs. 50 lakh a year.
6. Holding period for long term capital gain lowered to two years
7. Proposal to have a carry-forward of MAT for 15 years.
8. Capital gains tax to be exempted for persons holding land from which land was pooled for creation of the state capital of Andhra Pradesh.
9. In order to make MSME companies more viable, income tax for companies with annual turnover upto Rs.50 crore is reduced to 25%.
10. Basic customs duty on LNG reduced from 5% to 2.5%
11. The Income Tax Act to be amended to ensure that no transaction above Rs 3 lakh is permitted in cash.
12. The limit of **cash donation by charitable trusts** is reduced to Rs 2,000 from Rs 10,000.
13. Allowable provision for Non-Performing Asset of Banks increased from 7.5% to 8.5%.
14. Maximise efforts for e-assessment in the coming year through RAPID (Revenue, Accountability, Probity, Information and Digitisation)

- **Personal income tax**

1. Existing rate of tax for individuals between Rs. 2.5- Rs 5 lakh is reduced to 5% from 10%.
2. All other categories of tax payers in subsequent brackets will get a benefit of Rs 12,500.
3. Simple one page return for people with an annual income of Rs. 5 lakh other than business income.
4. People filing I-T returns for the first time will not come under any government scrutiny.
5. Ten % surcharge on individual income above Rs. 50 lakh and up to Rs 1 crore to make up for Rs 15,000 croreloss due to cut in personal I-T rate.
6. 15 surcharge on individual income above Rs. 1 crore to remain.



4.2 Budget 2017 - Income Tax

What are the changes made?

- The income tax for earning between Rs.2.5 lakh and Rs. 5 lakh a year is reduced from the rate of 10% to 5%.
- All the other categories of tax payers in the subsequent slabs will also get a **uniform benefit of ₹ 12,500** per person.
- The existing **rebate** for those earning Rs. 5 lakh or less will now be reduced to Rs..2,500 and it is available only to those earning an income of up to Rs. 3.5 lakh.
- A surcharge of 10% is levied on tax payable for those with annual taxable income between Rs.50 lakh and Rs.1 crore.
- The existing surcharge of 15% of tax on people earning more than Rs.1 crore will continue.

How all tax payers benefit of up to Rs 12,500?

- People who earn below Rs.2.5 lakh do not pay any income tax.
- People who earn above Rs. 2.5 lakh pay IT, only for the amount exceeding Rs. 2.5 lakh. e.g If a person earns 5 lakh per annum, he pays tax for 2.5 lakh only. The initial 2.5 lakh is outside the ambit of tax.

	Yearly Income	Taxable Amount	Tax rate	Tax amount
2016	10,00,000	7,50,000	10% for 2,50,000 & 20% for remaining 5,00,000	1,25,000
2016	20,00,000	17,50,000	10% for 2,50,000 & 20% for 7,50,000 & 30% for remaining 10,00,000	4,25,000
2017	10,00,000	7,50,000	10% for 2,50,000 & 20% for remaining 5,00,000	1,12,500
2017	20,00,000	17,50,000	5% for 2,50,000 & 20% for 7,50,000 & 30% for remaining 10,00,000	4,12,500

What is a rebate?

For the people with total income less than 5lakh rupees/annum, **section 87A of Income-tax Act**, provide for a rebate of an amount equal to 100% of such income-tax or an amount of Rs. 5000, whichever is less. e.g If one pays an IT of Rs.7500, Rs. 5000 will be given back, making the tax amount only to Rs.2500.

What is the change made in Budget 2017?

The existing rebate amount is reduced from Rs.5000 to Rs.2,500 and it is available only to those earning an income of up to Rs.3.5 lakh and not for those earning upto₹ 5 lakh.

	Yearly Income	Taxable Amount	Tax rate	Rebate amount	Net Tax amount
2016	3,00,000	50,000	10% i.e 5,000	5000	0
2016	5,00,000	2,50,000	10% i.e 25,000	5000	20,000
2017	3,00,000	50,000	5% i.e 2500	2500	0
2017	5,00,000	2,50,000	5% i.e 12,500	0	12,500

4.3 Budget – Electoral Funding

What is the present condition of electoral funding in India?

- According to the Association of Democratic Rights, 69% of the total income reported by the country's six national and 51 regional parties, during for the period of 2004-05 and 2014-15, came from **unknown sources.**
- Only 16% came from named donors and the remaining 15% accrued from other sources such asset sale, and membership fees.
- On the other side, more than three-fourth of the 1,900 parties registered with the Election Commission– haven't contested elections for years.
- Each of them is a possible platform to launder illegal money.
- The lack of transparency and accountability in relation to political donations also breed the ground for rent-seeking and corruption.
- Businesses, small and big, contribute funds to a political party or its candidate with the expectation that the favour would be returned. They influence policy and government actions when their friendly political party comes to power.
- This is not unique to India, but unlike many mature democracies there is no institutional framework to deal with the problem.

What are the provisions in the budget?

1. Maximum amount of cash donation, a political party can receive, will be **Rs.2000/- from one person.**
2. Political parties, however, will be entitled to receive donations by cheque or digital mode from their donors.

3. Amendment to the Reserve Bank of India Act to enable the issuance of electoral bonds in accordance with a scheme that the Government of India would frame in this regard.

4. Exemption from payment of income-tax to the political parties would be available only if they fulfil these conditions.

What are the shortcomings?

- The ceiling in the ceiling to Rs. 2,000 is unlikely to stop the disguising of huge, off-the-books cash donations from corporate houses and vested interests as small contributions from ordinary party workers and sympathisers.
- Also this will not reduce the proportion of cash from unverifiable sources in the total donations received.
- Ordinary citizens are encouraged to make payments using digital means. But the political parties are being allowed to accept donations up to Rs 2,000 in cash.
- There is no cap on the amount a party may receive in cash as a donation.
- The details of the electoral bonds scheme are not known yet.
- But the FM said that these bonds will be bearer in character to keep the donor anonymous. The problem with political financing is that 75-80% of the declared income of political parties comes from unknown sources. The current move is also against transparency.

What should be done?

- Transparency in political financing will happen when the political establishment realises that the only way to get out of the shackles of big and black money is to become open.
- The government can do this by revising its affidavit in the Supreme Court to say all political parties should be under the purview of the RTI Act, thus honouring the Central Information Commission's 2013 decision.
- A level playing field for all stakeholders in a multi-party democracy should be ensured. The more competitive a democracy gets, the better it is for the people of the country.
- Therefore the idea of a National Election Fund should be revisited.
- Such a fund could be declared as the only channel through which businesses and individuals can contribute to political parties.
- Like the finance commission decides how to distribute central transfers to states, the Election Commission or any institution created for the purpose of administering the fund can decide how the donations are shared among parties.
- Such an initiative will have to be supported by other measures such as stricter audits for books of accounts maintained by political parties and cracking down on parties that exist only on paper.

4.4 Budget 2017 – Health

What are the provisions in the budget for health?

- Elimination of five infectious diseases,
- Strengthening of rural sub-centres,
- Recruitment of specialist doctors in govt hospitals,

- Increased allocation for programmes for women and children, and
- Free treatment for the elderly poor.

What are the shortcomings?

- Since Independence, a significant portion of the health budget has been allocated to infectious disease control programmes.
- Now these diseases account for less than 10% of deaths and 15% of ill-health in the country.
- Therefore there should be increased budgetary support **for the prevention and control for non-communicable diseases** like cancer, diabetes, hypertension etc., which are the major causes of sickness, disability and death in the country today.
- It is debatable as elimination of these disease is an **unpredictable public health investment.**
- Eliminating kala-azar and filariasis – now restricted to few areas – may be feasible. **The epidemiology of leprosy and tuberculosis are so different** that financial investment for their elimination warrants caution.
- The living conditions of urban slums provide the ideal environment for proliferation of infectious diseases, and could easily undo targets of eliminating tuberculosis. But it was not addressed in the budget.
- The WHO has been pointing to the lack of integration of private practitioners with the national mission on tuberculosis for guaranteed access to drugs, and lack of continuous monitoring of such patients.
- The health budget has retained the traditional approach.
- But more innovative allocations, like the budgetary provision for the elderly poor, are required.

4.5 Defence Budget - Ignoring Modernisation

What is the current situation?

- Till the mid-1980s, defence pensions were counted as part of the defence budget.
- Later pensions were taken out to avoid adverse international scrutiny of burgeoning defence expenditure.
- It was only re-included in the budget last year.
- The Supreme Court stated that the pensions are deferred wages, and technically this means that these are payments paid for active military service rendered in the past.
- Since there is no way to estimate the future pension budget of 14.7 lakh armed forces personnel currently in service, including it in the defence budget is a pragmatic way of accounting for the expenditure.

What are the features in current budget?

- The total defence budget for Financial Year 2017-18 is therefore around Rs 3,60,000 crore.
- Pensions apart, the salary bill for the armed forces this year would be around Rs 1,07,000 crore.
- This takes up a bulk of the defence budget.
- This only partially accounts for the Seventh Pay Commission recommendations, as allowances are yet to be fixed as per the new scale.

- If the five core demands of the military chiefs on the anomalies of the Pay Commission are conceded by the government, the salary bill will shoot up further.
- In FY2017-18, Rs 86,488.01 crore has been earmarked for capital expenditure of the defence services; and Rs 1,82,534.42crore is for revenue expenditure.
- Revenue expenditure is for operating expenses of the Defence Ministry while the bulk of the capital expenditure is for procurement of military equipment to modernise the armed forces.
- As finance secretary explained to the parliamentary standing committee on defence, the Finance Ministry is not really concerned with this division of expenditure.
- It only allocates the total money and leaves the revenue and capital allocations to the discretion of the ministry.

What has been for defence modernisation?

- Over the years, governments have taken to making budgetary announcements with high allocation for capital acquisition to ward off any criticism about forsaking defence modernisation.
- By the time revised estimates are prepared, a portion of that allocation is transferred towards revenue expenses or returned to the government.
- E.g In the 2016 budget around Rs 78,000 crore was allocated for capital expenditure at the budgetary stage, which came down to Rs 71,000 crore at the revised estimates stage.
- The amount was transferred to revenue expenditure to meet the increased salary bill.
- In the current defence budget of Rs 3.6 lakh crore — which is 2.14 per cent of India's GDP — only Rs 5,000 crore is left for new defence deals.
- If these defence deals are assumed to have an upfront payment of 10%, the total cost of equipment that can be bought in the coming financial year is Rs 50,000 crore.
- But one single deal for 36 Rafale fighters signed last year was alone worth Rs 59,000 crore.
- Therefore any expectations of greater defence modernisation in the coming year would thus be futile.

What is the way ahead?

- The bureaucracy and the armed forces take a lot of flak for stalled defence procurements, but the real constraint is finding resources.
- In a slowing economy with multiple competing demands, it is always a challenge for the government to find additional resources for defence.
- The only other option is to rebalance and restructure the armed forces.

4.6 No Green Consciousness

What is the issue?

- The environment does not find any mention in Finance Minister ArunJaitley's Budget speech.
- While the allocation for the Ministry has actually increased in this year's Budget key schemes have seen their allocations reduced.

What are the affected programmes?

- **Project Tiger** outlay has fallen from ₹ 365 crore in the revised estimates to ₹ 345 crore for 2017-18.
- **Coastal zone management and clean energy funds** have been increased, but funds for prevention of water pollution and climate adaptation are meagre.
- The **Climate Change Action Plan**, incidentally, has received a princely sum of around ₹ 40 crore.

What is the contradiction?

- The silence of both the Budget and the Economic Survey 2016-17 is at odds with India's commitments in the Paris agreement.
- A reduction in the emissions intensity of the GDP cannot be achieved through a renewables drive alone.
- It is estimated that just one of the targets of adding additional carbon sinks of 2.5 to 3 billion tonnes of CO_2-equivalent — would need investments of ₹ 1lakh crore annually for afforestation.
- There is no reflection of this commitment in the Budget.
- Despite the country being lambasted on all fronts for rising air pollution, the Government has failed to conduct comprehensive impact studies.
- Two-year-old guidelines on air pollution control are yet to be implemented and no additional allocations have been made for the same.
- The more worrying fact is the relaxation of environmental laws & regulations, the under-utilisation of funds despite needs and the lack of transparent approval process. Therefore they have to be adequately addressed.

4.7 Public Sector Asset Rehabilitation Agency (PARA)

Why in News?

The Economic Survey (2016-17) called for a need to set up a government-owned asset reconstruction company, PARA.

What is a TBS problem?

- The Economic Survey of 2015-16 recognised a key issue called 'the twin balance sheet' problem.
- The balance sheets of both public sector banks (PSBs) and some corporate houses private entities are in bad condition i.e overleveraged and distressed private companies and the rising NPAs in Public Sector Bank balance sheets.
- India has been fighting with its twin balance sheet (TBS) problem since global financial crisis.
- It is important because it is discouraging private investment in the country and hence growth in all sectors.

What is the current situation?

- TBS was considered a minor problem, which would be resolved as economic recovers. But the problem has only worsened.
- Earnings of the stressed companies have deteriorated, forcing them to borrow more to sustain their operations.
- Since 2007-08, the debts of the top 10 stressed corporate groups have multiplied five times.
- Around 12% of the gross advances of public sector banks turned non-performing.

- Hence the private corporate sector has been forced to curb its investments, while banks have been reducing credit in real terms.
- To sustain growth, these trends should to be reversed and the only way to do so is by fixing the underlying balance sheet problems.

What is the need for centralised approach?

- **Size -** So far, the strategy has been to solve the TBS through a decentralised approach. The banks have been put in charge of the restructuring decisions.
- But it has become less effective because the banks have simply been overwhelmed by the size of the problem.
- **Companies -** It's not just about banks, but it is also a lot about companies. So far, public discussion of the bad loan problem has focused on bank capital. But securing funding is actually the easiest part than finding a way to resolve the bad debts.
- **Not just a moral problem -** Though crony capitalism and diversion of funds is also important reasons, a bulk of the problem has been caused by unexpected changes in the economic environment. Therefore it
- Stressed debt is heavily concentrated in large companies.
- Many of these companies are unviable at current levels of debt, requiring debt write-downs.
- Banks are finding it difficult to resolve these cases, despite a proliferation of schemes to help them.
- Other mechanisms like Private Asset Reconstruction Companies (ARCs) haven't proved any more successful than banks in resolving bad debts and are too small to handle the large cases.
- Delay is costly - Since banks can't resolve the big cases, they have simply refinanced the debtors. But this is costly for the government, because it means the bad debts keep rising, increasing the ultimate recapitalisation bill.
- Therefore a centralized approach could eliminate most of the obstacles currently plaguing loan resolution.

How would a PARA actually work?

- It could solve the coordination problem since debts would be centralised in one agency.
- It could be set up with proper incentives by giving it an explicit mandate to maximise recoveries within a defined time.
- It would separate the loan resolution process from concerns about bank capital.
- It would purchase specified loans from banks and then work them out, depending on professional assessments of the value-maximising strategy.
- Once the loans are off the books of the public sector banks, the government would recapitalise them, thereby restoring them to financial health.
- Similarly, once the financial viability of the over-indebted enterprises is restored, they will be able to focus on their operations, rather than their finances.

4.8 Oil Major

Why in news?

India is planning to create an oil major by merging its state-controlled oil and gas companies to create a new international player.

Why is it needed?

- Indian PSU energy companies such as ONGC, Oil India, Indian Oil and BPCL have either by themselves, or in consortium, bought asset stakes abroad.
- But their purchases are small in comparison to those of big national oil companies, like those from China, and independent oil companies such as Exxon Mobil and BP.
- Thus the concept of oil merger will enable us to withstand the highly competitive arena of global energy asset shopping.
- Oil major could help explore interests in both exploration and refining businesses.
- Bigger scale and balance sheet size could give Indian energy companies better bargaining power and access to big capital.
- Also, an integrated company will better withstand fluctuations in global oil market.
- With oil and gas prices subdued, global energy assets are available at reasonable cost, making it a good time to buy.

Why the merger was opposed in the past?

- In 2004-05, **V Krishnamurthy committee** recommended that rather than creating a mega entity in the sector, it would be better to strengthen the structure of the state-owned oil companies, through policy measures and improvement in managements.
- The rationale behind the idea of mergers was to achieve operational synergies and to trim costs. This would eventually mean **cutting the jobs** and boosting profitability.
- But the decision against mega merger was based on cases of restructuring and acquisitions in the global oil industry, where only **29% of such transactions has led to the higher returns** for the shareholders.
- They also said, the major cause for the failure of mergers was the handling of people working in many of these firms.
- Then there is also the **danger of monopolies and cartels** being created in the industry - that would inhibit the competition.
- Each Indian PSU oil companies are operating in distinct areas such as process of refining or exploration. So, disturbing this goes against the normalcy.
- In 1995, a reform group gave a similar view. They said a giant entity in the sector wasn't something desirable, since it could mean **destabilisation of some of the companies and the industry** besides creating problems for consumers.
- In 2014, another committee was tasked with working out a road map for **reducing India's import dependency** in the hydrocarbon sector by 2020.

- It made out a case for empowering and strengthening national oil companies and to strengthen the board processes with greater accountability and autonomy.
- In short, the costs far outweighed the benefits which could arise from a possible merger.

4.9 Universal Basic Income

What is a UBI?

- A universal basic income (UBI) is an unconditional and universal right. It requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens.
- The Economic Survey is pitching UBI for the following reasons.
- **Social Justice -** A UBI promotes many of the basic values of a society which respects all individuals as free and equal.
- **Poverty Reduction -** Conditional on the presence of a well-functioning financial system, a Universal Basic Income may simply be the fastest way of reducing poverty.
- **Agency -** The poor in India have been treated as objects of government policy. An unconditional cash transfer treats them as agents, not subjects.
- By taking the individual and not the household as the unit of beneficiary, UBI can also enhance agency, especially of women within households.
- **Administrative Efficiency -** It is a way of ensuring that state welfare transfers are more efficient so that the state can concentrate on other public goods.

What are its basic principles?

- The main features of UBI are that it should be universal and not targeted.
- It should be unconditional and not tied to work or employment, and it should be in cash.
- UBI is envisaged as a method of redistribution of resources from the rich to the poor.
- It is envisaged as providing all person with an income to lead a dignified life.
- The UBI proposed in the ES is hostile to each of these objectives.

What are the flaws in proposed UBI?

- Its proposal constitutes an attack on welfare schemes.
- The ES wants UBI not to supplement, but to replace all existing social welfare schemes and all current in-kind and cash transfers
- It is technically and ethically wrong to compare the costs and benefits of UBI with those from a range of subsidies relating to food and nutrition (PDS, school meals, ICDS), education etc., as is done in ES.
- The second argument in ES is that the UBI should also **replace**
- ES also stated that UBI is not framed as a transfer payment from the rich to the poor.

- While the basic income is given to all, the manner in which the basic income is funded has to ensure that society transfers resources from the rich to the poor.
- The ES also does not propose any new resource mobilisation or taxation to meet the goal of UBI.

What a genuine UBI would entail?

- UBI equivalent to the expected income transfer under MGNREGA itself would cost Rs. 510,000 crore.
- This is more than 10 times the allocation in the current Budget for MGNREGA (Rs. 48,000 crore).
- Resource mobilisation has to increase ten-fold for India to afford the universal basic income without cutting back on other social welfare programmes.
- Unless the government seriously increases tax resources, the proposal for a universal basic income is at best a fantasy idea.

4.10 RBI'S Monetary Policy

Why in news?

RBI released sixth bi-monthly monetary policy for 2016-17.

What is the current move?

- The RBI did not cut the policy rate.
- It held it constant at 6.25%.
- It also indicated that the monetary policy stance was now neutral, rather than accommodative i.e there will be no more rate-cuts in the next three-six months at least, unless there is a dramatic fall in core inflation levels.
- The decision was taken with the support of all six members of the Monetary Policy Committee.

What are the reasons for holding the repo rate constant?

- A rate cut was expected because the private investment continues to be depressed, and the lending to industry has sharply slowed.
- RBI did not change the rate stating the stickiness of 'core' inflation as the main reason.
- RBI is focused strictly on targeting consumer price inflation.
- The non-fuel and non-food inflation continues to be sticky at 4.9%, mainly due to stickiness in price gains for housing, health, education, personal care and household services, in spite of a decline in the overall rate of inflation.
- This suggests that inflation expectations continue to be higher than RBI can be comfortable with.
- There is also significant uncertainties in the future path of inflation and growth like the possibility of an increase in crude oil prices, volatility in the exchange rate on account of global financial market developments that could increase pressures on domestic inflation and the effects of the Seventh Pay Commission.
- Any cost-push shock to prices could, therefore, have a cascading effect, causing the central bank to miss its stated inflation target of four per cent.

What is RBI's explanation?

- It argues that it is not rates that are necessarily the constraint.
- It points out that "timely transmission" of the policy rates to banks' lending rates needs the banks' non-performing assets issue to be more swiftly addressed.
- RBI also feels that it cannot use monetary policy to revive growth.
- To revive investment, the government must address the banks' problems with greater urgency.

4.11 SBI Merger

Why in news?

The government has set the date for the merger of the State Bank of India with its five associate banks on April 1, 2017. The proposal to merge BharatiyaMahila Bank (BMB) with SBI is still under consideration.

What will happen due to the merger?

- The five associate banks - State Bank of Bikaner and Jaipur (SBBJ), the State Bank of Mysore (SBM), the State Bank of Travancore (SBT), the State Bank of Hyderabad (SBH) and the State Bank of Patiala (SBP), will merge into SBI.
- All shares of these associate banks will cease to exist as individual entities and will be transferred to the SBI.
- The merger will also mean that all SBI associate bank customers will become SBI customers and all associate bank employees will become SBI employees.
- They will be eligible for the same retirement benefits like SBI employees i.e provident fund, gratuity and pension
- Initially, SBI had seven associate banks — two of them, the State Bank of Indore and the State Bank of Saurashtra, were merged earlier.

Why is the merger important?

- The merged entity will have one-fourth of the deposit and loan market.
- It would have deposits worth ₹ 26 lakh crore and nearly ₹ 18.76 lakh crore worth advances on its books.
- It would also have close to 24,000 branches and an employee strength of 2,71,765.
- The consolidated balance sheet will increase up to 40%.
- The SBI's market share will increase from 17% to 22.5-23%.
- **Size -** It will be almost five times the size of India's second largest bank i.e PNB.
- Size of the bank is important as there is a huge financing need in the country, especially in infrastructure.
- No Indian bank features among the top 50 banks globally.
- With the merger, the SBI could break into the list of top 50 banks of the world, in terms of asset size.
- **Cost –** It will result in major cost savings as the treasury operations are merged and streamlined, along with audit processes and assets like physical offices and the information technology infrastructure.

- **Transparency -** The accounting will also be more transparent, allowing for clearer judgements about financial health.

What are the issues to be addressed?

- **NPA -** The combined balance sheet will bear the burden of a poor bad loans ratio with gross non-performing assets (NPAs) at 8.7% of combined advances and a provisional coverage ratio of about 60% (profits are set aside to cover only 60% of NPAs).
- **Capital -** SBI will need large sums for recapitalisation to meet Basel-III prudential standards.
- **Downsizing -** The efficiency and the operational dynamics will depend on the ability to cut redundancies, reduce number of branches and downsize manpower surplus to requirements.
- This will be opposed by the unions, which have formed a nine-union united front to block the process.
- **Independence -** It will also depend on the merged entity being allowed the freedom to operate on purely commercial considerations.
- **Interference -** SBI also suffers from political interference. This is the primary cause for poor non-performing ratios of many public sector banks. The risks of such interference in the merged SBI are higher since it controls a larger share of assets.
- **Bigger Risk -** The merged SBI will require very stringent oversight and supervision to prevent triggering systemic risks in the event of failure.
- If the merger works, other public sector banks could be merged in a similar fashion to create three or four larger and more efficient banking entities.
- But other banks have far greater variation across parameters than what exists among SBI and its associates.

Why the merger is facing resistance?

- Employees are **fearful of losing their jobs.**
- They are also worried that their promotion prospects may be hampered due to curtailment of seniority. Further, rationalisation of branches due to overlap may lead to their relocation.

4.12 State of the Economy

What is the issue?

- Our economy relies on public investment and private consumption to revive private investment and growth.
- Therefore the recent official statistics on prices and industrial activity signals tough times ahead.

What are the worrying trends?

- **Industry -** The industrial output dropped by 0.4% in December 2016 i.e a 2% decline in manufacturing and a 6.8% decline in consumer goods.
- This might result in low employment generation and price rise of finished goods.
- **Consumer & Wholesale price -** In December consumer prices had risen fractionally faster (3.4%) than wholesale prices (3.39%).
- But in January, wholesale prices have risen at 5.25% and the pace of price rise at the consumer level was at 3.2%.

- Soon the consumer prices will catch up with the whole sale price, raising the inflation levels.
- This price rise is not because of the food prices. The food prices are not a problem currently because of a normal monsoon.
- The current whole sale price rise is because of the rise in consumer prices of non-food articles and fuel.
- The price of fuel and power rose at 18.14%, manufactured products grew by 4% and minerals by 1%.
- **Oil Price -** There is a belief that higher shale gas output will check a further spike.
- Yet a rise in oil prices beyond $65 a barrel would be a cause for concern for India's growth and Centre's fiscal arithmetic.
- Excise duties on petroleum products were raised when prices were low to protect consumers from an upward price shock.
- Cutting those duties will upset revenue calculations, but leaving them untouched will affect spending and growth.
- **Interest rate -** The RBI has cited 'transitory effects of demonetisation on inflation and output' as the rationale for not changing the interest rates and shift from an accommodative monetary stance to 'neutral'.
- RBI is unlikely to ease its stance unless it sees executive action against inflation risks.

4.13 Holes in the Social Security Net

Why in news?

A survey is conducted seeking evidence on whether the social security measures work in the face an economic shock like demonetisation and whether these programmes themselves face disruption because of demonetisation.

What are the findings of the survey?

- On and average, people visited the bank thrice since demonetisation. 30% had made more than three visits.
- 10% of respondents had not gone to the bank even once showing that they are out of the formal economy.
- People viewed demonetisation as a disruptive measure which impacted access to social security.
- First, it was a push from post office to bank account, then to open multiple bank accounts, including Jan Dhan accounts, then to get an Aadhaar card, an ATM card and so on.
- And there is the mandatory introduction of Aadhaar to access MGNREGS work from the next financial year, which has ridden roughshod over the orders of the Supreme Court and is likely to cause massive exclusion.
- Only 30% of those who went to the bank were able to receive their pension or wages. About 57% were denied them at least once.
- 73% of MGNREGS households and about 52% of pensioners said they had a greater need for these entitlements after demonetisation.

Did MGNREGA provide the needed relief?

- According to the **Ministry of Rural Development's data**, after demonetisation, people worked more on MGNREGS than what was planned, while in the previous year it was consistently less than planned.

- This was perhaps due to the enhanced allocation via a second supplementary budget of Rs 4,000 crore to the MGNREGS, announced after demonetisation.
- The ministry released 43% more funds to states over the last three months, compared to the same time period last year.
- But 53% of all MGNREGS wage payments were delayed in FY 2016-17 up to January.
- 60% of these were delayed beyond 30 days.
- Pension payments, though comparatively better, were also delayed.
- People made multiple trips to the bank to check whether their money had been deposited or not.
- But MGNREGS workers made more visits to the bank than pensioners, reflecting greater uncertainty in wage payments.
- About 70% of workers, who went to the bank returned empty-handed, compared to only 30% of pensioners who were denied their pensions.
- Being denied cash at the bank may not be entirely due to demonetisation but it reflects weak delivery systems, uncertainty and under-resourcing.
- MGNREGS and the National Social Assistance Programme (NSAP) have the potential to provide social security provide social security in times of an economic shock.
- But it did not effectively provide because of patchy implementation.

4.14 UDAY Scheme - Report Card

Why in news?

Motilal Oswal released a report on the performance of UDAY scheme.

What are the problems in DISCOM?

- DISCOMs are distribution companies.
- State DISCOMs have been supplying electricity at tariffs that are far below cost for decades.
- States have been reluctant to revise power tariffs in line with rising costs for political reasons.
- Other inefficiencies like large transmission and distribution losses on power, have further strained the finances of the DISCOMs.
- They have been borrowing heavily from banks to keep themselves running.
- The debt totalled to ₹ 4.8 trillion in September 2015.

What is UDAY Scheme?

- Under the scheme, States will take over three-fourths of the debt of their respective DISCOMs (50% takeover in 2015-16 and 25% in 2016-17).
- The governments will then issue 'UDAY bonds' to banks and other financial institutions to raise money to pay off the banks.

- The remaining 25 per cent of the discom debt will be dealt within one of the two ways — conversion into lower interest rate loans by the lending banks or be funded by money raised through discom bonds backed by State guarantee.
- Backing from the State will help bring down the interest rate for the discoms.

What are its features?

- States shall take over 75% of DISCOM debt as on 30 September 2015 over two years -
- DISCOMs are expected to issue bonds for the remaining 25% of their debt.
- Government of India will not include the debt taken over by the States as per the above scheme in the calculation of fiscal deficit of respective States in the financial years 2015-16 and 2016-17.
- States not meeting operational milestones will be liable to forfeit their claim on Integrated Power Development Scheme (IPDS) and DeenDayalUpadhyaya Gram JyotiYojana (DDUGJY) grants.

What are the findings of the report?

- UDAY failed to reform the State-run power distribution sector, despite 82% of bailout package (bonds) utilised by States.
- Out of the 21 States that participated in the scheme, operational losses increased in seven States during April-September 2016.
- Operational loss is the difference between the average cost of supply (ACS) and average revenue realised (ARR).
- The exceptions are Gujarat and Chhattisgarh. While Gujarat discom increased profits, Chhattisgarh earned a positive margin.
- They were one of the few better managed discoms (along with West Bengal that didn't participate in UDAY) and continue to remain so.

What are the implications?

- Aggregate Technical and Commercial (AT&C) losses have increased by 0.7 per cent to 16.1 per cent in 10 states, including Haryana, Karnataka, Maharashtra, Rajasthan, Andhra Pradesh, Bihar, Punjab, Chhattisgarh, Uttarakhand and MP.
- Revenue loss can be a function of either high cost of electricity purchase or low tariff.
- But AT&C loss is a clear measure of the operational efficiency of a discom.
- Like the previous two bailout packages in 2001 and 2012, UDAY too insisted on reducing AT&C losses to a respectable 15%.
- But the figures show DISCOMs utilized funds to clear the balance-sheet without much attempt to improve efficiency.
- If there is no improvement in operational efficiency, there will soon be need for another UDAY.

4.15 Spectrum Cap

Why in news?

- Vodafone and Idea are in merger talks.
- They are planning to ask the Department of Telecommunications (DoT) to relax the ceilings on spectrum ownership.

What is the spectrum cap?

- Energy travels in the form of waves known as electromagnetic waves.
- These waves differ from each other in terms of frequencies.
- This whole range of frequencies is called the spectrum.
- In telecommunication like TV, radio and GPRS, radio waves (electromagnetic waves) of different wavelengths are used. They are divided into **bands** based on frequencies.
- The spectrum cap is the limit of radio-waves a telecom operator can hold for providing wireless services.

What are the current rules?

- Spectrum cap rules are to prevent an operator from accumulating unreasonable amount of spectrum that might result in the monopoly of the operator.
- At present, a single telecom network cannot own more than 50% of the wavelengths in a single band and 25% of all the wavelengths assigned in a telecom circle.

Why the ceiling should be reduced?

- If these two telcos actually merge, the resultant entity would need to surrender a significant amount of spectrum under these current rules.
- **Irrelevant -** These restrictions were put in place when there were 8 - 10 networks in each circle to protect the smaller networks from the bigger ones.
- But this hyper-competition has been reduced leading to around four large networks in each circle. Hence the current rules become irrelevant.
- **CCI -** Though cartelisation amongst the networks is a genuine threat, but there is Competition Commission of India to ensure that it doesn't happen.
- **Quality -** If the base of a network subscribers rises, its inability to buy spectrum will **severely impact the quality of its service.**
- **Restricted choices -** A smaller network can't sell its spectrum since the caps restrict their choice. It can only negotiate with those networks which have spectrum way below the ceiling.
- **Consumption increase-** In the last few years, there is a steep rise in data consumption. So, the networks need more wavelengths. But their efforts are hindered by the caps.
- **It also impacts the ease of doing business** as the exits of network and consolidation are being difficult because of the cap.
- The government wants to leverage mobile networks for better governance which would also require more spectrums.

4.16 Cost Regulation on Cardiac stents

Why in news?

National Pharmaceutical Pricing Authority (NPPA) has capped the prices of medical stents, which are used to treat coronary artery disease.

What is a stent?

- A stent is a tube-shaped device that, when inserted into a blocked blood vessel, can help clear the blockage.
- This is sometimes done through physical means (Bare metal stents BMS) but often through the drugs that the stent gives out at a slow rate (drug-eluting stents).

What is the current move?

- The price cap for BMS is Rs 7,260 while that for a drug-eluting stent is Rs 29,600.
- It has brought the price up to 40% lower than their existing market rates.
- The notification makes no distinction on whether a stent is branded or unbranded, manufactured locally or abroad.
- So long as it is being sold in the country, no stent can cost more than the current capped price.
- Those selling at lower than the ceiling prices will have to maintain the existing MRP.
- All health service providers using coronary stents and billing directly to patients also will have to comply with the price ceilings.

What is the need to regulate?

- Higher cost of necessary stents.
- The fact that nearly two-thirds of the high out-of-pocket expenditure on health incurred by Indians went towards drugs.
- There was irrational use of medical technologies, including cardiac stents and knee implants because of the profit margin available.

What will be the impact?

- This makes stents more accessible to patients who really need them.
- Helps in reducing the dependence of weak insurance cover available.
- Reduces the incentive for unethical hospitals to use them needlessly.
- It provides an opportunity to expand the availability of stents, and by extension angioplasty procedures, in the public health system.

What is the health care providers' demand?

- They often demand market-determined pricing of medical technologies on the ground that newer ones will not be available under a regulated regime.
- In the case of cardiac stents, this argument does not hold water since stakeholder consultations held by the NPPA in January revealed that there are huge unethical mark-ups in the supply chain.

- It would serve the cause of medical innovation if costing is transparent, and a system of risk pooling is introduced to help patients get expensive treatment without high out-of-pocket spending.

What should be done?

- A two-pronged approach should be followed by Centre i.e. it should monitor expenditures jointly in partnership with the community, use regulation where needed, and also raise public spending on health.
- District hospitals should offer cardiac treatments uniformly.
- This should be a priority programme to be completed in not more than five years.

4.17 Junking the TPP

Why in news?

US had exit from the Trans-Pacific Partnership (TPP) and the North American Free Trade Agreement (NAFTA).

What is TPP?

- It is an agreement between 12 Pacific Rim countries including the US, Japan, Canada, Mexico, Vietnam and New Zealand, together accounting for 40 per cent of world gross domestic product.
- The TPP contains measures to lower both non-tariff and tariff barriers to trade, and establish an investor-state dispute settlement (ISDS) mechanism.
- NAFTA is essentially a tariff union between the US, Canada and Mexico that has been operational since 1994.

What is the impact of US abandoning TPP?

- The biggest losers would be Vietnam, Singapore and Malaysia.
- Some of them had low tariff access to the US but would gain through the removal of non-tariff barriers.
- With TPP out of the way, Regional Cooperation and Economic Partnership (RCEP) that includes both India and China would gain ground.
- Thailand and Korea that were excluded from TPP are part of the RCEP and would stand to gain.
- The TPP purported to do more than just slash tariffs.
- It included higher standards on a bunch of things such as anti-corruption measures, intellectual property obligations, human rights and child labour conditions, and environmental commitments came within its ambit.
- These issues might stand unaddressed for now.

What is the impact on India?

- India declined to join because of some of the restrictive conditions that the pact implied.
- The RCEP might have China has its pivot, but would include all ASEAN countries and would cover goods, services, investments, competition and intellectual property rights policy among other things.
- India stands to gain from this but has to reconcile to the prospect of China is role and leveraging the trade agreement to further its political aspirations in the region.
- Therefore India will not be hurt by junking the TPP.

4.18 Steps to curb Thin Capitalisation

Why in news?

The steps were taken in Union Budget 2017 to address the issue of thin capitalisation

What is Thin Capitalisation?

When a local company has more debt than equity, the situation is called thin capitalisation.

Why is thin capitalisation bad?

- Generally interest paid for a debt is not taxed.
- Therefore an Indian unit would pay high interest to the foreign associated firm to avoid tax.
- Also the interest paid by the local company to the foreign associate was taxable at a lower rate when the foreign company was registered in a tax treaty country.

What is EBITDA?

- Earnings before interest, tax, depreciation and amortization (**EBITDA**) is a measure of a company's operating performance.
- It is a way to evaluate a company's performance without having to include financing decisions, accounting decisions or tax environments.

What are the measures taken?

- Section 94 B in the Finance Bill increased the tax burden on local company which have low equity but have taken high debt from foreign associates is increased.
- Now if the interest paid by a local company is more than 30% of Ebitda, it will not allowed any tax exemption.
- Section 94 B is applicable to an Indian firm or MNC operating via permanent establishment in India, which has debt from a non-resident associated enterprise and pays interest or similar consideration of over Rs 1 crore to the associated enterprise.

What are the consequences?

- Introduction of thin capitalisation rules is in line with international practice.
- But it also has some negative effects.
- Tax payment of several companies with high debt and low Ebitda could increase, reducing their profitability.
- This provision could have an adverse impact on capital intensive and highly leveraged companies.
- This will affect the capacity of a borrower to repay the interest on borrowings and therefore it is a negative for banks too.
- New companies setting up branches or subsidiaries will also need to factor in the thin capitalisation limitations while determining their funding structure i.e. might deter new investments.

4.19 Non-fumigated wheat

Why in news?

From March 31, 2017, the wheat imports to India must be **fumigated with methyl bromide** at the port of origin, else, the cargo would be disallowed from entering Indian shores.

What is fumigation?

- Fumigation is a **method of pest control** that completely fills an area with gaseous pesticides (or fumigants) that suffocates or poisons the pests within.
- It is mainly used to control pests in buildings (structural fumigation), soil, grain, and produce.
- It is also used during processing of goods to be imported or exported to **prevent transfer of exotic organisms.**

Why is India insisting on fumigation?

- It is seen as the most effective way to kill all pests, insects and nematodes.
- **Substitution is a costly proposition** and a tricky one in colder climates.
- Instead of methyl bromide, **aluminium phosphide can be used** as a fumigant.
- But what can be done in 16 hours with methyl bromide takes three days with aluminium phosphide and the cost also increases three times.

What is the plant quarantine order?

- The Plant Quarantine (Regulation of Import into India) Order, 2003 has a stipulation that all imports of agricultural produce be fumigated with methyl bromide.
- However, the developed nations are agitated over this stipulation.
- The reason being **Methyl bromide is forbidden in developed nations,** and its use was restricted by the Montreal Protocol due to its role in ozone depletion.
- In the past, if fumigation is not done at the port of origin, the consignments cane be fumigated at Indian ports on paying a penalty of around of $375 per tonne against the normal fee of $75 per tonne.
- But, from March 31, **fumigation will have to be done only at the port of origin.**

What is the recent issue?

- Some global companies, in collusion with importers, are **forging the certificates showing ships were fumigated.**
- This could lead to tonnes of non-fumigated wheat entering India among imports over 5.5 million tonnes in 2016-17.
- To avoid paying $375 per tonne, some importers showed wheat consignments were fumigated en route.

What is government's response?

- The new rules from March 31 could permit some relaxations, given that imports have already been contracted.
- In the meantime, India could allow import of wheat from countries till the time it analyses pest risk control reports sent by them.
- The Press Trust of India recently said that the government was considering relaxing rules related to fumigating pulses imported from Canada.

5. MARCH-2017

5.1 Amendments to the Finance Bill, 2017

Why in news?

Lok Sabha made several amendments to the Finance Bill 2017 and passed.

What is a Finance bill?

- It typically includes provisions that give effect to the imposition of a tax or a change in existing tax rates such as a lowering of income tax, changes to customs or excise duties etc.
- Finance Bill is essentially a Money Bill and so it only needs the approval of Lok Sabha.
- Rajya Sabha may only make recommendations.
- If Rajya Sabha does not pass the Bill within 14 calendar days, it is deemed to be passed.
- It is different from Financial Bill, which involves matters in Article 110 along with other matters and hence can be resolved by Joint Sitting in case of deadlock.

What were the proposed amendments?

- **Aadhaar mandatory** - It has been mandatory for every person to quote their Aadhaar number while applying for a Permanent Account Number (PAN), or filing their Income Tax returns.
- In case a person does not have an Aadhaar, he will be required to quote their Aadhaar enrolment number, indicating that an application to obtain Aadhaar has been filed.
- **Tribunals -** Certain Tribunals are proposed to be replaced, and their functions are proposed to be taken over by existing Tribunals under other Acts
- Currently, terms of service of Chairpersons and other members of Tribunals, Appellate Tribunals and other authorities are specified in their respective Acts.
- Amendments propose that the central government may make rules to provide for the (i) qualifications, (ii) appointments, (iii) term of office, (iv) salaries and allowances, (v) resignation, (vi) removal, and (vii) other conditions of service for these members.
- **Corporate Funding -** Currently, a company may contribute up to 7.5% of the average of its net profits in the last three financial years, to political parties.
- It has to disclose the contributions made to political parties in its profit and loss account, along with the name of the political parties.
- The amendments propose to remove the 7.5% limit and the the requirement of a company to disclose the name of the political parties.

- The contributions will have to be made only through a cheque, bank draft, electronic means, or any other scheme notified by the government.
- It contains provisions to introduce electoral bonds to make contributions to political parties.
- **Cash Transactions -** The cash transactions above two lakh rupees will not be permitted to a single person in one day, for a single transaction and for any transactions relating to a single event.
- **Power to impose penalty -** The Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996 were amended in 2004 to empower the adjudicating officer to impose penalties on offenders for various offences including their failure to furnish information, documents or returns.

What are the issues?

- It has broad spectrum legislation encompassing subjects way beyond the the scope of Article 110.
- By passing it as Money Bill, the government ignored the collective wisdom of the Rajya Sabha.
- It introduces draconian provisions giving unfettered power to taxmen to search and seize without any real accountability .
- It allows taxmen to clutch at much more than is required in name of tax compliance.
- It converges unconnected Appellate Tribunals on an imagined synergy e.g airport regulatory appellate with telecom appellate.
- Section 179 empowers the government to make rules for all terms of service, including appointment, salary and removal of members and chairpersons of Tribunals etc. This subjects substantive powers and privileges of tribunals to delegated rule making control of the executive.

What is the difference between Bill and rules?

- A Bill passed by Parliament includes the broad regulatory framework and principles governing the sector.
- It allows the government i.e the executive to specify the details of implementation through rules.
- This is to address the need for expediency and flexibility in implementation of laws.
- While a Bill requires parliamentary approval in order to be enforced, rules do not require such approval.
- The current move lowers the threshold of parliamentary scrutiny.

5.2 Insolvency and Bankruptcy

What is the difference between Insolvency and Bankruptcy?

- Though the terms are used interchangeably, insolvency and bankruptcy are not synonymous.
- The line of difference is thin, **bankruptcy being a legal option,** if the insolvency is not addressed.
- Insolvency is a state of affairs in which the financial difficulties of a company are such it is unable to run its business at its current pace.
- Warning signs could be drop in sales, delay in payments, erosion of share capital and increasing reliance on credit.
- But **insolvency is capable of being managed or resolved** and a company does not have to declare bankruptcy.

- Most developed economies have recourse to debt management, consolidation or restructuring schemes as alternatives to bankruptcy in dealing with insolvency.
- **Bankruptcy laws are more rehabilitation oriented**.
- Companies are more valuable while operational, than sick or dead, and business should not be held to ransom by a few creditors.
- Yet showing too much tolerance to defaulters sets a bad precedent.
- If the existing framework is unable to provide effective rehabilitation or speedy recovery, then it needs to be trashed.

What are the issues with Indian laws?

- The Indian Bankruptcy regime is still rooted in the Companies' Act, 1956.
- The processes are **sluggish and cumbersome,** and very often productive assets lie dormant and eventually perish.
- Existing Insolvency laws are unconsolidated. The archaic **Provincial and Presidency Towns Insolvency Acts** which pertain to individual insolvencies continue to govern SMEs.
- India's Insolvency regulator, the Board for Industrial and Financial Reconstruction **(BIFR)** has been a nightmare zone for sick industrial companies as defined under the **SICA, 1985.**
- The SARFAESI brought relief to a class of secured creditors, but it's not a substitute for an 'insolvency regime'.
- High expectations are pinned on the Companies Bill, which has promised a insolvency rehabilitation fund and a regime based on the UNCITRAL Trade law model.
- Unfortunately, the Indian experience in adopting UNCITRAL model has not been positive.
- While relying on global best practices for guidance, they have rejected the Indian committee centered approach and adapted the American model to fast track timeframes and early exit options.

5.3 GDP Surprise

Why in news?

CSO has released the data for the third quarter of 2016-17 (Oct-Dec) and concluded that the GDP in Q3 grew by 7% and the growth rate for the whole year would be 7.1%.

Did demonetisation impact economic growth?

- The CSO data did not answer that question.
- The argument that demonetisation did not and will not have a negative impact on the economy is very hollow and immature.
- Even the former CSO chief statistician, after reviewing the data, has concluded that the data (of 3rd quarter) is deficient and the growth rate for the whole year is likely to be revised downward to 6.5%.
- After the **changeover to the new methodology,** the CSO publishes estimates of Gross Value Addition (GVA) and GDP.
- GVA growth rates during three years is given below:

	2014-15	2015-16	2016-17
Q1	7.26	7.75	6.89*
Q2	7.91	8.44	6.69*
Q3	6.29	6.95	6.61
Q4	6.19	7.42	?
Whole year	6.94	7.83	6.67 (est)

*after downward revision

- **Demonetisation affected every sector of the economy except three.**
    1. it**did not affect government expenditure.** And the govt actually increased its spending after November 8, 2016;
    2. it**did not affect the monsoon.** Since it was bountiful, it boosted agricultural production; and
    3. it**did not affect the revenues of utilities.** Actually demonetised notes were allowed to be used for paying utility bills.
- Therefore, if we look at the GVA growth rates after excluding government, agriculture and utilities, it will show the real picture of the economy. And it looks like this:

	2015-16	2016-17
Q1	9.26	7.35
Q2	9.82	6.47
Q3	9.98	5.73
Q4	8.76	?

What conclusion can be made from above?

- From the above data, it is clear that economic growth in the non-government, non-agricultural economy slowed down since Q4 of 2015-16.
- Demonetisation that happened in the middle of Q3 actually **accelerated the decline of economic growth.**

Why the situation is still bleak?

- While the GVA/GDP data may have given a surprise, other **indicators point to an economy that is not investing more,** not producing more and not creating more jobs.
- Compare the GVA growth numbers in Q3 of 2015-16 and Q3 of 2016-17. In the Mining, Manufacturing, Construction, etc., the GVA growth number has declined sharply in 2016-17.
- In Q3 of 2016-17, the Index of Industrial Production (IIP) recorded a meagre growth of 0.2%.
- Bank credit growth to industry was negative at 4.3%.
- By September 2016, net fixed assets of all firms had declined by 9.36%.
- When data for the informal sector is also captured, the GVA growth number will be moderated and will be lower.

5.4 GST Introduction

How sales tax used to work?

- **Example 1**
- **Stage 1 -** Imagine a shirt manufacturer. He buys raw material worth Rs 10,000, for which he pays a sales tax of 10% i.e Rs.1000.
- He manufactures shirts by adding value of Rs.5000 including profit.
- **Stage 2 -** While calculating the total cost, the manufacturer will include 10,000 + 1000 + 5000 and fix the price as 16,000.
- The customer buying will pay 16,000 + 10% sales tax i.e 1,600 resulting in the final cost of 17,600.
- 1600 = Rs.1000 as tax on 10,000 (collected for the 2nd time) + Rs.100 as tax on 1000 (tax on tax) + Rs.500 as tax on 5000 (tax on value added)
- So the total tax collected by the government in both the stages is 2,600.

What were the flaws in it?

- It collected the sales tax of Rs.1000 on initial Rs.10,000 goods twice.
- It also had cascading effect i.e collected Rs.100 as tax on tax.
- This also increased the final price of the product, making it difficult for the end customer to pay.
- Unlike direct taxes, higher indirect taxes like sales tax will affect the poor more than the rich.
- To avoid the higher tax, people used to transact without invoice hence resulting in higher tax evasion.

How did VAT solve the problem?

- VAT is sales tax introduced with the promise of reimbursing the seller with the tax he paid at the earlier stages.
- **Example 2** – After application of VAT in **stage 2** of Example 2, while calculating the total cost of the product, the seller includes 10,000(raw material) + 5000 (value added) only. He leaves out 1000 paid as tax in the previous stage because it will be reimbursed by the government.
- So the customer buys at the cost of 15000 + 10% VAT i.e 16,500.
- Here the tax government is 1500.
- Thus the VAT successfully reduced the tax rate and removed the cascading effect.
- The tax is reimbursed by input tax credit.
- It is the credit manufacturer's received for paying input taxes towards inputs used in the manufacture of products. Similarly, a dealer is entitled to input tax credit if he has purchased goods for resale.
- Input tax credit = Tax collected by the Seller - Tax paid by the Seller.
- e.g A seller paid Rs.2000 as tax for buying 200 units of pen. He sold 100 units in a month and collected only Rs.1000 tax from the customer. So Input tax credit is 2000 – 1000 = 1000. So the seller will be having Rs.1000 in his credit. Next time when he pays tax this amount is subtracted.

What are CENVAT and MODVAT?

- VAT removed the cascading effect only in sales tax.
- The cascading effect continued in other indirect taxes like excise duty, service tax etc.
- So to remove this MODVAT was introduced. It works in the same principle like VAT and provides input credit to Central Excise Duty.
- Later CENVAT replaced MODVAT and it provides input credit to Central Excise Duty along with the Service Tax .

What is the need for GST?

- Input credit facilities were available for few types of taxes.
- Electricity, Petrol, Advertisements were not included in State VAT resulting in continuation of cascading effects in these areas.
- The input credit facilities available for CENVAT and State VAT cannot offset each other resulting in maintaining multiple accounts and multiple credits.
- Different tax rates were applied across states resulting in complication of business transactions.

What is GST?

- GST is one indirect tax for the whole nation, which will make India one unified common market.
- It is a single tax on the supply of goods and services, right from the manufacturer to the consumer.
- It is a destination based tax i.e will be collected at the state where the goods are sold instead of the manufacturing states.
- In India, GST Bill was first introduced in 2014 as The Constitution (122nd Amendment) Bill.
- This got an approval in 2016 and was renumbered in the statute by Rajya Sabha as The Constitution (101st Amendment) Act, 2016.
- The provisions are -

1. Central GST to cover Excise duty, Service tax etc, State GST to cover VAT, luxury tax etc.
2. Integrated GST to cover inter-state trade. IGST per se is not a tax but a system to co-ordinate state and union taxex.
3. **Article 246A – States have power to tax goods and services.**
4. **Article 279A** - GST Council to be formed by The President to administer & govern GST. It's Chairman is Union Finance Minister of India with ministers nominated by the state governments as its members.
5. The council is devised in such a way that the centre will have 1/3rd voting power and the states will have 2/3rd.
6. The decisions will be taken by 3/4th majority.

What are the taxes that are currently exempted in GST?

- Custom duty will be still collected along with the levy of IGST on imported goods.
- Petroleum and tobacco products are currently exempted.

- Excise duty on liquor, stamp duty and electricity taxes are also exempted.

What are the advantages of GST?

- It makes the taxation simple.
- It promotes exports. Zero rated exports i.e full tax credit will be given for exports.
- No/Less cascading effects.
- It will increase job creation and promote MSMEs. Currently, Big Companies make their spare parts themselves to avoid indirect taxes in between manufacturing. Now these businesses will be delegated to smaller MSMEs.

What are the challenges?

- SCGT and CGST input credit cannot be cross utilized.
- Manufacturing states loses revenue on a bigger scale.
- High rate to tax to compensate the revenue collected now from multiple taxes i.e High Revenue Neutral Rate.

5.5 GST Bills

Why in news?

- Goods and Services Tax (GST) is proposed to be implemented ad a new, consolidated indirect tax regime from July 1, 2017.
- Lok Sabha passed four Bills, relating to the implementation of the GST.

What are the new bills passed?

- The Central GST Bill, the Integrated GST Bill, the GST Compensation Bill, and the Union Territory GST Bills are the four new bills.
- The fifth legislation i.e the State GST Bill, will be passed by the Assemblies of each of the States and the Union Territories with legislature.

What were the objections made to the bill?

- The disempowerment of Parliament in setting tax rates as GST council will be formed for this purpose.
- There is still need for several tax rates when the principle is to be of 'one nation, one tax'. The ceiling rates are expected to be 0%, 5%, 12%, 18% and 28%.
- The reduction in the fiscal autonomy of the States.
- The uncertainty over the addition of petroleum products, land etc. under GST.
- Concerns raised by banks and insurance companies over the need for multiple registrations under GST.
- The levy of additional cess.
- The law allows the States leeway to depart from a recommended SGST rate. Therefore, the challenges ahead lie in GST Council's leadership skills to carry everyone along.
- The monthly filing of GST returns is 'auto-populated' — which means that a registered supplier must upload all details of his transactions, with the tax element.

- Such humongous data gathering has not been attempted elsewhere, and the software should be tested.
- The capacity of State tax authorities, so far used to taxing goods and not services, to deal with the latter is an unknown quantity.
- The success of GST depends on political consensus, technology and the capacity of tax officials to adapt to the new requirements.

What is the justification of the government?

- **Parliamentary power -** The recommendation of the rates will come from the Council but the GST Council has been given the power to only make a recommendation regarding the model law.
- The Constitutional amendment gave that power in Article 279A. The plenary power to frame legislation can only be with Parliament or the state legislative assemblies.
- **State Autonomy -** The Council has two-thirds voting by the States and one-third by the Centre.
- But the states and the Centre must be guided by the federal nature of the agreement between the Centre and the states.
- If every state decided not to act on the GST Council's recommendations and set a different rate, then the implementation of GST become practically very difficult.
- **Multiple Rates -** If there was only a single rate, then the GST regime would be a highly regressive one as luxury goods would then be taxed at the same rate as necessities.
- **Real Estate** - The Council had taken a decision that the aspect of bringing the real estate sector under GST would be reviewed in the first year of rollout.
- **Petroleum Products -** The Constitution provides that these items would attract GST, though the rate has been kept at zero.
- Going forward, it would require only an executive decision on setting a rate on petroleum products.
- **Multiple Registrations -** A clause has been provided that can provide an exemption in exceptional circumstances and the GST Council will take a call on it.

5.6 GST Principles

What is the issue?

- Items are to be assigned to the different GST slabs and the exact amounts of the cesses will be decided.
- The actual rate structure has already become overly complicated and has to be addressed.

What should be the GST's principle?

- The guiding principle cannot be to minimize departures from the status quo.
- Instead, the principle must be to make GST facilitate compliance, minimize inflationary pressures, be a buoyant source of revenue, and command support from the public at large.
- The GST is a consumption tax, so any differentiation of rates should be minimal and should be linked to protecting the consumption basket of the poor while imposing a greater burden on the rich.
- GST should not to be coupled with multiple objectives like such as employment, industrial policy, and social engineering.

- Another general point and one that will pose a communication challenge is this: today's headline tax rate is not the actual tax burden felt by the consumer. What you see is NOT what consumers get. So, if the government imposes a GST rate that seems greater than today's rate (excise plus VAT combined), it does not necessarily follow that the tax burden has gone up. The reason is that today there are a lot of embedded taxes (the so-called cascading).

- **Tax Structure -** The top rate has been proposed to be at 28%. This can be reduced to a combined rate of 20%.

- If this is not feasible and multiple rates of 18% and 28% are here to stay, the number of goods that are placed in the 28% slab must be kept at an absolute minimum.

- The bulk of consumer goods that are currently envisaged to be in the 28% category should be moved to the 18% category.

- The 28% slab should include only the demerit goods like air-conditioners and cars.

- Centre should bargain to lower the compensation threshold (from say 14% to 12%) if states insist on placing goods in the lower rate slabs.

- Our tax policy and system must minimise the differentiation between a good from a service. A single rate will also avoid misclassification between services. If services are also allocated between the different rates, the result will be a messy system with multiple categories for both goods and services.

- **Textiles and Clothing -** If India is to become a serious clothing exporter the GST must provide for a simple structure. All textiles and clothing products should be subject to the standard 18% tax.

- **Gold -** Gold should be treated like any other item of luxury consumption. The government should to repeat its resolve shown in levying 1% excise duty.

- But the argument that high tax can lead to evasion has some merit in the case of a high value product such as gold.

- Currently, even though the total headline tax on jewellery is 2%, the effective burden faced by consumers is about 10-12% because of cascading and non-availability of input tax credits.

- So there would be no increase in burden if the GST rate is set at 12% (with free flow on input tax credits). It would not make any sense if gold and gold products were taxed at anything below a GST rate of 12%.

- **Tobacco products -** Today most tobacco products are taxed at very high rates reflecting their potential to cause cancer and other diseases.

- Bidis on the other hand attract very low taxes in some states on the grounds that bidis are made in the small-scale sector and lead to livelihoods for millions.

- This is a classic case of multiple objectives leading to distortionary taxation. In consumption, bidis are no less harmful than cigarettes.

- So, the GST as a consumption tax should treat the two similarly.

- The objective of helping bidi workers should be addressed through other fiscal tools such as subsidies.

- Some states such as Karnataka and Rajasthan that tax bidis heavily others like West Bengal have low levels. This should be uniform.

- **CVD and SAD exemptions** - Currently, numerous exemptions are granted on Countervailing Duty (CVD) and Special Additional Duty (SAD) levied on imports which favour imports over domestic production. Under the GST, both will be combined and a uniform IGST will be applied on imports. If any import IGST exemptions are allowed under the GST (to mimic the current CVD and SAD exemptions) that would make a mockery of the PM's Make in India initiative.

- GST suffers from weaknesses largely related to the exemption of so many items from its scope like alcohol, petroleum, electricity, land and real estate, health and education. In order to minimize the damage, at least the structure of rates on those products not excluded should be low, simple, and efficient.

5.7 India's Tax Net Paradox

What is the issue?

- The Finance Minister in his Budget speech this year claimed that India is "a tax non-compliant society and too many people evade taxes".

- Prime Minister stated that "only 24 lakh Indians reported an income greater than 10 lakh rupees.

- Former Finance Minister in his 2013-14 Budget speech said that "only 42,800 persons admitted to an income of more than Rs.1 Crore per year".

What is the reason behind this scenario?

- India's per capita GDP is roughly Rs. 1 lakh, i.e. the average Indian earns a lakh of rupees every year.

- However, the income tax exemption threshold in India is Rs. 2.5 lakh, i.e. anyone earning below Rs. 2.5 lakh need not pay income tax.

- A majority of Indians earn less than Rs. 1 lakh.

- Therefore an income tax exemption threshold of Rs. 2.5 lakh leaves a vast majority out of the tax bracket

- NSSO survey says that the average income of the richest 20% of Indians is Rs. 95,000.

- This means that even a large majority of the richest 20% of Indians do not qualify to pay income taxes.

- Thus the low tax compliance turn out of only 3% of Indians pay tax, is not because of a large number of Indians avoiding tax, as portrayed.

- It is merely due to the fact that India is a poor country with a high income tax exemption threshold.

- Adding to this is India's large income inequality - a greater majority of Indians earn less than Rs. 1 lakh while a small number at the top earn a very large amount.

Why India has less people in Income tax bracket?

- India has increased the income tax exemption threshold from Rs. 40,000 to Rs. 2.5 lakh in the last two decades.

- China has only doubled the threshold from 10,000 Yuan to roughly 20,000 Yuan in the same period, in spite of faster growth.

- It is the only large economy with an income tax exemption threshold that is 2.5 times the average national per capita income.
- In emerging economies such as China, Brazil and Argentina, anyone earning 1.5 times the average national income falls under the income tax bracket.
- If India lowers its income tax exemption in line with the rest of the world more Indians will fall under the tax bracket.
- But given the income levels, this reduction will not fetch any meaningful extra tax revenues for the government but will merely bring more people into the tax bracket.

What is the global scenario?

- Even in the much richer United States, only 12.5 lakh people out of nearly 20 Crore adults reported an income greater than 10 times the per capita GDP of the U.S.
- In the United Kingdom, only 2 lakh people out of an adult population of 4 Crore reported an income of greater than 10 times the average annual income
- The developed nations examples proves the existing low tax compliance issue in India
- Therefore it is wrong to conclude that India's small number of taxpayers is entirely a result of some genetic and cultural trait of dishonesty of Indian society at large.
- The proclamation of India as a tax non-compliant society can be true only when India is much richer than her GDP numbers.

5.8 Charging the Cash Transactions

What is the issue?

India's top three private banks - ICICI Bank, HDFC Bank and Axis Bank, have started charging customers a transaction fee for cash withdrawals and deposits at their branches.

What are the impacts?

- Customers will now have to pay a minimum of Rs 150 for every additional cash transaction at the branch after the first four transactions.
- India's largest bank, the SBI, is also set to charge customers Rs 50 for cash deposits beyond three such transactions in a month.
- The move to impose charges has been incorporated to promote digital payments in alignment with the government's broader push on digital economy.
- A digital economy is expected to further tax compliance and, in turn, higher revenues.
- But the move comes at a time when the latest RBI data shows a month-on-month decline in electronic transactions in the months of February and January.

Is the justification valid?

- Forcing people to switch to digital forms of payment by levying steep charges can't be an optimal solution.
- The use of cash is still widespread and with a large unbanked population and informal sector.

- Banking is still a privileged business where regulators allow a limited number of entities after making sure that they are the ones customers can trust.
- One of the accepted principles of good regulation is weighing the costs to customers against the perceived benefits, of a proposed move.
- By this logic the current move is more detrimental with less benefits.
- A competitive financial system does have its benefits.
- But banks ought to also fulfil some of the aspirational needs of the country.
- The RBI's mandate is also to extend customer protection.
- Therefore the government need to step in and ensure the right balance between state policy and consumer rights.

What is the way ahead?

- A better way for banks to promote digital payments is to offer incentives to consumers and firms to shift to digital platforms.
- Instruments like transaction fee may lead to cash hoarding, put off potential customers and render financial inclusion an even more difficult task.

5.9 Sustaining exports

Why in news?

The trend of contraction in exports has been arrested, following six straight months of growth.

What are the reasons behind the growth?

- There has been 17.5% year-on-year rise in February 2017, the highest expansion since October 2011.
- This will also be the first time since 2013-14 that India's exports growth is likely to end the fiscal year on a positive note.
- The recent growth has been led by a sharp jump in a few items such as iron ore and engineering goods.
- The impact of recovery in oil prices also helped India's exports earning from petroleum products as well as demand for Indian goods from oil-rich nations in West Asia.
- But its influence on full year exports may be neutral.
- This will also lead to a jump in India's import bill, because crude oil is the nation's largest import.

What is in the future?

- Oil prices have once again softened recently due to doubts over effectiveness of production cuts mandated by the Organisation of Petroleum Exporting Countries.
- Such volatility in oil prices may once again lead to a widening of trade deficit, as imports continue to rise much faster than exports.
- There is also increasingly protectionist approach worldwide as opposed to more integrated on trade.

What should be done?

- The only way to help exports grow is by becoming more competitive through lower costs.
- The US is the largest destination for Indian exports accounting for about 15 per cent of outbound merchandise.
- The good news is that India's exports to Asian nations, including immediate neighbours such as Nepal, and to Vietnam and Malaysia have been rising.
- Additional efforts to increase demand in these countries will stand India in good stead.
- It also needs to further diversify its geographical spread given the risk posed by a possible US protectionist policy.

5.10 World Happiness Report 2017

Why in news?

World Happiness Report 2017 was released recently at the United Nations at an event celebrating International Day of Happiness.

What are the criteria for the ranking?

- The happiness rankings are based on six factors.
    1. GDP per capita
    2. Healthy years of life expectancy,
    3. Social Support,
    4. Trust (measured by a perceived absence of corruption),
    5. Perceived Freedom to make life decisions &
    6. Generosity (measured by recent donations).
- The 2017 report also included a chapter on 'Happiness at Work' as the numbers of hours spent at work are usually a big part of people's lifetimes.

What are the findings of the report?

- Norway emerged at the top, displacing three-time topper Denmark.
- Denmark dropped to second place, followed by Iceland, Switzerland, Finland, the Netherlands, Canada, New Zealand.
- Australia and Sweden are tied for ninth place.
- The US came in 14th place, dropping one placve bottom-most countries on the 155 countries list are Burundi, Tanzania, Syria, Rwanda and the Central African Republic.
- The report finds that the overwhelming importance of having a job helps in inducing happiness.
- People with a job evaluate the quality of their lives much more favourably than those who are unemployed.
- The data also shows that rising unemployment negatively affects everyone, even those still employed.

Where does India stand?

- India is among the world's least happy nations.
- It always stood lower than Pakistan, China and Bangladesh.
- Its ranking has been declining steadily from 111st in 2013 to 118th in 2016.
- It is now ranked at 122 out of 155 countries, irrespective of the progress in per capita GDP over these years.

What are the reasons for the poor ranking?

- **Economy -** There is a huge disparity in the purchasing power of the Indian population.
- Nearly 1/4th of the population still is lives below the poverty line.
- Though, economics are not the only indicator of happiness, it is a necessary factor.
- Poverty also brings malnutrition and abysmal public health for a huge section of the population.
- **Opportunities -** India lags in access to education beyond higher secondary schooling is a restricted to a mere 10% among the university-age population in India.
- The disparity exists across genders, socio-economic religious groups and geographical regions.
- Fewer higher education institutions necessitate fierce competition among scores of contenders, inducing undue amounts of stress on young students.
- This combined with social perception of success and pressure to keeps a majority of young individuals from reaching a place of satisfaction and stability.
- **Women Safety -** Lack of safety and security to women is also a key factor to low societal happiness.
- According to NCRB, crime against women grew by 34% between 2012-15.
- **Liberty -** India also lacks in perception of personal liberties.
- e.g Supreme Court's order about National anthem in cinemas, the politicisation of universities or violence against creative expression like movies.
- **Mental Health -** Mental health care continues to be grossly underfunded.
- The government spends only 0.06% of its total health spending on mental care, while U.S. spends around 6%, UK 10% and Bangladesh 0.44 %.
- But at least 7% of Indians suffer from mental health problems.
- Also the psychiatrist to population ratio currently remains a grossly inadequate at 1/2-3 lakh people.

5.11 Human Development Report

Why in news?

2016 Human Development Report has been released released by the UNDP.

What are the findings?

- The HDI is a measure for assessing **progress in three basic dimensions** of human development

1. A long and healthy life
2. Access to knowledge &
3. Access to a decent standard of living.

- The world's top three countries in HDI are Norway, Australia and Switzerland.
- India slipped down one place to 131st place from 130 among the 188 countries ranked in terms of human development.
- India's HDI value is 0.624 and it is in the "medium human development" category, alongside countries such as Congo, Namibia and Pakistan.
- It is ranked **third among the SAARC countries,** behind Sri Lanka (73) and the Maldives (105.
- The largest gender disparity in development was in South Asia, where the female HDI value is 20% lower than the male value.
- 54% of people who live in multidimensional poverty are concentrated in South Asia.
- The percentage of women in the workforce is the lowest in India among the BRICS countries.
- India's public health expenditure (1.4% of GDP) was even lower than South Asian average spending (1.6% of GDP).
- **What were the postivies mentioned?**
- In India, between 1990 and 2015, life expectancy has improved by 10.4 years.
- Child malnutrition declined by 10% points from 2015.
- The report **praised India's reservation policy,** saying even though it has not remedied caste-based exclusions, it has had substantial positive effects.
- It also hailed the MGNREGA, Right to Information, National Food Security, and Right to Education Acts.
- It commended the Indian grassroots group **Mazdoor Kisan Shakti Sanghatan** for popularising social audits of government schemes.

What needs to be done?

- A central focus on social indicators is necessary for India to break free from its position as an underachiever.
- More should be done to eliminate subsidies for the richest quintile.
- The rise in revenues should go towards making public education of high standards accessible to all and delivering on the promised higher budgetary outlay for health care.
- Access to justice gets insufficient attention in the measurement of development is **the state of democracy.**
- India should ratify UN conventions on torture, rights of migrant workers and their families, and protection against enforced disappearance.

5.12 National Family Health Survey-4

Why in news?

National Family Health Survey-4 was conducted across 26 states and Union Territories.

What are the findings of the survey?

- This is **the first time** the government has conducted a survey to find out the incidence of diabetes and hypertension.
- More than 1/5th of India's population suffers from diabetes and hypertension.
- The overall incidence of **diabetes was20.3 %** and that of **hypertension 22.2 %.**
- States with a higher incidence of hypertension include Punjab, Sikkim and Maharashtra.
- States with the incidence of diabetes to be higher than the national average include Goa, West Bengal, Assam and Odisha.
- The deliveries by caesarean section are disproportionately high in private hospitals as compared to government ones.
- It is above the WHO's expected rate in any population i.e 25 %.
- The percentage of caesarean sections is the highest in private hospitals of urban Tripura i.e 87.1 %.
- The sex ratio improved from **914 to 919** at the national level over the last decade, with the top three states being **Kerala (1,047),** Meghalaya (1,009) and Chhattisgarh (977).
- In Haryana the sex ratio went down from 897 in NFHS-3 to 876.

5.13 India US - Import Alert

Why in news?

The stock of Divi's Laboratories dropped over 20% following the announcement that one its facility has received an import alert from the US drug regulator U S Food and Drug Administration (FDA).

What is import alert?

- Companies that sell medicines in the US market are required to comply with the regulations mandated by the FDA.
- Manufacturing units that supply drugs to the US are inspected by the FDA periodically.
- If they find any lapses in the adherence to the mandated regulations, the same is notified by the FDA in Form 483 as observations.
- This is the first level of action by the FDA in case of deviation from the **good manufacturing practices (GMP).**
- The company is given time to respond to the observations.
- If the reply is not convincing the FDA may issue a warning letter.
- This letter restricts the ability of that manufacturing unit to supply drugs to the US from that facility.
- Then the company has to appoint consultants to advice on corrective actions and its monitor implementation.
- After this, it approaches the FDA for re-inspection.
- If the FDA is not satisfied again, it issues an **import alert**.
- This implies a ban on the facility from supplying drugs to the US.

- However, there have been instances where the FDA has directly issued an import alert even without an initial warning letter.

Why is it important?

- The US is the largest pharmaceutical market in the world.
- The share of Indian pharma companies in the US market has risen significantly over the past few years, catering nearly 40% of its pharma drug requirement.
- Many patents are expected to expire in the upcoming years, opening a huge market for generic drugs from India.
- So to an investor in pharma stocks, it is important to keep a close tab on the regulatory action by the FDA as they can pose growth risks.
- The progression of observations into import alerts and warning letters has been increasing of late.
- So investors need to focus on the speed with which a company resolves these issues.

5.14 SEBI fined RIL

Why in news?

SEBI's recent order imposed a heavy penalty on Reliance Industries (RIL) for its unfair trade practices.

Why RIL is fined?

- RIL and 12 other entities were allegedly involved in the short sale of Reliance Petroleum Ltd (RPL) shares ahead of the amalgamation in 2007.
- A short sale involves selling borrowed shares with plans to buy them back later at a lower price.
- RIL had made "unlawful gains" of Rs513 crore, which could have been made by "fraudulent and manipulative strategy".
- In 2008, SEBI launched investigations into the matter and initiated quasi-judicial proceedings in 2010.
- SEBI completed investigation in 2015 and subsequently issued a showcause notice to RIL.

What is the current order of SEBI?

- It banned RIL from accessing the equity derivatives market for a year.
- It also directed the company to disgorge the profits made by violating the rules on unfair trade practices when it sold a stake in its erstwhile unit RPL.
- RIL has been asked to pay a penalty of around Rs1,300 crore.
- The other 12 entities named in the order have also been barred from trading in the futures & options segment for one year.
- RIL has been asked to pay up within 45 days of the order.
- The common perception that Indian regulators readily prosecute small offenders for infractions, while leaves giant firms, has been proved wrong by the order.

5.15 Fight against Shell Companies

Why in news?

Investigative agencies have found that about ₹ 4,000 crore of cash was deposited in shell companies following the demonetisation.

What are Shell Companies?

- It is a non-trading company used as a vehicle for various financial manoeuvres.
- They are paper companies incorporated around the world without any tangible business.
- Often many such shells have a common registered address with 'dummy' directors who may be real persons but are untraceable or unrelated to the business.
- In Kolkata, Delhi and other cities, over 300 companies can be found registered at one single address, all for facilitating illicit transactions.
- Suspicious transactions are often below the threshold of automatic banking software triggers.
- In some cases, 'seed' money is introduced as capital in one shell which is then passed on to other shells in a single day in a single branch.
- Thus, each company gets identical sums as capital, which is instantly lent or invested in another company.
- The exercise is repeated five to ten times to create the illusion of real transactions and multiplying money.
- In cases involving forex, large remittances are sent out as payment for fictional imports, advances or commissions, later moved into other shells and then brought back as receipts (called **round-tripping**).
- In India, shell companies have traditionally been used for rotating and siphoning off funds through fictitious sales, inflated purchases, unjust commissions or for creating equity for individuals operating behind the scenes.

How prevalent are they?

- In May 2016, investigations revealed that 24 ghost companies operating from a single branch of a leading public sector bank in Delhi were used to cheat the Government and banks of several crore rupees.
- The leaked Panama Papers (2016) exposed a global network of shell companies operating from tax havens used for moving assets and cash from one country to another illegally.
- An OECD reportsaid that shell companies are increasingly being used for illicit purposes.
- The SIT on black money says such manipulation of stocks and creation of non-taxable capital are gaining popularity.
- SIT points out that investments from the Cayman Islands, a tax haven, to India amount to ₹ 85,000 crore, reflecting the role of shells operating from tax havens in **money-laundering**.

What should be done?

- Cash deposits should be limited to ₹ 3 lakh to make large deposits or layering of cash difficult, if not impossible.
- Real-time monitoring and detection of unusual transactions should be done.

- **MCA 21**, the portal in which all corporate filings reside, is a good starting point. It can be mined for common directors, common registered addresses, little business and suspicious transactions to create alerts.
- A central **KYC registry** of transactions will also be useful.
- Technology plays a significant part in surveillance and oversight.
- Robust business rules embedded in the artificial intelligence (AI) of machines will help both pre-emptive and preventive actions.
- Swift and exemplary punishment is equally essential.
- Apart from those directly involved, others in the chain of activities should also be held culpable.
- The current levels of conviction for white-collared crimes, estimated at 0.006 per cent by some experts, needs to improve significantly.
- A strong deterrent mechanism brought about by diligent investigations and quick judicial decisions will produce the desired result.

5.16 The Ailing Telecom Sector

What is the issue?

- The telecom sector is facing challenges with lowering revenues due to free voice calls and the cheap data offered by Reliance Jio.
- This is complicated by the rigid regulations in the industry

What is the present scenario?

- The Industry has a debt burden of Rs 4 lakh crore.
- Banks are increasingly getting insecure about their exposure to telecom companies.
- Some foreign players have started to look for an exit from the sector. e.g Norway's Telenor group planning to exit by selling to Airtel.
- Consolidation has started happening as smaller players find the going tough. e.g Vodafone-Idea merger

What is the mandate of TRAI?

- Telecom Regulatory authority of India was established on 1997 by an Act of Parliament to regulate telecom services, including fixation/revision of tariffs for telecom services which were earlier vested in the Central Government.
- One of its main objectives is to provide a fair and transparent environment that promotes a level playing field and facilitates fair competition in the market.
- TRAI regularly issues orders and directions on various subjects such as tariffs, interconnections, quality of service, Direct to (DTH) services and mobile number portability.
- The TRAI Act was amended to establish a Telecommunications Dispute Settlement and Appellate Tribunal (TDSAT) to take over the adjudicatory and disputes functions from TRAI.
- TDSAT was set up to adjudicate any dispute between a licensor and a licensee, between two or more service providers, between a service provider and a group of consumers, and to hear and dispose of appeals against any direction, decision or order of TRAI.

What are the suggestions made by TRAI?

- To restore the financial health of the sector, TRAI asks the government to relook at the various levies collected from the networks.
- The first is to make the spectrum user charge uniform at 3% (of adjusted gross revenue) and then gradually reduce it to one per cent.
- At the moment, the industry pays between 2% and 6%.
- The licence fee should be lowered from 8% to 6%.
- The contribution to the Universal Service Obligation Fund should be cut from 5% to 1%.
- The fund is known to have collected over Rs 35,000 crore so far, which the government wants to use for Bharat Net - plan to link all village panchayats through fibre optic.
- TRAI has also suggested that networks be allowed to pay for spectrum over 20 years instead of the current 10 years.

What will be the outcomes of above suggestions?

- There will be financial repercussions if the government agrees to these suggestions.
- But, in the long run, these will ensure that the telecom sector stays robust.
- The government's push for digitisation depends critically on a viable telecom infrastructure.
- As the usage of data picks up, the networks will need to spend more on spectrum and equipment, but if they run out of resources to do so, there will be pandemonium all over.

5.17 Vodafone-Idea Merger

What is the issue?

Idea Cellular agreed to merge with the Indian unit of the U.K.-headquartered Vodafone making it a $23 billion giant.

What will be the outcome?

- The Vodafone-Idea merger will create the country's largest network with 400 million subscribers and 41 per cent share of industry revenue, ahead of Bharti Airtel and Reliance Jio.
- The combine will have a stronger balance sheet and will be able to cut down on expenditures.
- The move has stoked rumours that the current tariff war, initiated by the Mukesh Ambani-led Reliance Jio's entry into the high-speed data market in 2016, will possibly come to an end in the near future.

What are the causes?

- Due to the **poor financial health of the sector**, we are witnessing mergers, acquisitions and combinations of companies like Idea and Vodafone, Aircel and R Comm and MTS.
- Other companies such as Videocon and Etisalat have already left the industry because of this hyper-competitive pressure.
- Vodafone and Idea Cellular have decided to merge in order to survive in an industry that is seeing its fortunes dip with each passing quarter.

- **The high debt burden caused by steep spectrum prices and the tariff war unleashed by Reliance Jio** have left the industry gasping for breath.
- The numbers are startling: Of the five listed networks, four (except Bharti Airtel) reported losses in April-December 2016.

What the TRAI suggested?

- The Telecom Regulatory Authority of India (Trai) has from time to time made a case for **reducing the various levies imposed by the government on the networks.**
- It has suggested that the spectrum user charge be reduced from an average of 6 per cent of adjusted gross revenue to 3 per cent and then 1 per cent; the licence fee be lowered from 8 per cent to 6 per cent; and the contribution to the Universal Services Obligation Fund be reduced from 5 per cent to 1 per cent.
- It has also suggested that networks be allowed to pay for spectrum over 20 years instead of the current 10 years.

5.18 UDAN takes off

Why in news?

UDAN, the regional connectivity scheme has been rolled out recently.

What is UDAN scheme?

- Ude Desh ka Aam Naagrik (UDAN) is a scheme to develop the regional aviation market.
- It will create **affordable yet economically viable and profitable flights** on regional routes so that flying becomes affordable to the common man.
- It envisages providing connectivity to un-served and under-served airports of the country through revival of existing air-strips and airports.
- It would be in operation for a period of 10 years.
- It provides for various benefits including no airport charges and three-year exclusivity on the routes.
- The selection of airports where UDAN would start would be done in consultation with State Government and after confirmation of their concessions.

What is the current development?

- Five airlines will operate on 128 routes connecting over 30 unserved airports.
- The routes will connect 70 airports, including 31 unserved and 12 under-served ones under **UDAN** scheme.
- On each flight, **50% of the seats are capped at Rs 2,500 per seat** for one-hour travel.
- These flights would connect airports spread across over 20 states and union territories.
- The first flight under UDAN is expected to start next month.

What about Viability Gap Funding?

- It is a **grant given to support projects** that are economically justified but not financially viable.
- For UDAN, the money for VGF is partly raised through a levy of up to Rs 8,500 on flights operating in major routes like Delhi and Mumbai.
- It would be in place for three years for the airlines concerned from the date of starting operations in a particular UDAN route.

Why we need UDAN?

- It will connect 70 airports including 31 unserved ones like Shimla, Bathinda and Jaisalmer, and 12 underserved airports like Kullu.
- Bringing Tier 2 and Tier 3 into the country's aviation network is a significant development in a country where 80% of air travel is between the metros.
- The scheme will foster regional connectivity, make businesses and trade more efficient, enable medical services and promote tourism.

What are some of the challenges?

- There are fears that a **flight from an UDAN location will be low priority** for air traffic controllers in big cities.
- Airports in many Tier 2 and Tier 3 cities **do not have big runways,** so they can't take regular aircraft.
- Short takeoffs and landings need specialised crew.
- But India produces only around 200 to 300 pilots every year.

5.19 Kerala - Paddy Shortage

Why in news?

The Chief Minister was in the national capital in January seeking a greater allocation of rice to the State.

What is the reason for poor paddy cultivation in Kerala?

- It is a reflection of the failure of public policy.
- **Labor cost -** Initially men from agriculture sector migrated to gulf region in search of better opportunities.
- As the higher incomes transformed the households socially, the women too withdrew from agriculture.
- This hit paddy cultivation most because mostly women were traditionally in the planting and harvesting of paddy in the state.
- The sector began to face severe labour shortage.
- As a result the wage rose.
- This made the cultivation of paddy no longer viable, as cheaper rice came in from the rest of India.
- **Land Ownership -** In abolishing tenancy the land reforms had extinguished the traditional landlords.
- But it did not inevitably transfer land to those who actually laboured on the field.

- Many agricultural labourers would have not migrated if they also owned the land.
- **Leasing -** Kerala is rare among the world's economies where agricultural production actually declined after land reforms.
- In theory this can be rectified, if those with the ownership of land but not wishing to cultivate leased it out.
- But leasing was made unlawful by the land reform Act.
- At the time of its legislation, tenants were vulnerable of eviction at will.
- Therefore this archaic law currently holds more of a symbolic value.
- The law discourages tenancy as unlawful but is positive about the alienation of agricultural land to other purposes.
- **Environment -** The present natural environment in Kerala is less hospitable to agriculture of any kind, let alone paddy cultivation.
- This is due to the depletion of groundwater and sand mining of the riverbeds. There has also been the alienation of agricultural land.

What should be done?

- Kerala needs a land use policy that conserves every bit of its natural capital.
- The State could consider acquiring all unused paddy land and making it available to the Adivasis on long-term lease.
- It also should make amendment in its laws to enable leasing and consolidation of lands.
- Public policy is likely to adapt only if political parties are pressurised by a citizenry.
- Therefore citizen should also work towards improving the paddy cultivation by saving diversion of agricultural land to other purpose and the regeneration of degraded lands.

5.20 Saving the Pulses Sector

What is the issue?

The prices of pulses are volatile inspite of a good harvest in 2016-17 season.

What was the problem?

- In 2015-16, the production of all pulses had came down to 16.5 million metric tonnes (MMT), and imports increased to 5.8 MMT.
- The rising demand for imports from India also put international prices under pressure.
- This has caused hardships to poor consumers at home as dal is their survival food.
- Hence policy level concerns were raised to find ways to augment pulses supplies.
- The previous policies have failed to achieve self-sufficiency in pulses.
- So a committee under the chief economic advisor was formed to solve this problem.

What are the findings of the committee?

- **Low MSP -** The committee found that the farmers have to be incentivised to grow more pulses they must receive a sufficient profit.
- The current MSP is around Rs.4500/quintal.
- So the committee recommended Rs 7,000/quintal to compete with other crops.
- However only Rs 5,000/quintal was offered in the current announcement 2016-17.
- **Price Instability -** Inspite of low MSP farmers planted more area under pulses due to high market prices and a good rainfall.
- So the production increased by 33%.
- But this subsequently resulted in a massive drop in the market price of dal to level that is even below the MSP.
- Even the measure like banning private trade & exports and increasing the government procurement could not enough to hold the price at the MSP.
- Such low prices do not give much profit to pulses producers.
- So they wont increase the amount of irrigated area under pulses. This will hamper the mission of self sufficiency of pulses.

What should be done?

- **Storage -** Stocking limits on private trade should be removed for atleast next three years so that private players are encouraged to buy and build ample storage capacity. Storage capacity is essential for maintaining the stability of prices.
- **Exports -** Restrictions on exports of all pulses should be removed so that farmers are allowed to gain from exports in case of low domestic prices.
- **Futures -** All pulses should be introduced in futures trading so that farmers can take planting decisions based on likely future prices, not based on past market prices.
- **Government procurement** at MSP should be increased to maintain buffer stock to reduce price volatality.
- **Duty -** Import duty should be increased to 5-10% for a short time to check the domestic price from falling.

5.21 Darjeeling Tea Crisis

What is the issue?

The Darjeeling tea faces an uncertain future as the 87 gardens in the hills of northern West Bengal are caught up in a vicious cyclic problem.

What is the problem?

- The key problem is the very nature of the tea bushes it uses.
- Around 90% of the bushes in the area uses the 'camellia sinensis'/ **Chinary plant** variety of bushes which were imported from China 150-100 years back by the then British owners.
- Compared to this, tea gardens in rest of India use the 'camellia assamica' plant variety which is native to Assam.

- This variant is losing its original taste and aroma.
- There is also a decline in production.
- The produce has fallen over the years from former 10 million kg (mkg) to just 7-8 mkg presently.
- There may be further decline as the plants ages.
- The Tea Board of India has shared its concern over replantation in the Darjeeling gardens.

What does the TRA suggests?

- As per industry executives, these bushes need to be replaced by the same bush variants which will call for Chinese import again.
- However it is illegal to import live tea plants to India.
- The Tea Research Association (TRA) has come up with indigenous clonal varieties of the Chinary which is used in some gardens.
- In case the very Darjeeling taste undergoes a change, the premium Indian produce may find it hard to hold its premium positioning in the international market.

What are the problems in it?

- Unlike the Assam or Nilgiri tea variants which are auctioned, the Darjeeling tea is primarily sold in private sales.
- Under this process, the final price is worked out based on taste samples.
- Industry officials fear that in case of change in the taste of the tea in the new variety, there may be a dramatic change in the price of the tea.
- Faced with **uncertain rains and irrigational issues**, the Darjeeling gardens have just four months to undertake a replantation exercise.
- It also coincides with the prime first and second flush during which these gardens earn their maximum revenue.
- No planter wishes to sacrifice this premium plucking season to replantation.
- The gestation period of the Chinary bushes is between 12-16 years, which puts the replanted crop area financially unviable during the timeframe.

5.22 Soil Health Crisis

What is the issue?

- Indian farmers apply around 66 million tonnes of fertilisers every year.
- They account for a significant share of India's imports and subsidies.
- It also rapidly declines the soil health.

What is a Soil Health Card?

- The government has launched a nation-wide Soil Health Card (SHC) scheme in early 2015 to rejuvenate India's exhausted soil.

- It uses a grid-wise approach, to test the nutrient contents of representative soil samples from the fields.
- Accordingly, macro and micro nutrients needed by the soil are identified.
- Using this the specific, measured quantities of fertilisers is calculated and this information is printed on the SHC and made available to the farmers in that grid through the state agricultural departments.
- But farmers still buy large amount of fertiliser, disregarding SHC recommendations.

Why farmers disregard SHCs?

- Maximising yield and fear of loss are the major concerns.
- Farmers are convinced that there is a perfect correlation between high fertiliser usage and more output.
- They also believe that their farmlands have good soil health if they yield the desired output.
- So they are not sure that the advice based on the SHC can be relied upon, because of this perception.
- They are not easy to use.
- They give general recommendations regarding the quantity of fertilisers required over the entire crop season.
- In reality, fertilisers should be used in varying amounts over the different stages of the crop growth.

What should be done?

- The farmers need SHC recommendations tailored according to crop growth stages.
- Vigorous campaign must be done to disregard the more fertilisers-better yields myth.
- A behavioural approach based on understanding farmers' realities needs to be used.
- Soil health must be positioned as crucial to the long-term productivity of land, which will be irredeemably lost if the focus is only on present income flows.

5.23 State/UT Agricultural Produce Marketing Bill

Why in news?

The draft of the new model agricultural marketing law is floated by the government to invite public comments.

What is APMC act and why it is bad?

- The Agricultural Produce Market Committee is a marketing board established by state governments of India, one main function of which is basically to provide a platform for farmers to sell their produce.
- The APMC **forces the farmers to sell their produce only to middlemen** approved by the government in authorized Mandis.
- Thus, a vegetable producer cannot directly sell to a supermarket, they have to go through a broker. This increases prices for the end buyer and unnecessarily adds redtape.
- In a lot of cases, even after receiving the produce, some traders delay payment to farmers for weeks or months.
- If payment is made at the time of sale, then the trader may arbitrarily deduct some amount.
- To avoid tax, some traders do not give sale slips to farmers. As a result, it is difficult for the farmer to prove his income to get loans from banks.

- On average, the farmer is able to receive barely 25% to 33% of the final retail price. Middlemen receive double commission (both from seller and buyer), thus making consumers pay for this spread.
- The prime reason for the tardy progress on this front is the states' **reluctance to cede their hegemony** over farm markets.

How the new Bill is different?

- The new Bill is called State/UT Agricultural Produce Marketing (Development and Regulation) Bill.
- It moots setting up of private and **commodity-specific market yards** to end the monopoly of the APMCs and offer them the much-needed competition.
- Besides, it stipulates a **single licence for trading** within the state and at the national level and a single point levy of all market fees within the laid-down caps.
- It also seeks to promote **direct interaction between farmers and end-users of farm commodities,** including retail chains, exporters and agro-processing industries.
- The mandis are proposed to be encouraged to put up **electronic trading platforms** to make transactions, especially price determination, totally transparent.
- Thus, the new deed amalgamates the good features of both the model APMC Bill of 2003 and the electronic national agricultural market **(e-NAM)** launched last year.
- It also seeks to **depoliticise and democratise market committees** and state marketing boards by including farmers' representatives in their managing bodies and barring individuals from contesting for more than one post simultaneously.
- However, under the present rural socio-political setup, **it is hard to distance politicians** from farm-related bodies.

What is the way forward?

- There need to be at least 1 market in 80 sq.km (presently, it is 1 in 487 sq.km). Thus, the private sector alone cannot be expected to bridge this huge gap.
- The states will have to continue to play a meaningful role in both expansion and modernisation of the farm marketing network.
- Since the success of the fresh move will **depend largely on the states' cooperation,** the Centre will need devise ways and means to motivate them to actually carry out the suggested changes.
- Because, at stake are the interests of farmers as well as consumers, both of whom are short-changed by the present inefficient, cost-intensive and non-transparent farm marketing system.