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Classroom Study Material

ECONOMY

(Part II of III)

November 2015 – August 2016

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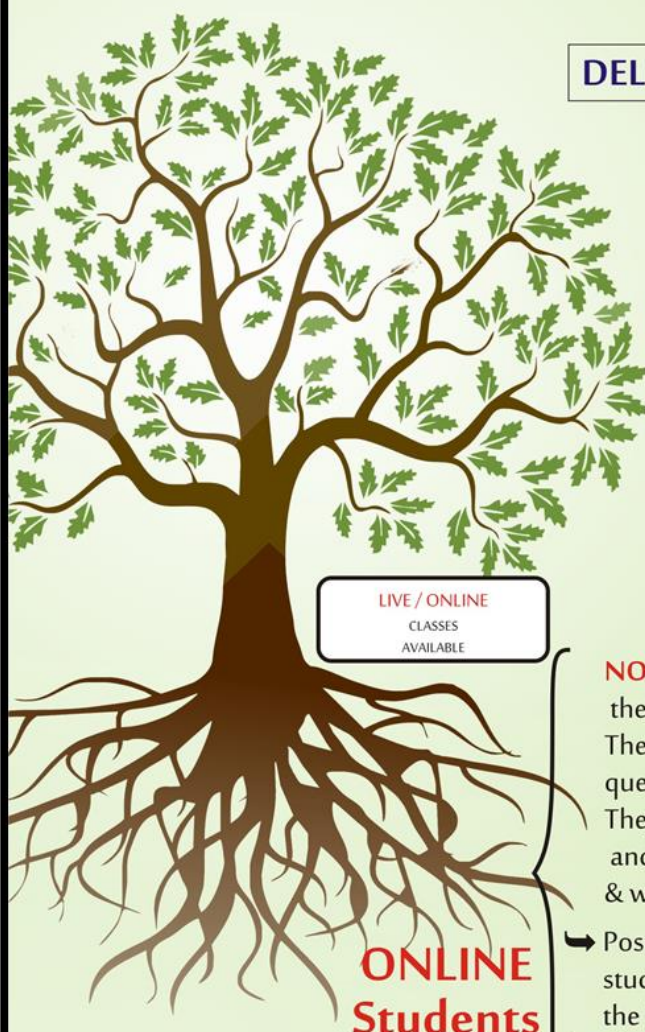
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EMPLOYMENT AND SKILL DEVELOPMENT

1. THE THREE JOBS DEFICIT IN INDIA

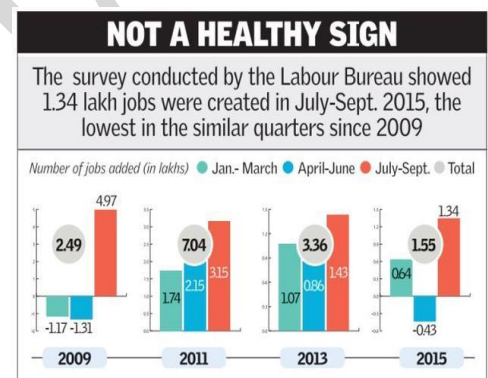
Background

- The rapid decline in poverty in India between 2005 and 2012 was driven mainly by higher labor earnings. Over this period, wages for unskilled workers increased sharply. There was also a marked shift towards non-farm jobs.
- But the quantity and quality of jobs created raise concerns about the sustainability of poverty reduction, and the prospects for enlarging the middle class.
- Majority of those who escaped poverty moved slightly above the poverty line but did not gain entry into the middle class. They remain vulnerable to slipping back.
- The deficit in the number of jobs created after 2005, as well as in their quality, explains this vulnerability.

I. An overall deficit of jobs:

According to Labour Bureau Survey on Employment 2015:

- Between 2005 and 2012, of the 13 million potential entrants into the workforce every year, only 3 million got a job.
- New jobs in eight labour-intensive industries fell to a six-year low in the first nine months of 2015 - with just 1.55 lakh new jobs being created.
- By contrast, 3.04 lakh new jobs were added in January-September 2014 and 3.36 lakh in the same period of 2013.
- Contractual jobs also declined by 21,000 in Jan –Sept 2015 against increase of 1.2 lakh in the corresponding period of 2014.
- The survey found that:
 - ✓ Gems & Jewellery sector saw 19,000 job losses during 2015
 - ✓ Handloom/Powerloom at 11,000.
 - ✓ 8,000 jobs lost each in leather and automobiles sectors and
 - ✓ 4,000 jobs loss was recorded in transport sector



Source: Quarterly report on changes in employment in selected sectors, Labour Bureau

II. A deficit of good jobs

- In this period, there was considerable dynamism in the informal segments of the economy, especially in rural areas.
- There was a substantial decline in employment in agriculture, with nearly 34 million farm jobs lost between 2005 and 2012.
- There was a boom in construction jobs, which accounted for nearly half of the expansion in non-farm employment. However, construction jobs tend to be casual.
- These jobs help people escape poverty but do not propel them into middle class. Transitions into the middle class are associated with regular, salaried jobs.
- Regular jobs have to be created in small towns and large villages, where most of India's poor live. Only this can build a sizeable middle class.

III. A deficit in suitable jobs for women

- Historically, India's female labour force participation rates in urban areas have been low - hovering around 20%.
- After 2005, there has been large withdrawal of women from the rural labor force also.
- Women are more likely to work when:
 - ✓ Jobs are located close to their homes and allow multi-tasking, like farming.
 - ✓ Or if they offer regular wages with social protection benefits, like manufacturing.

2. HUMAN CAPITAL - SKILL DEVELOPMENT

2.1. PRESENT SITUATION: GLOBAL TALENT COMPETITIVENESS INDEX

- Reflecting an acute shortage of skilled labour force and difficult business conditions, India has slipped 11 places to rank 89th on a global index of talent competitiveness, a list which has been topped by Switzerland.
- India and China remain a net exporter of talent and many emerging countries that have invested in higher education have neglected vocational education.
- Mobility is the key to talent development. Creative talent cannot be developed if international mobility and 'brain circulation' are not encouraged.
- 200 million people are unemployed and about 1 in 2 jobs are at risk due to automation.

2.2. HUMAN CAPITAL INDEX

Why in news?

- Recently, World Economic Forum (WEF) released the Human Capital Report.
- The Human Capital Index is among the set of knowledge tools provided by the World Economic Forum as part of its System Initiative on Education, Gender and Work.

What is Human Capital Index?

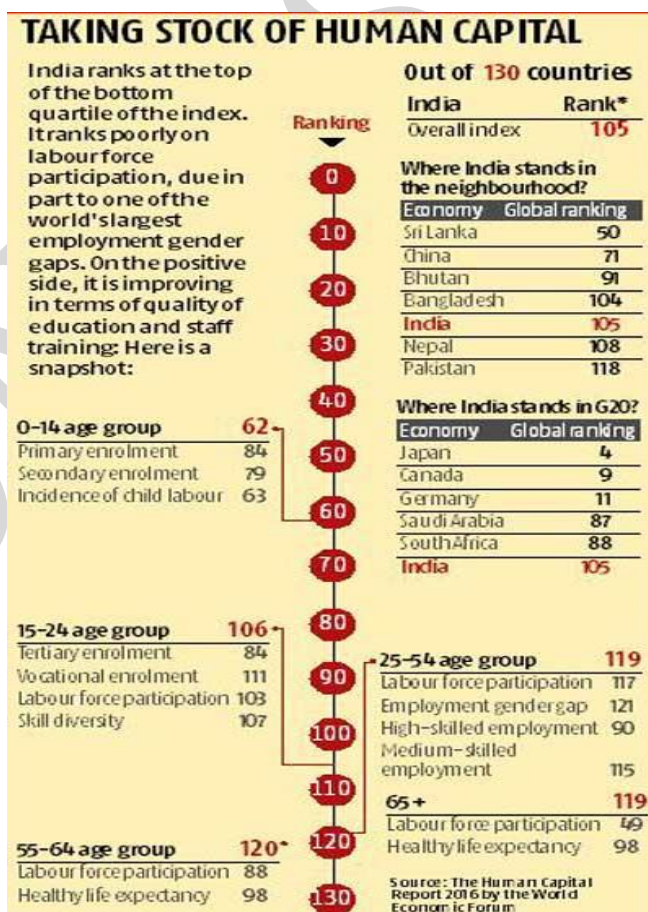
- The Human Capital Index ranks 130 countries on how well they are developing and deploying their human capital potential.
- The Human Capital Index seeks to serve as a tool for capturing the complexity of education, employment and workforce dynamics so that various stakeholders are able to make better-informed decisions.
- The Index assesses Learning and Employment outcomes on a scale from 0 (worst) to 100 (best) across five distinct age groups to capture the full demographic profile of a country.

Human Capital Index and India

- India has been ranked low at 105th position out of 130 countries.
- According to the report, country has optimised just 57 per cent of its human capital endowment, placing it in the top of the bottom quartile of the Index.
- India's youth literacy rate is still only 90 per cent (103rd in the world).
- India also ranks poorly on labour force participation, due in part to one of the world's largest employment gender gaps (121st).
- On positive side, India has got better rankings on quality of education system (39th), staff training (46th) and ease of finding skilled employees (45th) indicators. This suggests "a primary avenue for improvement for the country consists of expanding access to its numerous learning and employment opportunities".

Way Forward

- Long-term human capital investment and planning is not just crucial at the individual country level, but increasingly demands political leadership at the highest international level to move beyond zero-sum competition and prepare the world's workforce for the challenges of the 21st century.



- Equipping nations' young and working-age populations with the education and skills to thrive in the Fourth Industrial Revolution will require collaboration beyond industry sectors and borders.

2.3. PRADHAN MANTRI KAUSHAL VIKAS YOJANA

Why in news?

The Union Cabinet approved the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) with an outlay of Rs 12000 crore to impart skill training to one crore people over the next four years (2016-2020).

What is it?

- Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is the flagship scheme of the Ministry of Skill Development & Entrepreneurship (MSDE).
- The objective of this Skill Certification Scheme is to enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood.
- Individuals with prior learning experience or skills will also be assessed and certified under Recognition of Prior Learning (RPL).

About Scheme

- Skill training would be done based on the **National Skill Qualification Framework (NSQF)** and industry led standards.
- Under the scheme, a **monetary reward** is given to trainees on assessment and certification by third party assessment bodies.
- The average monetary reward would be around **Rs.8000** per trainee.
- **Eligible Beneficiaries**
- In line with the scheme objectives, the scheme is applicable to any candidate of Indian nationality who:
 - Undergoes a skill development training in an eligible sector by an eligible training provider.
 - is certified during the span of one year from the date of launch of the scheme by approved assessment agencies.
 - is availing of this monetary award for the first and only time during the operation of this Scheme.

Implementation

- The scheme would be implemented through NSDC training partners. Currently NSDC has 187 training partners that have over 2300 centres.
- In addition, Central / State Government affiliated training providers would also be used for training under the scheme.
- Focus under the PMKVY would be on improved curricula, better pedagogy and better trained instructors.
- Training would include soft skills, personal grooming, behavioural change for cleanliness, good work ethics.
- Skill Development Management System (SDMS) would be put in place to verify and record details of all training centres a certain quality of training locations and courses.
- Biometric system and video recording of the training process would be put in place where feasible.
- A robust grievance redressal system would be put in place to address grievances relating to implementation of the scheme.
- Mobilization would be done through skill Melas organized at the local level with participation of the state governments, municipal bodies, Pachayati Raj institutions and community based organizations.

Assessment

- Highlights of skill training would be that it would be done **on the basis of demand** assessed on the basis of recent skill gap studies conducted by the NSDC for the period 2013-17.
- For assessment of demand of Central Ministries/Departments/State Governments, industry and business would be consulted.
- A **demand aggregator platform** would be launched for the purpose very soon.
- The target for skilling would be aligned to demand from other flagship programmes launched in recent times such as Make in India, Digital India, National Solar Mission and Swachh Bharat Abhiyan.
- Skill training under the new scheme will primarily be focused on a first time entrants to the labour market and **primarily target Class 10 and Class 12 drop outs.**

Way Forward

- The success of the scheme will depend on the implementation at ground level. It needs cooperation and collaboration between different departments and ministries for creating impact at grass root level.
- Getting certified is just the first step, the real solution lies in job creation and employability of the skilled citizenry, if this is not realised the demographic dividend that we aspire to achieve will turn into demographic disaster.

2.4. MSDE HAS LAUNCHED 'TRANSNATIONAL SKILL STANDARDS' IN INDIA

- MSDE (Ministry of Skill Development And Entrepreneurship), along with National Skill Development Corporation (NSDC) and UK-India Education and Research Initiatives (UKIERI), announced the launch of "Transnational Skill Standards" in India.

Objectives

- ✓ to support two major initiatives of the Government i.e. "Make in India" and "Skill India"
- ✓ to align to skill standards which are recognized globally
- These standards are benchmarked to United Kingdom across 82 identified job roles.
- UK standards have been chosen to benchmark Indian Skills standards since all the Gulf Cooperation Council (GCC) countries recognize UK skill certification.
- The Transnational Standards will highlight the gaps in Indian Standards against the UK standards. To cover the gaps, those intending to migrate, will undergo 'bridge training'.
- The Further Education Colleges (FE) of the United Kingdom will partner with Indian Training Providers to impart training on bridge courses. FE Colleges to set up Skill Academies of Excellences in the identified sectors in India.

2.5. 'SKILL BANKS' TO TRAIN WORKERS FOR GLOBAL MARKETS

Why in news?

In U.P and Bihar, the government is setting up 50 global skill banks (training centres) to train potential immigrant workers in 110 job roles as per international standards.

Objectives

- These training centres will impart skills across sectors such as medicine and healthcare, hospitality, IT, construction, automobile and retail trade — where job opportunities exist or are likely to arise.
- Before they emigrate, youth trained in these skill banks **would also be made familiar with the respective local culture, work ethic and language of the country** they obtain a job in.
- To make India "the human resource capital" of the world.

Assessment

- Highlights of skill training would be that it would be done **on the basis of demand** assessed on the basis of recent skill gap studies conducted by the NSDC for the period 2013-17.
- For assessment of demand of Central Ministries/Departments/State Governments, industry and business would be consulted.
- A **demand aggregator platform** would be launched for the purpose very soon.
- The target for skilling would be aligned to demand from other flagship programmes launched in recent times such as Make in India, Digital India, National Solar Mission and Swachh Bharat Abhiyan.
- Skill training under PMKVY will primarily be focused on a first time entrants to the labour market and **primarily target Class 10 and Class 12 drop outs.**
- **For Skill banks:** Uttar Pradesh and Bihar were selected first due to their high population **and for** having the record for the maximum migration for overseas employment.

2.6. THE NATIONAL APPRENTICESHIP PROMOTION SCHEME

Why in news?

The cabinet has approved a National Apprenticeship Promotion Scheme (NAPS). The Scheme has an outlay of Rs. 10,000 crore with a target of 50 lakh apprentices to be trained by 2019-20.

Significance

- India has less than 3 lakh apprentices. This is a small proportion of over a crore people annually joining labour-force of 48 crore workers.
- **Youth:** it substantially improves their employability and market value as well as their capability to become self-employed.
- **Industry:** benefits from enhanced skills, higher productivity and better professionalism once apprentices join the workforce.
- **Government:** among a large number of skilling schemes, the efficacy of apprenticeship system is the highest.

Background

- The NAPS has been framed to meet objective of National Policy of Skill Development and Entrepreneurship, 2015, which focuses on apprenticeship as one of the key components.
- NAPS is a part of Labour reforms: Govt. has already amended Factory act, Apprenticeship act and labour laws act in 2014.
- Apprenticeship (Amendment) Act: has dismantled the outdated system of trade-wise and unit-wise regulation of apprentices under a prescriptive regime. Now the minimum target of apprentices is 2.5% and maximum is 10%. Also penalties such as imprisonment and other liabilities have been removed
- Apprenticeship portal was recently launched by the Prime Minister to work as a platform for companies, apprentices and government.
- Curriculum of major apprenticeship courses accounting for 70% of the existing seats has been revised to make them more industry-relevant and competency-based.

Acts of Major Improvement

FACTORIES ACT Better safety of workers, doubling the provision of overtime

APPRENTICESHIP ACT Removal of mandate for absorption of at least half apprentices

LABOUR LAWS ACT Cos with 10-40 employees to be exempt from provisions of labour laws



Key Features of Scheme

- Union Government will directly share, 25% of the total stipend payable and 50% of total expenditure for providing basic training-to an apprentice, with employers.
- It will be implemented by Director General of Training (DGT) under MSDE.
- For MSME sector: This scheme will encourage third-party agencies to provide basic training when in-house training infrastructure is not available.

2.7. REVISION OF MONTHLY WAGES FOR CONTRACT WORKERS

- Labour Ministry has proposed to amend the Contract Labour (Regulation and Abolition) Central Rules, 1971 and increase minimum monthly income to Rs 10,000 for contract workers as against the current wage of Rs 6000 per month.
- This would be valid for contract workers for all kind of works.
- Likely Positive Impact:
 - ✓ This would benefit the 60 lakh contract workers covered under the Contract Labour (Regulation and Abolition) Act, 1970.
 - ✓ As per NSSO, contract labourers are poorer than regular workers.

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INCLUSIVE GROWTH AND DEVELOPMENT

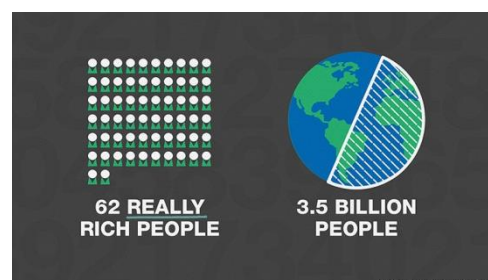
1. POVERTY AND INEQUALITY

1.1 OXFAM REPORT ON INEQUALITY

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

Salient points in report

- Since 2000 the poorest half of world population has received just 1% of the total increase in global wealth, while 50% increase has gone to top 1%.
- Total wealth of 62 individuals = wealth of 3.6 billion individuals
- According to a World Bank forecast, if pro-poor growth moves are not visible soon, by 2030, almost half-a-billion people will still live in extreme poverty.
- Inequality poses a threat to economic expansion and social cohesion around the world.



Suggestions in the report to reduce inequality

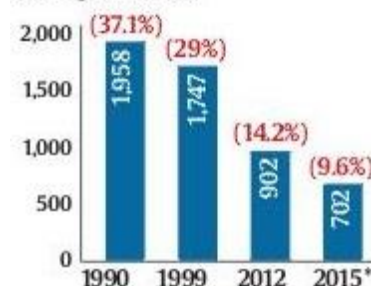
- Check the influence of the very rich and to empower people who are currently excluded from the power structure
- For workers, they suggest increasing minimum wages towards living wages, promoting transparency on pay ratios and protecting workers' rights to unionize and strike.
- End of tax havens,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

1.2. WORLD BANK REPORT 'ENDING EXTREME POVERTY, SHARING PROSPERITY

- The World Bank revised the global poverty line, previously pegged **at \$1.25 a day to \$1.90 a day** in 2015 (approximately Rs. 130), on 2011 Purchasing Power Parity (PPP) data.
- The number of people living on less than \$1.90 a day had fallen by 100 million to 767 million between 2012 and 2013.
- Poverty rates have fallen to 3.5% in East Asia and the Pacific – the region that includes China – and to 15% in South Asia, the region that includes India, but remain at 41% in sub-Saharan Africa.
- Amid a growing backlash against globalisation driven by concerns that the rich have captured the gains of free trade, the Bank said global inequality had declined consistently since 1990.
- The narrowing of the gap has relied on fast growth in the world's biggest developing countries, particularly China and India.
- To end poverty, we must make growth work for the poorest, and one of the surest ways to do that is to reduce high inequality, especially in those countries where many poor people live

GLOBAL POVERTY DECLINED

The most rapid decline occurred during the 2000s



Number of poor people, millions
(Poverty rate, percent)

The Bank said a six-pronged approach was needed to tackle inequality

- early childhood action focused on better nutrition
- universal health coverage
- universal access to good schools
- cash transfers to poor families
- better roads and electrification
- Progressive taxation to transfer resources from rich to poor.

1.3. INDIAN PERSPECTIVE

- As per modified mixed reference period (MMRP), used by WB here, poverty in India in 2011-12 could be only 12.4%.
- Main takeaway is the claim that India has been overestimating its poverty rate.
- Though home to the largest number of poor in 2012, India's poverty rate is one of the lowest among those countries with the largest number of poor
- According to govt. estimates (Rangarajan) India had 30 per cent of its population living below poverty line at 224 million.
- In the case of India, with large numbers of people clustered close to the poverty line, poverty estimates are significantly different depending on the recall period in the survey.

Rangrajan committee report on poverty vis-à-vis WB estimation of poverty

	Indian Estimation	WB report
Poverty Rate	It was pegged as 29.5% by Rangrajan Committee, 21.9 % Tendulkar Committee report.	The World Bank's estimate is just 12.4 %
Poverty Line	The poverty line (PL) used by the Rangarajan committee for India was around \$2.44 per capita per day , in terms of purchasing power parity	The World Bank has revised the global poverty line, pegged at \$1.90 a day in terms of PPP
Methodology used	In India, there were two main ways of collecting data: Uniform Reference Period (URP) and Mixed Reference Period (MRP)	WB used MMRP method . MMRP method believed to provide a more accurate reflection of consumption expenditures
Depth of poverty	Depth of poverty in India is examined in a different way - by looking at the poverty ratios using different cut-offs of the PL.	WB report talks about the depth of poverty in terms of person-equivalent headcounts
Dimensions of Poverty	We have legacy of uni dimensional approach on poverty estimations	WB report gave stress on importance of understanding the many dimensions of poverty that people experience.

What is MMRP?

- In this method, for some food items, instead of a 30-day recall, only a 7-day recall is collected.
- For some low-frequency items, instead of a 30-day recall, a 1-year recall is collected.
- The low-frequency items include expenditure on health, education, clothing, durables etc.

Way Forward

- The World Bank's new poverty rate estimate of 12.4% does not mean that Indians have suddenly become richer. In fact, it is based on collection of data that determines the poverty rate.
- The bunching of poverty around the poverty line in India renders the problem of reducing poverty more manageable.
- The pace and pattern of growth have a significant impact on reducing poverty ratios but policymakers must pursue a two-fold strategy of letting the economy grow fast and attacking poverty directly through poverty alleviation programmes.
- The MMRP-based estimate (currently at 12.4% for India) is expected to set the baseline for India and global poverty estimates, going forward.

1.3.1. MEASURING POVERTY: NITI AAYOG TASK FORCE

- Task force appointed by NITI Aayog under Arvind Pangariya has pitched for a low poverty line.
- He also proposed four options to arrive at a poverty line with due considerations from other stake holders. These four options are:

- To continue with the Tendulkar poverty line.
- Switch to the Rangarajan or other higher rural or urban poverty lines.
- Track progress overtime of the bottom 30% of the population.
- Track progress along specific components of poverty such as nutrition, housing, drinking water, sanitation, electricity and connectivity.
- To remove any criticism that many poor would be left behind if poverty line as per Tendulkar committee is adopted, NITI Aayog has underlined that it will only be used to track progress in combating poverty rather than identifying the poor for entitlements.
- SECC data as suggested by Saxena and Hashim committee will be used for entitlements.

2. INCLUSIVE GROWTH: DEVELOPMENT MEASUREMENT

2.1. SOCIAL PROGRESS INDEX (SPI)

What is Social Progress Index?

The Social Progress Index is an aggregate index of social and environmental indicators that capture three dimensions of social progress:

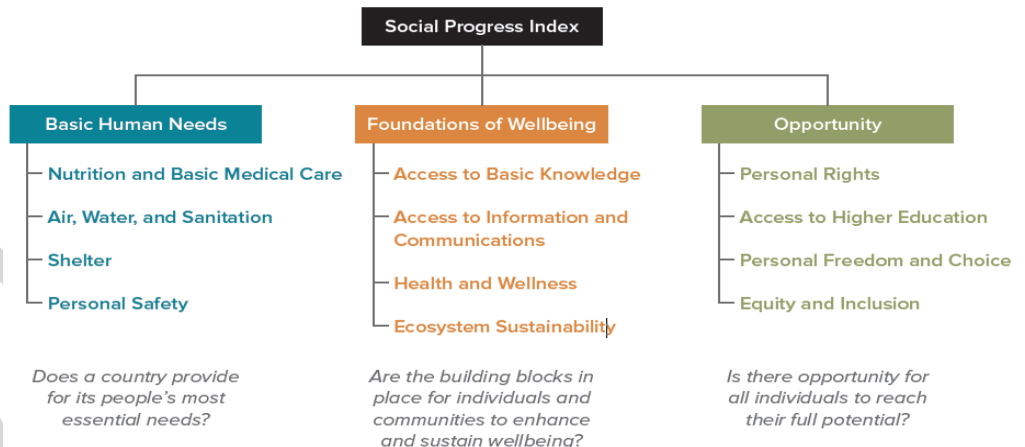
- Basic Human Needs
- Foundations of Wellbeing
- Opportunity

The Index measures social progress strictly using the outcomes of success rather than the effort made by the country.

Limitation of other Indices

1. **Gross Domestic Product (GDP):** While the GDP measures the economic progress of a nation, it does not include non-market activities like gardening at home; mother taking care of child etc. It also excludes factors like environment, happiness, equality, access to justice etc.
2. **Gini Coefficient:** It measures the income inequalities among citizens but ignores other aspects like health, education and other social benefits
3. **Gross Happiness Index:** Originally developed by Bhutan, it measures the happiness level but ignores elements like gender equality, quality education and good infrastructure. Further it can't be used for international comparison due to subjectivity in the meaning of happiness.
4. **Human Development Index:** It covers life expectancy, mean years of schooling, expected years of schooling, and living standards but it falls short in capture of unequal distribution of wealth, environmental and infrastructural development.

Figure 1 / Structure of the Social Progress Index



Benefits of using SPI

- It is **outcome based** rather than the amount of money spent or efforts involved.
- It is more **comprehensive** than other indicators.
- **Relevant to all countries** as it provides a holistic measure of social progress. So, it can be suited for international comparison.

- Can bring betterment in policy making because it measures ground level improvement.
- It is in sync with Sustainable Development Goals and help achieve them

Ranking of Nations

- Top 3 countries are Norway (88.36), Sweden (88.06) and Switzerland (87.97).
- India with a score of 53.06 ranks 101 out of 133 countries.

Conclusion

The index has so far been the most comprehensive way of measuring a country's social progress and is also independent of any economic indicator, thus giving an opportunity to examine the relationship between social progress and economic growth. It can thus be used as a complementary to GDP.

Ministry of Happiness in Madhya Pradesh

MP Chief Minister has announced a 'happiness ministry' to measure the state's progress and growth.

The state will be made responsible for happiness and tolerance of its citizens.

He has also proposed to invite psychologists to counsel people how to be always happy.

Bhutan measures prosperity by estimating citizens' happiness popularly known as Gross National Happiness.

2.2. GLOBAL SLAVERY INDEX 2016

Recently, Australia based the Walk Free Foundation has published the Global Slavery Index 2016.

What is Modern Slavery?

While definitions vary, in this report the term modern slavery **refers to situations where one person has taken away another person's freedom — their freedom to control their body, their freedom to choose to refuse certain work or to stop working —so that they can be exploited.**

Highlights of the report:

- It estimates that 45.8 million people are subject to some form of modern slavery in the world.
- This year's estimates are **nearly 30% higher than in the previous report of 2014**, with 35.8 million.
- The countries with the highest estimated prevalence of modern slavery by the proportion of their population are North Korea, Uzbekistan, Cambodia, India, and Qatar.
- The countries with highest absolute numbers of people in modern slavery are India (18.35 million), China (3.39 million), Pakistan (2.13 million), Bangladesh(1.53 million), and Uzbekistan(1.23 million).
- **Factors:** Vulnerability to modern slavery is affected by a complex interaction of factors related to the presence or absence of protection for rights, physical safety and security, access to the necessities of life such as food, water and health, and patterns of migration, displacement and conflict.

Government Actions and Responses

- Report noted that while India had more people enslaved than any other country, it had made significant progress in introducing measures to tackle the problem.
- It has criminalised trafficking, slavery, forced labour, child prostitution and forced marriage.
- The Indian government is currently tightening legislation against human trafficking, with tougher punishment for repeat offenders.
- It will offer victims protection and recovery support.

3. INCLUSIVE GROWTH: SOCIAL PROGRAMMES

3.1. ATAL PENSION YOJANA

Recent changes

- The Government has decided to give **an option to the spouse of the APY subscriber to continue contributing to APY account of the subscriber, for the remaining vesting period**, till the original subscriber would have attained the age of 60 years.

- The spouse of the subscriber shall be entitled to receive the same pension amount as that of the subscriber until the death of the spouse.

Background

- To address the longevity risks among the workers in unorganised sector and to encourage the workers in unorganised sector to voluntarily save for their retirement
- Workers in unorganised sector constitute 88% of the total labour force of 47.29 crore as per the 66th Round of NSSO Survey of 2011-12, but do not have any formal pension provision
- The APY will be focused on all citizens in the unorganised sector, who join the National Pension System (NPS) administered by PFRDA and who are not members of any statutory social security scheme.☐
- Age of joining and contribution period: The minimum age of joining APY is 18 years and maximum age is 40 years. Therefore, minimum period of contribution by the subscriber under APY would be 20 years or more.

Benefit of APY: Fixed pension for the subscribers ranging between Rs. 1000 to Rs. 5000, if he joins and contributes between the age of 18 years and 40 years. The contribution levels would vary and would be low if subscriber joins early and increase if he joins late.

Funding of APY: Government would provide:

- Fixed pension guarantee for the subscribers.
- Would co-contribute 50% of the subscriber contribution or Rs. 1000 per annum, whichever is lower to eligible subscriber.
- Would also reimburse the promotional and development activities including incentive to the contribution collection agencies to encourage people to join the APY.

3.2. SCOPE OF DBT TO BE ENLARGED BY BOTH CENTRE AND STATES

- Centre to implement direct transfer of kerosene subsidy through DBT.
- The scheme would be to incentivize states, by granting 75% saved subsidy cash in first two years; 50 % in 3rd year and 25 % in 4th year.
- Under the scheme, the consumer would be required to purchase the **kerosene** at market price. The subsidy amount will then be transferred to their bank account.

Benefits of kerosene subsidy through DBT

- Containment of current leakages
- Improved targeting
- Curtail corruption and promotes transparency in distribution
- Paying at market price would give consumers a sense of ethical consumption of kerosene, even though they will be subsidized through bank transfer.

Present system of distributing kerosene subsidy

- For now, centre allocates a fix amount of kerosene to the respective state and union territory for consumption at a subsidized rate.
- The state in turn, distribute the kerosene through state administered fair price shops.

Bottlenecks in kerosene subsidy through DBT

- Determination of the quantum of subsidy, each household is eligible for would be a complex task.
- Targeting – Identification of beneficiary (inclusion and exclusion errors).
- Highly subsidized kerosene would leave little scope for cleaner form of energy like solar energy to be promoted.
- Downsizing subsidy in future would become a political populist agenda.

3.3. INCLUSIVE GROWTH: CSR

Why in news?

It's now been over a two years since Section 135 of the Companies Act 2013 came into effect and it has sought to alter the way corporate social responsibility (CSR) is approached in India.

Provisions of CSR in India

- Under the Companies Act, 2013 certain companies **have to spend at least 2% of last 3 years average net profits on CSR activities.**
- The Act also urges companies to leverage their business acumen and core competencies to address social issues in the same manner as they would carry out other business operations,
- The Companies Act 2013 allows for collaboration between two or more companies by using a separate legal entity,

Salient Points

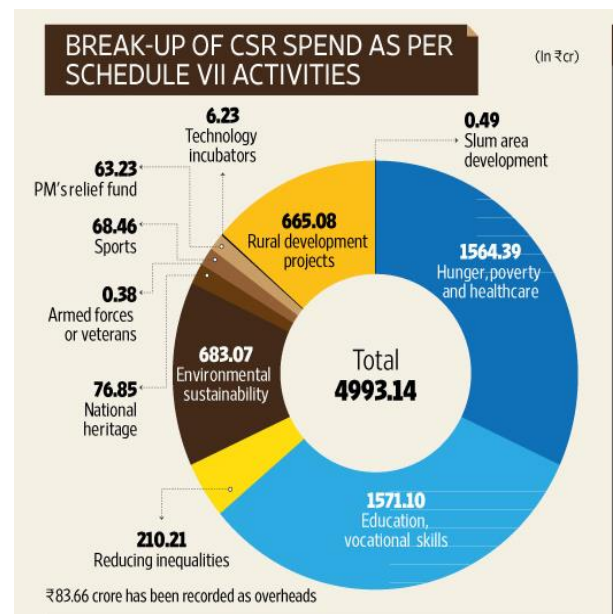
- CSR budgets have grown exponentially.
- **Promoting education and eradicating poverty** received the maximum funds last year through CSR funding.
- Consumer goods companies were the only companies that exceeded the mandatory spending limit of 2% of annual profits.
- Most companies that have implemented social engagement strategies have not looked at their CSR strategies through the same lens as their core business functions.

Challenges faced by companies

- Lack of clarity about regulations with respect to what is allowed under the law,
- Lack of knowledge about sector and industry best practices,
- Few implementation partners, have the capacity to work with companies.
- A clear challenge in the first year of the new CSR rules implementation is impact assessment.

Way Forward

- The government should leverage the CSR law to **meaningfully engage companies** in the development sector.
- Create frameworks that facilitate public-private partnerships for the implementation of long-term and impactful programmes.
- Impact Assessment should be encouraged to understand the success of programmes and initiatives.
- FCRA amended to Boost CSR Spending:
 - ✓ The amendment effectively **redefines** Indian subsidiary of foreign companies as Indian companies, (retrospectively until 2010) which was till now considered as “foreign source” under FCRA (Foreign contribution and Regulation Act).
 - ✓ This will increase the quantum of CSR spending
 - ✓ It will benefit the smaller NGOs who can’t undergo the difficult process of registration with FCRA to receive funds.



The six areas have failed to attract significant interest

- Slum development.
- Technology incubators at academic institutions.
- Promotion of rural as well as Paralympic and Olympic sports.
- The Prime Minister’s Relief Fund.
- Preservation of national heritage, art and culture.
- Welfare of armed forces veterans and war widows.

(3 hours class, 30 min MCQ test, 30 min discussion)

- ☞ Specially designed to increase score in General Studies Paper -1
- ☞ Discussion of previous year's UPSC papers

Fast Track Course
for
GS
PRELIMS

- ☞ Class video to be uploaded on online portal (not downloadable but can be watched any number of times)
- ☞ Includes All India GS Prelims test series

DURATION
60 classes

LIVE / ONLINE
CLASSES
AVAILABLE

GOVERNMENT BUDGETING

1. FISCAL POLICY

1.1. CENTRE OWES RS. 80,000 CRORE TO STATES: CAG REPORT

Why in news?

- The CAG finding has the potential to significantly impact the finances of most States.
- According to the report, Centre owes the States over Rs. 80,000 crore from its net proceeds of the period.

Background

- According to **Article 279** of the Constitution, the CAG is “required to ascertain and certify the ‘net proceeds’ (any tax or duty the proceeds thereof reduced by the cost of collection), whose certification shall be final.”
- The Finance Ministry had requested for CAG certification of net proceeds of taxes afresh ante-dated from 1996-97 because of the **80th constitutional amendment**.
- The 80th constitutional amendment resulted from the recommendations of the 10th Finance Commission recommendation for an alternative way of sharing proceeds of union taxes and duties between Centre and States.

Report observations

- According to the CAG report, during the certification of ‘net proceeds’, it revealed that during the period from 1996-97 to 2014-15 an aggregated amount of Rs. 81,647.70 crore was short devolved to the States.
- The revelation has the potential to significantly impact the finances of most States, because most of them could end up getting a few thousand crores each.

Way forward

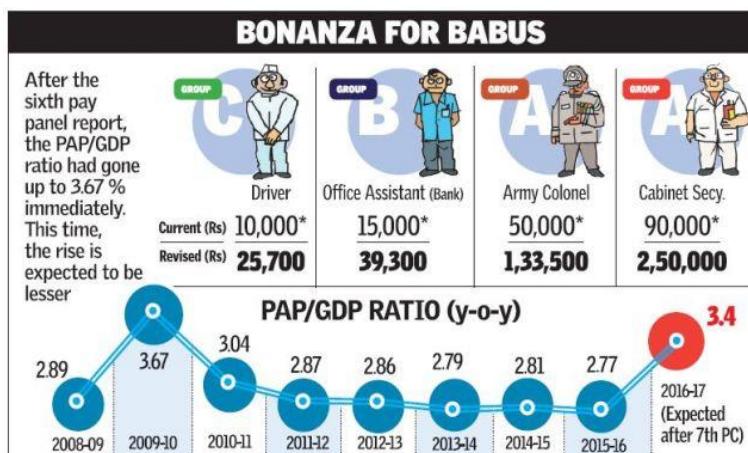
- The centre should take cognizance of the report of CAG and immediately work towards the devolvement of pending dues.
- The extra funds that state receive could well be utilised for developmental needs in respective states as per their requirements.
- Care should also be taken to avoid such mistakes in future. The process of devolution should be transparent and efficient.

1.2. THE SEVENTH PAY COMMISSION

- The Seventh Pay Commission submitted its report to Finance Minister. The commission is headed by Justice Ashok Kumar Mathur.
- The recommendations of the commission, when accepted, would provide benefit to 47 lakh serving govt employees, 52 lakh pensioners, including defence personnel.

What is a Pay Commission?

- Pay Commission is set up intermittently by government of India, and gives its recommendations regarding changes in salary structure of all **civil** and **military divisions** of the Government of India.
- The First Pay Commission was established in 1956, and since then, every decade has seen the birth of a commission.



Highlights of 7th Pay Commission

- **23.55 per cent increase in pay** and allowances recommended
- Recommendations to be implemented from January 1, 2016
- **Minimum pay fixed at Rs 18,000 per month; maximum pay at Rs 2.25 lakh**
- **The rate of annual increment retained at 3 per cent**
- **24 per cent hike in pensions**
- **One** Rank One Pension proposed for civilian government employees on line of OROP for armed forces
- **Ceiling of gratuity enhanced from Rs 10 lakh to Rs 20 lakh**; ceiling on gratuity to be raised by 25 per cent whenever DA rises by 50 per cent
- Cabinet Secretary to get Rs 2.5 lakh as against Rs 90,000 per month pay band currently
- **Commission recommends abolishing 52 allowances**; another 36 allowances subsumed in existing allowances or in newly proposed allowances.

Financial Implications

- Financial impact of implementing recommendations of Pay Commission on salaries will be Rs 1.02 lakh crore – Rs 73,650 crore to be borne by Central Budget and Rs 28,450 crore by Railway Budget.
- Total impact of Commission's recommendation to raise the ratio of expenditure on salary and wages to GDP by 0.65 percentage points to 0.7 per cent
- Apart from this, One Rank One Pension payout is also to be added to this.

Opportunities

- Tax revenue will be higher.
- Income tax alone is expected to bring back a fifth of the payouts back.
- Indirect tax collection will also increase due to consumers spending more on consumer durables, homes, financial products, everyday necessities and travel.
- Increased corporate profits would also result in increased corporate tax collections.
- It would help stimulate the economy, especially manufacturing and service industry.

Other Implications

- There remains a threat of inflationary pressure due to further pay hikes revision in states and at local levels causing much money to be following in the economy. However, the impact of 7th Pay Commission is not seen as inflationary as 6th Pay Commission implementation.
- In any case, this may force the pace of rate cut to be slowed down by the RBI to fight inflation.
- Credit rating agency Fitch said that the government may miss the fiscal consolidation roadmap and further delay the targeted rate of 3% of GDP and that it may adversely affect country's credit rating.

Way forward

Nonetheless, fortuitous combination of circumstance of low inflation, low commodity prices, excess capacity in industry, moderate inflation, etc., is just the right economic environment for the Seventh Pay Commission's recommendations.

1.3. NEED FOR PARADIGM SHIFT IN FRBM ACT

Why the Debate?

- Union Minister has recently commented that fiscal expansion or contraction should be aligned with credit contraction or expansion respectively of the economy.
- This suggests that there should be an inverse correlation between fiscal deficit (fiscal expansion) and bank credit (monetary expansion).
- This is to ensure adequate money supply to the economy in all the cycles.

Why Fiscal Deficit target should be relaxed during downturn of economy?

- Banks and financial institutions fund business and others, and it is that credit money which drives the economy.
- If, for some reason including reasons like lack of business confidence or rising NPAs, the bank credit to the economy does not adequately grow, economic growth will suffer due to lack of adequate money.
- That is when the Budget needs to step in, to pump money into the economy by incurring deficit, and, for the purpose, borrow the money lying with banks or even by printing more money, if that is needed.
- Crowding In Effect – Government spending during economy downturn will boost the economy and subsequently draw investment from private industries too.

Why Fiscal Deficit target should be adhered to?

- Frequently amending the FRBM target or not meeting them will raise concern in the mind of investor and will lead to lower investment.
- Better fiscal health will improve the credit rating of India
- Lower fiscal deficit will help to avail cheap credit for development, as higher FD fuels inflation and hence higher rate of borrowing
- It will also bring India closer to its emerging market peers making India an attractive destination for FDI.

Way Forward

- Adopting FD target as a range rather than 3% of GDP as fixed number. This would give the necessary policy space to deal with dynamic and volatile situations like global economic and financial market uncertainty, a slowdown in China, and tepid private investment demand domestically.
- Expenditure of the government should be on the creation of long term public assets.

What is FRBM Act?

- Financial Responsibility and Budget Management Act 2003 was passed to provide a legislative framework for reduction of deficit and debt of the Government to sustainable levels over a medium term.
- This was done to ensure inter-generational equity in fiscal management and long term macro-economic stability.

Salient points of the Act

- Achievement of Fiscal Deficit of 3% of GDP and eliminating Revenue Deficit.
- Prohibits borrowing by Government from RBI – Making Monetary Policy independent of Fiscal Policy.
- Prevent monetization of Government deficit – Ban on purchase of primary issues of Central government by RBI from 2006.
- Act mandates 4 Documents to be laid before Parliament:
 1. Medium Term Fiscal Policy Statement:
 - a. 3 year rolling targets for 5 fiscal indicators with respect to GDP at market price and the strategy to attain them.
 - b. Five fiscal targets are: Revenue Deficit, Effective Revenue Deficit, Fiscal deficit, Tax to GDP Ratio and Total Outstanding Debt as percentage of GDP.
 2. Fiscal Policy Strategy Statement: Presented at the time of Budget and outlines the Govt. strategic priorities for ensuing financial year related to Taxation, Borrowing, Expenditure, Investment, Pricing, Guarantees etc.
 3. Macro-economic Framework Statement: Presented at the time of budget and contains the expected GDP growth rate with underlying assumption, Fiscal balance of Central Government and the external sector balance of Economy.
 4. Medium Term Expenditure Framework Statement: This has been added in 2012 and presented in Monsoon Session.

1.4. MEDIUM TERM DEBT MANAGEMENT STRATEGY

Why in news?

- The government of India has put MTDS in public domain for a period of three years (2015-18).
- The plan aimed at lowering cost of borrowings and expanding the list of eligible investors which would deepen the local sovereign bond market.

What is MTDS?

- Medium-Term Debt Management Strategy is a framework that the government intends to use over the medium-term to ensure
 - ✓ Debt levels stay affordable and sustainable,
 - ✓ New borrowings are for a good purpose and that the costs and risks of borrowing are minimized.
- MTDS covers both external and internal debts including portfolio of government guarantees and contingent liabilities
- Reserve Bank of India acts as the manager of govt. debt.

2. TAXATION

2.1. GST BILL PASSED IN RAJYA SABHA

Why in news?

Finally, the GST Constitution Amendment Act has been notified. Other features of Bill like GST Council will now come in picture.

What is GST?

GST is a Value Added Tax. GST contains most of indirect taxes levied on goods, including central and state level taxes. The GST system is explained in the info-graphic below. Let us assume a 10% tax rate.

Features of GST system

- It is a destination based tax.
- It will be collected on VAT method i.e tax at every stage of value addition.
- It will be imposed at a uniform rate, to be decided by the GST Council.
- The GST Council will recommend the taxes to be subsumed and exempted from the GST, the rates of taxation and the model Central, State and Integrated GST laws
- The government also cleared changes in the Bill including:
 - ✓ Doing away with the additional 1 per cent tax by producing states and
 - ✓ Compensating all states for any revenue loss in the first five years post the GST rollout.
- As the next step, the Centre has to enact two laws, one on the creation of Central GST (CGST subsumes central taxes) and another on Integrated GST (IGST). The state governments, on their part, have to pass legislation on creation of state GST (subsumes various state taxes).

Advantages

- **Governance**
 - ✓ GST will get rid of the current patchwork of indirect taxes levied by centre and states such as: excise, value added tax, octroi and sales tax with one uniform tax that will be shared by both states and the Centre.
 - ✓ The earlier indirect taxes were partial and suffered from infirmities, mainly exemptions and multiple rates.
 - ✓ Reduced tax disputes.
 - ✓ Due to easy framework it improves tax compliances. Checks tax-evasion.
 - ✓ It is expected to help build a transparent and corruption-free tax administration.
- Increased tax base and tax to GDP ratio.

- **Economy**

- ✓ A national seamless market will be established. This will significantly lower transit time and also improve truck utilization.
- ✓ Greater cost-competitiveness – as competitors would not get undue benefit due to location or product etc.,
- ✓ Productivity gains – in tax and logistic areas.
- ✓ It is estimated that India will gain \$15 billion a year by implementing the Goods and Services Tax as it would promote exports, raise employment and boost growth.

- **Evolved to new Economic structure both intra and inter-national**

- ✓ Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.
- ✓ With the increase of international trade in services, the GST has become a preferred global standard. All OECD countries, except the US, follow this taxation structure.

Challenges

- Consensus between centre and states on loss of revenue. Though this is resolved for next 5 years due to compensation by centre, it is bound to remain a challenge.
- Loss to manufacturing states as 1% additional tax is also removed in final GST bill.
- Dual control in every area.
- Credit will be available with GST network i.e., online only. This will negatively affect small businesses.
- information technology systems and the administrative infrastructure may not be ready to implement GST
- States lose autonomy to change tax rate as this will be decided by GST council. Clause 246A makes Parliament's decisions will be overriding and binding on the States. Similarly centre also loses autonomy on central duties.
- Petroleum and liquor still out. They form almost 40% of India's total trade, so significant portion is still outside.
- Administrative mechanism: In India, a merger between two government agencies is next to impossible, as long as appraisals and promotions are linked to seniority and regretfully, not performance. And integrating the revenue collection services of all states and an extremely powerful Central Service into one GST collection agent.
- Negative impact on sectors currently enjoying tax benefits such as: textiles, media, dairy, IT/ITeS, Pharma etc.,

Way forward

It can be seen under the recommendations of Arvind Subramanian Committee Report on Goods and Services Tax (GST):

- **Removal of 1% levy** on inter-state movement,
- **The standard GST rate** in the range of 17-18 per cent.
- **Revenue neutral rate (RNR)** of GST at 15-15.5 per cent.
- Essential goods will be taxed at a lower rate of 12 per cent
- Demerit goods such as luxury cars, aerated beverages, pan masala and tobacco products will be taxed at 40 percent.
- Remaining all goods will be taxed at a standard rate of 17 to 18 per cent.
- The aim should be to create a GST with the widest **possible base**
- For Success of GST we have to address the issue of improving the billing culture in the country. Without addressing the question, the transformation effect will not be fully realised

Decoding Key Terms of Recommendations

- **The standard rate-** The rate at which most goods will be taxed is more than RNR because some goods that are in the nature of public goods or targeted at deprived sections will need to be taxed at the lower rate. This rate is most likely to apply on most goods and services under the new indirect tax regime
- **The Revenue Neutral Rate** - At which if all goods and services are taxed there will not be any revenue loss for both states and the Centre.

Why Standard rate is more than Revenue Neutral rate

- The standard rate is more than the revenue neutral rate because some goods that are in the nature of public goods or targeted **at deprived sections will need to be taxed at the lower rate.**
- There will be a demerit good rate that is higher than the standard rate that will apply to goods such as tobacco, the **use of which needs to be discourage.**

- Getting the design of the GST right is critical. Specifically, the GST should aim at tax rates that **protect revenue, simplify administration, encourage compliance, avoid adding to inflationary pressures**, and keep India in the range of countries with reasonable levels of indirect taxes.

2.2. DIRECT TAXES: NARROW TAX-BASE OF INDIA

Why in News?

Income Tax Department has released data for FY 2012-13

Facts

- Only 2.9 crore Indians filed personal income tax returns for the assessment year 2012-13.
- This constitutes only 4% of the adult population in India as per 2011 census
- More than half who filed tax returns didn't pay any tax using different tax exemptions criteria
- Corporate Tax forms major chunk of direct tax
- Growth rate of tax collected has fallen over the years
 - ✓ Growth rate Corporate tax has fallen due to lower profits of corporate
 - ✓ Growth rate of Income tax stays roughly constant

Issues highlighted by the Income Tax Data

- Income inequality - 1% of the individual who declare their income account for 20% of the taxable income
- Concentration of wealth - 5% of corporates form 94% of the taxable income
- Regional Imbalance in Growth – Gujarat, Tamil Nadu, West Bengal and Maharashtra see faster growth rate in tax collection compared to other states
- Increasing share of indirect tax in total revenue - Indirect tax hurt poor people the most
- Tax evasion – Such a narrow tax base despite 7% plus GDP growth rate suggests tax evasion

(Kindly refer Easwar Panel also which has been covered in part I)

2.3. RAJASVA GYAN SANGAM

Why in news?

The PM has addressed the tax administrators of both Central Board of Direct Taxes (CBDT), and the Central Board of Excise and Customs (CBEC), at Rajasva Gyan Sangam.

Suggestions

- The necessity of digitization, voluntary tax compliance, facilitation for taxpayers, increasing the tax base, upgradation of digital and physical infrastructure for tax administrators etc.
- Tax evaders should be brought to heel. But the Law enforcement agencies be also taxpayer friendly
- Departments dilemma, while collecting due taxes from people, should be resolved.
- PM has suggested: People should not fear tax administrators.
- Need for tax administrators to engender trust in the system.

The Prime Minister outlined a 5-point charter for tax administrators, RAPID:

- R for Revenue,
- A for Accountability,
- P for Probity,
- I for Information (for non-intrusive tax assessment)
- D for Digitization (to record them)

Other reforms suggested in Economic survey

- **Fixing accountability of the tax officers:** This would check misuse of various tax provisions to harass the tax payers. It would encourage citizens to reveal their income and pay taxes.
- **Making tax laws less subjective:** In Global Energy vs. Central Electricity Regulatory Commission, Supreme Court observed that subjective laws reduce transparency. In taxation it leads to harassment of honest tax payers. Thus voter base is reduced and it also leads to increased litigation.

Way forward

Steps taken such as establishment of Non-Tax revenue e-portal could be simulated in direct taxes also.

2.4. GOOGLE TAX: EQUALIZATION LEVY ON DIGITAL ECONOMY

What is it?

- Union Budget 2016-17 has proposed “equalization levy” on “online advertising” payments to non-resident recipients.
- A govt. committee has proposed various services ranging across online **advertising**, cloud computing, **software downloads** and **web hosting** to be subjected to an 'equalization levy' of 6-8% of gross payment if the provider of service is a foreign entity without a '**permanent establishment**' in India.
- Only payments of over **Rs 1 lakh** to be covered by this levy.

Pros

- The issue of Internet firms not paying enough taxes in places where they generate profits, by shifting them to tax havens, has been debated across the globe. OECD under a project called **Base Erosion and Profit Shifting (BEPS)** had issued action plans addressing this challenge last year.
- India has become **the first country** to implement the action plans as proposed by the OECD in this direction.
- This will promote big companies to make **permanent establishments** in India
- Increase in government earnings

Cons

- As the levy is not introduced as part of Income Tax Act but as a separate legislation, global firms that offer such services cannot claim tax credit in their home country under double taxation avoidance agreements.
- A new levy will raise the cost of a whole range of services provided online.
- According to companies it will undermine the Digital India and Startup India programmes by discouraging innovation and forcing startups to cut down on advertising.
- If other nations follow India's lead and impose similar taxes on services provided from India, India's IT firms' cost advantage could be significantly eroded, rendering them non competitive

Conclusion

“Equalisation levy” becomes important in the face of exponential growth of digital economy in recent times which has created new tax challenges including problem of Base Erosion and Profit Shifting.

2.5 TAX POLICY COUNCIL AND TAX POLICY RESEARCH UNIT

Following first report of Tax Administration Reforms Commission (TARC), the government has taken a decision to create **Tax Policy Council (TPC)** and **Tax Policy Research Unit (TPRU)**.

Tax Policy Council headed by Union Finance Minister has been created to have a

- Consistent and coherent approach to the issue of tax policy and for the need to have an interdisciplinary approach.
- It will look at all the research findings coming from Tax Policy Research (TPRU) Unit and
- Suggest broad policy measures for taxation and will be advisory in nature, which will help the Government in identifying key policy decisions for taxation.

Tax Policy Research Unit (TPRU)

- Till now, the two boards i.e. CBDT and CBEC used to consider tax policy and related legislations independently and their recommendations lacked coherence and often reached finance minister in separate channels.

The Road Ahead?

A govt committee has suggested framework for the proposed Equalisation Levy

This year's Budget has proposed 6% such levy based on this panel's report

To be charged on...

PAYMENT TO NON-RESIDENT COS FOR SPECIFIED SERVICES

Payment exceeding ₹1 Lakh in a year

6-8% of gross payments to these cos

...for specified services

Online advertising

For storing or distributing digital content

Use or right to use or download online music, movies, games etc

Services relating to online transactions

Online news, online search, online maps or GPS applications

Online software applications downloaded

Industry Upset

Strong opposition from internet companies such as Google

- To solve above problem, the government has created a **Tax Policy Research Unit (TPRU)** on the recommendations of TARC.
- It comprises officers from the both the Boards as well as tax administrators, economists, and other specialists such as statisticians, tax law experts, and operation research specialists and social researchers.
- The TPRU will prepare for every tax proposal an analysis covering the following three points:-
 - ✓ The legislative intent behind the proposal, i.e., why this proposal is being framed and what is the policy objective.
 - ✓ Expected increase or decrease in tax collection through the proposal; and
 - ✓ The likely economic impact (positive or negative) through the proposal (other than the effect on tax collection)

2.6. NON TAX REVENUE E-PORTAL

Why in news?

- NTPC made the maiden payment on the portal by remitting Rs. 989 crore as an interim dividend to the government.

Highlights

- Finance minister launched Non-tax receipt portal (NTRP) to electronically collect non tax revenue.
- It was developed by the Controller General of Accounts (CGA).
- It provides a one-stop platform to citizens or corporates or other users to make online payment (use cards or internet banking) of non-tax receipts to the Union government.
- While taxes are largely collected using the e-payment mode, non-tax revenues flow mainly through physical instruments such as bank draft or cheque or cash.

What is not tax revenue?

- It mainly includes dividends, interest receipts, spectrum charges, royalty, licence fee, sale of forms and application fees under the Right to Information Act.
- The major sources of non-tax revenue for the government are from dividends paid by public sector companies, the Reserve Bank of India, etc.
- The annual collection of non-tax receipts amounts to over Rs. 2 lakh crore.

Controller General of Accounts:

- Controller General of Accounts is the principal Accounts Adviser to the Government of India and is responsible for establishing and maintaining a technically sound management accounting system.
- He prepares a critical analysis of expenditures, revenues, borrowings and the deficit for the Finance Minister every month.
- He also prepares annual Appropriation Accounts (Civil) and Union Finance Accounts for presentation to the Parliament.

Advantages

- It will reduce manual work significantly.
- The online electronic payment will help common users/citizens from the hassle of visiting bank premises for issue of drafts, and later to government offices to deposit the instrument for availing services.
- It will almost instantly enable the payment at different categories.
- It also helps avoidable delays and remittance of these instruments into government account.
- It will also eliminate undesirable practices in the delayed deposit of these instruments into bank accounts.
- One major way to curb black money is to discourage cash transactions in favour of electronic transactions.
- It is an important step towards achieving the Prime Minister's Office target to switch at least 90 per cent of all official transactions to paperless mode by the end of 2016.
- This is an important initiative under the Digital India campaign.

2.7. INDEPENDENT FISCAL COUNCIL

- Members of the **XIV Finance Commission** have questioned the government's failure to act on its recommendation to constitute Independent Fiscal Council.

- It is expected to objectively **evaluate budget announcements** and forecasts, stressing that it was critical to improve the government's credibility on fiscal management.
- The council would report to the Parliament on how realistic government projections are, citing similar independent budget and fiscal management monitoring offices in 35 countries.

Necessity

- Since the 2003 FRBM law came into effect, there have been four pauses in the deficit targets enshrined in it and a few occasions where the targets have been flouted.
- In six of the last eight years, revenue forecasts of the government fell short by around 10 per cent, due to overestimation.
- The Auditor General has to monitor the FRBM Act but that's a **post-facto assessment**.
- The government is always under pressure to breach the fiscal deficit target.

Advantages

- While the union government monitors fiscal targets of states **nobody oversees its own fiscal decisions.**
- States have constraints in managing their finances as the RBI controls their deficit and cannot float a bond on a state's behalf without the Centre's approval.
- According to experts, the Centre opts for creative accounting, pauses or simply doesn't follow the targets it has submitted to Parliament under the Fiscal Responsibility and Budget Management (FRBM) Act of 2003.

2.8. MOBILIZATION OF RESOURCES: SAVINGS

2.8.1. GOLD MONETIZATION SCHEME

- It is estimated that India has **more than 20,000 tonnes of gold** in its temples, households and other institutions, with total **worth of approximately INR 60 lac Crores, which is 3-4 times the annual budget of India.**
- India, presently, imports 800-1000 tonnes of gold each year and **is the largest consumer of gold in the world.**
- In spite of such a large quantity of gold present, mostly **this gold is neither traded nor monetized.**
- So, a scheme to monetize this idle gold was proposed in the budget 2015-16, where **designated banks will accept deposits in the form of gold after verifying the purity of gold.**

About The Scheme

- Banks can accept a minimum of 30 g of raw gold in a gold savings account with no upper limit on the weight of gold that will be accepted.
- Interest will be paid on the gold deposited and also the appreciation of metal value. Earlier, people had to pay money for their safe custody in the form of locker charges.
- The designated banks will accept deposit under
 - ✓ The Short term (1-3 years) Bank Deposit, Medium term (5-7 years) Government Deposit and Long term (12-15 years).
 - ✓ Government Deposit Schemes. Redemption is possible in physical gold or rupees.
 - ✓ Earnings are exempt from capital gains tax, wealth tax and income tax

Benefits for Economy

- It will reduce dependence on import, hence will bring stability.
- Trade deficit will lower down thus improving CAD.
- Cost of gold for jewellery industry will reduce significantly.

2.8.2. SMALL SCALE SAVING SCHEME AND PF SCHEME

Why in News?

- Government decided to cut interest rate of small scale saving scheme (below 5 years) by 25 Basis point
- Linked the returns of all small savings schemes to the market rate prevailing on government securities

- Employees' provident fund was increased marginally to 8.8 per cent from 8.75 per cent
- Exceptions are Schemes linked to social security goals, example - Sukanya Samridhi Yojana, the Senior Citizen Savings Scheme and the Monthly Income Scheme

Need

- Small saving scheme tend to limit the banking sector's ability to lower deposit rates.
- Investors preferred SSC over bank fixed deposit (FD) due to higher interest rates.
- To align them with the market rates of the related government securities (G-secs).
- Small savings rate should reflect the general interest rates in the economy.
- Market-oriented NSC is in the interest of overall economic growth of the country.

Intended implication

- Help to bring down bank lending rates. And the economy will move to "a lower overall interest rate regime eventually".
- Encourage long-term savings.
- Lowering the borrowing rates will give a leg up to the struggling corporate sector.

2.8.3. EMPLOYEES PROVIDENT FUND (EPF) TAX AND ROLLBACK

- Over five crore subscribers have invested roughly Rs 8.75 lakh crore in the Provident Fund.
- Government in the Union Budget proposed to tax 60% of an individual's provident fund corpus at the time of withdrawal on retirement.
- This is applicable for provident fund contributions made post April 1, 2016 unless it is invested in annuities.
- This will encourage more private sector employees to go for pension security after retirement instead of withdrawing the entire money from the Provident Fund
- This could encourage individual investors shifting to tax-free bonds or debt mutual funds, which currently offer higher returns.
- The proposal was rolled back after strong protest from salaried class and opposition in parliament.

2.8.4 FALL IN NRI REMITTANCES

What is the Issue?

- Sixty per cent of the India's remittances come from Gulf countries.
- Due to slide in oil prices the suppliers i.e., gulf countries are most affected. Remittances by non-resident Indians (NRIs) fell 87 per cent in April.
- The biggest fall was registered in the Non-Resident (External) Rupee Account (NR(E)RA) category, which saw inflows decreasing to \$203 million in April. It was \$2,200 million in the year-ago period.

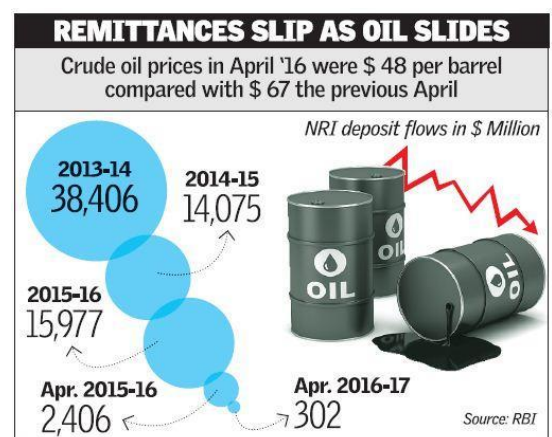
Impact on India

Positives

- Healthy current account deficit has been one of the redeeming features of the country's external sector and prevented crisis.
- A huge drop in the import bill has compensated Indian economy.
- According to Moody's diversified location of Indian workers overseas will balance out falling remittances from Gulf.
- Further, relatively diverse occupations of their workers would provide a buffer against an oil-related slowdown in remittances.

Negative Impact

- ✓ Certain regions in country (for ex: Kerala) are significantly affected.
- ✓ Lay-offs in many Gulf countries have increased the unemployment conditions in India.
- ✓ We have already seen RBI's stance on FCNR account (discussed above) and how Foreign exchange is destabilized by change in remittances.



2.8.5. NRI CAN APPLY TO NPS ISSUE

- The Centre has announced that non-resident Indians (NRIs) can now open National Pension Scheme (NPS) accounts **online**. Earlier NRIs could only make paper-based applications to banks.
- Through e-NPS, NRIs will need just an Internet connection and an Aadhaar/PAN card.
- In addition, NRIs will get to open NPS accounts on both repatriable and non-repatriable basis.
- For both, they will be able to join through their NRE/FCNR/NRO accounts. At the time of maturity or during partial withdrawal, the NPS funds would be deposited only in their NRO.

Repatriable Accounts: Legally Indian rupees can be transferred back to foreign currency, that is money can be converted to any foreign currency.

- Ex: NRE Account (Non-resident External Account): Savings, Current & Time Deposits
- FCNR-B Account (Foreign Currency Non-resident Bank Deposits)

Non-Repatriable Accounts: Money cannot be converted to any foreign currency.

NRO Account (Non-resident Ordinary Rupee Account) – Savings, Current and Time Deposits accounts

Significance

- India has the second-largest diaspora in the world, with around 29 million people living in over 200 countries and out of these 25 per cent live in the Gulf countries.
- Both repatriable and non-repatriable schemes will greatly appeal to NRIs who intend to return to India after their employment abroad.
- Most of the Indians going to the Gulf and some other countries go for employment and return to India after having worked abroad for a certain period.
 - ✓ NPS can provide a long term solution to their old age income security.
 - ✓ It is also attractive due to NPS scheme's active returns, low cost, flexibility for NRIs
- Also NPS is being regulated by the PFRDA, which gives the confidence and trust factor very important for pension dependent old-age population.

2.9. MOBILIZATION OF RESOURCES: DISINVESTMENT

2.9.1. NITI AYOOG'S PROPOSAL FOR DISINVESTMENT

- NITI Aayog has submitted two sets of recommendations to the Centre for strategic disinvestment of State-owned companies.
- In the first list the Aayog has put **about 74 sick and loss-making** government-owned companies
- In case of **25 companies** out of these, it has suggested **closure**, after which their assets, especially land holdings, could be disposed off and employees be offered voluntary retirement as previous attempts to revive them yielded no results.
- In the remaining cases, either **mergers** with other public sector units or **strategic disinvestment** has been recommended.
- The second list comprises of 15 PSUs in which it has recommended strategic disinvestment on priority.

Disinvestment is the action of an organization or government selling or liquidating an asset or subsidiary. There are primarily three different approaches to disinvestments

- ✓ **Minority Disinvestment:** The government retains a majority stake in the company, typically greater than 51%, thus ensuring management control.
- ✓ **Majority Disinvestment:** The government, post disinvestment, retains a minority stake in the company i.e. it sells off a majority stake.
- ✓ **Complete Privatisation:** Complete privatisation is a form of majority disinvestment wherein 100% control of the company is passed on to a buyer.

DIPAM-Department of Investment and Public Asset Management

- In order to revive strategic stake sale of PSUs, the Department of Disinvestment, has been renamed as the Department of Investment and Public Asset Management (DIPAM).
- Department of Disinvestment was carved out of the Finance Ministry in 1999.
- The government has also redefined the responsibilities to include efficient management of the government investment in CPSEs through capital restructuring, dividend, bonus shares and monetization of idle assets.
- Public asset management would also include buyback of shares.

Objectives of disinvestment

- To reduce the financial burden on the Government.
- To improve public finances.
- To introduce, competition and market discipline.
- To fund growth.
- To encourage wider share of ownership.
- To depoliticize non-essential services.

Targets

- The government aims to collect Rs 56,500 crore through disinvestment in PSUs in the next fiscal, 2016-17.
- Of the total budgeted proceeds, Rs 36,000 crore is estimated to come from minority stake sale in PSUs.
- The remaining Rs 20,500 crore is projected to come from strategic sale in both profit and loss-making companies.

What is Strategic Sale?

In the strategic sale of a company, the transaction has two elements:

- Transfer of a block of shares to a Strategic Partner and
- Transfer of management control to the Strategic Partner

2.9.2. STAKES SALE IN 51 FIRMS

Why in news?

- The government plans to sell minority stakes in 51 listed as well as unlisted companies including RIL, ICICI Bank, Axis Bank, L&T etc. and might exit in 3 years.

Issue

- Government holds minority stake in these companies through **Specified Undertaking of UTI (SUUTI)**.
- **Minority stake means** a shareholding of less than 50% of a company's equity capital which is **not a controlling stake**.
- SUUTI is looking at selling the investments either through an OFS, block deal, bulk deal or regular sale through stock exchanges.

Background

- The government has set up an ambitious disinvestment target of Rs.56,500 crore for 2016-17.
- Of the budgeted target, Rs.36,000 crore is to come from minority stake sale in PSUs and the remaining Rs 20,500 crore is estimated to come from strategic sale in both profit and loss-making companies.
- Niti Aayog gave a list of 15 PSUs (majority stake) in which it has recommended strategic disinvestment (divesting equity along with the management control) on priority.
- Department of Investment and Public Asset Management (DIPAM) was established for management of investment in CPSEs and oversee stake-sale process.

2.10. MOBILIZATION OF RESOURCES: GETTING BACK BLACK MONEY

2.10.1. INCOME DECLARATION SCHEME

What is Income Declaration Scheme?

- Individual taxpayers who have not disclosed income in the past would get an opportunity to disclose such income and be compliant by paying tax at the rate of 30 per cent and surcharge of 7.5 per cent and a penalty of 7.5 per cent. **(45% of income declared)**
- The surcharge levied at 7.5 per cent of undisclosed income will be called '**Krishi Kalyan surcharge**' and will be used for agriculture and rural economy.
- No enquiry and scrutiny under the Wealth Tax Act, Income Tax Act and Benami Act – would be undertaken in respect of such declarations.
- However, foreign assets or income to which the Black Money Act 2015 applies are not eligible for declaration under this scheme.
- This is not an amnesty scheme like 1997 scheme as declarants would be **required to pay penalty** along with the taxes.

(Note: It will be covered in detail in Updation material- Nov 1st week)

2.10.2. SEBI TIGHTENS NORMS TO CURB BLACK MONEY INFLOW

(Covered in Financial regulation)

2.10.3. PANAMA PAPERS LEAK

Why in News

- More than 11 million documents from the secret files of Mossack Fonseca, a law firm headquartered in tax haven Panama, were leaked.
- Records reveal a list of individuals who have set up offshore entities in tax havens around the world.
- These offshore entities mask real ownership but still show compliance with lax tax regulatory system
- Over 500 Indians figure on the firm's list of offshore companies, foundations and trusts.

Relevant Laws

- As per RBI norms individuals are allowed to remit funds upto \$250,000 a year under the Liberalized Remittance Scheme (LRS).
- But while RBI let individuals buy shares under LRS, it allowed them to set up companies abroad only after August 2013.
- Money cannot be sent to countries identified as “non-cooperative” by the global Financial Action Task Force (FATF).

Way Forward

- Undisclosed Foreign Income and Assets (Imposition of Tax) Act, 2015 should be strictly implemented.
- RBI should clearly define the legality in buying and setting up offshore entities.
- Tax regime in India needs to be simplified to reduce compliance cost.
- Cooperation at multilateral level like G20 to tighten capital flow norms and treaties to share tax information to avoid tax evasion.
- Agreement on Base Erosion and Profit Shifting (BEPS) among OECD countries should be adhered to check tax evasion.

2.10.4. PANAMA HAS SIGNED MULTILATERAL TAX INFORMATION SHARING CONVENTION

About Convention on Mutual Administrative Assistance in Tax Matters (MAC)

- The Convention on Mutual Administrative Assistance in Tax Matters was developed jointly by the **OECD and the Council of Europe** in 1988 and amended by Protocol in 2010 to align to international standards.
- The Convention is the most comprehensive multilateral instrument available for all forms of tax co-operation to **tackle tax evasion and avoidance**, and guarantees extensive safeguards for the protection of taxpayers' rights.
- **98 Countries** currently participate in the Convention. This represents a wide range of countries including all G20 countries, all BRICS, all OECD countries, major financial centres and an increasing number of developing countries.
- **India being a signatory to the MAC**, can now get information from Panama on request.

2.10.5. AMENDMENT OF DTAA WITH MAURITIUS

Why in news?

Protocol to amend the 30-year old Double Taxation Avoidance Agreement (DTAA) with Mauritius has been signed recently.

What is DTAA?

- Taxes are usually of 2 types - source based & resident based.
- While western countries mostly rely on resident based taxation (as they have more global income), developing countries like India favour source-based taxation due to investment opportunities here.

- **Base Erosion and Profit Shifting (BEPS)** refers to tax planning strategies that exploit **gaps and mismatches in tax rules** to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.
- BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).

- Problem of Double Taxation arises when both source country and country of residence concurrently exercise their rights of taxation; in order to avoid this DTAA is signed.

Why amendment was needed?

- As per the treaty signed in 1983, only Mauritius was allowed to tax capital gains. But generally Mauritius did not impose it. So companies were fully tax exempt.
- This resulted in large inflow of FDI via Mauritius route (34% of total FDI in India) largely for tax evasion.

Main features of the amendment

- India can now tax capital gains even on a company based in Mauritius
- The limit is 50% of Indian rates for transitional period of two years till 2019- this 50% benefit will accrue to a company only if it passes the main purpose and legitimate business test; a company will be termed a shell/conduit company if its total expenditure on operations in Mauritius is less than 27 lakhs in the preceding 12 months.
- It will also apply to Singapore DTAA.

Benefits

- This will help in preventing the misuse of the treaty for round-tripping of funds (Treaty-shopping), in streamlining investments, prevent double non-taxation and lift tax uncertainty
- There will not be any incentive for creating a shell company in Mauritius for tax evasion.
- This will ensure India's conformity to OECD and G-20 guidelines on tackling BEPS
- Similarity of treatment would attract more foreign investments in long-run.

Problems

- Fall in FDI; Together Mauritius and Singapore constitute 50% of FDI flow in India
- Routing of money could be done via other jurisdictions like Cyprus and Netherlands
- Presence of opaque methods of investments in debts and share instruments like P-Notes.

2.10.6. GLOBAL FINANCIAL SECRECY INDEX

What is it?

The Global Financial Secrecy Index ranks jurisdictions according to their secrecy and the scale of their offshore financial activities. A politically neutral ranking, it is a tool for understanding global financial secrecy, tax havens or secrecy jurisdictions, and illicit financial flows or capital flight. It is brought out by **Tax Justice Network**.

What is the significance of this index?

FSI directly confronts offshore secrecy and the global infrastructure that creates it by identifying as accurately as possible the jurisdictions that make it their business to provide offshore secrecy.

Highlights of 2015 Financial Secrecy Index (FSI):

- It focuses on 93 jurisdictions, including several that are not traditionally considered to be tax havens, such as China, France, Germany and Japan.
- It brings out to notice that world's most important providers of financial secrecy harbouring assets are mostly not small islands as many suppose, but some of the world's biggest and wealthiest countries.
- Rich OECD member countries and their satellites are the main recipients of or conduits for these illicit flows.

Rank	Jurisdiction
1	Switzerland
2	Hong Kong
3	USA
4	Singapore
5	Cayman Islands
12	Japan
20	China
23	Mauritius
26	Brazil
45	India

What are secrecy Jurisdiction/tax havens?

A state, country, or territory where certain taxes are levied at a very low rate or not at all and financial secrecy is used to attract illicit and illegitimate financial flows.

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AGRICULTURE

1. INDIAN AGRICULTURE

1.1. IRRIGATION THRUST IN BUDGET

Emphasis on completion of AIBP Projects

- The government intends putting all the 89 'active' irrigation projects under the Accelerated Irrigation Benefit Programme (AIBP) on fast track.
- It also aims to raise the required Rs 86,500 crore to finance these both through budgetary and extra-budgetary resources including taking the market route to raise funds.
- The government has promised to complete at least 23 of the 89 projects including a few on which work had started in the mid-1970s, before the end of March 2017. Another 23, that will form phase II, are expected to be completed by 2020.

Status of AIBP projects

- Only 143 of the 297 major projects approved have been completed.
- 89 of them are in different stages of construction which will be put on fast track.
- The remaining 65, which are yet to start, are likely to be reviewed to assess whether it would be feasible to go ahead with them at all.

Reasons for delay

- AIBP suffered from inadequate central funding.
- Its scope expanded to include more and more projects.
- There were time and cost overruns in most of the projects.

Other measures

- Creation of a dedicated irrigation fund under the National Bank for Agriculture and Rural Development (NABARD), which has been asked to issue tax free bonds to borrow money.
- An initial corpus of Rs 20,000 crore has already been set up through the budget, which NABARD can leverage to mobilize further money from the market.
- The government has also asked the Central Water Commission and other agencies to take up 50 out of the 143 completed AIBP projects each year and work towards increasing their efficiencies.
- Each of these projects would now also have water user associations that will decide on how the water is distributed to every claimant in the area.
- **Pradhan Mantri Krishi Sinchayee Yojana (PMKSY)** is also focusing on improving irrigation facilities.

Accelerated Irrigation Benefits Programme (AIBP)

- Government, in 1996-97, launched AIBP to provide Central Loan Assistance (CLA) to major/medium/minor irrigation projects in the country.
- The objective was to accelerate the implementation of those projects which were beyond resource capability of the states or were in advanced stage of completion.
- Only 143 of the 297 major projects approved have been completed.

1.2. CROPPING PATTERNS: NSSO REPORT ON LAND AND LIVESTOCK HOLDINGS

The **National Sample Survey Office (NSSO)** conducted a survey on Land and Livestock Holdings in the rural areas of the country as a part of **NSS 70th Round** during January, 2013 to December, 2013.

Trends in cultivation pattern

- The total number of operational holdings and the percentage of joint holdings have increased in 2012-13 as compared to 2002-03
- The highest percentage of area was used **for growing cereals** in July, 2012-December, 2012 (56.21%) and January, 2013 - June, 2013 (57.74%). The next major use of land was **for production of oil seeds**(13.75% and 7.34%) and *pulses* (6.30% and 10.20%) in the two seasons respectively.
- During the season July, 2012 – December, 2012, the major States where land area was mostly affected by flood included Andhra Pradesh (26%), Assam (23%), Bihar (17%) and West Bengal (13%).

Trends in Livestock Farming

- Among the land used for animal farming (dairy, poultry, piggery, fishery and farming of other animals) the major use of land was made **in dairy** (53.8% and 69.7%) in July, 2012 - December, 2012 and January, 2013 -

June, 2013 respectively. In about, 18.7% and 11.8% of land area was used **for fishery** during the two seasons.

- The percentage of area used for all types of farming of animals is 0.97% in July, 2012 - December, 2012 and 1.69 % during January, 2013 - June, 2013.

Stock of Livestock/Poultry Birds holding in the country

- The estimated number of bovine livestock has decreased during 70th round as compared to the previous livestock survey.
- There is a nominal increase in the number of sheep & goat and pig populations as compared to previous survey.
- Poultry population in the 70th round has increased almost 1.4 times the 59th round estimates.
- The stock of cattle and buffalo of the country was estimated at 204 million during 2012-13. The estimated population of sheep & goat during the period was about 99 million.

1.3. REFORMS IN INDIAN AGRICULTURE

Reasons of poor performance of agriculture and rising farmer suicides

- **Falling farm income** - Crop has failed in multiple regions in last 2 years due to bad monsoon and other regions have very low productivity
- Absence of **credit** for small marginal and tenant farmers and rising expenditures on health and social ceremonies have put farmers on heavy burden of debt.
- **Poor price discovery** – Lack of commodities futures, fall in price of commodities and lack of government support has led to high volatility in prices, hurting the farmers (see
- **Rising cost of agriculture** due to high prices of seed and rising consumption of fertilizer and pesticides

Steps to be taken

- **Irrigation** - Irrigation is the best insurance against crop failure. PMKSY and Neeranchal should be effectively implemented. (covered above)
- **Encourage crop diversification**. This will act as natural insurance against failure on one crop
- **Reform in APMC Act and National Agriculture market** – This will remove corruption and middle men and ensure better prices for farmer's produce. (covered below in II(C) Agriculture-National Market)
- **Land reforms** to increase average land farm size to boost mechanization.
- **Crop Insurance**: Efficient delivery of crop insurance against bad weather, disaster and post-harvest losses. (For details, go to II (D)PMFBY)
- **Reform in agricultural land lease** – This will allow tenant farmers to avail insurance and credit.
- **Provide alternative sources** of livelihood to needy farm households.
- **Inputs**: Ensuring availability of good **quality of seed and fertilizers** at reasonable price

1.4. NEED FOR COMMODITY FUTURES MARKET TO FARMERS

Why in news?

Recently, the issue was discussed in **14th Commodity Futures Market Summit**, 2016, organised by ASSOCHAM.

Benefits of Commodity futures market

- A Well-developed commodity futures market is essential to ensure farmers' welfare as they lack bargaining strength and possess limited awareness about market conditions
- It will help to predict their earnings and plan their future investments.
- These markets reduce the range of seasonal price variations.
- They tend to protect the farmers from post-harvest slump in prices.

Why Participation of Indian farmer is bleak in future market?

- Due to lack of expertise in hedging price risk.
- Do not have enough marketable surplus and enough cash to meet margin requirements.
- Inefficient physical operations, excessive crowding of intermediaries, long and fragmented market chains and low-scale have deprived farmers of fair price for their produce.

Government Initiatives

- Government has given **funds to about 214 markets** from eight states that have come up with a proposal to join the online trading platform National Agriculture Market (NAM).

- Proposal of **single e-trading platform** and computerize the markets is on the way
- Government is trying to **expand existing markets** and will facilitate transactions where physically markets currently do not exist
- Formulation of an **interactive farmer portal** to provide information to the farmers to resolve any query.

Way Forward

- There is need of industry's co-operation and active engagement
- A complete involvement and collaboration all players is desirable.

1.5. APMC AND NATIONAL AGRICULTURE MARKETS

Background

- As per the Economic Survey 2014-15, India has 2477 principal regulated primary agriculture markets.
- These are governed by APMC Act of the respective states, which has led to market segmentation, exploitation by middlemen & inefficiencies.
- The government launched the **National Agriculture Market (NAM) Scheme** in July 2015 in 585 markets and in April 2016 started e-trading on pilot basis.
- A similar successful experiment was conducted in Karnataka, called as the **Rashtriya electronic Market Scheme (ReMS)**, to unite principal markets in e-platform.

National Agricultural Market Scheme:

- NAM, announced in Union Budget 2014-15, is a **pan-India electronic trading portal**, which seeks to connect existing APMCs and other market yards to create a unified national market for agricultural commodities.
- NAM is a "virtual" market but it has a physical market (mandi) at the back end.

Benefits

- Increase operational efficiency and transparency in the mandi operations
- Enhance market access and more options for farmers through warehouse based sales
- Larger national market for secondary trading for the local trader in the mandi
- Reduction in intermediation costs for bulk buyers, processors, exporters etc.
- Eliminate information asymmetry
- Will lead to common procedures for issue of licenses, levy of fee and movement of produce
- In 5-7 years, it will result into higher returns for farmers, lower transaction costs to buyers and stable prices and availability to consumers
- It will also help in emergence of value chains by promoting scientific storage and movement of agricultural goods

Challenges

- A single license to be valid across state.
- Single point levy of market fee.
- Despite considerable success, the progress has been slow because of failure to involve various stakeholders like farmers, agents, traders, APMCs, government etc.
- Though middlemen extract rents but they provide timely loans and credit facilities to the farmer. So, it is important to involve them and remove their fears before unifying markets.
- Similarly, over dependence on technological solutions will be slow and may not give desired effect.

Pre-requisites

In order for a state to be part of NAM, it needs to undertake prior reforms in respect of

- A single license to be valid across state
- Single point levy of market fee
- Provision for electronic auction as a mode of price discovery

Way Ahead

Agriculture and intra-state trade are state subjects under 7th schedule. States must be persuaded in a manner consistent with new spirit of cooperative federalism to amend their respective APMCs acts paving the way for the creation of NAM.

1.6. PRADHAN MANTRI FASAL BEEMA YOJNA

Why in news?

- On 13th January, 2016, the Govt. has launched a new crop insurance policy Pradhan Mantri Fasal Bima Yojna (PMFBY)
- It will replace two schemes National Agricultural Insurance Scheme (NAIS) and the modified NAIS (MNAIS).

Issues with earlier schemes

- As per government report, under the existing yield-based and weather-based crop insurance schemes about 37 million, or 27% of farming households were covered.
- Under the present crop insurance schemes - Risks were only partially covered.
- The existing premium rates vary between 2.5% and 3.5% for Kharif crops and 1.5% for Rabi crops but the coverage was capped, meaning farmers could recover only a fraction of their losses.
- The premium for commercial and horticulture crops was calculated on actuarial basis, which means premiums could be as high as 25% depending on the risk factor involved.
- Assessment of crop damage lacked transparency and didn't use the latest technologies.
- Compensation took long, even going beyond a year in many cases.

Salient features

- Schemes targets to cover 50% India's cropped area in the next three years. Present coverage is 23% approximately.
- There will be a **uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops.**
- In case of **annual commercial and horticultural crops**, the premium to be paid by farmers will be only 5%. There is no upper limit on Government subsidy. Even if balance premium is 90%, it will be borne by the Government.
- The government liability on premium subsidy will be shared equally by the Centre and states.
- Government has substantially increased the budget for crop insurance from **Rs.2,823 crore in 2015-16 to Rs.7,750 crore in 2018-19.** (Krishi Kalyan Cess might increasing the source of funding)
- The new scheme will also seek to address a long-standing demand of farmers and provide **farm-level assessment for localized calamities**, including hailstorms, unseasonal rains, landslides and inundation.
- The use of technology will be encouraged to a great extent.
 - ✓ **Smart phones** will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers.
 - ✓ **Remote sensing** will be used to reduce the number of crop cutting experiments.
- In the case of Weather-Based Crop Insurance Scheme (WBCIS), the government said premium rates would be rationalized on par with PMFBY. The PMFBY will be effective from the April 1, 2016.

Scheme in existence since 2010 (MNAIS)	New Scheme launched today (PMFBY)
Non-mandatory use of technology resulting in delays in estimation and settlement of claims.	Mandatory use of simple & smart technology through phones, remote sensing & drones for quick estimation and early settlement of claims.
Capping of premium rates & reduction in sum insured to lighten the Govt's subsidy load.	No capping of premium rates so that farmers get the full sum insured.

Benefits

- With back-to-back droughts, and unseasonal rain and hail in certain pockets, it became clear that the risks in farming are on the rise, and the existing system of crop insurance was nowhere near meeting the needs of the peasantry.
- In this context, the new scheme is surely a step in the right direction and very timely - which will help in saving Indian agriculture from the increasing risks of nature.
- The premium rates to be paid by farmers are very low and balance premium will drive penetration and enrolment and make the insurance scheme viable for insurers.
- Post-Harvest losses are also included, so it will provide safety and confidence to the farmers.

Key issues that have been identified by farm rights groups as problematic with the PMFBY

- Problems related to insurance run far deeper than premium rates. For e.g. In many states where premium rates are low in MNAIS still have very low subscription.
- The government's expectation that insurance cover will go up from existing 23% to 50% in three years appears to be based more on hope than any evidence. Previous experience has belied all such hopes.

- Subsidies are to be borne in a 50:50 ratio between Centre and State. It is unclear yet if the states have agreed to bear their share of the subsidies
- **Problem of tenant farmers** who bear the risk of crop failure but are not entitled for compensation and insurance payments.
- Risks such as destruction by wild animals are still not covered.
- One key problem of crop loss or damage compensation, the unit of assessment, remains unaddressed in the new scheme.

Way forward: For the successful implementation of this scheme, it is important that

- Crop assessment should be done in a transparent manner and within a specified period of time, and using high technology such as automatic weather stations (AWSs), drones and satellites etc.
- Compensation must be paid to farmers' accounts directly and as quickly as possible (within a week of assessment of crop damage) so that next agriculture cycle is not affected.

Comparison with previous schemes

Parameter	NAIS [1999]	MNAIS [2010]	PM Crop Insurance Scheme
Premium rate	Low	High	Lower than even NAIS and government to contribute 5 times that of farmer.
One Season – One Premium	Yes	No	Yes
Insurance Amount cover	Full	Capped	Full
On Account Payment	No	Yes	Yes
Localized Risk coverage	No	Hail storm, Land slide	Hail storm, Land slide, Inundation
Post-harvest losses coverage	No	Coastal areas - for cyclonic rain	All India – for cyclonic and unseasonal rain fall.
Prevented Sowing coverage	No	Yes	Yes
Use of Technology	No	Intended	Mandatory
Awareness	No	No	Yes (Target to double coverage to 50%)

1.7. KRISHI KALYAN CESS

Why in news?

Imposition of **Krishi Kalyan Cess** of 0.5% as announced in the Budget.

What is it?

- KKC is a cess, applicable on all services. It is to be solely used towards financing activities for the improvement of agriculture and farmer welfare.
- Hence new effective Service Tax hence increased to 15% from 14.5%.
- **Budget target for Krishi Kalyan Cess is Rs. 5000 crore.**

Why is it important?

- To fund PMFBY and Krishi Sinchai Yojana: It becomes a funding source to centre.
- The KKC is based on the idea that levying a cess on a thriving sector service sector (58% of GDP) of the economy can help fund a lifeline to a sector that is in distress (Agriculture).

- The problem is particularly acute this year after two consecutive years of monsoon failure.
- Over the long-term, improvement in agricultural productivity will help farmers earn higher income and consumers benefit and low inflation from lower prices as a result of better supplies

Difference between cess, surcharge, levy and tax (in a box)

- Tax: Any money the government takes from you for doing any economic activity is tax.
- Levy is the act of charging tax.
- “Cess” means tax levied by the govt to raise funds for a specific purpose. It is also a tax on tax.
- Surcharge is a charge on any tax, charged on the tax already paid. Govt can spend it anywhere.
- Duty: This is an on-border tax charged on goods

1.8. MARATHWADA DROUGHT AND SUGAR FACTORIES

Why in news?

Regions like Marathwada have been facing acute water scarcity (the shortfall was as much as 40%). The rainfall in the region has been in deficit for second consecutive year leading to drought in the region.

Issue: Is sugarcane cultivation responsible for drought in Marathwada region?

Arguments in support

- Sugar cane is a water-guzzling crop (requires 2000 to 2500 mm of water). Unlike Northern regions, which has huge network of rivers, Maharashtra’s sugar cultivation is in regions with water scarcity.
- The 4% of land under sugarcane cultivation consumes as much as 71.5% of irrigated water.
- The region has over 20 sugar factories and each uses 1500 litre of water to crush per ton of cane.
- Earlier, Maharashtra Water and Irrigation Commission recommended stopping sugar cultivation.

Arguments against

- Sugarcane consumes less water on a per-day basis, and even less for every unit weight of biomass produced because unlike paddy, sugarcane grows for 365 days a year.
- Mills operate for all round the year and if fodder, electricity (from bagasse) and alcohol from sugar factories are considered, the mills don’t appear to consume any additional water or electricity.

Conclusion

- A careful balance between cultivation priorities and water allocation is required.
- Drip irrigation, which can save 40 % of water, should be made mandatory and can be given legal force.
- As per Economic Survey 2015-16, less water intensive crops like Pulses and Coarse grain can be promoted.
- Any ban on sugar factories have to be based on proper evaluation of input cost and output value of sugar, power, ethanol & bagasse produced from them.

1.9. PALM OIL INDUSTRY NOT ATTRACTING INVESTORS: REPORT

Background

- In 2015, Govt. allowed 100% FDI in oil palm plantation through the automatic route.
- The idea was to pump in capital & technology in the oil palm sector.
- It was also expected to lower edible oil import bill.
- Earlier the govt. also came out with **National Mission on Oilseeds and Oil Palm (NMOOP)** to bring additional 1.25 lakh hectares under oil palm through area expansion approach in the states including utilization of wastelands.

Status of investment in Oil Palm sector

- As per the reports of Oil Palm developers and processors Association (OPDPA), there has not been a single investment or even enquiry in the sector.
- With an estimated potential of 20 lakh hectares only 2 lakh hectares have been brought under cultivation the last 2 decades.

Fact about India’s Oil Palm Industry

- It is the highest-yielding oil crop and needs only fraction of the area used to grow other oilseeds.
- China, Indonesia and India alone use 41% of the palm oil traded worldwide. Import bill of edible oil is expected to touch \$ 15 billion in 2016-17.
- The sector has potential to create 2,00,000 jobs.

Reasons

- Currently, oil palm is not notified as a plantation crop and is within the ambit of land ceiling act which deters big corporate from making large investments.
- Current import duties are not supportive of domestic producers
- No dedicated institution to cater to the needs of the industry and the farmers.

Way ahead

- Relaxation in land ceiling norms for oil palm growth and permitting large-scale plantation in addition to contract farming mode.
- Separate palm oil import policy keeping in mind farmers and the industry
- Separate Oil Palm development board to boost the industry,
- Budgetary support from the govt to support the farmers.

1.10. WITHDRAWAL OF NEW NOTIFICATION REGARDING LICENCING OF GM TECHNOLOGY

What was the notification?

- The agriculture ministry issued notification as per which licensor of an approved GM (Genetically Modified) technology (i.e. the innovator) can't refuse license to any applicant.
- It also capped the license fees for all new genetically modified seed technology and sought to regulate the bilateral agreements between seed technology license provider and licensees.
- All this effectively amounted to compulsory license extending to GM Crops technology.

Why was it withdrawn?

It was withdrawn after GM technology firms expressed their dissatisfaction because of:

- Loss of business of patented technology.
- The notification effectively meant resorting back to License Raj
- It was against WTO rules of Compulsory licensing
- It would discourage investment in research and may ultimately harm the farmers.

Current Position

The Centre has now placed the notification on public domain to elicit public response. Meanwhile its enforcement has been nullified.

1.11. REDUCTION OF BT COTTON ROYALTY FEES BY 74%

Why in News?

- Government has cut prices of genetically modified cotton seeds and slashed royalty fees by 74%,

Reason for the move

- The government has defended the slashing of trait fees and the proposal to revoke the patent for Bollgard-II citing the accelerated resistance developed by the Pink Bollworm to genetically modified seed
- Move will benefit nearly 8 million cotton farmers in India due to lower input cost of seeds.
- Move will benefit the domestic seed companies and check the monopolistic pricing of the Monsanto which has 90 percent share in Bt cotton seeds.

Concerns

- It raises concerns about the country's intellectual property rights regime.
- Some sections of industry have termed it as arbitrary exercise of state power for not offering a methodology on how the government arrived at the trait fees.
- May impede R&D - Companies may have to reconsider their investments in seed-based R&D in the country due to the current uncertain environment.

2. ISSUES RELATED FARM SUBSIDIES, MSP, PDS, ANIMAL REARING

2.1. PDS REFORMS: DIGITIZATION

Why in News?

Recently the Food ministry said that the digitization helped to clean up the back-end of the subsidized public distribution system (PDS) and over **6 million bogus ration cards have been cancelled**.

Why Digitization of PDS?

- To better target subsidies and ensure leakage-free distribution of food grains, the government used direct benefit transfer (DBT) and **automated ration shops**.
- To successfully implement the National Food Security Act (NFSA), the central government has focused on **end-to-end computerization**, which will bring transparency and check leakages and diversion of food grains.
- A committee on restructuring the Food Corporation of India suggested in its report submitted in January that the government begin direct cash transfers of food subsidy because the existing delivery mechanisms lead to a leakage of as much as 47%.
- It estimated that cash transfers alone could save the exchequer Rs.30,000 crore every year.
- Automation ensures food grains are distributed via ration shops through point-of-sale (PoS) devices that authenticate beneficiaries and record the quantity of subsidized grains given to a family.

Effects of Digitization:

- As a result of these efforts, 6.14 million bogus or duplicate ration cards have been cancelled in the past two years, stopping the diversion and misuse of PDS food grains amounting to about Rs.4,200 crore.
- So far, the beneficiary database has been digitized in 33 states and Union territories, while 17 states and Union territories are being allocated food grains online.
- The Government has achieved significant milestones in the reforms of PDS. Almost **100% (99.9%) ration cards** have been digitized across the country.
- **Over 42 % ration cards** have been even linked with Aadhaar cards and Point of Sale Devices, to keep electronic record of allocation to the beneficiaries, have been installed in over 77,000 ration shops.
- In nine states and Union territories, the entire supply chain has been computerized.

2.2. NITI AAYOG REPORT ON MSP

Problems noticed in the implementation of MSP

- **Distance:** The procurement centers being far away resulting into heavy transportation cost.
- **Operational:**
 - ✓ Non-opening of Procurement centers timely.
 - ✓ The authorities insisting for revenue records.
- **Infra:**
 - ✓ Lack of covered storage/godowns facility for temporary storage of produces.
 - ✓ Lack of electronic weighing equipment in some places, delays in payments.

Recommendations

- Increase **awareness** among the farmers
- **Delays** in MSP payments have negative effects on the framers which need to be corrected.
- MSP should be **announced well in advance** of the sowing season so as to enable the farmers to plan their cropping.

Observations

Generation of Annual Income: Very few farmers in Assam, Bihar, Gujarat, West Bengal, Uttar Pradesh, Uttarakhand and Odisha sold their produce at MSP in the reference period. So their income was not impacted by MSP.

Awareness about MSP: The 81% of the cultivators are aware of MSP fixed for different crops. This awareness varies from 45% to 100% in the different sample States.

Medium of Awareness: Medium of awareness about MSP include self-efforts, newspapers, state officials, FCI officials, village headmen, gram sevaks, teachers, traders etc. Only 7% of the farmers came to know about MSP through the State officials.

Mode of Receipt of Payments:

It was found that 32.13%, 40.29% and 27.4% of the farmers received their MSP payments in cash, Cheques or in the shape of Bank deposits respectively.

In majority of the States, like Bihar, Gujarat, MP, Odisha, and Rajasthan, no cash payment has been made to the farmers.

Time Taken in getting Payments: 20%, 7%, 8%, 51% and 14% of the farmers of the sample States received their MSP payments on the spot/same day, within 2 to 3 days of sales, after 3 days but within one week of sales, after a week but within one month of sales and after a period of one month respectively.

Medium used for Sales: 67% of the farmers sold their produces through their own arrangement whereas 21% of them sold through Brokers.

The shares of sales through the private and Government agencies were 8% and 4% respectively.

Improvement in Farming Practices:

It was found that 78% of the farmers adopted improved methods of farming such as: high yielding varieties of seeds, organic manure, chemical fertilizer, pesticides and improved methods of harvesting, etc. for increasing the production as a result to the MSP declared by the Government.

Effectiveness of MSP: It was found that 21% of the farmers of the sample States expressed their satisfaction to the MSP declared by the Government.

While 79% of them showed their dissatisfaction to MSP due to the various reasons, almost all of them (94%) wanted MSP to continue.

- **Infra:** Improved facilities at procurement centres, such as drying yards, weighing bridges, toilets, etc. should be provided to the farmers. More godowns should be set up and maintained properly for better storage and reduction of wastage.
- **Consultative:** There should be meaningful consultations with the State Government, both on the methodology of computation of MSP as well as on the implementation.
- The criteria of fixing MSP should be current year's data and based on more meaningful criteria rather than the historical costs.
- The Procurement Centers should be in the village itself to avoid transportation costs.
- The MSP scheme requires a complete overhaul in those States where the impact of the scheme ranges from 'nil' to 'at-best marginal' to ensure that MSP continue to as an important instrument of the Government's agricultural price policy.

Conclusion

- Regional imbalances exist in the implementation of MSP on various counts which needs to be corrected.
- On the whole, it was found that the MSP has succeeded in providing floor rate for major food grains like paddy and wheat and other produces such as Gram (black & green), spices and oilseeds (groundnut, mustard, til), sugarcane, jute and cotton, and it did not allow market prices to fall below the MSP fixed for them.
- MSP has been playing a critical role in stabilizing market prices in addition to helping the beneficiaries in adoption of modern technologies in farming.
- Almost all the beneficiaries were unanimous with the view that the MSP should continue as it insulated them from an unfavorable market conditions by assuring them a minimum return for their produces.

Aims of MSP

- The idea behind MSP is to give guaranteed price and assured market to the farmers and protect them from the price fluctuations and market imperfections.
- Protect farmers in era of globalization resulting in freer agricultural trade.
- To encourage higher investment and production of agricultural commodities.

2.3. MSP FOR PULSES

Why in news?

Centre announced a hike by up to Rs. 425 per quintal (including a bonus of Rs 200 per quintal) in the minimum support price (MSP) for pulses, after Cabinet Committee on Economic Affairs (CCEA) has given the approval.

Pros

- Encourages farmers to grow more pulses. Pulses enjoy the lowest cost of production with negligible use of fertilizer and insecticides with higher potential of production. They are well in accordance with Agro-Climatic region of this country.
- Increases acreage and invest for increase in productivity of pulses.
- Recovery in prices in context of growing labour and input costs.
- India's pulses import is estimated to set the new all-time high record at 4.5-5 million tones, the severity of which may reduce.
- A nominal Rs 50 increase in the minimum support price (MSP) in paddy. This is very important as relative attractiveness of Pulses vis a vis paddy and wheat increases.

Cons

- Hike is too little, too late - MSPs that have been declared are way below the market prices to influence planting decisions of farmers.
- MSP increase in wheat will result in farmers producing more wheat,
- Negligible impact on pulse production in India because of ground level reach of MSP which is <6% of farmers.

2.4. DBT IN FERTILIZER SUBSIDY

Why in news?

- Government announced to introduce direct benefit transfer of fertiliser subsidy to farmers on pilot basis in few districts of the country.

- Presently, annual subsidy on fertilizers is about Rs 73,000 crores.

Issues

- A significant part of cultivation is today done by tenant farmers or sharecroppers not owning the land and without any formal lease agreements.
- Selecting criteria for capping the number of bags on which the subsidy is payable, based on a reasonable assessment of requirement.
- Capping would depend on the specific fertilizer as well as the crop and location where it is grown – making it more complicated than the DBT for LPG.

Feasibility

- In Uttar Pradesh, where the state government has created an online database of over 40 lakh farmers, each assigned a unique 'Kisan ID' identifying their village, land particulars, bank account and mobile numbers. Thus demonstrating feasibility of such transfers.
- This DBT portal was used to transfer Rs 140 crore of subsidy on seeds into the accounts of some nine lakh farmers during the recent rabi season.
- It is expected that DBT will result in reduction in leakages, Improvement in quality of service delivery to the farmers and possible reduction in fiscal deficit.

2.5. WTO NAIROBI TALKS

The WTO's Tenth Ministerial Conference was held in Nairobi, Kenya, from 15th to 19th December 2015.

It culminated in the adoption of the "Nairobi Package", a series of six Ministerial Decisions on agriculture, cotton and issues related to least-developed countries (LDCs).

Agriculture

- **Special Safeguard Mechanism (SSM) for Developing Country Members-** a mechanism that would allow developing countries to temporarily raise import tariffs on agriculture products in cases of import surges or price declines.
- **Public Stockholding for Food Security Purposes** -used by some developing countries to purchase food at administered prices and distribute it to poor people.
- Export competition: The **elimination of agricultural export subsidies**, new rules for export credits, international food aid and exporting state trading enterprises etc.
- **Cotton - On market access**, the Nairobi draft proposal asks that cotton from least-developed countries (LDCs) be given duty-free and quota-free access to the markets of developed countries — and to those of developing countries declaring that they are able to do so — from 1 January 2016.

Least-Developed Countries (LDCs) issues

- **Preferential Rules of Origin for Least Developed Countries** - WTO agreements include provisions aimed at increasing LDCs' trade opportunities and allowing LDCs flexibility in implementing WTO rules.
- Implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade.

Issues /Concerns

- India and other developing countries feel only a few of their concerns have been addressed at the end of 10th World Trade Organization ministerial conference.
- A unanimous reaffirmation of the Doha Development Agenda (DDA) has not occurred.
- The more contentious issues of public stockholding of food crops and special safeguard mechanism (SSM) in agriculture have also not seen major progress.
- The food security issue concerns several developing nations which provide subsidised food grains to their poor.
- Barring five countries—the US, European Union (EU), Brazil, China and India, who negotiated among themselves the final outcome based on their respective national interests—the others were left guessing about the outcome of the emerging world trade order.

The Nairobi declaration was disappointing on multiple fronts for India:

- India failed in its objectives to secure credible outcomes on its demands for SSM, permanent solution for public stockholding programmes for food security and the reaffirmation to continue the DDA negotiations.
- India has returned with very few, if any, of its demands met.

- Trade experts and NGOs have also said the 'Nairobi package' has "effectively killed" the fundamental objective of the WTO's Doha Round negotiations, which was to improve the trading prospects of the developing and the poor world.

Key Takeaways

- Decisions to end all farm export subsidies and liberalise global trade in information technology products.
- Preferential treatment for least developed countries in the area of services
- Measures related to cotton
- A special safeguard mechanism for developing countries

India's stand/ Point of view

IMPACT FOR INDIA ■ NEGATIVE ■ POSITIVE ■ NEUTRAL

1. FARM GOODS EXPORT 📈

Of 5 elements, 2 to impact India adversely.

■ EXPORT SUBSIDIES: Immediate elimination by developed countries.

■ STATE-TRADING ENTERPRISES: State agencies to stop support.

■ MARKETING & TRANSPORT ASSISTANCE: Sugar producers in South, Maharashtra & UP hit.

2. SAFEGUARDS AGAINST IMPORT SURGES 🙄

■ India only got statement of intent with no timeframe. Developed nations, Brazil prevailed.

3. PUBLIC STOCKHOLDING FOR FOOD SECURITY 📈

■ India wanted a reworked formula but failed.

4. DOHA ROUND 🙄

■ No commitment from WTO members to pursue. No guarantee EU & US will lower agri subsidies or make visa rules easier.

3. FOOD PROCESSING

3.1. MEGA FOOD PARK

Why in news?

Recently foundation stone of the first Mega Food Park in Telangana was laid.

Details of the Park

- It will be set up with the project cost of Rs. 109 crores in an area of 78 acres.
- It will have strong backward linkage and three Primary Processing Centres (PPCs) will be set up at Medchal, Medak and Nalgonda.
- It will have facilities of Multi Commodity Cold Storage, Raw Material Warehouse, Finished Good Warehouse, Grain Silos, Deep Freeze, Turmeric Processing Facility and modern food testing lab.
- It is expected to provide direct and indirect employment to about 6000 people and benefit about 30,000 farmers in its catchment area.

What is a Mega Food Park?

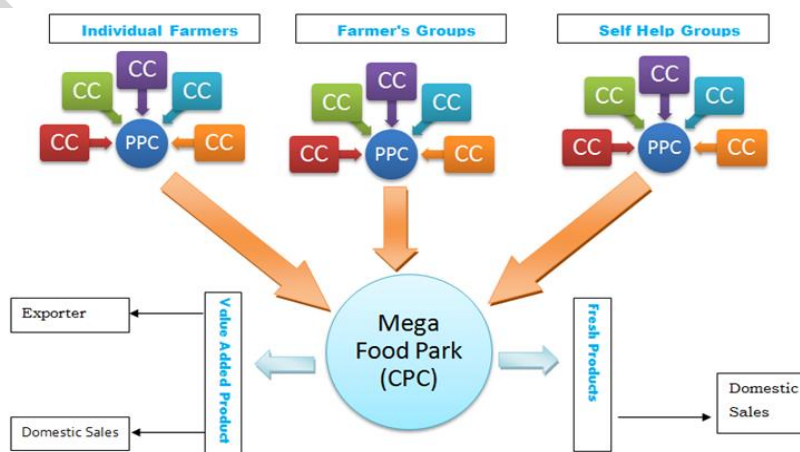
A mega food park is a hub and spoke architecture comprising Collection Centres (CCs) and Primary Processing Centres (PPCs) as spokes linked to a Central Processing Centre as hub.

Collection Centres (CCs): They work as points of aggregation of the produce from individual farmers, farmer's groups and Self Help Groups.

Primary Processing Centres (PPCs): They work has primary handling centres which use the raw materials to be processed further in CPC. A PPC serves a number of CCs in proximity. Some PPCs have inhouse facilities such as pulping, juicing etc. They have facilities such as refrigerated vans, trucks etc. to transport material to CPC in shortest possible time.

Significance of Mega Food Park

- Major boost to the Food Processing Sector by facilitating creation of modern infrastructure for food processing with strong forward and backward linkages through a cluster based approach.
- Mechanism to link agricultural production to the market by bringing together farmers, processors and retailers.



- It ensures maximizing value addition, minimizing wastages, increasing farmers' income and creating employment opportunities particularly in rural sector.

Issues with the Mega Food Park Scheme

- Land acquisition - It is very difficult to get 50 acre of land, particularly in small and hilly states.
- Since most agri-business in our country happens through cooperatives, their integration into food parks is critical.
- Though the scheme gives a grant to the SPV, the SPV finds itself unable to attract the PPCs and CCs. Here, the National Mission on Food Processing could play a major role by providing the Rs. 50 Lakh grant to units within the MFPs. But the scheme is now delinked from central support and states will decide if they want to continue. State governments can, in a case-by-case basis, provide attractions to these units as well.
- The MFP scheme provides maximum grant of Rs.50 crores for setting up a MFP in minimum 50 acres of contiguous land with 50 percent contribution to the total project cost from the SPV. This "one size fits all" approach has not been able to attract the investors having more or less requirements.

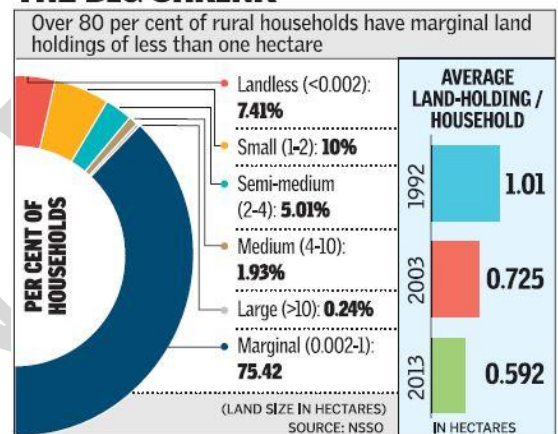
4. LAND REFORMS IN INDIA

4.1. PRESENT SITUATION: NSSO SURVEY

Key Findings of the Survey

- The NSSO figure is about 65 million hectares lower than the numbers put out by the ninth agricultural census conducted in 2010-11.
- The report on land and livestock holdings estimates that around 95 million hectares of land was classified as operational holdings in 2012-13.
- Household ownership of land- the total estimated area owned, and average area owned per household has declined in 2012-2013 as compared to 2002-03.
- During the agriculture year July 2012- June 2013 rural India had an estimated total area of 92.3 million hectares under household ownership of land and the average area owned per household was 0.592 hectares.

THE BIG SHRINK



4.2. MODEL LAND LEASING LAW

Why in news?

Niti Aayog Panel proposes Model Land Leasing Law after a 11-member committee was constituted under T. Haque has suggested the enactment of the law to permit and facilitate leasing of agricultural land.

Significance

- According to Haque, former chairman of CACP, about 20% of land holdings are managed by tenant farmers, with the figure in states like Andhra Pradesh going up to 60%.
- Presently farmers cultivating the agricultural land on lease are unable to access loans through credit institutions, insurance, disaster relief and other support services provided by the government as they don't own the land.
- They cannot show the land as collateral as land owners are afraid of losing their land to tenants under various tenancy laws. So, they keep on changing tenants. This makes tenants unable to benefit from various govt. schemes.

Broad framework of the model act

- Make land leasing legal.
- Remove adverse possession clause from laws of states. (Adverse possession creates fear among owners, as a tenant may claim title if he keeps possession of the land for a specified period of time).
- Facilitate access to short-term credit and crop insurance based on a simple lease agreement for tenants.
- Allow automatic resumption of land on expiry of agreed lease period without requiring any minimum area criteria. (In some states, the criterion stipulates a minimum area to be left to the tenant on expiry of the lease to protect his future).
- Terms of lease and Rent to be determined mutually by owner and tenant

- Lease to be terminated within lease period by giving an advance notice of one crop season or one crop or grounds like non-payment of rent, use of land for purpose other than what was agreed upon, lease harms the land, legal framework of leasing is not farmer-friendly and both parties are not benefiting

Benefits

- To allow owners to lease out agricultural land to tenant farmers without any fear of losing it.
- To promote legalisation of land leasing.
- To ensure tenant farmers have access to institutional credit, insurance and disaster compensation without affecting the landowner title.
- This would allow unused land to be used productively, and enable tenant farmers to invest in the land and access credit and insurance.
- Will allow consolidation of farm land so that small plots of land that are economically unviable can be leased out.

Way forward

- MP became the first state in July to draft its own law, and several others, including Gujarat, Odisha and Punjab are following its example.
- Land being a state subject, the Centre can at best convince the states to adopt a model to bring in uniformity.

4.3. RAJASTHAN URBAN LAND (CERTIFICATION OF TITLES) BILL 2016

Why in News?

- Rajasthan **became the first state in India** to enact a **law on property titles** in urban areas.

What it means?

- State residents living in urban areas can seek a certificate of ownership of their lands by paying a nominal fee to the state government.
- It is voluntary for the owners to apply for these certificates.

Background

- Ill-defined property rights and high transaction costs in land market have become one of the most significant factors affecting the country's ease of doing business.
- A 2014 report by Rights and Resources Initiative (RRI) shows that over 25% of districts are affected by land conflicts.
- There is no legal provision for a land owner to register his property with a notified authority.
- Most municipal governments are unable to undertake more than 50% collection on property taxes or development charges, mainly due to poor records of property ownership.

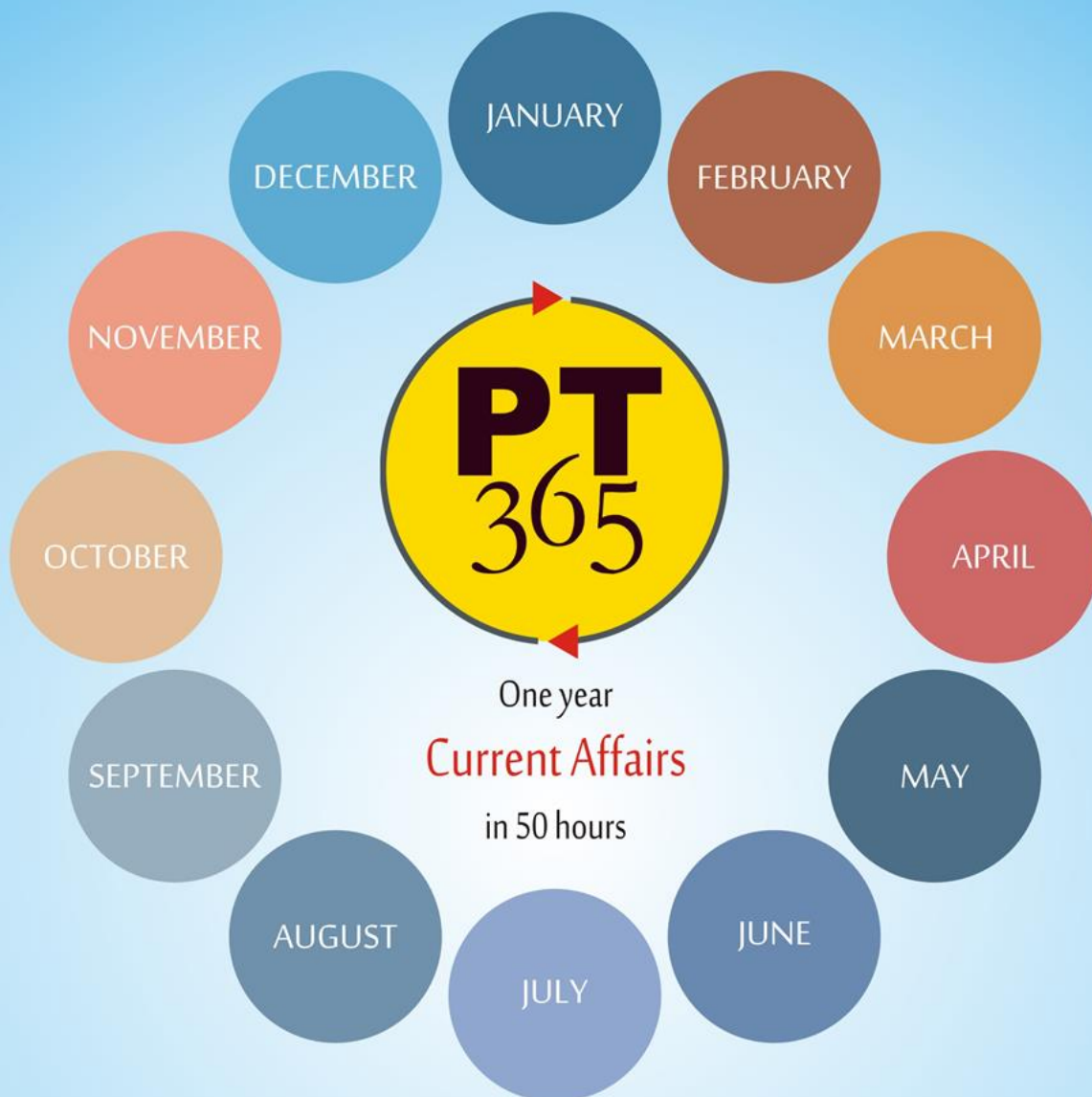
Provisions of the Act

- An independent Land Title Certification (LTC) authority will be constituted, which will be the custodian of Register of survey records and registrations of title certificates issued.
- A **digital platform, CLEAR** (Computerized Land Evaluation and Administration of Records) will be created to record and manage documents in the ULCT system.
- A tribunal to be established to hear appeals against orders of the authority and adjudicate on them.

Impact

- This Bill will give a clear title to the owner and will **reduce litigations in the courts**.
- It will also help in **curbing fraud practices** in sale and purchase of non-agricultural land in urban areas.
- This **will create an efficient and transparent modern land market**, provide certainty of tenure and end litigation that often mires development projects.
- It will **enable the use of land as an asset** for accessing credit.
- It will also delineate the difference between rural and urban areas with its geographical information system (**GIS**) and help in better price determination in accordance with the provisions of the land acquisition bill.

Operational holdings are land that was used wholly or partly for agricultural production. This includes land being used as kitchen garden or livestock growing, but leaves out cooperative farming and institutional ownership.



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INDUSTRIAL POLICY AND ASSOCIATED ISSUES

1. INDEX OF INDUSTRIAL PRODUCTION

Why in news?

India's industrial output fell 2.4% in July after a spurt in May and June, much due to a decline in manufacturing output.

What is IIP?

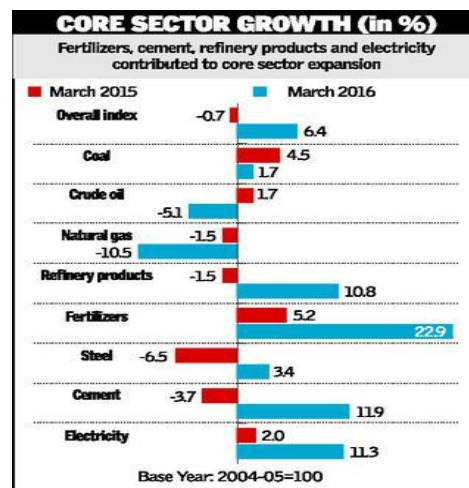
- IIP is a ratio which measures the growth of various sectors in the economy. Being a ratio, it represents the status of production in the industrial sector for a given period of time as compared to the reference period of time (base year).
- IIP data is released every month by CSO, The current base year is 2004-05.
- The IIP comprises of 682 individual items. Sector wise, the items included falls into 3 categories viz. Manufacturing, Mining and Electricity respectively in decreasing order of their weightage to the index.

Weightage of Core Industries in IIP

- In terms of percentage, the weightage of all 8 core industries in IIP is around 38%.
- In IIP, the decreasing order of core industries among them is as:
- ELECTRICITY > STEEL > REFINERY PRODUCTS > CRUDE > COAL > CEMENT > NATURAL GAS > FERTILIZERS

Growth in Core Sector Output

- India's core sector output rose 3.2% in August thanks to a sharp rise in steel production and a pickup in cement, suggesting a lift in infrastructure and construction activity.
- Pickup in sector like refinery and cement show that demand is beginning to pick up.



Construction Picks Up

SHARP rise in steel production

CEMENT output increases despite monsoons

AUGUST monsoon hits electricity, coal production

ELECTRICITY generation growth at 9-month low

COAL, CRUDE oil, natural gas drag core sector growth

2. NATIONAL MINERAL EXPLORATION POLICY

Why in news?

The Union Cabinet has approved the National Mineral Exploration Policy (NMEP).

Need

- The Ministry of Mines has, in the recent past, taken a series of measures for the growth of the mineral sector, including allowing 100% FDI. However, these initiatives have fetched only limited success.
- Of India's entire Obvious Geological Potential (OGP) area, identified by GSI, only 10 per cent has been explored and mining is undertaken in 1.5-2 per cent of this area.

Salient Features

- Aim: accelerating the exploration activity in the country through enhanced participation of the private sector.
- States will also play a greater role by referring exploration projects, which can be taken up through NMET.
- NMEP has proposed that private entities engaged in carrying out regional and detailed exploration would get a certain share in revenue in mining operation from the successful bidder after the e-auction of the mineral block.
- The revenue-sharing could be either in the form of a lump sum or an annuity, to be paid throughout the period of mining lease with transferable rights.
- **E-Auction:** Selection of private explorer is proposed to be done through a transparent process of competitive bidding through e-auction.
- For this, reasonable areas or blocks for regional exploration will be earmarked or identified by the government for auctioning

Major Impacts

- The pre-competitive baseline geoscientific data will be created as a public good and will be fully available for open dissemination free of charge. This is expected to benefit public and private exploration agencies.
- The collaboration with scientific and research bodies, universities and industry for the scientific and technological development necessary for exploration in public- private partnership.
- A National Aerogeophysical Mapping program will be launched to map the entire country with low altitude and close space flight to delineate the deep-seated and concealed mineral deposits.
- Government will launch a special initiative to probe deep-seated/concealed mineral deposits in the country.
- Government will engage private agencies for carrying out exploration in identified blocks / areas with the right to certain share in the revenue accruing to the State government through auction.
- Public expenditure on regional and detailed exploration will be prioritized and subject to periodical review based on assessment of criticality and strategic interests.

3. NATIONAL CAPITAL GOODS POLICY

Why in News?

National Capital Good policy has been launched for the **first time** to give a boost to the capital goods sector and also support the Make in India initiative. It would be implemented by the **Dept of Heavy Industries**.

Overview

- The capital goods sector provides direct employment to 1.4 million people and the sector is growing at 1.1% per annum.
- The policy envisages increasing exports from the current 27 per cent to 40 per cent of production while increasing share of domestic production in India's demand from 60 per cent to 80 per cent, thus **making India a net exporter** of capital goods.
- The policy addresses **key issues**: availability of finance, raw material, innovation and technology, productivity, quality and environment friendly manufacturing practices, promoting exports and creating domestic demand.

Highlights

- **Integration**: of major capital goods sub-sectors such as textile, earth moving and plastic machinery among others as priority sectors under Make in India initiative.
- To facilitate improvement in **technology depth** across sub-sectors, increase skill availability, etc.
- Strengthening the existing scheme of the DHI (Department of Heavy Industry) on **enhancement of competitiveness** of Capital Goods sector by **increasing budgetary allocation**
- Enhancing the **export** of Indian made capital goods through a 'Heavy Industry Export & Market Development Assistance Scheme (HIEMDA)'.
- Provision for launching a **Technology Development Fund**, upgrading existing and setting up new **testing & certification** facility, making **standards mandatory** in order to reduce sub-standard machine imports
- Providing opportunity to **local manufacturing units** by utilising their installed capacity
- **Way Forward**:
- The present policy has tried to comprehensively deal with the issues facing the sector but the policy needs to be supported with a proper environment, which would require several structural reforms including infrastructure, regulatory reforms, improving ease of doing business etc.

4. SEZ REVIVAL PLAN

Why in news?

Since SEZs are an important mainstay for supporting the 'Make in India' campaign and boosting exports the government had set up a high-level team to review and resolve the problems of special economic zones.

What are SEZs?

Special Economic Zones denote geographical areas which enjoy special privileges as compared with non-SEZ areas in the country. They were conceived as tax free enclaves with world class infrastructure for exporting goods and services.

The main objectives of the SEZ Act are

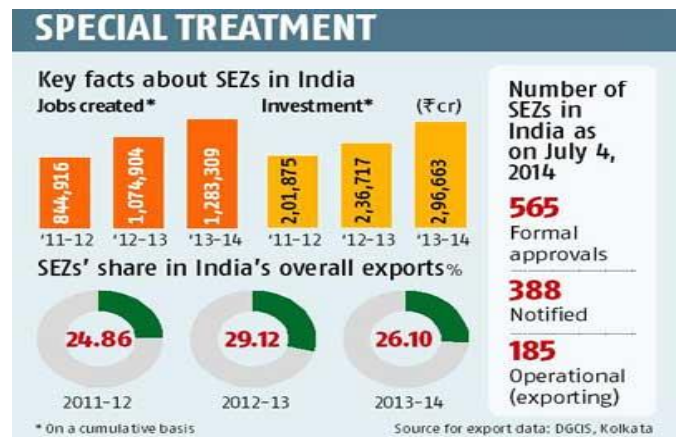
- Generation of additional economic activity.
- Promotion of export of goods and services.
- Promotion of investment from domestic and foreign sources.
- Creation of employment opportunities.
- Development of infrastructure facilities.

Why SEZs failed?

- Incentives offered under the foreign trade policy to exporters outside of the zones
- Disincentives arising out of free-trade agreements (FTA)
- Land Acquisition is one of the major hurdles.
- Inflexibility of labour laws in SEZs
- Policy uncertainty because of differences between Finance and Commerce Ministry.

Way Forward

- There is a need to change the perception of SEZs as tax heavens to enclaves with excellent infrastructure facilities. SEZs should provide better infrastructure facilities, which in turn will reduce the cost of operations and act as an incentive for exports. Government should provide sufficient support in this regard.
- Fiscal incentives need to be carefully designed so that it doesn't violate WTO rules.
- SEZs should be allowed to sell within the country without payment of customs duty on the product.
- Abolition of MAT and DDT(Dividend Distribution Tax).



5. INCENTIVES OFFERED FOR TEXTILE SECTOR

Why in news?

The Centre has announced a **Rs. 6,000 crore special package** to help create one crore jobs, mostly for women, in the next three years.

What is in it?

- The package includes several tax and production incentives. The package also provides the sector more flexible labour laws and financial incentives.
- **Labour welfare:** Overtime hours for workers shall not to exceed eight hours per week - in line with International Labour Organisation norms. **Fixed term employment** will be introduced for the sector to mitigate seasonal nature of employment.
- **Employees Provident Fund:** Govt. is to bear the entire employer's contribution of 12 per cent under the EPF Scheme, for new employees of garment industry earning less than Rs. 15,000 per month, for the first three years.
- **A New scheme:** will be introduced to refund the state levies which were not refunded so far. Of the Rs.6,000 crore package, Rs.5,500 crore is for an additional 5% duty drawback for garments.
 - ✓ **Drawback at 'all industries rate'** would be given for domestic duty paid inputs even when fabrics are imported under 'Advance Authorization Scheme.'
 - ✓ Rs.500 crore will be for additional incentives **under Amended Technology Upgradation Funds Scheme (ATUFS)**, also the subsidy in this scheme is increased from 15% to 25%, providing a boost to employment generation.
- From **input-based to outcome-based incentives** i.e., to disburse subsidy only after expected jobs have been created.

Significance

- Compared to Bangladesh and Vietnam, India was the leader in apparel exports between 1995 and 2000. Now, they have surpassed India.

- With the package the Indian textile and apparel sector would be strengthened by improving its cost competitiveness in the global market. With policy support, India can again regain its position in the next three years.
- The government hopes the package will create one crore new jobs in three years, attract Rs. 74,000 crore in investment and generate \$30 billion in exports earnings.

Funds created by Government – for boosting Industrial sector

6. ELECTRONIC DEVELOPMENT FUND (EDF)

About the fund

- Launched by Ministry of Communication and IT to support early-stage, angel, venture and private equity funds focusing on electronics, nano-electronics and information technology.
- An initial corpus of Rs. 2,200 crore, (to be scaled up to Rs. 10,000 crore)
- Aimed at creating an “ecosystem of innovation, research and development (R&D) and with active industry involvement.”
- To be a ‘**fund of funds**’, with Canbank Venture Capital Funds as active management firm, which will in turn seed professionally managed venture funds.
- The EDF will put in 20% of the capital in daughter funds and the rest 80% will be invested by VCs. The daughter funds will then invest in companies, primarily start-ups.

Need for EDF

- The demand for electronics products in India will increase to **\$400 billion by the year 2020** while production is expected to reach \$104 billion only by that time.
- India will be importing more electronics than crude oil leading to huge CAD.
- India has huge domestic market and a vast pool of technical resources, as well as skilled and semi-skilled labour.
- India is ideally placed to become a global electronics manufacturing hub, offering opportunities of scale manufacturing.

Challenges

- Fund will not help much to the existing players including bulk of SME category as the fund is designed to focus on innovation and R&D.
- Very high competition and low returns in electronic sector leads to finding little support from conventional banking system.
- Capital cost is high putting Indian manufacturers at a considerable disadvantage vis-à-vis China.
- Venture funds prefer the equity route

Way Forward

- Efforts must be made to develop intellectual property that resides in India.
- Presently, key IPs in the sector remains in the hands of a few developed countries.
- Breaking this cycle requires a multifarious effort and so the EDF scheme must be augmented by efforts in other areas.
- **For example**- structural issues, ranging from infrastructure to education and skill development, also need to be addressed simultaneously to fully achieve the vision of India transform into a global digital economy powerhouse.

7. TECHNOLOGY ACQUISITION AND DEVELOPMENT FUND UNDER NMP

Why in News?

Recently, Technology Acquisition and Development Fund (TADF) was launched under National Manufacturing Policy being implemented by Department of Industrial Policy & Promotion (DIPP).

What is TADF?

- It is a new scheme to facilitate acquisition of **Clean, Green & Energy Efficient Technologies** available in India or globally, **by Micro, Small & Medium Enterprises (MSMEs)**.
- Under the Scheme which would be implemented through **Global Innovation and Technology Alliance (GITA)**, a joint venture company, **support to MSME units is envisaged by the following:**

- Direct Support for Technology Acquisition. And In-direct Support for Technology Acquisition through Patent Pool.
- Technology / Equipment Manufacturing Subsidies.
- The scheme will give boost to green manufacturing by facilitating resource conservation activities in industries located in NIMZ.

Significance of TADF

- Technology development and up gradation is critical to attaining the objectives of the National Manufacturing Policy.
- Going up the technology ladder is the quickest way to become globally competitive and ensure sustained growth of the manufacturing sector.
- It will help in development of indigenous technological expertise
- It will also help to make crucial technology acquisitions in the global market.
- Through facilitating green technology it will give an impetus for sustainable development.
- It will catalyse the manufacturing growth in MSME sector to contribute to the national focus of “Make in India”.

8. NATIONAL INVESTMENT AND INFRASTRUCTURE FUND

Recently the government set up the Rs 40,000 Crore National Investment and Infrastructure Fund (NIIF).

Objectives of NIIF

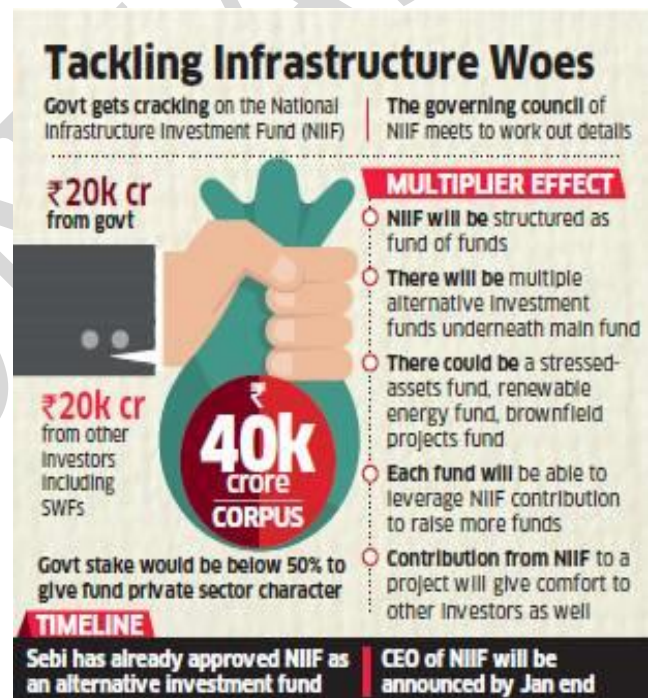
- To maximize economic impact mainly through infrastructure development in commercially viable projects, both Greenfield and Brownfield, including stalled projects
- To attract investment from both domestic and international sources
- to increase investment flows into infrastructure projects
- It is the major initiative of the present government to fix India’s infrastructure woes; it would serve as **an umbrella fund with several funds underneath it.**

What is NIIF?

- It is a umbrella fund with several funds underneath it created by the Government of India for enhancing infrastructure financing in the country.
- The government has budgeted to contribute Rs. 20,000 crore to the fund in the current fiscal year while another Rs. 20,000 crore is expected to be raised through sovereign wealth funds.
- It is registered as a category II alternative investment fund with the Securities and Exchange Board of India.
- Government's contribution/share in the corpus will be 49% in each entity set up as an alternate Investment Fund (AIF).
- A sort of sovereign fund, for development of infrastructure projects, including the stalled ones.
- The NIIF will have a dual role of equity capital infusion in projects and in getting the due-diligence done for investment in infrastructure projects.

Functions of NIIF

- Fund raising through suitable instruments including off-shore credit enhanced bonds, and attracting anchor investors to participate as partners in NIIF.
- Servicing of the investors of NIIF,
- Investing in the corpus created by Asset Management Companies (AMCs)
- Considering and approving candidate companies/institutions/ projects (including state entities) for investments and periodic monitoring of investments.
- Providing advisory services.



Sources of fund for NIIF

- Equity participation from strategic anchor partners, overseas sovereign/quasi-sovereign/multilateral/bilateral investor to co-invest in it.
- Government's funds, each year to each entity set up as an Alternate Investment fund (AIF) for executing its functions based on its annual plan, would be provided as required.
- International pension funds and sovereign wealth funds from countries such as Russia, Singapore and the UAE.

Structure

- The NIIF will be established as one or more Alternate Investment Funds (AIF) under the SEBI regulations.
- The initial authorized corpus of NIIF would be Rs. 20,000 crore, which may be raised from time to time, as decided by Ministry of Finance.
- Government can provide upto 20000 crore per annum into these funds. Government's contribution/share in the corpus will be 49% in each entity set up as an alternate Investment Fund (AIF) and will neither be increased beyond, nor allowed to fall below, 49%.
- The whole of 49% would be contributed by Government directly. Rest is open for contribution from others.

Governance

- The NIIF will be established as a trust/other legal entity from both the point of view of taxation and flexibility.
- There will be a Governing Council of the NIIF which will have Government representatives and experts in international finance, eminent economists and infrastructure professionals.
- The terms and period of appointment of the Governing Council of the NIIF will be as decided by the Government.
- NIIF would be supported by one or more Chief Executive Officers and a small investment team consisting of limited number of expert staff.
- NIIF would have full autonomy for project selection. NIIF would formulate guidelines and would follow due processes for selection criteria for Asset Management Companies (AMCs) and Non-Banking Financial Companies (NBFCs) / Financial Institutions (FIs).

9. PROBLEM WITH MANUFACTURING SECTOR – MAKE IN INDIA

- Most of the **new jobs are in construction sector** which are low productivity jobs.
- India's 85 percent of the workforce is in informal sector which is **mostly unskilled**.
- Most of the jobs in **manufacturing and services sector are skill intensive** while India's natural comparative advantage lies in its vast pool of unskilled labour.
- Thus there exist a demand supply gap in terms of quality of work force required by these two sectors and available workforce.
- As per Economic Survey 2014-15, the **cost of skill intensive model** is that one or two generations of those who are currently unskilled will be left behind without the opportunities to advance.
- Another report from Citi group claims that increased use of automation will likely tilt the balance towards some developed economies and existing manufacturing hubs in emerging markets like China at the cost of new emerging markets like India.
- The increasing use of robotics and Fourth Industrial Revolution in manufacturing has led to a renewed "onshoring" of production
- Also, the fragmentation and unbundling of global value chains, which have been responsible for the growth of manufacturing in many low-cost countries and burgeoning world trade in goods, is slowing.

Way Ahead

- Skilling the workforce and improving the infrastructure.
- Make in India cannot succeed unless the cost of doing business is brought down in India.
- Government will have to continuously pursue various reforms to improve doing business environment in India.
- Also see Dashboard for Monitor Make in India and rank States under Ease of Doing Business.

10. E-COMMERCE

10.1. PRESENT SITUATION: E-COMMERCE IN INDIA

The report by **CII-DELOITTE REPORT** calls the e-commerce in India as a **game changer for the economy**.

- The e-commerce industry has grown rapidly in India logging a growth rate of over 60 per cent.
- Studies have pegged the size of the industry at around USD 38 billion by 2016 and it is expected to touch USD 50 billion mark in 2020.
- It is an industry that has the potential to create jobs and spur economic growth.
- This sector has attracted the maximum FDI in 2015.
- Some of the prominent e-commerce marketplace players in India are Amazon, Flipkart, Snapdeal, ShopClues and Paytm - all funded by foreign investors.
- Companies such as Amazon India, Flipkart, Snapdeal and many others hosted thousands of sellers, were described as **technology enablers rather than e-retailers**. They claimed to have no inventory of their own. That kept them going even with a ban on FDI in e-commerce.

Challenges to e-commerce industries

- Lack of uniform taxation across states leading to difficulty in movement of goods.
- Logistics issues and infrastructure.
- Payments and banking penetration as cash transaction comes with high administration cost.
- Internet penetration.
- Skilled manpower.

10.2. NEW GUIDELINES

- Government permitted 100 per cent FDI in the market place format of e-commerce retailing under the automatic route.
- The guidelines allowed e-commerce marketplace to provide several support services to sellers, but, it said that such entities will not exercise ownership over the inventory.
- The e-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field.

Advantages

- It will give the much-needed clarity to undertake business with certainty in longer term attracting foreign investment in this sector.
- Enabling the marketplace operator to provide value added services.

Disadvantages

- It has further increased complexity of e-retail by drawing an artificial distinction between inventory based model and marketplace based e-commerce.
- The cap of 25 per cent on sales by a single vendor in a marketplace may prove to be restrictive,
- The above limit of 25 percent, without a strong commercial principle, may result in firms creating newer entities to avoid being caught.
- The rule that states e-retailers “will not directly or indirectly influence price...” goes against “pricing freedom” which is central to the functioning of a market and it also faces practical difficulties in enforcing this.

Market place format of e-commerce:

- providing of an IT platform by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller.

Inventory-based model

- inventory of goods and services is owned by e-commerce entity and is sold to consumers directly.



LANDSCAPE OF RETAIL

A look at foreign direct investment in the Indian retail space:

BRICK-AND-MORTAR STORES

Type	FDI allowed (%)	Players
Multi-brand*	51	Tesco-Tata
Single-brand	100	H&M, IKEA
Wholesale, cash-&-carry, B2B	100	Walmart, Metro

ONLINE SEARCH

Type	FDI allowed (%)	Players
Marketplace	100	Amazon, Flipkart, Snapdeal, Paytm
B2B	100	Walmart, Alibaba
Inventory-led	Nil	NA

Conditions for FDI in e-commerce marketplace:

No vendor can do more than 25% sale on any platform

Platform owners must stay away from selling products

Guarantee and warranty of products to be sellers' responsibility

*States decide whether or not to permit FDI. The National Democratic Alliance is opposed to foreign investment in multi-brand retail, but the current government has not changed the rules made by its predecessor

Way forward: Recommendation by the CII-DELOITTE report:

- Uniform tax structure in the form of GST to ensure free flow of goods.
- Timely implementation of programmes like Digital India, Skill India, Startup India etc to support e-commerce ecosystem and rural penetration.
- Increasing the number of years within which the tax holiday can be availed by startups in the e-commerce industry.

11. PHARMA INDUSTRY

11.1. ISSUES WITH INDIAN PHARMA INDUSTRY

- Poor and non-transparent Regulatory environment.
- **Standards**
 - ✓ Lack of enforcement of manufacturing standards as prescribed by Indian laws and WHO standards.
 - ✓ Ban of Indian drugs on ground of poor quality, adulterated drugs, hygiene and sanitation standards by developed nations like US and EU.
- **Bulk Drugs:** Growing dependence on imports in the area of bulk drugs. Majority of the import is from China. (Discussed in detail below)
- **IPR:** The R&D investment by the domestic pharma industry has gone down in the recent years.
- Poor and erratic power supply led to decline of the fermentation industry engaged in production of drugs.
- Lack of coordination among different ministries which deals with different aspects of pharma industry – like Department of Pharmaceuticals deals with drug policy, Department of Science and Technology deals with innovation etc.

Solution

- **Easier and transparent regulatory regime** in India to foster innovation while protecting the interest of consumers.
- Ethical and transparent clinical trials and faster single window approval process.
- Develop **WTO compliant regulations** that the domestic players should find easier to conform.
- Coordinated and concerted action by all the ministries.
- **Cluster scheme:** Setting up of mega parks with common effluent treatment plant, common lab, etc. so that Indian pharma industry can also enjoy economies of scale
- **Boost R&D** - More industry-academic/research institution collaborations, encouragement of open source drug discoveries in the area of neglected diseases etc

Way Forward

- Government should follow path outlined in **Pharma Vision 2020** for India to acquire global leadership in manufacture of generic drugs.
- Government also needs to provide more support and incentives than at present to MSMEs in pharma sector.

11.2. DRAFT BULK DRUG POLICY

Why in news?

- Based on recommendations of **Katoch committee**, Department of Pharmaceuticals (DoP) had moved draft on bulk drugs policy.
- Bulk drug manufacturers expect the policy **to revive India's active pharmaceutical ingredients (API) market and trigger fresh investments** worth Rs 30,000-40,000 crore in setting up new manufacturing facilities and augmenting existing ones.

What are Bulk Drugs?

- Bulk Drugs or APIs are basically the active raw materials used in a drug that gives it the therapeutic effect.
- Bulk drugs are used as raw materials by the pharmaceutical industry.

Need

- Bulk drugs **currently constitute only 10-12 percent** share in the country's Rs 80,000 crore-domestic pharmaceutical sector.
- There is **dependency on import from china**. According to industry estimates, 70-80 per cent of the requirement of the industry is met by imports from China, varying across categories.

- There is problem with quality parameters on imported Chinese bulk drug.

Salient Features

- It aims to make India self-dependent of Bulk drug manufacturing.
- An ecosystem to help pharma companies to move up in the value chain and develop new molecules through innovations.
- To grow the Indian pharmaceuticals sector to a \$200 billion industry by 2030.
- It will be achieved by developing APIs manufacturing capacities.
- Mega Parks for API's maintained by separate special purpose vehicle.
- 6 large API Intermediate cluster.
- Revival of PSU for manufacturing of essential drugs.
- Soft Loans to Manufacturers.
- Investment in R&D.
- Tax benefits and import duty exemption.
- Separate Institutional mechanism for liaising with other ministry for E.g. for environmental clearance, for power etc.

Fact sheet on Pharma Industry

- Global pharma industry is estimated at \$1,000 billion.
- Indian pharma industry at present is of \$32 billion.
- The industry is growing at 8-9 per cent per annum at present.
- 2015 was the year of Active Pharmaceutical Ingredients.
- India is a superpower as far as generic drugs are concerned.

Challenges

- Regulatory framework need to strengthened and brought on par with international practices.
- Issue with infrastructure requirements of the pharmaceutical industry
- R & D lacks in developing new molecules and drug discovery

Way forward

- Industry need to focus on innovation and adopt international practice.
- India has a potential to be pharmacy hub for the world
- At least need to become self sufficient to meet our own requirements
- Will help in to bring down cost of drugs to consumer
- There is proposal by central government to create a new ministry for pharmaceuticals and medical devices
- There is need of voluntary Uniform Code of Pharmaceutical Marketing Practices
- Make in India initiative will help the industry in a big way

11.3. WITHDRAWAL OF CUSTOM DUTY EXEMPTION ON 76 LIFE-SAVING DRUGS

News

The Finance Ministry has withdrawn exemption of 76 medicines from customs duties. The list includes 10 HIV drugs and at least four cancer drugs, but haemophilia patients are likely to be the most affected by the decision.

Government's Stand

It is to promote indigenous medicines. The Indian drug companies are perfectly capable of manufacturing these drugs for our domestic market.

- It is believed that the removal of duty exemption will promote Make In India.

Impact of the decision

- It will at once make them **more expensive** and impact patients who are already paying a high price for such medical treatment.
- Majority of Indians meet **health care costs through out-of-pocket expenditure**, and any increase is bound to adversely affect them.
- Few drugs which have been removed are either not produced in India or they are not produced in sufficient quantities to meet the local demand

OUT OF REACH?

There is bad news for patients dependent on life-saving drugs



- Haemophilia patients likely to be the worst affected
- The cost of 10 HIV and four cancer drugs is likely to go up

Anti-haemophilic factor concentrate VIII*

Disease: Haemophilia

Cost per unit: Rs 13- 18

Likely surge: Rs 3-4 per unit

Anti-haemophilic factor concentrate IX*

Cost per unit: Rs 25-30

Likely surge: Rs 5-6 per unit

*Average per patient consumption is 25 units per kg of body weight

- Many of the recently launched life-saving drugs which are under patents have not been provided with the custom duty exception
- Consumers are **not the decision makers in drug purchase** as they are dependent on doctor's prescription. Hence it becomes even more important to have similar prices of imported and locally made drugs to prevent consume from partisan doctors.
- **Imported active pharmaceutical ingredients (APIs)** will also increase the cost of generics made locally.

12. TRADE

12.1. PRESENT SITUATION: INDIAN EXPORTS TREND

- India's merchandise exports rose 1.27 per cent year-on-year in June to \$22.57 billion, **reversing a trend that started in December 2014.**
- The low-base effect has helped this trend in June as exports in June 2015 had shrunk 16 per cent over June 2014.
- Exports have been falling since December 2014 because of a weak global demand and a slide in oil prices.

12.1.1. FALLING OIL PRICES AND ITS IMPACT ON INDIAN ECONOMY

Reasons

- **Demand side factors:** Eurozone's economic stagnation, Japan's slipping into recession and China's slowdown.
- **Supply side factors:** The U.S. shale boom, revival of Libya's oil production, and continuous increase in production in Iraq, OPEC decision of not cutting the production.

Negative Impacts

- Reduction in remittances from west Asian countries as their economy is slowing down.
- Increase in pollution as reduction in oil prices increased the demand of oil domestically and globally.

Positive Impacts

- Improving **trade balance** and **Current Account Deficit** of India as it **imports oil for meeting four-fifths** of its needs
- Allowed for **deregulation of diesel prices** resulting into **easing of the subsidy burden** and reduced inflation.
- Funds saved above can be diverted to **infrastructure** creation, **social welfare programs.**
- Companies that use crude or crude derivatives as inputs, such as manufacturers of **plastic products, synthetic textiles, tyres and paints,** will see profit margins expanding.

12.2. TRADE FACILITATION AGREEMENT (TFA) IN GOODS

Why in news?

- Government recently cleared TFA in Goods and proposed a National Committee on Trade Facilitation (NCTF)
- There is provisions for expediting the movement, release and clearance of goods
- It sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues.

Benefits for India:

- In consonance with India's "**Ease of Doing Business**" initiative.
- Aimed at relaxing customs rules for smoother trade flow.
- Projected to cut the cost of trade by an **average of 14.5%.**
- May Provide permanent solution to the issue of public stockholding for food security purposes and
- Mechanism to safeguard poor farmers from sudden import surge of farm products

Negative implication:

- Ratifying the agreement so early could lead to India losing a bargaining chip to secure its interests.

Way forward:

- Customs Act need to change to fulfil India's commitments under the pact.
- Changes in rules will need to be instituted in a range of areas.
- India have already ratified TFA in services.

12.3. TRADE FACILITATION AND TRADE ENFORCEMENT ACT 2015

Why in news?

This is an act passed by US congress, which introduces important measures relating to intellectual property rights (IPR) issues.

Background

- United State Trade Representative (USTR), which oversees enforcement of US trade policy, including IP policy, brings out the annual **Special 301 list**. It categorizes countries based on their IPR rules:
 - ✓ Priority Foreign Countries (PFC) – most serious violators
 - ✓ Priority Watch List (PWL) – Serious offenders
 - ✓ Watch List (WL) – less serious offenders.
- India is placed in the PWL for the last 2 years.

Key Provisions of the Act that may influence India

- The Act requires USTR to develop action plans with benchmarks for countries in PWL list, unilaterally.
- Trade sanctions for countries that refuse to comply with benchmarks can be taken
- It creates a new position within the office USTR titled “Chief Innovation and Intellectual Property Negotiator” which would protect US innovations and IP interests.
- It also created a separate fund for taking legal actions against foreign countries to ensure fair and equitable market access for US.

Impact on India & way forward

- This will further pressurize India to align its IPR policy in line with US interests especially related to pharmaceuticals.
- However, India should resist such pressure and ensure that its laws comply with WTO norms.
- In addition, India should engage with US to resolve such issues bilaterally.

Impact on India & way forward

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FOREIGN INVESTMENT

1. PRESENT SITUATION: WORLD INVESTMENT REPORT 2016

Why in news?

UN Conference for Trade and Development (UNCTAD) has released the World Investment Report 2016.

Salient points

• Global Investment Trends

- ✓ Recovery in FDI was strong in 2015. Global FDI flows jumped by 38 per cent to \$1.76 trillion, their highest level since the global economic and financial crisis of 2008–2009.
- ✓ Looking ahead, FDI flows are expected to decline by 10–15 per cent in 2016, reflecting the fragility of the global economy, persistent weakness of aggregate demand, sluggish growth in some commodity exporting countries, effective policy measures to curb tax inversion deals and a slump in MNE profits.

• Regional Investment Trends

- ✓ After three successive years of contraction, FDI inflows to developed countries bounced back sharply to the highest level since 2007, reach a new high of \$765 billion, 9 per cent higher than in 2014
- ✓ India continues to be among the top ten countries in terms of foreign direct investment (FDI) inflows globally and the fourth in developing Asia
- ✓ India's FDI inflows have increased to \$44 billion in 2015 as compared to \$35 billion in 2014

• Causes for increased FDIs

- ✓ Make in India initiative, alongside liberalization measures and reforms initiated by the Government.
- ✓ The recent announcement of increasing FDI in seven new sectors, including civil aviation, defence, food products and pharmaceuticals, has huge potential for attracting FDI.
- ✓ Huge potential offered by India, the fastest growing major economy,

• Outflows

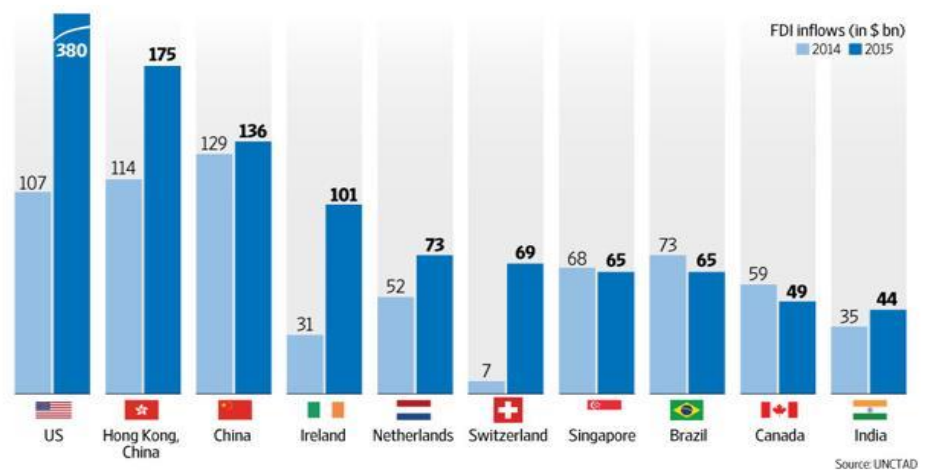
- ✓ In terms of outflows, there has been a decline in most developing and transition regions.
- ✓ The declining trend in India's outflows can be explained by the collapse in the commodity side.

• Investment Policy Trends

- ✓ Most new investment policy measures continue to be geared towards investment liberalization and promotion.
- ✓ Governments' space for applying national security regulations needs to be balanced with investors' need for transparent and predictable procedures.
- ✓ Necessity for striking the right balance between liberalization and regulation to promote investment for sustainable development.

FDI RANKINGS

The US tops in FDI inflows, with China at third place and India at 10th.



2. FDI FINANCING

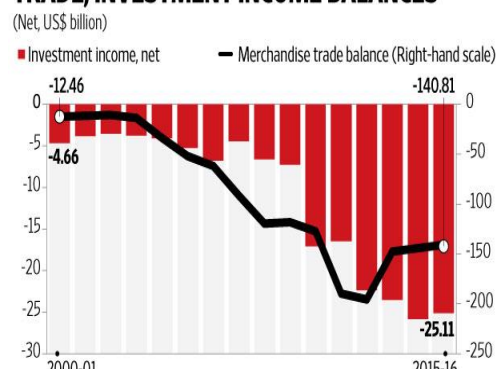
Need

- Apart from bringing new technology, enhancing productivity, job creation, and increasing consumer options, FDI brings in much needed foreign capital into a country.
- It also boosts exports and thus helps to bridge the current account deficit (CAD) of the country and maintain a positive balance of payment (BOP). This is called FDI financing of CAD.

Critique of FDI financing of current account deficit

- FDI may target domestic market instead of being export oriented, thus boosting domestic consumption and ultimately increasing imports.
- Once initial investment starts to turn profitable, it is inevitable that capital returns from the host country to the home country leading to worsening CAD.
- A similar trend is noticed in 2014-15, when despite increase in FDI inflows, CAD component has risen. (refer graph)

TRADE, INVESTMENT INCOME BALANCES



3. REFORMS IN FDI

3.1. FDI NORMS RELAXED

The Government has **relaxed FDI norms** and raised FIPB approval limit to Rs 5,000 crore from Rs 3,000 crore.

Insurance Sector

- The government had increased the composite cap (including FDI and foreign institutional investment) in the insurance sector (and automatically in the pension sector as well) to 49 per cent from the 26 per cent
- It will be through the government approval (through Foreign Investment Promotion Board or FIPB) route.

Banks and Financial Institutions

- The FY'17 Budget has proposed 100 per cent FDI in ARCs through automatic route.
- Foreign portfolio investors will be allowed up to 100 per cent of each tranche in securities receipts issued by ARCs subject to sectoral caps.

Defence Sector

- The policy has been tweaked to allow 100 per cent FDI by doing away with the condition of access to "state of the art" technology.
- It has now been modified to "modern or for other reasons", a move that will widen the scope of investment by foreign players

WHAT THE CHANGES MEAN			
Sector	Proposed FDI regime	Existing FDI regime	Implication
Defence	100% FDI in defence via govt approval	49% for foreign entities under automatic route and beyond 49% on government approval on a case-by-case basis subject to access to state-of-the-art technology	Foreign defence firms can set up manufacturing facilities in India
Pharmaceuticals	74% FDI through automatic route in brownfield	100% FDI in brownfield through govt approval	More private equity deals in pharma as new regulation clears uncertainty over FIPB approvals
Aviation	100% FDI for foreign entities	49% for foreign entities	Local airlines can attract more capital
Broadcast			
• Cable networks			More investment opportunities
• Direct to home (DTH)	100% FDI allowed via automatic route	100% FDI allowed, only 49% allowed via automatic route	No FDI expected till cross-media ownership cap removed
• Headend-in-the sky (HITS)			

Source: Department of industrial policy and promotion

Pharmaceutical Sector: In this sector, 74% FDI would be allowed in the pharmaceutical sector under the automatic route in existing domestic companies (Brown Field projects). Currently, FDI up to 100% is permitted in new projects in the pharma sector (Green field projects).

Aviation Sector: 100% FDI under automatic route in brownfield airport projects. FDI beyond 74% for brownfield projects is under government route. Earlier, the FDI policy on airports permitted 100% FDI under automatic route in Greenfield projects.

Animal Husbandry: 100% FDI allowed in Animal Husbandry. The clause of controlled conditions for 100% FDI under the automatic route for animal husbandry has been done.

Brand Retail Trading: The new policy relaxes local sourcing norms upto three years and a relaxed sourcing regime for another five years for entities undertaking Single Brand Retail Trading of products having 'state-of-art' and 'cutting edge' technology.

Plantation and Food Products

- 100 per cent FDI through FIPB route in marketing of food products produced and manufactured in India
- 100 per cent FDI allowed in plantation of rubber, coffee, cardamom, palm oil tree and olive oil tree.

Indian Stock Exchanges - Hike in the investment limit for foreign entities in Indian stock exchanges from five per cent to 15 per cent on par with domestic institutions.

Miscellaneous

- The government allowed 100 per cent FDI under automatic route in duty-free shops and Limited Liability Partnerships (LLP).
- In the construction development sector, minimum capitalisation norms and floor area restrictions have been removed. The government has also eased exit norms for foreign players in the sector.

3.2. RBI RELAXED FDI NORMS TO BOOST START-UPS

- All startups can now raise funds from foreign venture capital investors (FVCIs) under **automatic route**. Till now automatic approval was available in nine sectors only.
- To enable **transfer of shares** from foreign venture capital investors to other residents or non-residents
- Delayed reporting of foreign direct investment transaction to be taken care by building a **penalty structure into the regulations itself**.
- To help promoters of a start-up, RBI has proposed to permit receipt of deferred consideration and enabling an escrow/indemnity arrangement
- Regulatory changes to deal with cross-border transactions, particularly relating to the operations of start-up enterprises are also proposed to be taken.
- Other proposals under consideration for helping start-ups are - permitting start up to access ECB, issuance of innovative FDI instruments etc.
- These steps will help in **speedy conclusion of deals** between startups and foreign investors and **improve ease of doing business**.

3.3. APPLE RETAIL IN INDIA

What is the issue?

- Foreign Investment Promotion Board (FIPB) has agreed to proposal by of Apple Inc, to set up its own retail stores in the country but **on the condition that 30% of its value of sale** should be **locally sourced**. This is in line with the FDI norms for single brand retail.
- Though Apple Inc has reasoned that FDI policy allows a waiver of local sourcing for “cutting edge technology”, yet FIPB declined its request saying that it would open the case for many Chinese phone manufacturers and India would remain a mere “trader’s company” rather than a manufacturing hub.

Critical Analysis

- Experts argue that it is time to review the single brand retail restrictions.
- The local sourcing clause and its waiver related to “cutting edge technology” are subjective and susceptible to bureaucratic discretion.
- It is argued Local procurement has done little to govt and domestic co.s but has hurt consumers by reduction in quality of products.
- The decision to establish manufacturing hubs in India should be left to the companies rather than forcing it in them by the government. Instead the govt. should focus on building infrastructures and devising policies so that India becomes a preferred manufacturing destination.

Way Ahead

The solution is therefore to gradually phase out local sourcing clauses to reduce discretion of FIPB in proposals of single brand retail. It is also reported that govt. may altogether close down FIPB and leave the investment decisions to the respective regulators.

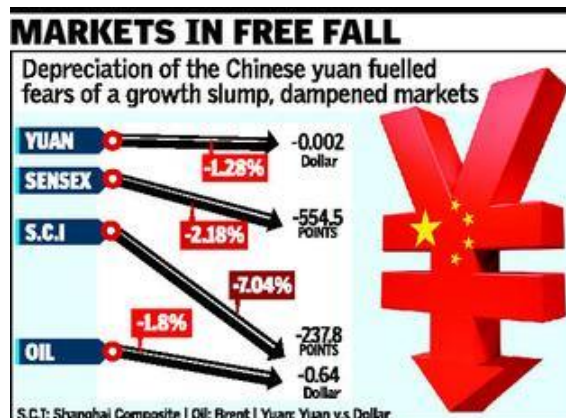
4. GLOBAL DEVELOPMENTS AND THEIR EFFECTS ON INDIAN ECONOMY

4.1. CURRENCY WARS: DEVALUATION OF CHINESE YUAN IN 2015

Devaluation of Chinese Yuan

Why in news?

- The Yuan is hovering at a four-and-a-half-year low, down over 4% against the dollar since the beginning of the year 2015.
- The recent devaluation of Chinese currency yuan has triggered a global financial turmoil hurting stock and currency markets worldwide.
- The weakening of the yuan could lead to competitive devaluation of Asian and Emerging Market (EM) currencies.



Factors which caused devaluation of Yuan:

- Slowdown in Chinese economy.
- A lot of surplus production in China.
- To make Chinese economy more competitive.
- To retain international Investment in China.

Impact of Devaluation on China

- By devaluing its currency, China gains an advantage in global trade. Its exports become cheaper, and more attractive, to foreign buyers.
- The yuan depreciation will make imports in China more expensive, depressing demand, especially for commodities. This will put further downward pressure on commodity prices.

Impact of Devaluation on Indian Economy

- Indian imports will be badly hit. This is also evident by the fact that India's exports have plunged for 12 consecutive months, down 17.6% year-to-date because of anemic growth in developed and Asian economies.
- Decline in import will increase the Current Account Deficit (CAD).
- Around 12% of India's imports come from China as of 2015. Any increase in Chinese competitiveness including through the Yuan depreciation could lead to a surge in such imports.
- This will lead to replacing imports from other trade partners of India by increasing Chinese imports and it could also impact these industries (such as electrical and electronics, organic chemicals, fertilizers and iron and steel etc.) in India.
- RBI will need to let the rupee decline against the dollar. This would put firms with exposure to external commercial borrowings in a difficult situation as their loan cost will increase.

Impact of Devaluation on World Economy

- The devaluation of Yuan is bound to affect the exports of several major countries across the world.
- A weaker Yuan may drive the global economy closer to a recession because the purchasing power of China deteriorates every time the currency is devalued.
- The devaluation also affects demand for commodities and imported goods, undercutting oil and other industrial commodities. This would in turn hurt EM economies like Chile and Brazil that depend on China to buy the copper and oil that they export.
- It would also hurt developed nations like Germany, which see China as a key growth market.
- This could also start a currency war as countries race to protect their exporters by devaluing in turn.
- The sharp fall in Yuan has also raised fears of cheaper Chinese goods hurting the sales of domestically manufactured products in many countries.

Can India also devalue Indian Rupee?

- Devaluation of Rupee to increase India's exports cannot be taken as a counter-measure because India is not a supply-surplus economy.
- Also, with respect to China, we import around \$60 billion and export is around \$12 billion so it will further widen the trade deficit.

Way Forward

- **In short term**, Imposing import duty on Chinese products – This will help in protecting labour intensive sectors like textiles, steel, gems and jewellery etc. which are vulnerable to cheap imports.
- **In long term**
 - ✓ Labour reforms to encourage new business to set up.
 - ✓ Simplified tax structure – implementation of Goods and Services Tax.
 - ✓ Easy Compliance Process.
 - ✓ Single window clearance.
 - ✓ Availability of capital to MSME's.

'Normal value' calculations for anti-dumping cases:

- As per the 2001 agreement, WTO member nations could for 15 years (that is till December 2016) ignore selling price and production costs in China.
- Calculate the 'dumping margin' on the basis of a comparable export price to an appropriate third country

4.2. MARKET ECONOMY STATUS TO CHINA

Market Economy Status

- India's Commerce Ministry is assessing the implications of the likelihood of **China being granted "Market Economy Status"** (MES) from December this year under the World Trade Organisation (WTO) norms.
- Since the main impact of China being granted MES would be on 'anti-dumping' cases, the Directorate General of Anti-Dumping and Allied Duties (or DGAD, an autonomous body under the commerce ministry) has begun consultations with stakeholders including international trade experts and lawyers on the issue.

What is Market Economy Status?

- Once China is granted MES, it will severely limit India's ability to resort to anti-dumping as the authorities (DGAD) will have to accept the production costs and selling price in China as the benchmark.
- The definition of China as a (Non Market Economy) NME allowed importing countries to use alternative methodologies for the determination of normal values, often leading to higher anti-dumping duties.

History

- As per the 2001 agreement (Protocol on the accession of China to the WTO), in calculating the 'normal value' of the exported goods while adjudicating anti-dumping cases, the WTO member nations could for 15 years (that is till December 2016) ignore selling price and production costs in China.
- They could instead calculate the 'dumping margin' on the basis of a comparable export price to an appropriate third country and by 'constructing' the production cost with 'reasonable' additions.
- This permission to compare prices or costs with external benchmarks to calculate the 'normal value' and 'dumping margin' has often led to many countries using the anti-dumping route.
- The 15-year time period was given to China to carry out internal reforms and transition into a 'market economy.'

Consequences for India

- It will mean lesser chances of anti-dumping duties being imposed or lesser anti-dumping duties even if they are imposed.
- This comes against the backdrop of instances of India's manufacturers in steel, chemicals, electrical and electronics sectors being "severely hurt" by "unfairly low-priced" imports from China, and the extensive usage of anti-dumping duty by India to offset the losses caused to the local manufacturers due to dumping.
- Of the 535 cases where anti-dumping duties were imposed by India from 1994-2014, a maximum of 134 has been on goods from China.

Arguments of China

- Beijing has cited the 2001 agreement on China joining the WTO to say that WTO-member countries had then decided to deem China as a 'market economy' from December 2016 while adjudicating anti-dumping cases.

Arguments of India, US and EU

- To deny China the 'MES', India and others such as the US and the EU have been saying that unlike in 'market economies' where prices are mainly determined by market forces (of demand and supply), there is significant government influence in China that in turn causes distortions in international trade.
- These countries have also been citing factors such as huge Chinese government subsidies, 'price fixing', 'absence' of proper business accounting standards, besides lack of transparency in not just loan rates, but also in minimum wages and property rights in China.

What is dumping?

Dumping is an unfair trade practice of exporting goods to another country at a price lesser than what is paid in the exporting nation or their normal production cost, thereby distorting international trade and causing injury to the domestic manufacturers of the goods

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