VISIONIAS
INSPIRING INNOVATION

ECONOMY

Classroom Study Material 2022

(September 2021 to June 2022)

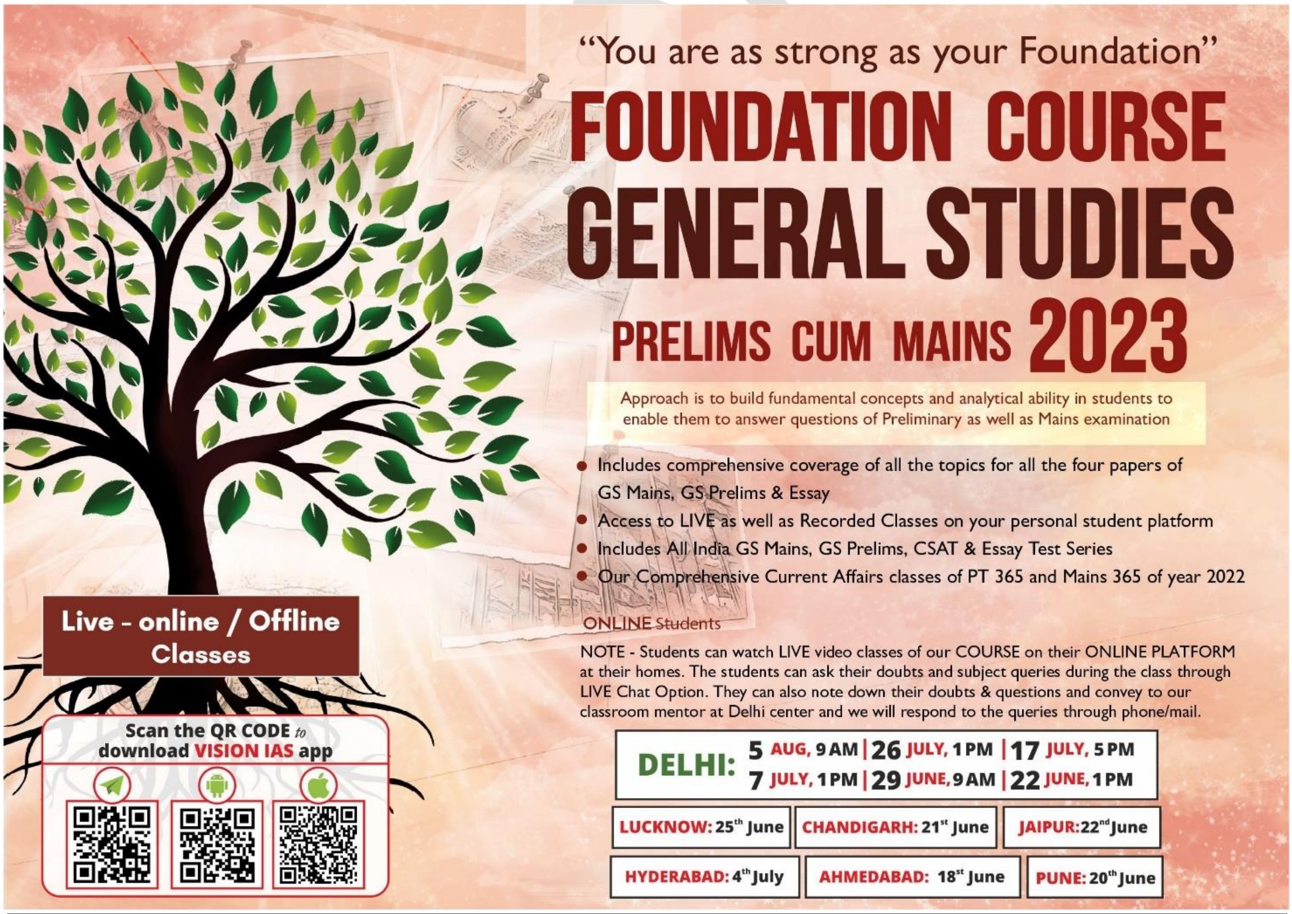
8468022022, 9019066066 www.visionias.in

DELHI | JAIPUR | PUNE | HYDERABAD | AHMEDABAD | LUCKNOW | CHANDIGARH | GUWAHATI

ECONOMY

Table of Contents

Previous Year Question	A reference sheet of syllabus-wise segregated previous year questions from 2013-2021 (for the Economics Section) has been provided. In conjunction with the document, it will help in understanding the demand of the exam and developing a thought process for writing good answers.



Copyright © by Vision IAS

All rights are reserved. No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of Vision IAS.

A NOTE FOR THE STUDENTS

Dear Students,

- Precision of content in good answer is no longer a dispensable luxury, but a simple necessity. And the preparation to write a precise answer starts well before one picks up a pen and starts to formulate the answer. A good understanding of the topic asked along-with a ready set of data and examples assists one in approaching the most difficult of the questions.
- This is further assisted by a good presentation style, which depicts the information in an easy-to-understand manner.

In this context, we made few changes to the Mains 365 documents last year, which included

Topic at glance:

which gave a comprehensive view of the topic, connecting the current and static aspects along-with providing necessary data and facts.

Infographics:

Designed in a manner that they can be readily used in the answers

Previous years questions:

A QR code linked syllabus wise segregated list of previous years questions was added.

Along-with these, this year we have made few more additions to help you revise the topics and approach answers in a precise manner, these include:

Data banks: have been designed and added in the articles to help you identify and revise the important datasets of the topics.

Appendix: An appendix of key data and facts has been added at the end of the document to facilitate quick revision.

Weekly focus document list: A QR code linked list of relevant Weekly focus documents has been added in the end of the document to ensure easiness in approaching these topics.

We hope that these additions will help you not only developing a comprehensive understanding of the topics but also provide the necessary inputs to write effective and well-presented answers.

Knowing is not enough: we must apply. Willing is not enough: we must do.

-Johann Wolfgang von Goethe

All the best!
Team VisionIAS


VISION IAS
INSPIRING INNOVATION
ABHYAAS
MAINS 2022
ALL INDIA GS MAINS
MOCK TEST (OFFLINE)
All India Percentile
Closely aligned to UPSC pattern
Concrete Feedback & Corrective Measures
Available in ENGLISH / हिन्दी
PAPER DATE
GS-1 & GS-2
27 AUGUST
GS-3 & GS-4
28 AUGUST
40 CITIES
Register at: www.visionias.in/abhyaas
Ahmedabad | Aizawl | Bengaluru | Bhopal | Bhubaneswar | Chandigarh | Chennai
Coimbatore | Dehradun | Delhi | Ghaziabad | Gorakhpur | Guwahati | Hyderabad | Imphal
Indore | Itanagar | Jabalpur | Jaipur | Jammu | Jodhpur | Kanpur | kochi | Kolkata
Lucknow | Ludhiana | Mumbai | Nagpur | Noida | Patna | Prayagraj | Pune | Raipur
Ranchi | Rohtak | Shimla | Thiruvananthapuram | Varanasi | Vijayawada | Visakhapatnam

1. EMPLOYMENT AND SKILL DEVELOPMENT

1.1. EMPLOYMENT

EMPLOYMENT AT A GLANCE

- 41.6% was the Labour Force Participation Rate. (PLFS 2020-21)
- 4.2% of the workforce was unemployed despite seeking active employment.
- About 52 crore workers make up India's workforce.
- 46% of the workers are employed in Agriculture.

Key objectives

- Increase **female labour force participation** to at least 30%.
- Encourage increased **formalization of the workforce.**
- Ensuring job growth, economic development while ensuring **sustainable and inclusive development.**
- Ensuring fair wages, good working conditions, increased productivity, and socio-economic security foe workers.

Schemes/Initiatives

- **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)**
- **Sampoorna Rozgar Yojana**
- **Aajeevika- National Rural Livelohood Mission**
- **Pradhan Mantri Shram Yogi Maandhan Yojana**
- **Prime Minister's Employment Generation Programme**
- **e-Shram portal-** National database of unorganized workers
- **Atal Beemit Vyakti Kalyan Yojana**- for unemployment benefits
- **Interlinking of databases such as Udyam, e-Shram and National Career Service (NCS)** to act as live, organic databases, providing G2C, B2C and B2B services.

Constraints

- A large number of workers are **not covered by social security or labour regulations.**
- Less **than half of the graduates have requisite skills** and are employable.
- **Lack of timely and periodic estimates of the data** on the workforce and its engagements.
- **Low participation of women in the workforce** due to mechanization of agriculture.
- **Decline in manufacturing** jobs due to **automation and multi-skilling.**
- **Other factors like shrinking public sector, rise in voluntary unemployment, lack of employability, impact of Covid-19 etc.**

Way forward

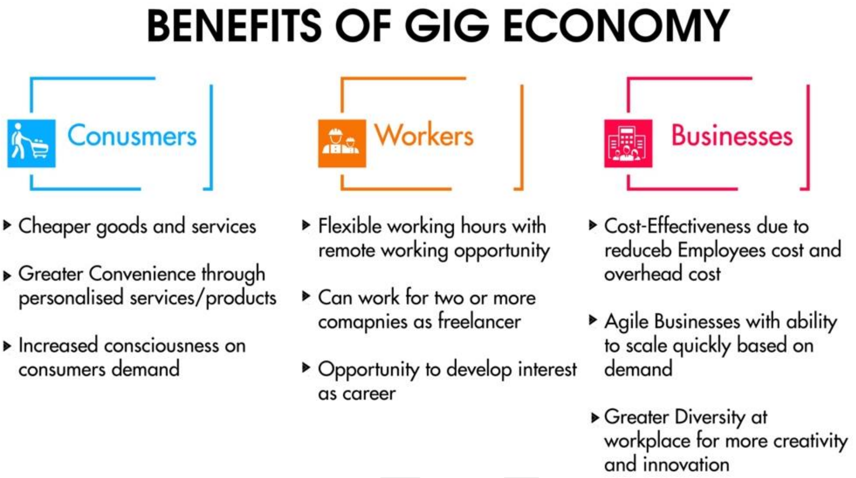
- Enhance skills and apprenticeships through initiatives like **Labour Market Information System (LMIS).**
- **Simplification and modification of the labour laws** keeping in mind the current context.
- **Improve data collection** on employment through tools like Periodic Labour Force Survey (PLFS).
- Streamline industrial regulations to **increase formalization**.
- **Better enforcement of wage regulations** and ceilings.
- **Enhance Occupational Safety and Health (OSH)** in every sector of the Economy.

1.1.1. GIG WORKERS

Why in News?

In a report titled **'India's Booming Gig and Platform Economy'**, NITI Aayog has projected that the **Gig workforce in India** may hit **23.5 mn** by **FY30**.

About Gig workers and significance in present times



- **Gig worker** is a person who performs work or participates in a work arrangement and earns from such activities outside of traditional employer-employee relationship, (**Code on Social Security, 2020**).
- With half-a-billion labour force, India has already emerged as one of the world's largest countries of Gig workforce due to pandemic and **rising factors** like **urbanization, access to internet, digital technologies and smartphones in India, start-up culture, freelancing platforms,** etc.

Key Findings of NITI Aayog Report

- **Workforce numbers:** In 2020–21, 77 lakh workers (1.5% of total workforce) engaged in the gig economy. It is expected to reach 2.35 crore workers (4.1% of the total workforce) in India by 2029–30.
- **Platformisation of Work:** Higher employment elasticity of gig workers shows their growing demand, indicating platformisation of non-gig work to gig work.
  - Currently, more than 75% of the companies have less than 10% gig headcount, but it will rise as more MNCs turn to flexible hiring options.
  - It is already expanding in all sectors with nearly 26.6 lakh gig workers in retail trade and sales, 13 lakh in transportation, 6.2 lakh in manufacturing and so on.
- **High potential industries for Gig Workers**: Construction, Manufacturing, Retail, and Transportation and Logistics
- **Skill Level of Gig Workforce:** Presently, about 47% of the gig work is in medium skilled jobs, about 22% in high skilled and about 31% in low skilled jobs.
- **Skill Polarisation:** The report draws attention to skill polarisation as the trend shows gradual decline in concentration of workers in medium skills while that of the low skilled and high skilled is increasing.

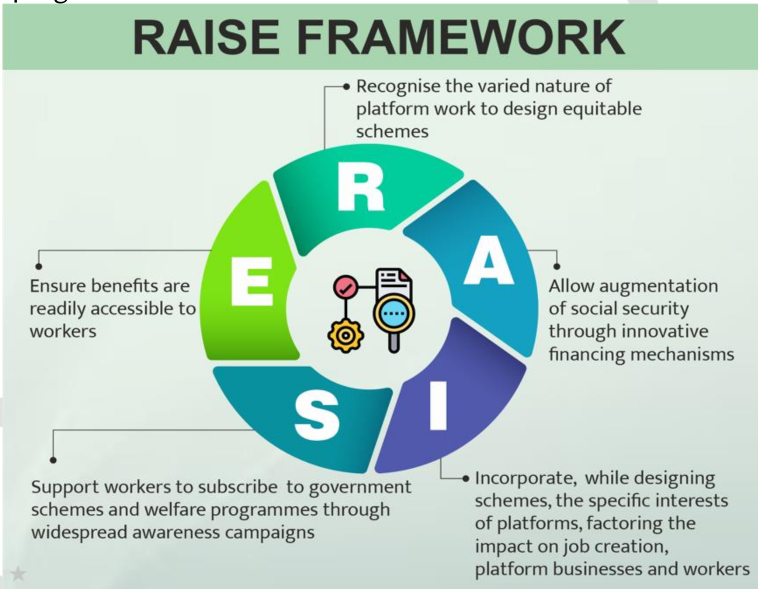
Issues faced by Gig workers

- **Lack of job security**, irregular wages, and uncertain employment status. E.g. declining income of drivers on Ola, Uber or temporary hiring by food delivery apps during IPL.
  - The **uncertainty of work and income** may lead to **increased stress** and **pressure**.
- **Limited access to internet and digital technology** can be a restrictive factor for workers willing to take up jobs in the gig and platform sector.
- **Denial of workplace protections and entitlements** due to **contractual relationship** between the platform owner and gig worker.
- **Stress due to pressure from algorithmic management practices** and **performance evaluation** on the basis of ratings. E.g., monitoring of Ola and Uber employees.

Recommendations from NITI Aayog

- **Proper Estimation of Gig Workers:** Have separate enumeration exercises to estimate the size of the gig economy and characteristic features of gig workers.
  - This can be done by collecting information during official enumerations (PLFS, NSS or otherwise).

- **Catalyse Platformization:** Introduce **Platform India initiative** (similar to Startup India), built on the pillars of **Accelerating Platformization** by Simplification and Handholding, Funding Support and Incentives, Skill Development, and Social Financial Inclusion.
  - This platform can help **self-employed individuals** to sell their produce to wider markets in towns and cities; Ferrying of passengers for hire etc.
- **Accelerate Financial Inclusion:** Enhance access to institutional credit through financial products specifically designed for platform workers and those interested to set-up their own platforms. For this,
  - Leverage **FinTech and platform businesses**,
  - **Special emphasis** on access to formal credit for women, Persons with Disabilities (PwDs), or platform businesses started in small cities, towns, and villages in India
- **Skill Development for Platform Jobs**: Pursue ends- or outcome-based, platform-led models of skilling and job creation development of youth and the workforce to make them employable.
  - Integrate employment and skill development portals such as E-shram and National Career Services Portals or Udyam portal with ASEEM portal.
- **Enhancing Social Inclusion:** In the New-age Digital Economy, enhance social inclusion through **gender sensitization** and accessibility awareness programmes.
- **Universal Social Security Coverage:** Learn from global examples/suggestions/practices and extend social security measures in partnership mode as envisaged in the **Code on Social Security 2020**. This includes paid sick leave, Occupational Disease and Work Accident Insurance, Retirement/Pension Plans and Other Contingency Benefits for gig workers and their families.
  - The **Code on Social Security** can be operationalised by using **RAISE Framework** (see **image**).



- **Ascertain the future of Platform Economy:** As a Research Agenda, study key aspects of gig-platform economy through survey of small platforms, women-run platforms, formalization of employment, GDP contribution etc. to identify enablers and barriers.

1.1.2. MAHATMA GANDHI NATIONAL RURAL EMPLOYMENT GUARANTEE ACT (MGNREGA)

Why in news?

MGNREGA ran out of funds halfway through the financial year.

About MGNREGA

- It is **demand driven wage employment programme** under the Ministry of Rural Development (MoRD).
- It provides **at least 100 days of guaranteed wage employment** in a financial year to every rural household whose adult members volunteer to do unskilled manual work.

Initiatives taken for better implementation of MGNREGA

- **MGNREGA Tracker** — by using the government's Management Information System (MIS) data.
- **NREGAsoft** is a local language enabled work flow based e-Governance system which makes available all the documents like Muster Rolls, registration application register, job card/employment register etc.
- **Project 'LIFE-MGNREGA' (Livelihood In Full Employment)** aims to promote self- reliance and improving the skill base of the MGNREGA workers, and thereby improving the livelihood of the workers

- **Core objectives of the MGNREGS**:
  - **creation of productive assets** of prescribed quality and durability;
  - **Strengthening the livelihood** resource base of the poor;
  - **Proactively ensuring social inclusion**
  - **Strengthening Panchayati Raj Institutions**.
- It is **bottom-up, people- centred, self-selecting and rights-based** programme.

- Assets created under the programme include works related to **natural resource management such as water conservation, land development and irrigation**.
    - Besides these, **dams, irrigation channels, check dams, ponds, wells and anganwadis** are also built under the scheme.
- **Social audit creates accountability of performance**, especially towards immediate stakeholders.

Strength of MGNREGA

- **Addressing the informal economy** as a **proxy on health of the informal economy**- accounting for 80%-90% of total employment.
- **Lifeline during COVID lockdown** for a record 11 crore workers.
- **Backbone of rural economy** by providing **supplementary means of livelihood to people** in rural areas.
- **Bottom-up approach** helps in decentralised planning process, starting at the village level in local governments.

Way forward

- **Revision in scheme** to **increase the wage rate for MGNREGA schemes** and increase number of days to stop forced migration from rural areas.
- **Proper Budgetary Allocation and timely payments** through effective coordination with States to prevent dearth of funds in mid-year and preventing delays in wage payments.
- **Participatory techniques:** Such as Process- Influence Mapping can be used to help create a better understanding of the intricacies of implementing such complex large-scale programs.
- **Expanding the ambit of permissible works** under the scheme with focus **on durability of Assets Created** under MGNREGA.
- **Skilling of MGNREGA workers** and ensuring **Better Workplace for Women Workers.**
- **Use of technology** like e-Muster Roll, drone survey technology etc. to improve vigilance over program implementation. E.g., e-Muster Roll in Bihar through biometric devices.
- Monitoring of Scheme through **Real Time Assessment Mechanisms, adherence to conduct of Social Audits** and increasing participation of Members of Parliament.
- Proper use of **Ombudsperson App** for MGNREGA to ensure **transparency and accountability**, helping in **smooth reporting and categorization** of grievances related to its **implementation.**

1.1.3. NOBEL PRIZE IN ECONOMICS

Why in News?

The **Sveriges Riksbank Prize in Economic Sciences 2021** was given to three economists for two ground-breaking works using 'natural experiments'.

More on news

- The Royal Swedish Academy of Sciences has awarded one half **to David Card and the other half jointly to Joshua D. Angrist and Guido W. Imbens.**

About the prize winning research

- Issues such as **relation between immigration and employment levels**, school education and future earnings of students etc. have remained relevant across time and geographies.
- David Card used **"natural experiments" (situations arising in real life that resemble randomised experiments)** to analyse the labour market effects of minimum wages, immigration and education.
    - The result showed that increasing the minimum wage does **not necessarily lead to fewer jobs.**

Mains 365 - Economy

- The incomes of people who were born in **a country can benefit from new immigration,** while people who immigrated at an earlier time risk being negatively affected.
- **Resources in schools are far more important for students'** future labour market success than previously thought.

- The **methodology to interpret data** and draw conclusions from natural experiments was given by **Joshua Angrist and Guido Imbens.**

1.2. SKILL DEVELOPMENT

SKILL DEVELOPMENT AT A GLANCE

- In 2019-20, only 73 million of India's 542 million workforce received any form of vocational training.
- In India, only around 5% of the workforce is formally skilled against 52% in the US, 80% in Japan and 96% in South Korea.
- India has entered into its 37 years long demographic dividend period, lasting from 2018 to 2055.
- The employability of educated people still remains low; 45.9% only as per India Skills Report, 2021.
- The quality of jobs is on decline, highlighted by Periodic Labour Force Survey (PLFS)

KEY TARGETS

- To train **400 million** Indians by 2022 under NSDM.
- To encourage and promote skill development with respect to **market demand,** industry needs, services and in new-age job roles under PMKVY 3.0.
- To skill **50,000 youth** through Skill Impact Bond between 2021-25.
- To make India **'Skill Capital'** of the world.
- Increase the **formally skilled** labour from the current 5.4% of India's workforce to at least **15%.**
- Ensure **inclusivity** and reduce divisions based on gender, location, organised/unorganized, etc.

SCHEMES/POLICIES/INITIATIVES

- **National Skill Development Mission and Skill India Mission**
- **PM Kaushal Vikas Yojana (PMKVY), PM YUVA yojana, Deendayal Upadhyay Grameen Kaushal Yojana**
- **Skills Acquisition and Knowledge Awareness for Livelihood (SANKALP) and Skills Strengthening for Industrial Value Enhancement (STRIVE)**
- **Skill Management and Accreditation of Training Centres (SMART)**
- National Initiative for Promotion of Upskilling of Nirman workers' (NIPUN) project to train **100,000 construction workers.**
- **National Policy for Skill development and Entrepreneurship.**
- Other instruments like Skill Impact Bonds

CONSTRAINTS

- **Sharda Prasad Committe**e on Skill India Reforms has identified **"inadequate industry interface"** as the major issue facing vocational education and training in India.
- Skill demand mismatch, Skill gaps in different sectors and in different regions.
- **Multiplicity in assessment and certification systems**
- **Underdeveloped and poor-quality infrastructure** of skill training centres.
- **Less participation of women in skill development schemes**
- **Lack of proper career guidance to the students**
- **Low Public perception of skilling,** pushing it lower on priority than the formal academic system.
- **Limited mobility** between skill and higher education programmes and vocational education.

WAY FORWARD

- Enabling an ecosystem to create Industry-**Academia partnership**
- **Mapping** skill requirements for a demand-driven skill development ecosystem, sector-wise and geographically.
- **Mainstreaming skill development** with education through a system for academic equivalence to ITI's qualifications.
- **Standardisation of certification**
- **Alternative financial sources** such as CSR, CAMPA, MPLAD funds, MGNREGA etc can be utilised for skill development.
- **Encourage Private Sector** to take part in it as it has necessary resources and expertise.

2. ECONOMIC AND INCLUSIVE GROWTH

2.1. GROSS DOMESTIC PRODUCT (GDP) ESTIMATES

Why in News?

Recently, the **National Statistical Office (NSO)** released the **first advance estimates** of GDP for **2021-22** with GDP growth rate pegged at **9.2%.**

About GDP Measurement

Calculated through different approaches (**Production, Expenditure** and **Income**), GDP data became the **primary yardstick** for sizing up a country's economy during **World War II**.

- Based on empirical analysis, **higher GDP growth** is linked with **higher individual satisfaction** by the classical economists as it represents **increasing satisfaction (utility), higher jobs** etc.
- **As a marker of growth,** GDP enables policymakers and central banks to judge whether the economy is contracting or expanding and promptly take necessary action.
- **Help** policymakers, economists, and businesses to **analyze the impact of variables** such as monetary and fiscal policy, economic shocks, and tax and spending plans.

Limitations of GDP Statistics

Though evolved with time to resolve various issues, GDP is still not an appropriate measure of the overall **standard of living** or **well-being** of a country's development because of **various limitations** as:

Statistical Limitations	• **Nature of Statistics:** Statistics lag behind the actual happening in the economy, increasing time to capture and understand the **major structural change**. E.g. o **Revised estimates** of GDP (most accurate GDP data) **lag almost** 3 years**.** o Much of the Digital Economy isn't part of it due to investment in intangibles. • **Economic Behavior:** Unlike classical economist's assumption of people making rational choices in a market situation, people make irrational choices as well due to emotional and social elements • **Other Limitations:** It **fails to capture unpaid labour**, **free online services**, unorganized sector, capital depreciation etc. **limiting** GDP and its use to **compare between countries.**
Other Concerns	• **Rising Inequalities:** Trickle down failure in most nations, i.e. rising inequalities in most major economies; further pushed by the recent pandemic. o E.g., According to **Oxfam Inequality report 2021**, 'Inequality Kills', **84% Indian households** had a decline in income while wealth of 100 richest people more than doubled. The share of the **bottom 50% was merely 6% of national wealth and over 4.6 crore Indians fell into extreme poverty in 2020.** • **Environment Impact:** Focus on economic growth leads to serious undermining of environment and resource exploitation, leading to environmental degradation. • **Weak relationship between money and well-being:** People's sense of well-being is governed not just by money but other factors as well.

Other indicators to measure well-being

- **Gross National Happiness (GNH):** Coined by the 4th king of Bhutan, Jigme Singye Wangchuck in the 1970's, GNH focuses on **four pillars**- **good governance, sustainable socio-economic development, cultural preservation and environmental conservation**.
- **Human Development Index (HDI):** Launched in 1990 by the United Nations (developed by Mahbub ul Haq) to measure factors such as **education, income, and health.**
- **Bare Necessities Index (BNI):** Introduced in 2020-21 by Finance Ministry, it assesses the **fulfillment of bare necessities** of life such as housing, water sanitation, electricity etc.
- **Green GDP:** Also known as **environmentally adjusted domestic product**, it allows the cost of natural resource depletion and environmental degradation to be subtracted from GDP.
- **Gross Environment Product:** A component of Green GDP, it measures the ecosystem services or the benefits derived from natural resources and processes such as food, clean water etc.

Mains 365 - Economy

- **Genuine Progress Indicator (GPI):** Used to measure the economic growth of a nation, GPI takes into account the GDP as well as its negative social and environmental costs such as crimes, resource depletion, etc.

Conclusion

In essence, the most appropriate measure of well-being would be a combination of **reduced inequality, well-being of people, systemic resilience, and environmental sustainability alongside economic growth.**

2.2. POST PANDEMIC ECONOMY

POST-PANDEMIC ECONOMY AT A GLANCE

COVID-19 exposed following fault lines of the Indian Economy-

- Persisting Economic Slowdown was compounded by the pandemic and issues like NPA Crisis and transition effect of GST were further aggravated
- Economic Fragility due to large dependence on the Services Sector.
- Large scale disruptions in supply of essential commodities have indicated towards lack of resilience in supply chains.
- High degree of informalization in the economy resulted in creation of migrant crisis and large-scale loss of employment.
- The disproportionate impact faced by the poorer sections exposed the entangled nature of inequality and the prevalent model of economic development.

Changes that happened in the nature of the economy

- Measures like social distancing and lockdowns have **normalized the idea of 'Work from Home (WFH)'.**
  - WFH has further encouraged technological developments in this direction and provided a fillip to remote working and gig economy ecosystems.
- Increased **focus on self-reliance** due to disruption of global supply chains.
- **Increasing digitization** of most of the businesses and institutions.
- **Accelerating trend of deglobalization** due to growth of nationalist sentiments like 'Vaccine Nationalism'. Uncertainty associated with labour has given a **push towards technology-intensive and capital-intensive growth.**
- **Development of health capacity** in the form of testing infrastructure, enhancing production capacity for key products like ventilators.

Changes that happened in other spheres

- **Digitization of economy translates to digitization of society** with growth of digital platforms.
- **WFH** may lead **to reimagining of Urbanization** with less pressure on metro cities and limited office space requirements.
- **Rapid technology penetration in education** with E-learning becoming popular.
- The precautions and habits followed during the pandemic have resulted in **internalization of sanitation standards.**
- Increased unemployment has led to **intensification of social issues** like child labour, exploitation of workers etc.

Philosophy to build a better Post Pandemic Economy

- Moving towards a new broader destination of economic development encompassing **environmental sustainability, rising well-being, reduction of inequality and systemic resilience** alongside economic growth.
- **Moving from Shareholder Capitalism to Stakeholder Capitalism** to make economic decision making more inclusive.
- **Focus on building resilience going forward** by investing in strengthening health and social protection systems, close the digital divide; and ensure a green recovery.
- **Focusing on the Triple bottom line- People, Profit, and Planet** which includes economic growth, movement of social parameters like inequality levels and status of the environment.
- **Making continuous innovation part of the process** with experimentation with ideas like '4-day week', '24X7 economies' among others.

Measures to ensure smooth and speedy recovery

- **Ensuring food security** by further expanding Public Distribution System (PDS).
- **Direct cash transfer to affected populations** to increase social security for workers affected by the pandemic.
- **Participating in rekindled supply chains** as countries will be moving away from China centric supply chains.
- **Public investment in physical and social infrastructure** to augment health, urban, rural and especially digital infrastructure.
- **Providing fiscal room to the economy** by relaxing FRBM Act in the immediate term.

2.3. POVERTY ALLEVIATION

POVERTY ALLEVIATION AT A GLANCE

364 million people are below poverty line in India.

12.3% decline in extreme poverty in India (from 22.5% in 2011 to 10.2% in 2019).

2/3rd of the World's poor live in conflict-affected countries.

Key objectives

- **Eradicate extreme poverty** for all people.
- Basing Poverty line estimation in India **on the consumption expenditure and not on the income levels.**
- Identification of all forms **of poverty beyond economic realm.**
- Addressing **Multi-dimensional poverty in a holistic manner.**

Schemes/Initiatives

- Deendayal Antyodaya Yojana National Rural Livelihoods Mission (DAY-NRLM).
- Deendayal Antyodaya Yojana- National Urban Livelihoods Mission (DAY-NULM)
- Mahatma Gandhi National Rural Employment Guarantee Act, 2005
- PM Kisan Nidhi Scheme
- PM Avas Yojana
- Integrated Child Development Service
- National Food Security Mission
- Pradhan Mantri Garib Kalyan Yojana

Constraints

- **Unequal distribution of land and other assets-** due to which the issue of free rider.
- **Amount of resources** allocated is **not sufficient.**
- **Implementing officials are inadequately trained,** corruption prone and vulnerable to pressure from a variety of local elites.
- **Less participation of local level institutions** in programme implementation.

Way forward

- **Providing adequate training and incentives** to government and bank officials.
- Shifting to a **higher low middle income (LMI) poverty line of PPP ($3.2 a day)** for even higher efforts to reduce poverty.
- Using cost-effective high frequency surveys
- Ensuring participation of **local government and institutions.**
- **Effective distribution of wealth** and benefits of economic growth.
- Policy responses need to **reflect the changing profile of the poor.**
- Poverty action needs to address **hot spots of conflict, climate change and COVID-19.**
- **Expanding cooperation and coordination** at state, national as well as global level among all the stakeholders.

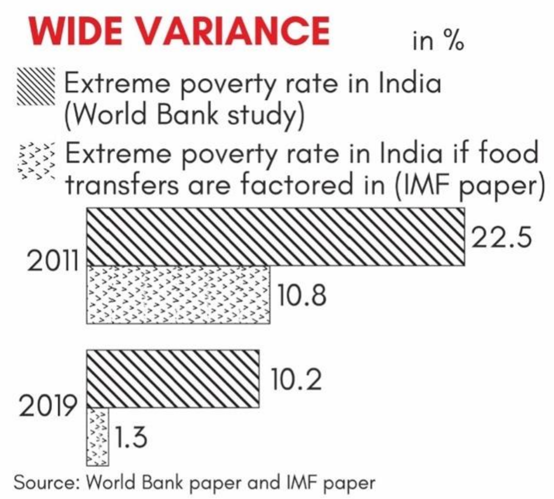
2.3.1. POVERTY ESTIMATES

Why in News?

Recently, authors affiliated with the International Monetary Fund (IMF) and World Bank (WB) published two different estimates of poverty and inequality in India.

More on News

- Based on the CMIE (Centre for Monitoring Indian Economy) **Consumer Pyramid Household Survey** (CPHS), the WB paper found a **12.3% decline** in **extreme poverty** in India (from **22.5%** in **2011** to **10.2%** in **2019**).
- In comparison, based on the **Consumer Expenditure Survey and other data sets including subsidy adjustments**, the IMF paper suggested that India has almost eliminated extreme poverty- reaching **1.3% in 2019** from **10.8% in 2011**.



About Poverty and Different Poverty Measures

- **Poverty**, i.e., the state or condition of a person or community with lack of money or access to resources to enjoy a decent standard of living is usually measured in terms of **absolute or relative poverty**, based on a poverty threshold or poverty line.
- But poverty has many faces, changing with time and place, leading to different poverty measures such as:

Poverty Estimation Approach	Dimensions/Indicators
Well-being Approach	Given by **Erik Allard**, it includes three dimensions as: • Having (Material), • Loving (Social), and • Being (Spiritual-emotional).
Capabilities Approach	Given by **Amartya Sen**, as an alternative to income and consumption approach, **OECD** has developed multidimensional capabilities framework with five capabilities as: • Economic Capabilities, • Human Capabilities, • Political Capabilities, • Socio-Cultural Capabilities and • Security Capabilities.
Multidimensional Poverty Index (MPI)	Given by **UNDP** and **Oxford Poverty and Human Development Initiative (OPHI)** in **2010,** It is an **international measure of acute multidimensional poverty** at household-level based on **3 dimensions** (with **10 indicators**) as: • **Education** (Years of Schooling and School Attendance), • **Health** (Child Mortality and Nutrition), and • **Standard of Living** (Electricity, Drinking Water, Sanitation, Flooring, Cooking Fuel and Assets). The MPI value is calculated by **multiplying the poverty headcount or incidence of multidimensional poverty and the Intensity of multidimensional poverty**. • India was ranked at **62 out of 109 nations with 27.9% population as multidimensionally poor.**

- **In India** also, a number of initiatives have been taken to measure poverty. Starting from Dadabhai Naoroji to the recent **National Multidimensional Poverty Index** from **NITI Aayog** in collaboration with **UNDP** and **Oxford Poverty and Human Development Initiative (OPHI)** for:
  - **Effective implementation** of interventions and schemes by **empowering policymakers and local officials** to manage complexity and scale so that no one is left behind.

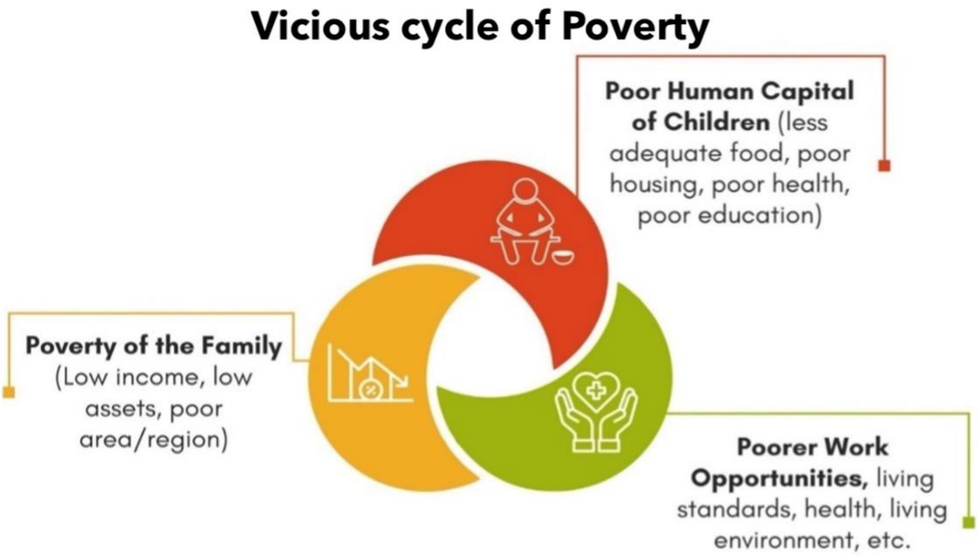
Multidimensional Poverty Index by NITI Aayog

- Part of Global Indices for Reforms and Growth (GIRG) initiative, the latest Index is based on the MPI from UNDP and OPHI with inclusion of two additional indicators, i.e., **antenatal care** and **bank account** under the dimensions of **health** and **standard of living.**
- This baseline report of India's first ever national MPI measure is **based on the reference period of 2015-16 of the National Family Health Survey (NFHS).**

Significance of accurate Poverty Estimates

- **Vital for addressing the intergenerational cycle of poverty** by overcoming the permanent disadvantages faced by children (see **image**).
- **Help in Evidence-led policy making** for targeted policy interventions and sustainable results.

- **Support inclusive growth** by addressing the inequalities and other issues of basic needs, learning and job opportunities.
- **Ensure full and effective** enjoyment of human rights by ensuring civil, social, and cultural participation.
- **Help find areas of social-economic discrimination** within communities, some **groups** (e.g., person with disabilities) and within family. For instance, **women** face disproportionate burden of children, leading to the issue of **time poverty**.
    - **Time poverty** is the state of having little time for self. It leads to poor food choices, health, mental stress etc. among women and girls.



MPI: Benefits and Limitations

Benefits

- **Better Comparison** of poverty across different regions, ethnic groups or any other population sub-group, with useful implications for policy.
- **Complement income-based poverty measures** through information on health, nutrition etc.

Limitations

- **Less Sensitive** as households needs to be deprived of more indicators to be poor.
- **Unable to capture inequality** among poor.
- **Unable to capture intra-household inequalities** as no individual-level indicator.
- **Limited cross-country comparison**.

Challenges in accurate Poverty Estimation

- **Availability of Data** on all indicators for poverty estimation leading to use of limited number of indicators.
- **Economist Bias** as calculation of poverty estimates is usually dominated by economists. It leads to use of **income and consumption data** as proxy indicators of actual well-being.
- **Data Lag** within the household data or data errors. E.g., the **Consumer Expenditure Survey (CES)** is conducted every five year and the **2017-18 CES** data was withheld due to quality issues; almost 10 year of data lag on CES.
- **Difficulties in identifying and adoption of indicators** which can offer meaningful comparisons between rich and poor sections of society/counties.
- **Complexities in qualitative and comparable data collection** due to India's large population with high socio-economic diversity.

Conclusion

The National Multidimensional Poverty Index created by NITI Aayog can be further improved using disaggregated data on sub- indicators for targeted policy making with other steps such as:

- **Collecting specific data** based on gender, age, vulnerability etc.
- **Shifting to a higher low middle income (LMI) poverty line** of PPP ($3.2 a day) for even higher efforts to reduce poverty.
- **Using cost-effective high frequency surveys**, i.e., income and consumption surveys based on economic modelling or wireless technology to capture real time poverty data.

2.3.2. WIDENING ECONOMIC INEQUALITIES

Why in News?

Recently, China started a 'common prosperity' program to narrow the widening wealth gap between people with stringent measures on how business and society should function.

About Economic Inequality (or Wealth Gap)

- **Economic inequality** is the unequal distribution of income or opportunity in a population or groups of a society. E.g., income inequality between the **richest 10%** and **poorest 10%** in **OECD countries** increased from **7.2 times** of **mid-1980s** to **9.6 times** in **2013**.
- **Changes in global inequality:** Inequality across all individuals in the world declined for the first time in the 1990s since the 1820s as the developing world started to grow faster than developed countries.
  - But the **pandemic threatens** to **undo those gains**, widening the **gap between rich and poor nations** once again by slowing the growth of developing countries.
- **Inequality within nations**: Within developing nations, the inequalities have increased significantly. E.g., In India, the top 10% holds 77% of national wealth. In comparison, the poorest 67 million Indians saw only 1% increase in wealth.

Impact of persistent Economic Inequality

- **Increased Social Polarizations** due to stagnant or reduced social mobilities. For India, with an already fractured society over religion, region, gender, or caste, it adds another fracture point.
- **Safety and wellbeing of vulnerable sections** gets jeopardized due to **lack of quality health** and **education facilities.**
- **Economic Risks** from increased economic inequalities such as- **mass poverty** (especially in young population); **reduced state's ability** to protect their poor and vulnerable sections, and **increased demands** for **Deglobalization** and **Nationalization.**
- **Political Risks** due to marginalization of vulnerable segments of population in policy decisions, ability to question policies and processes.
- **Security Risks** from widening power gap among nations. E.g., the recent India-China clash.
- **Environment Risk** from inequitable and unjust development such as damaging wetlands, increased river pollution etc.

Governments have taken number of Initiatives to reduce **Economic Inequality** (see image).

Initiatives to reduce Economic Inequality

TO REDUCE INCOME INEQUALITY	FOR STABILITY AND DEVELOPMENT	TO IMPROVE SOCIAL SAFETY NET
Taxation reform	Facilitate Digitalisation	Increase pension net
Subsidies and transfers	Support MSMEs	Improve medical security
Protecting property rights	Reducing Regional Disparity	Improve housing security
Improve income distribution	Enhanced Financial Supervision	Equal access to basic services

Challenges in removing economic inequalities

- **Income differences reflect individual efforts** as well, i.e., money as an incentive of knowledge. Redistributive policies from State curb the incentive, reducing wealth generation in an economy.
- **Economic Inequalities are accumulated over generations** based on various factors such as number of children, expenditure on education, health etc. by people.
- **Historical differences** as high-income inequality regions or nations usually have **low intergenerational mobility;** leading to limited opportunities for socio-economic mobility.
- **Monetary Resource Constraints** on redistributive policies from state due to issues of informal economy, presence of parallel economy (Black Money), tax evasions, small tax base etc.
- **Human Capital Constraints** because of the vicious cycle of low income, low productivity, low taxes, and low human capital.
- **Wealth Redistribution means constraints** in terms of focus group, i.e., whether it should focus on disparities **between top versus bottom** or **greater focus should be on the middle class** to leverage the rise in economic activities for higher tax base is a difficult question to answer.

Way Forward

Open and fair competition is an essential ingredient for any reform to **tackle inequalities** and **promote equal opportunities** for **long-term sustainability**. It becomes even more significant when **national security** is linked to it. Therefore, instead of using pressure we should promote a **reward-based approach** to equalize outcomes and opportunities via.

- **Improved information on inequalities and policy outcomes.**
- **Formulate policies based on wider public support** for **greater intergenerational mobility**.
- **Creating an equitable society** where rich is happy to give back rather than just accumulate.
- **Rationalization of subsidies** and **better targeting of beneficiaries.**
- **Promote Entrepreneurship** for Quality Jobs and higher LFPR, especially of women.
- **Enhancing Skills and Training** with social assistance programs to reduce inequality.

2.4. FINANCIAL INCLUSION

FINANCIAL INCLUSION AT A GLANCE

- **14.7 bank branches per 100,000 adults in 2020, higher than Germany, China and South Africa.**
- **45 Crore+ PMJDY accounts with over 55% accounts held by women.**
- **12.77 crore enrolment, till 2022, under PM Jeeven Jyoti Bima Yojana (PMJJBY), including 4.33 crore female beneficiaries.**
- **Top 10% of the global population owns 76% of total household wealth and captured 52% of total income in 2021. (World Inequality Report 2022)**
- **Bottom 50% of the global population owns just 2% of wealth and 8% of income. (World Inequality Report 2022)**

Key Targets

- **Universal Access to Financial Services** (Banking for the unbanked) for affordable, safe and transparent financial services and products.
- **Better access to credit** at a reasonable cost for those presently excluded.
- **Maintain financial sustainability** with improved awareness through financial Literacy, innovative financial products etc.
- **Women Empowerment** through increased role of women in financial management, employment opportunities.
- **Utilize advanced technology** for digital solutions, effective co-ordination among institutions and customer protection.

Schemes/Initiatives

- **National Mission for Financial Inclusion,** namely PM Jan Dhan Yojana to provide universal banking services for every unbanked household.
- **Universal Social Security System** for all Indians through **PMSBY, PMJJBY and Atal Pension Yojana (APY).**
- **National Strategy for Financial Inclusion 2019-2024** from RBI to ensure access to financial services for every adult through mobile by 2024.
- **Strengthening digital financial services** via NPCI- UPI & RuPay card.
- **Providing banking access** in villages through Banking Correspondents.
- **Supporting employment and entrepreneurship through PM Mudra Yojana and Stand Up India Scheme.**

Constraints

- **Lack of financial literacy** amongst low-income households and small informal businesses.
- **High Operational Cost** of traditional banking and increasing frauds, malpractices in digital model.
- **Excessive regulatory requirements** on products, and market entry, and conservative regulatory approach to new technologies.

Way Forward

- **Launching a new scheme for comprehensive financial literacy** by integrating in the regular school curriculum, mass media campaign.
- **Focus on Financial empowerment** through credit, financial skills and entrepreneurship development.
- Use of technology to **improve credit-worthiness** assessment for households and informal businesses.
- Assess the performance of **banking correspondents** with better incentives and **leverage payment banks** and other platforms **to scale up payments systems** in underserved areas.

2.5. URBAN GROWTH AND DEVELOPMENT

URBAN PLANNING IN INDIA

Urban Planning as an approach takes into account all aspects of a city — economic development, population diversity and social interaction — in order to develop a central and coherent view of the urban space.

City Level (City Master plans, Local area level planning and building level interventions etc.).

Regional level (District/metropolitan development plans, industrial area plans etc.)

National/State level (Long term plans developed by Union and State Governments)

Present framework of Urban Planning

- **Role of Governments:** 7th Schedule bestows power of Urban Planning upon the States while Central Government plays an 'advisory' role and provides financial and technical support.
- **Legislative framework:**
  - **At State level:** State Town and Country Planning Acts, Municipal Corporation Acts etc.
  - **At regional/local levels:** e.g., Delhi Development Act 1957.
  - **Acts related to land housing, infrastructure, environment, etc.**: e.g., the Registration Act 1908, Environment (Protection) Act 1986, etc.
- **Institutional framework:**
  - **Institutions created via the Constitution (Seventy-Fourth) Amendment Act, 1992:** Urban Local Bodies (ULBs) and Metropolitan/District Planning Committees.
  - **Other Institutions:** State Town and Country Planning Departments, Parastatal agencies/bodies Improvement trusts.

Issues in India's urban-planning capacity

- **Institutional issues:** Multiplicity of authorities; Absence of effective decentralisation; Governance issues in municipal bodies.
- **Issues in the planning process:** Absence of participative decision making; Lack of Master Plans of Cities and Regions; Low participation of private sector; Disconnect between Urban Planning and Urban Land Records.
- **Issues related to Urban land use:** Non-Recognition of 'Urban' Areas; Sub-Optimal Utilisation of Urban Land; Unintended impacts of Development regulations.
- **Issues related to Disaster Resilience:** Development location decisions are not directed by hazard exposure; Lackadaisical approach towards natural drainage systems and waterbodies; Building bye-laws are still limited to a few hazard risks etc.
- **Issues in Human resource engaged in urban planning:** Shortage of adequate and technically qualified planners; Lack of Specialised Professionals; Limited Awareness about Urban Planning among administrators or elected officials; Substandard capacity building ecosystem.

Role of urban planning in development of urban spaces of the future

- **Accommodating accelerated growth** in Urban population and **Dealing with issues emanating from unplanned growth** like slums, traffic congestion, etc.
- **Overcoming Interstate disparities** in terms of distribution of urban centres and the pace of urbanisation.
- **Building disaster resilient cities.**
- Efficient Urban Planning is significant for **achieving India's Economic growth, Infrastructure and Employment targets.**
- **Transitioning to low carbon economy** by controlling emissions in cities.
- **Fulfilling India's global commitments-** SDG 11; United Nation Habitat's New Urban Agenda; and the Paris Climate Agreement.

Way Forward: Building cities of the future

- **Interventions in existing master plan preparation:** Engaging in long term planning; Preparing interoperable base map of the city; Mapping of all the relevant sub-sectors of a city; Development and inclusion of specific proposals with clear responsibilities.
- **Human resource management:** Undertake regular capacity building; Overcoming shortage of Urban planners by expediting the filling up of vacant positions of town planners, standardisation of the job descriptions of town planners etc.
- **Executive and Legislative Reforms:** Clear division of the roles and responsibilities of various authorities; Standardisation of the job descriptions of town planners and other experts; Adapting the planning regulations and building bye laws as per economic growth drivers of cities; etc.
- **Conducting Hazard Risk and Vulnerability Assessments (HRVA) of cities to build resilience.**
- **Expanding Participation:** Conducting 'Citizen Outreach Campaign'; Enhancing the Role of Private Sector; Strengthening Urban Planning Education System.

2.5.1. SMART CITY MISSION

Why in news?

28 of 36 States and UTs have not released their share of funds for mission. The gap in state share has climbed up to a whopping Rs 6,258 crore.

About Smart Cities Mission

- It is a centrally sponsored scheme, launched in 2015 as a joint effort of the **Ministry of Housing and Urban Affairs (MoHUA),** and all state and union territory (UT) governments.
- **100 cities and towns in different states and UTs** of India have been selected under the SCM.
- Its objective is to promote cities that provide **core infrastructure, clean and sustainable environment and give a decent quality of life** to their citizens through the application of **'smart solutions'.**
- The development and application of **'smart' solutions to overcome various urban problems is the main feature** that distinguishes the SCM from previous urban-reform initiatives.
- **Implementation:** Through a special purpose vehicle (SPV).
- **Financing:** Government funds to meet less than one-half of the estimated project cost with rest of the balance to be **mobilised from internal and external sources,** including financial intermediaries, state/local government internal sources, etc.

- **Monitoring: Three tier monitoring level starting from an** apex committee (AC) at **national level**; a high-powered steering committee (HPSC) at **State level** and smart city advisory forums (SCAF) at **city level**.

Key Challenges faced by SCM

- **Slow progress** in implementing the SCM as below 50% of the projects are completed at the end of the Mission's initial six-year period.
- **Vacant positions in SPVs** and **inadequate number of trained people**.
- **Difficulties in fund mobilization at all levels** with lack of efficient use of funds.
- **Risk of stealing confidential data** or **denial of access** to large volumes of data created by sensors and network-connected devices and systems of SCM.
- **Delays due to unprecedented situations** such as **COVID-19 pandemic.**

Government Initiatives to Support the SCM

- **National Urban Digital Mission (NUDM):** Digital infrastructure and tools to ensure data availability and skill building are being created under NUDM.
- **National Urban Learning Platform (NULP):** For promoting Capacity-building.
- **Ease of Living Index (EoLI):** It shows the gaps in urban policies, planning and implementation initiatives, and offers an opportunity to plug them.
- **Municipal Performance Index (MPI):** This describes the quality of urban governance (the performance of municipalities).
- **India Smart Cities Awards Contest (ISAC):** It has been organised every year since 2018 to recognise the best performing cities.
- **The Urban Learning Internship Programme (TULIP):** It offers experiential learning opportunities to fresh graduates.
- **Smart Cities and Academia Towards Action & Research (SAAR) Program:** Launched under the SCM, it involves 15 premier architecture & planning institutes of the country to document landmark projects undertaken and their outcomes under the SCM.
- **Set up of Integrated Command and Control Centres (ICCC)** in 80 smart cities to provide services to citizens in areas of traffic management, health, water etc.

Way ahead

- **Make it a Long-term transformation programme** to overcome low level of cities development, quality of governance, and the social and economic problems facing these towns and cities.

- **Add more need-based projects** to the current development plans of the SCM such as drainage systems to ensure proper management of rainwater in cities.
- **Empirical studies of the SPVs** to find out reasons behind poor performance and **build managerial and financial capacities** of the SPVs staff and of urban local bodies (ULBs).
- **Ensure data security through encryption and cyber secure** smart cities network.
- **Mobilise funds** through efficient taxation and generating alternate sources of funds.

2.6. HOUSING

HOUSING AT A GLANCE

- 3 crore and 1.2 crore houses required in rural and urban areas respectively.
- Over 1 crore houses grounded under PMAY (U) and over 61 lakh houses completed.
- Over 2 crore houses grounded under PMAY (R) and over 1.66 crore houses completed.
- Six Light House Projects completed under GHTC-India.

Key Targets

- **'Housing for All' by 2022** by constructing **21.4 million rural homes** and **11.2 million urban homes by 2022.**
- Every family to have **pucca house with water connection, toilet facilities, and 24x7 electricity** and access to adequate **physical** and **social infrastructure.**
- Address **housing needs of Urban Poor including Slum Dwellers.**
- **Ease of Living** for urban migrants/poor.

Policy/Schemes/Initiatives

- **Pradhan Mantri Awas Yojana** for Credit Subsidy, Slum Redevelopment, Affordable Housing etc.
- **Affordable Rental Housing Complexes (ARHCs)** for ease of living.
- **Infrastructure status** to affordable housing sector and concessional project finance under **Affordable Housing Fund (AHF) and Priority Sector Lending (PSL).**
- **Global Housing Technology Challenge-India (GHTC-India)** to identify and mainstream innovative construction technologies.
- **National Initiative for Promoting Upskilling of Nirman workers (NIPUN)** under **DAY-NULM** for construction workers skill training.

Way Forward

- **Finance:** Improve access to **institutional finance** and **alternate funding** with focus on **affordable housing** and encourage Private Sector participation via innovative models (e.g. Swiss Challenge).
- **Policy/Rules:** Streamline processing of applications.
- **Human Resource:** Capacity Building of ULBs; Link skill development and employment ecosystem with housing sector.
- **Use of Technology:** Encourage new construction technologies and construction material for sustainable, eco-friendly and disaster-resilient, bringing economic benefits for other sectors (e.g. steel and cement).

Constraints

- Lack of access to **finance** from **formal** financial institutions.
- Long-drawn out, multi-level **approval system** in urban areas in a large majority of municipal jurisdictions.
- **Limited private sector participation** in affordable housing schemes in urban areas.
- Predominance of **conventional construction practices leading to delays** with limited use of prefabricated and pre-engineered materials.
- Limited access to **Land Banks** for affordable housing projects.
- Insufficient number of **trained masons** despite the operation of the Construction Sector Skills Development Council since 2013.
- **Capacity constraints** in urban local bodies (ULBs) to formulate and design mass housing projects.

2.7. LAND REFORMS IN INDIA

LAND REFORMS AT A GLANCE

1.15 ha was the average farm size in 2010-11.

<10% of the land is under non-agricultural uses.

24.62% of the total geographical area is forest.

Key Objectives

- **Legalize** and ease **land leasing.**
- **Consolidate fragmented plots** of farmers to enhance efficiency and equity.
- **Create a digitized and integrated land records system** that is easily accessible in all states.
- Increase efficiency in the **management of forest land.**
- **Convert waste and fallow land** to productive uses.
- **Strengthen property rights,** especially community rights over forest land.

Schemes

- Digital India Land Records Modernization Programme.
- SVAMITVA (Survey of Villages and Mapping with Improvised Technology in Village Areas) Scheme.

Way Forward

- States may consider the **Model Land Leasing Act, 2016.**
- Consolidate smaller plots of land through **land pooling to enhance productivity.**
- **Increase efficiency around the management of forest land** by implementation of the Forest Rights Act (FRA) etc.
- Updating and **modernisation of land record systems.**
- **Initiating Public Private Partnerships (PPPs)** for wasteland development.
- **Using land as a resource** to finance urban development.

Constraints

- **Restrictive agricultural tenancy laws** which create issues like conditions on leasing and high informal tenancy.
- **Small-sized land parcels** disincentivize economies of scale.
- **Poor productivity and shrinking area** of Forestland.
- **Absence of conclusive titling and records.**

3. FISCAL POLICY AND RELATED NEWS

3.1. STATUS OF GOVERNMENT FINANCES

GOVERNMENT FINANCE AT A GLANCE

- 6.7% of GDP as fiscal deficit for FY22.
- 85.2% public debt-to-GDP ratio for FY22.
- 31% combined debt-to-GDP ratio of States at end-March 2021.
- 60% debt-to-GDP ratio (40% Central Government and 20% combined debt-to-GDP ratio of States) by FY25 to avoid the debt spiralling out of control.

Key Objectives

- Use of **Fiscal Policy** to promote **stable and sustainable growth.**
- To ensure **transparent fiscal management systems** in the country.
- To create a **more equitable and manageable distribution of the country's debts** over the years.
- Aim for **fiscal stability for India** in the long run and bring **fiscal deficit target** below **4.5% of GDP by FY26.**

Schemes/Initiatives

- **Fiscal Responsibility and Budget Management (FRBM) Act,** 2003, amended in 2019.
- **Fiscal Responsibility Legislation (FRL)** adopted by the states.
- Creation of **Financial Stability and Development Council (FSDC).**
- Increased **Ways and Means Advances (WMA)** for States and Union by RBI to overcome pandemic uncertainties till March 31, 2022.

Constraints

- **Vertical imbalance** (between the Centre and the States) and **horizontal imbalance** (within states) in the distribution of financial resources.
- **Rising Commodity prices and geopolitical tensions** leading to **high inflation** and increased **subsidies burden.**
- **Low Tax-to-GDP ratio** limiting the non- compliance of FRBM mandate.
- Issue of **corruption, leakages** and **free riders for various schemes.**
- **Decreased State Revenues** due to pandemic uncertainties.

Way Forward

- **Financing from private investment,** institutions dedicated for infrastructure financing.
- **Compliance with the fiscal deficit and debt levels** as per Fiscal Responsibility and Budget Management (FRBM) Acts.
- **Improving Public Sector efficiency for effective utilization** of financial resources through outcome-based budgeting, improved transparency and accountability.
- **Decentralization of financial power** for increased financial autonomy of State and civic bodies.
- **Appropriate Human Resource** management practices to improve tax collection and expenditure.
- **Proactively Manage Public Finances** by using data and technology to reduce cost of administering public finances.
- **Reforming Taxation System** to balance revenue collection with economic growth.

3.1.1. GDP-GVA GAP

Why in News?

Gross Domestic Product (GDP) and Gross Value Added (GVA), two measures of India's economy, yet again grew at widely different paces leading to a gap between them.

Difference between GDP-GVA and their Utility

Parameter	Gross Domestic Product (GDP)	Gross Value Added (GVA)
Definition	GDP is the market value of all final goods and services produced within the territorial boundaries of a country for a given period of time.	GVA is the total value of goods and services produced within a country after deducting the cost of inputs and raw materials.
Measurement	It is measured by the **output, income** and **expenditure approaches.**	It is measured by **output reach** and used as a **proxy** for GDP.
Technical Relationship (difference) between GDP and GVA: **GDP = ΣGVA** + Net taxes on Products – Net Subsidies on Products.		
Purpose	GDP is an internationally-accepted measure of overall economic growth in a country.	GVA is used to measure sector-wise details of economic activity from the production side.

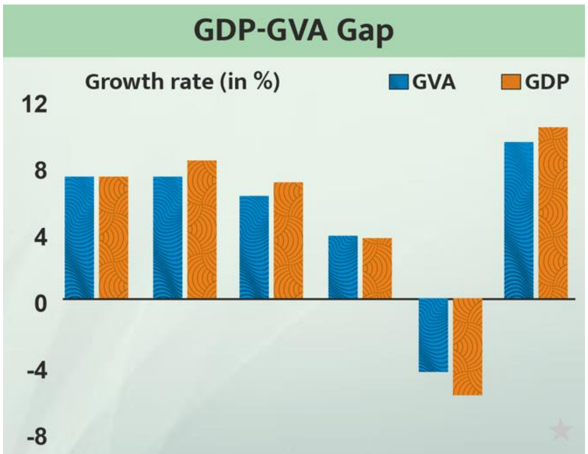
GVA in India

- In **2015,** as part of comprehensive review of GDP measurement approach, **GVA at basic prices** (base year 2011-12) became the primary measure of output across the economy's various sectors in India to conform with the **UN System of National Accounts (SNA), 2008.**
    - Earlier, India used **GVA at factor cost** to measure overall economic output.
- The **quarterly** and **annual** estimates of GVA are given by **National Statistical Office (NSO)** under **eight broad sectors**- covering goods and services in India (see **image**).

Gap between GDP-GVA and its reasons

Though GVA is used as a proxy for GDP, but they are not same because of the **basic difference** of GDP being calculated at **market prices** while GVA is calculated at **basic prices.** It leads to gap between GDP and GVA.

In addition to it, the GDP-GVA gap has been diverging since **FY18** because of various reasons-



- In **FY21,** the GDP growth **lagged** GVA growth by **180 basis points** on account of **increased subsidies** and **reduced taxes** due to lockdown.
- Similarly, in **FY22,** on account of **record tax collections** and **reduced subsidies** from FY21, the GDP growth was **60 basis points higher** than GVA (see **image**).
- Also, in **FY23,** the GDP-GVA divergence is likely to continue with GDP growth lagging GVA once again on account of-
    - **Increasing subsidies** on account global commodity price rise increasing fertilizer subsidy,
    - **Fuel tax cuts** to curb inflation.

Utility of GDP and GVA under different circumstances

GDP data presents the state of economy from **Consumers side (demand side)** with other factors, expressed as an equation which as, **GDP = Consumption (C) + Investment (I) + Government Spending on Goods and**

Services (G) + **(Exports – Imports, X-M)**, i.e., **GDP = C + I + G + (X–M)**. Therefore, it becomes helpful for policymakers, investors, and others to:

- Identify **Health of an Economy**, i.e., whether it is **growing** or experiencing **recession**.
- Get a fair idea on **standard of living** of people through data on **income** and **private consumption**.
- Make **cross-country analysis** on various parameters like investments, government spending and net exports.

But GDP is not a **leading economic indicator** as it tracks only what has happened. In comparison, GVA is a leading indicator over GDP as it presents the state of economy from **Producers side (supply side)**. Therefore, it becomes useful for policymakers, investors, and others to:

- Get real picture on **State of Economic Activity**, i.e., amount of goods and services produced as GDP growth can also happen because of other reasons like **better tax compliance**.
- It provides **sector-wise** and **region-wise** breakdown of value added, helping policymakers to identify sectors requiring **incentives** or **stimulus**.
- Identify **productivity** of a sector based on global data standards, helping investors to make specific investment decisions based on economic performance.

Drawbacks of GVA

- **Accuracy of Methodology:** GVA is susceptible to inappropriate or flawed methodologies which potentially present a distorted picture.
- **Accuracy of Data:** Accuracy of GVA is a function of **source of data and its accuracy**. Due to large informal sector, sourcing data is a major challenge in India leading to over-estimations and mis-estimations due to use of alternate proxy sources or older statistical surveys.

Conclusion

GDP presents a more accurate and holistic picture when analyzed on a long timeline, GVA on the other hand is a more accurate estimate of the immediate picture. With **policy discourse** moving towards **sector specific production** and **employment** measures, GVA becomes a useful measure of **economic performance** of various sectors.

Through **formalization** and use of **new technologies**, we can improve the **quality** and **integrity** of data to accurately understand various sectors' performance in real time. It will aid policymakers in sector-specific measures and help foreign investors in their investment decisions.

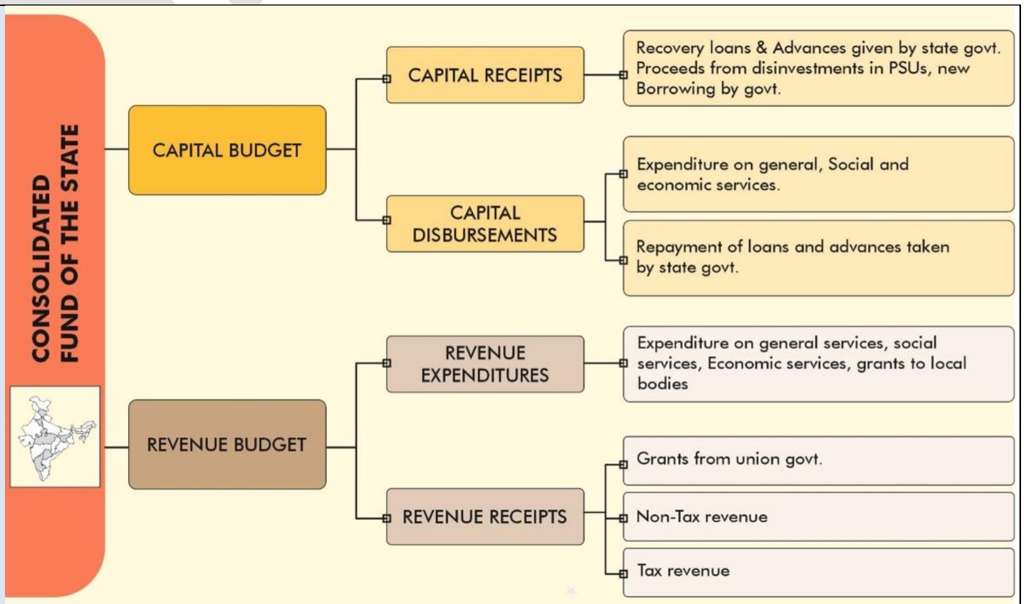
3.1.2. STATE FINANCES

Why in news?

RBI released **report** titled, "**State Finances**: A Study of Budgets of 2021-22" with theme "Coping with the Pandemic: A **Third-Tier Dimension**."

About State Budget

- The State Government Accounts structure is similar to that of the Union Government and they can't incur any **expenditure** from Consolidated Fund of State **without the authority of Appropriation Act.**
- It is authorized by State Legislature based on the **statement of anticipated receipts and expenditure for each FY** laid before it. See infographic for structure of the state budget.



Why understanding of State Finances is important?

- **Capital Spending:** About **two-thirds of India's public capex comes from states**, the highest decentralization of capital spending globally (as per RBI 2020 report).
- **Employment Generation**: States employ **five times more people than the Centre**.
  - Further, high market borrowings by states has serious implications on the interest rates charged in the economy, the availability of funds for businesses to invest in new factories, and the **ability of the private sector to employ** new labour.
- **Impact on national economy**: States have a greater role to play in determining India's GDP which makes it crucial to understand their spending pattern. If, for example, their combined **expenditure contracts** from one year to the other, then it **will bring down India's GDP.**
- **Macroeconomic stability**: If states find it difficult to raise revenues, a rising mountain of debt (captured in the debt-to-GDP ratio) could start a **vicious cycle** wherein states end up **paying more and more towards interest payments** instead of spending their revenues on creating new assets that provide better education, health and welfare for their **residents.**

Key trends in state finance

- **Increase in Fiscal deficit**: States' **fiscal deficit** increased from 2.9% of GDP in 2019-20 to **4.1% of GDP in 2020-21** (by Rs 2.25 lakh crore).
- **Rising Public debt:** At the end of 2021- 22, aggregate public debt of states is estimated to be **25.1% of GDP**, a significant rise from **17.2% of GDP** in 2011-12.
- **Own tax revenue** is **the largest source of revenue**: States' own tax revenue is estimated to be the largest source of revenue (**45% of total revenue receipts**) for states in 2021-22. It is estimated to be **6.7% of their GSDP.**
- **Low property tax collection**: Property tax collection level in India is **significantly lower (0.2% of GDP)** as compared to some of the developed countries due to **undervaluation** of property, incomplete property tax **records**, and **inefficient** administration for low property tax revenue.
- **Turnaround of discoms to remain a priority for containing risks to state finances**: In most states, state-owned power distribution companies (discoms) remain a **source of strain on state finances** as they continue to make losses and their liabilities are on the rise.

Issues with state finance

- **Decline in tax devolution**: The total central transfers to states can be classified as: (i) **states' share** in central taxes as per the recommendations of the FC, (ii) **grants** recommended by the FC, and (iii) **other grants** by the Centre such as those for centrally sponsored schemes.
- **Growing cesses and surcharges reduce tax devolution to states:** While the cess and surcharge revenue remained around **10-15% of GTR** (Gross Tax Revenue) during 2011-20, its share is estimated to significantly increase to **24% in 2020-21**.
- **Reduction in share of untied funds in central transfers to states:** As per the 15th Finance Commission estimates, untied funds (tax devolution + revenue deficit grants) in central transfers are estimated to be **29.5% of the Centre's gross revenue receipts during 2021-26**. This is notably **less than the same** during 2015-20 **(32.4%).**
- **Overoptimistic revenue estimates:** During the 2015-20 period, states **raised 10% less revenue** than their budget estimates. During the same period, on average, states **underspent their budget** by 9%.
- **Lower capital expenditure**: According to SBI research, nine of the 13 states reported **lower capital expenditure** (good spending) in 2020-21, as **compared to budgeted amounts**. Reduction in capital expenditure has potentially **adverse implications for economic development.**
- **Other issues:** Populist programs such as **farm loan waivers** launched by a number of state governments contribute to the **fiscal stress**, without doing much to raise farm incomes.
  - The rather tepid performance of the **power debt restructuring scheme, UDAY**, also strained state finances.
  - Covid-19 induced lockdowns and **initial ban on liquor, the sharp fall in mobility**, which hit fuel stations hard, and the slump in the property market **also hit state governments hard** as they are **heavily dependent on liquor, fuel, and real estate** for revenues.
  - States are contending with **shrinking revenue autonomy** and a **low tax buoyancy** (taxes are rising at a lower proportion than an equivalent growth in GDP).

VISIONIAS

Steps taken by Centre to support states

- **Reform-linked additional borrowing space for 2020-21:** In view of the COVID-19 pandemic, in May 2020, the central government permitted states to increase their fiscal deficit limit from 3% of GSDP to **5% of GSDP in 2020-21.**
    - Of this 2% increase, an increase of 1% of GSDP was to be permitted upon **completion of reforms** in four areas (0.25% of GSDP for each reform): **one nation one ration card, ease of doing business, urban local body, and power distribution.**
    - As per the Union Ministry of Finance, states gained permission for reform-linked borrowing worth **0.42% of their aggregate GSDP** in 2020-21 (Rs 89,944 crore).
- **Special Assistance to States for Capital Expenditure for 2021-22:** Under the scheme, states will be provided **interest-free loans of up to Rs 15,000 crore** in 2021-22, that need to be **repaid after 50 years.** Of this, Rs **5,000 crore of loans are earmarked for states which carry out disinvestment** of State Public Sector Enterprises or monetisation/ recycling of infrastructure assets.

Road Ahead

- **Overhaul of Fiscal Responsibility and Budget Management (FRBM) framework:** The 15th FC report recognizes that the FRBM Act needs **major restructuring**, especially post the pandemic, and recommends that a **new framework** is needed to **achieve debt sustainability**.
- **Reporting of liabilities:** States should amend their fiscal responsibility legislation to ensure **consistency with the Centre's legislation**, in particular, with the **definition of debt.** Standards should be developed for reporting and disclosure of broader **public debt and contingent liabilities, and their risks**.
- **Fiscal policy should act as a stabilising tool**: fiscal policy of the states has to be re-engineered so that **fiscal spending becomes anti-cyclical**, rather than procyclical, and function as a **stabilising tool.**
- **Power sector reforms:** Undertaking power sector reforms will not only **facilitate additional borrowings** of 0.25 per cent of GSDP by the States but also **reduce their contingent liabilities** due to improvement in financial health of the DISCOMs.
- **Independent Fiscal Council**: As recommended by 15th FC, an independent Fiscal Council should be established with powers to **assess records** from the Centre as well as **states.**
- **Productive expenditure should be prioritised**: States to reprioritise spending with a special focus on **high multiplier capital projects** with low gestation periods and in building healthcare facilities and support systems like **better social security nets.**
- **Strengthen third-tier of the government**: RBI report has made recommendations like increasing the **functional autonomy** of the civic bodies, strengthening their **governance structure** and **empowering them financially** via higher resource availability, including through own resource generation and transfers.

3.2. INDIRECT TAXATION

INDIRECT TAXATION AT A GLANCE

- ₹12.90 lakh crore indirect tax collection in FY22.
- Goods and services tax (GST) collection as top contributor (₹5.9 lakh crore).
- 48% jump in Customs duty while Excise Duty collections dropped marginally because of cut in duty for petrol and diesel.
- Highest ever GST collection at ₹1.68 lakh crore (April 2022).

Key Targets

- The Budget 2021-22 has set a tax revenue target of **Rs 22.17 trillion for FY22.**
- The **GST revenue**, including the Central GST and compensation cess, is pegged at **Rs 6.30 trillion.**
- The **GST Compensation requirement** for FY22 has been pegged at **Rs 2.7 trillion,** of which Rs 1.1 trillion is expected to be met through **cess collection.**

Policy/Schemes/Initiatives

- **GST (101st Amendment Act), 2016** for uniform tax on supply of goods and services across the country.
- Set up of **GST Council for GST decision-making,** promoting **Economic and Competitive Federalism.**
- **GST (Compensation to States) Act, 2017** for paying GST Compensation to states from GST Composition Fund.
- **Better Compliance** via repository of information gathered as annual information returns and Sharing of Goods and Services Tax (GST) Data with the CBDT for effective linkage.

Constraints

- **Persistent Economic Slowdown with growing** risks from ongoing Ukraine Crisis.
- Centre-State Tussle over GST rates, GST Compensation cess payments and soon ending GST Compensation regime.
- Issues of unequal representation to states in **GST Council** and only **persuasive (non-binding)** GST Council decisions (SC judgement).
- Certain goods still out of purview of GST e.g., Petroleum products.
- Other issues: **Multiple tax slabs, Cumbersome filing structure, Ambiguous and conflicting AAR judgments, Transitional Issues.**
- **Tax evasion and tax fraud.**
- **Indirect Tax can be regressive** as they raise price of commodities for everybody irrespective of their purchasing power.

Way Forward

- **Further simplification of tax structure.** E.g., lesser tax slabs.
- **Optimising digital resources** to accelerate the process of claiming input tax credit. It can also increase the capacity of the portal to handle higher numbers of data processing.
- **Robust compliance regime and technology driven intelligent system** to catch the tax evaders and unethical practices.
- **Consensus based decisions** and focus towards Cooperative federalism through GST Council reforms.

3.3. DIRECT TAXATION

DIRECT TAXATION AT A GLANCE

- **11.7% tax-GDP ratio in FY 22** (6.1% for direct taxes and 5.6% for indirect taxes)
- **Record ₹14.09 lakh crore** direct tax collections for FY22, jump of 49% from previous year.
- **Corporate Tax and Personal Income tax** as main contributors to Direct Tax.
- **More than 7.14 crore** Income Tax Returns (ITRs) by March 2022.

Key Targets

- The Budget 2022-23 had set a **tax revenue target of Rs 19.34 trillion** for FY23.
- The Centre projected **corporate tax** stands at ₹7.20 lakh crore and **personal income tax** at ₹7 lakh crore for FY23.

Policy/Schemes/Initiatives

- **Taxpayers' Charter** to provide a transparent and taxpayers friendly tax regime.
- **Faceless Assessment** Scheme and **Faceless Appeals** Scheme for **Honoring the Honest.**
- The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020.

  Amendments to Income-tax Act to cover virtual digital assets.
- **Authority for Advance Rulings** and Tax Treaties on International Taxation like the **Double Taxation Avoidance Agreements (DTAA), Tax Information Exchange Agreement (TIEA) etc.**

Constraints

- **Despite record Gross tax collections** (₹27.07 lakh crore), the **Tax-GDP ratio** is much lower than OECD countries (33.5% in 2020).
- **Issues of tax** evasion and corruption.
- **High exemption** limit and deductions
- **Double taxation** of dividend
- MNCs setting up offices in **low-tax jurisdiction countries/tax havens**
- **Lack of global consensus** over tax rates.
- Issues surrounding **Digital taxation**

Way Forward

- **Direct Tax Code** on line of GST.
- **Base widening** by increasing the number of taxpayers.
- Exploring **taxation on agricultural income.**
- Rationalisation of incentive provisions.
- Curbing non-compliance by developing an **efficient information centre, digitisation, etc.**
- **Build Resilient Economy** to minimise impact of supply chain disruptions and commodity price rise on tax collections.

3.3.1. TAXATION ON VIRTUAL DIGITAL ASSETS (VDAS)

Why in News?

Taking account of the phenomenal increase in transactions in virtual digital assets, the government has provided for a specific tax regime on taxation of virtual digital assets in **Budget 2022-23.**

Proposed Taxation Framework on Virtual Digital Assets

Definition of Virtual Assets	Under **clause 47A** of the **Section 2** of **Income Tax Act** the **virtual digital assets** means: • **any information or code or number or token** (not being Indian currency or foreign currency), **generated** through **cryptographic means** or **otherwise**, by whatever name called, providing a **digital representation of value** exchanged with or without consideration, with the promise or representation of having **inherent value,** or functions as

	a **store of value** or a unit of account including its use in any financial transaction or investment, but not limited to investment scheme; and can be **transferred, stored or traded electronically;** • a **non-fungible token** or any other token of similar nature, by whatever name called; • The Central Government, by notification in the Official Gazette, may **include or exclude** any other digital asset from the definition of virtual digital asset.
Tax on income from virtual digital assets	To take effect from 1st **April, 2022**, under **Section 115BBH** of the Income Tax Act, **any income** from transfer of **any virtual digital asset** shall be taxed at the rate of **30%**. • **No deductions** are allowed in respect of any expenditure or allowance while computing such income **except cost of acquisition**. • **Loss** from transfer of **virtual digital assets** can't be set off against any other income. • **Gain** from transfer of **virtual digital assets** is non-deductible. • **Gift of virtual digital assets** is also proposed to be **taxed** in the **hands of the recipient**.
Payment on transfer of virtual digital asset	• Effective from 01 July 2022, **1% TDS (Tax Deducted at Source) will be deducted** under **Section 194S** on payment made above a monetary threshold in relation to transfer of virtual digital assets

Benefits of proposed Taxation Framework

- **Dynamic Definition** allowing government to include or exclude any new VDA when required.
- **Stringent Taxation** through steep tax rate and inability to offset losses against any other sources of income to dissuade people investment due to high volatility and speculative nature.
- **Regulation over Digital Assets** to pave the way for classifying VDAs as a separate asset class. E.g., gifting of virtual assets.
- **Resource Mobilization** through taxation, reducing the fiscal deficit and providing funds for holistic economic growth of a nation.

Concerns over Taxation Framework

- **Concerns over Definition** such as-
  - **Broad definition** carries risk of potentially including vouchers, reward points issued by shopping sites or credit card companies, airline miles etc.
  - **No clarity** on taxation over underlying assets of virtual digital assets like NFT.
- **Issues in Taxation Provisions**
  - **Cost of acquisition and Sales Consideration** is not defined, leading to confusion whether brokerage paid will be part of cost or will be deducted from sales consideration or not.
  - Income of miners, persons minting NFT, crypto exchanges fee etc. are also not specifically specified for taxation.
  - Risk of peer-to-peer (P2P) or wallet-to-wallet transactions escaping this tax.
- **Taxability of income from digital assets** for FY 2021-22 is still open for interpretation as the proposed framework will be applicable from 01.04.2022.
- **Cumbersome TDS process** if transaction involves non-resident buyer from a resident, requiring TAN number (Tax Deduction and Collection Account No) in India to deduct the TDS.
- **No clarity on Goods and Services tax** on virtual digital assets.
- **Money Laundering and Terror Financing** concerns remain with provisions for tax on gifted crypto assets likely to be misused due to anonymity of assets and data gaps for regulators.
- **Defrauding and misspelling of products remain** due to limited or inadequate disclosure/oversight and chances of using taxability to show transactions in them as legal.
- **Falls Short in addressing** RBI and IMF concerns over **financial instability** from crypto assets.

Way Forward

- **Finalization of legal status of crypto assets**, i.e. providing clarity on ban or bring **supervision contingent** on the financial stability risks posed by them.
- **Strong vigil and better coordination** among all government agencies to address data gaps and avoid its misuse for activities like money laundering.
- **Launch of CBDC** to promote financial inclusion and ensure effectiveness of RBI in implementing monetary policy.
- **Awareness among people** over volatility of virtual digital assets and mere taxing as no acceptance of transaction as legal to reduce misselling frauds.

* **Clarity in Taxation Framework** over issues related to- definition of virtual digital assets; taxation provisions including GST regulations, TDS process, etc.

3.4. FINANCIAL MOBILIZATION FROM NON-TAX SOURCES

FINANCIAL MOBILIZATION AT A GLANCE

Record tax collection with moderate non-tax revenue jump on account of higher dividends from PSU's.

Completed deals worth ₹96,000 crore against asset monetization target of ₹88,000 crore for FY22.

Raised around ₹21,000 crore from LIC IPO but decade low RBI Surplus Transfer (₹30,307 crore) may act as drag.

Key objectives

* **Increasing Non-tax revenue generation** by unlocking investment values of public sector assets.
* **Four-year National Monetisation Pipeline (NMP)** (FY22-25) to raise ₹6 lakh crore through core assets of the central government.
* **FY23** divestment target set at **₹65k crore.**
* **Need of quality revenue generation** on account of **increased expenditure side pressure**, i.e. spending on food, fertiliser etc. due to rising commodity price.

Policies/Schemes/Initiatives

* National Monetisation Pipeline
* Policy on Strategic Disinvestment, 2021 and guide-lines on disinvestment of non-strategic CPSEs.
* **RBI** surplus transfer
* National Land Monetization Corporation (NLMC), a Special Purpose Vehicle (SPV) for surplus land monetization.

Constraints

* **Tax concessions** to control inflation.
* **High fiscal deficit** (around 6.7% for 2021-22).
* Excessive market borrowing and **High debt to GDP ratio.**
* **Inefficiency in PSEs** and populist state policies creating risks of sub-national bankruptcy.
* **Challenges in determining additional quality** avenues of financial resources mobilisation.
* **Limited private sector interest** in asset monetisation due to pandemic and rising global uncertainties.

Way forward

* **Strengthen domestic resource availability** such as improving effectiveness of tax systems and strength-ening international tax cooperation.
* **Widening of revenue base**, improving tax collection and combating tax evasion and illicit financial flows.
* **Rationalisation of GST rates** and **GST slabs** with steps to increase states own revenue.
* **Supporting investments** through a predictable and stable tax policy.
* Subscribing to **achievable disinvestment targets.**
* **Better use of financial resources** through function-al and outcome budgeting; expenditure reforms and expenditure targeting for expenditure efficiency and effectiveness.

3.4.1. ASSET MONETISATION

Why in News?

Recently, the government has set up a **National Land Monetisation Corporation (NLMC)** to fast-track monetisation of land and non-core assets of public sector entities.

More on News

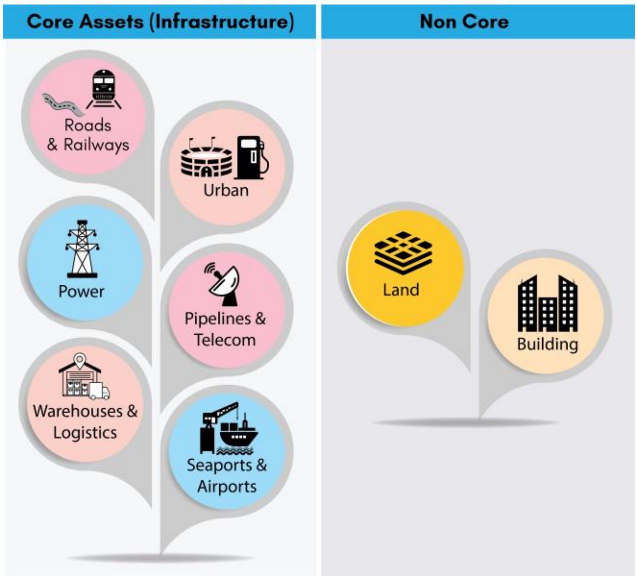
* Incorporated as a **100% Government of India owned entity**, NLMC will have an initial authorized share capital of **₹5,000 crore** and subscribed share capital of **₹150 crore**.
* Monetisation of **core assets** is steered by **NITI Aayog.**

About Asset Monetisation

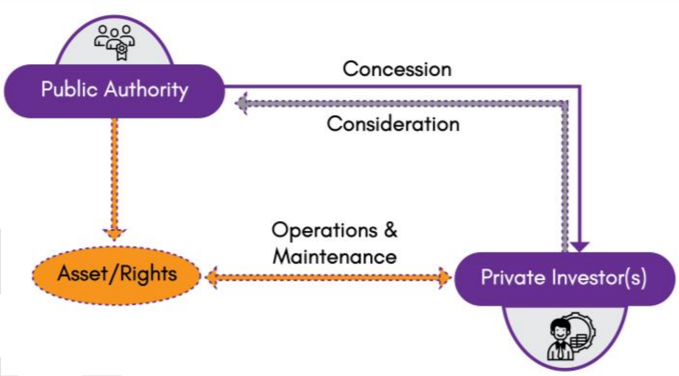
Also known as **asset or capital recycling,** asset monetisation involves creation of new sources of revenue by unlocking the value of hitherto unutilized or underutilized public assets.

With projected infrastructure investment of **₹111 lakh crores** during FY 2020 to FY 2025 under **National Infrastructure Pipeline (NIP)**, **15-17%** of it is expected to be met through **innovative** and **alternative** initiatives such as asset monetisation.

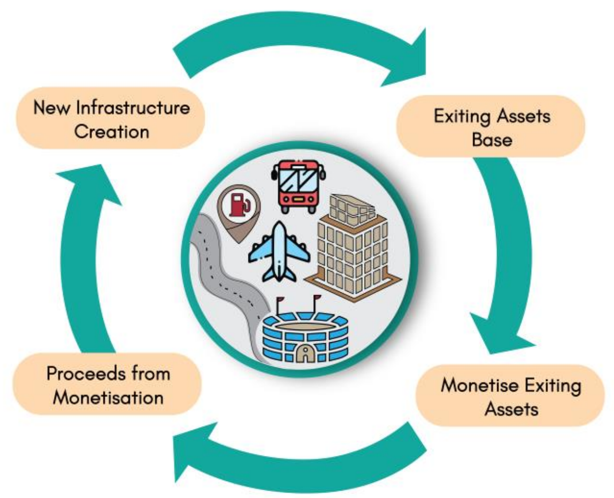
- There is an **aggregate monetisation** potential of **₹6 lakh crore through core assets of the central government** over a four-year period from 2021-22 to 2024-25.
  - Around **83%** of the aggregate value is to come from the **top five sectors** (roads, railways, power, oil and gas pipelines and telecom).
- Asset Monetization is different from 'privatization' and 'slump sale' of assets; it represents a **structured partnership** with the private sector having defined **contractual frameworks**.



Asset Monetisation Structure



Infrastructure Asset Monetisation Cycle



Benefits of Asset Monetisation

Indian infrastructure development is largely driven by the public sector or public funding. The private sector and debt **financiers' appetite for greenfield (new) infrastructure development has remained subdued** due to financing issues, project clearance delays etc.

Structured around **mature Brownfield assets, asset monetisation helps** in it through-

- **Resource mobilization** through diversified alternatives providing **long-term capital for enhanced infrastructure investment,** helping in revival of growth post Covid-19.
- **Create greater financial leverage and value** for companies as well as for government with significant stake in them through better use of resources.
- **Efficient operation and management** of existing sub-optimally utilized infrastructure. This is due to greater operational efficiencies of the private sector.

Challenges to Asset Monetisation

Financial Challenges	• Availability of a sustained **and robust asset pipeline to attract and keep investors interest in bidding.** • Lack of identifiable revenue streams and revenue transfer mechanism in various infrastructure assets. • Risk of higher prices for consumers due to leasing of public utilities to private investors.
Regulatory Challenges	• **Lack of independent sectoral regulators** who could provide dedicated domain expertise and simultaneously aid development of the sector.

	• **Structural problems such as legal uncertainty and the absence of a deep bond market** that hold back private investment in infrastructure. • **Inefficient Dispute resolution mechanism.**
Other Challenges	• **Lack of State participation** despite holding large assets. • **Uncertainties** due to Covid-19, climate-related disasters and economic transformation under Industrial Revolution 4.0. • Concerns over **political influence** and **issues of corruption**.

Way Forward

National Monetization Pipeline (NMP) with sector specific plans is first step to help private sector plan their fundraising on brown-field asset inventory with potential financing opportunities. Other steps which can help address challenges and help meeting asset monetisation targets includes:

- **Ensure proper implementation** of asset monetization plan by:
  - **Building capacity and expertise** among public authorities with desired skill set to ensure monetisation of land and other non-core assets efficiently.
  - **Systematic and Transparent allocation** of assets, in line with international best practices with **oversight committee** to ensure international investors interest.
- **Work Closely with States** to encourage them for leveraging assets for resource mobilization to ensure high capital investment for higher growth and jobs.
- **Developing proper brownfield models and frameworks** to set quality benchmarks with:
  - **Flexibility in contracts** to address unforeseen developments.
  - **Robust Dispute Resolution Mechanism** to avoid needless and long litigation (also recommended by Kelkar Committee on PPPs).
- **Strong regulatory framework** with innovative models like InvITs and REITs (under SEBI) for non-core sector as well to ensure participation from different investor class such as global pension funds, sovereign wealth funds and retail investors.
  - E.g. the success of POWERGRID Infrastructure Investment Trust (PGInvIT).

4. MONETARY POLICY

4.1. MONETARY POLICY

MONETARY POLICY AT A GLANCE

- Inflation remained with in the specified range in the pre-COVID period.
- Strengthening recovery in spite of elevated commodity prices, volatile financial conditions, external spill overs and geopolitical risks.
- Double-digit bank credit growth is being seen
- Monetary Policy and Fiscal Policy operate in tandem to achieve the desired position of the macro-economic variables.

Key objectives

- The primary objective is to **maintain price stability** while keeping in mind the objective of growth.
- **Implementation of the flexible inflation-targeting** (currently 4% (+/- 2%)) in accordance with the need of the economy.
- **Financial stability** and adequate availability of credit for growth.
- Safeguarding the value of Rupee and ensuring **Exchange rate stability.**

Policies/Schemes/Initiatives

- Traditional tools like **CRR, SLR, Open Market Operations etc.**
- **CPI** chosen as a measure of inflation.
- Regular development of innovative tools of monetary policy such as GSAP, LTROs etc.
- G-sec will soon be joining Global Bond Indices which will expand RBI's toolkit

Constraints

- **Developing economies** like India are subject to greater supply shocks than developed economies.
- Greater hinge towards Inflation Targeting **tends to compromise growth**, thus tilting the balance towards former.
- Issues of accuracy and limited availability of **authentic and real-time data.**
- **COVID 19** has resulted in major supply and demand-side shocks in the economy disrupting the monetary policy dynamics.

Way forward

- Improving the **data collection** and analysis framework.
- Broadening the investor base in Government securities.
- Strengthening coordination of **Monetary and Fiscal policy.**
- Make the economy more resilient in light of the fragilities exposed by impact of COVID-19 on the economy.

4.1.1. STANDING DEPOSIT FACILITY (SDF)

Why in News?

In its **first bimonthly policy review** (FY23), the **Monetary Policy Committee (MPC)** has introduced **Standing Deposit Facility (SDF)** as the floor in the **Liquidity Adjustment Facility (LAF) corridor**.

About Standing Deposit Facility (SDF)

- SDF is **non- collateral open-ended liquidity management instrument** to absorb liquidity (deposit) from Scheduled Commercial banks (SCBs).
- From 2022, SDF will replace the **Fixed Rate Reverse Repo (FRRR)** as the **floor** of the **LAF corridor** and its interest rate will be 3.75%.
- Deposits under the SDF won't be eligible for the **Cash Reserve Ratio** (CRR) maintenance under **Section 42** of the **RBI Act, 1934**, but they will be an eligible asset for maintenance of the **Statutory Liquidity Ratio** (SLR) under **Section 24** of the **Banking Regulation Act, 1949**.

Benefits of SDF

- **Absorbing Surplus Liquidity** from banks flushed with excess money at higher interest rates to control inflation.
- **Strengthening Operating Framework** of monetary policy by removing the binding collateral or government security constraint on the RBI.
  - Available on **e-Kuber portal**, SDF empowers RBI with unlimited sterilization power on liquidity due to no binding security constraint.
  - It will absorb the **transient nature liquidity** as it will be **operated on an overnight basis**, with the flexibility to absorb liquidity for longer tenor with appropriate pricing.
- **Restoration of the LAF corridor** by narrowing the LAF width to **50 basis point** or pre-pandemic arrangement from the current 90 basis point at the bottom of the corridor.
  - The LAF corridor is now symmetric around the **policy repo rate** with standing facilities on both ends- **MSF as ceiling** to inject liquidity and **SDF as floor** to absorb liquidity.
- **Increased discretion of banks** to access SDF and MSF unlike other LAF tools such as repo/reverse repo, OMO and CRR which are available at the RBI discretion.

Potential issues with SDF

- **Arbitrage Opportunity** for banks to deploy surplus liquidity with RBI via SDF rather than going for risks in lending to the private sector.
- **Not a long-term instrument and needs to be supplemented** by market related instruments like OMO during large capital net inflows to absorb durable liquidity.
- It is **against the Urjit Patel Committee recommendation** for **alignment between liquidity management operations and market conditions.**
- **Potential issues** of SDF in relation to impact on the balance sheet of RBI, impact on other instruments such as OMO and the Market Stabilization Scheme (MSS) etc.

Conclusion

The near-term global outlook looks gloomy due to rising **geo-political uncertainties**, continued **Covid-19 variant change threats, strained supply chains,** elevated commodity prices and monetary policy normalization from US Federal Reserve to tame inflation. Introduction of SDF goes with the swift shifts in risk sentiments and tightening of global financial conditions to manage different risks.

But the **effectiveness of SDF** will depend upon ability to have **simple and transparent implementation**, **absorption of surplus liquidity** while keeping banking sector distortions to a minimum**,** and **requirement of limited actions to offset its risks.**

4.1.2. RETAIL DIRECT SCHEME

Why in news?

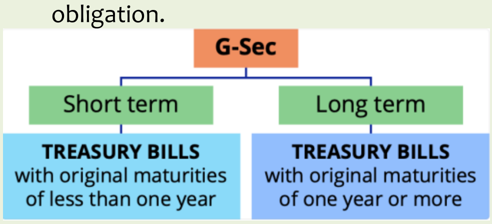
RBI notified the **market making scheme** to promote **retail participation in Government Securities (G-secs)** by providing **prices/quotes to retail direct gilt (RDG) account holders** enabling them to buy and sell securities under the **Retail Direct Scheme.**

About Retail Direct scheme

- It is a **one-stop solution** to facilitate investment in G-secs by **Individual Investors.**
- Under the scheme, retail investors can buy G-Sec directly and free of cost. Earlier investors could buy government securities **through gilt mutual funds.**
- The scheme provides the **following facilities** to retail investors in government securities market through an online portal:
  - Open and maintain a **'Retail Direct Gilt Account'** (RDG Account);

About G-Sec and Gilt Accounts

- A Government Security (G-Sec) is a **tradeable instrument** issued by the **Central Government** or the **State Governments.** It acknowledges the Government's debt obligation.



- A **"Gilt Account"** means an account opened and maintained for holding Government securities, by an entity or a person permitted by the Reserve Bank of India.
  - However, in case of a **'Person resident outside India,** the activities in the operations/ maintenance of Gilt Account shall be governed by the **Foreign Exchange Management Act, 2000** and the regulations framed thereunder.

VISION IAS

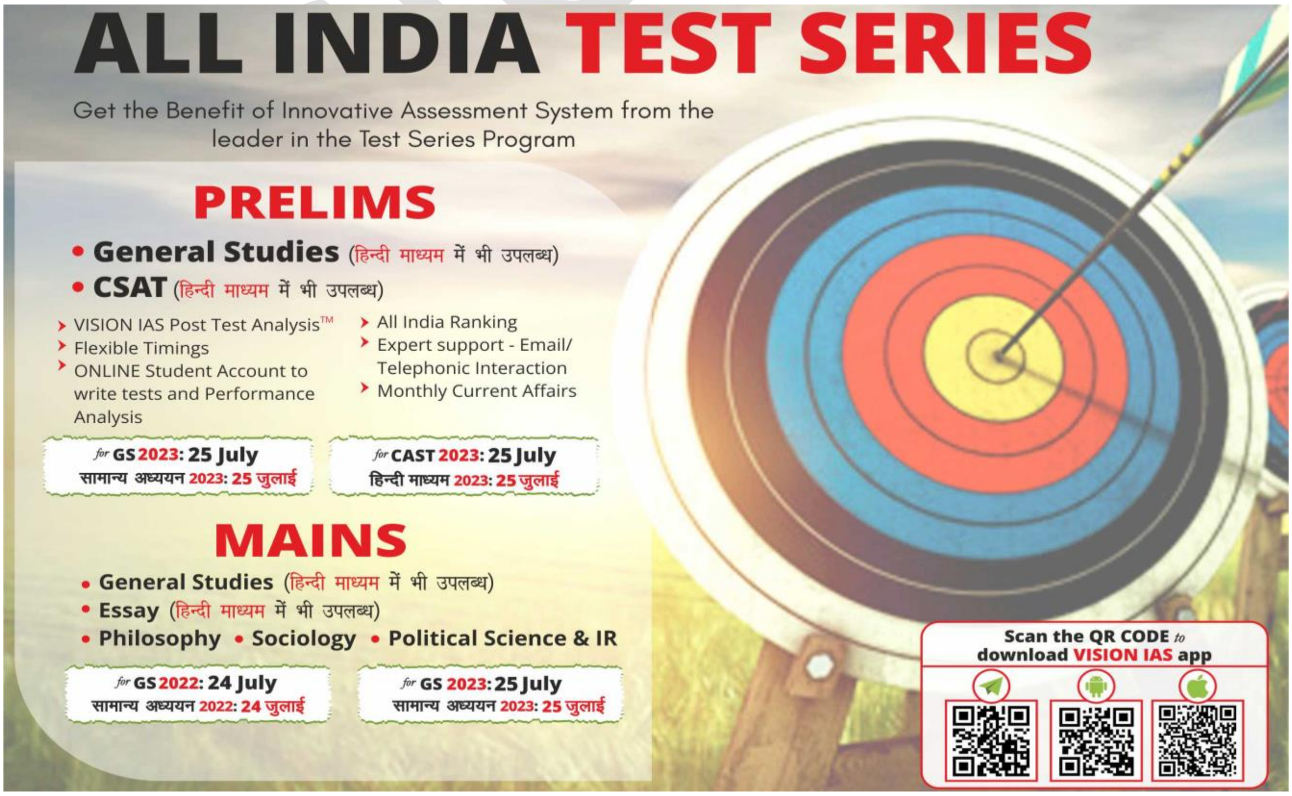
- Access to **primary issuance** of Government securities;
- Access to **NDS-OM (Negotiated Dealing Segment – Order Matching)** platform.

Benefits of the scheme

- **For investors:** Retail investors will get a new window, in addition to the existing small savings schemes, to **directly invest in fixed income instruments** with **sovereign guarantee.** Currently, G-sec market is dominated by **institutional investors** such as banks, mutual funds, etc. which trade in lot sizes of Rs 5 crore or more.
    - Providing **online access** to retail investors to invest in both primary and secondary government securities (G-Sec) markets will further **encourage and deepen retail investor participation** in this segment.
- **For RBI**: The move will help the central bank to keep down the costs of funds in light of government's mammoth **borrowing programme of ₹12 lakh crore in 2021-22.**
- **For Government**: Increase in the **investor base** will enable the government to **raise resources** for financing its **increased budgetary spending and** bridge its burgeoning **fiscal deficit.** It will also enable **better price discovery** in the G-Sec market.

Strengthening the pillars of retail G-sec market to make it more successful

- **Return on investment:** Investors generally evaluate different investment options based on **safety, liquidity, and 'yield to maturity'**. Yields on G-Secs are a function of **inflation, government borrowings, liquidity and volatility in the international markets, crude oil prices, and overall risk sentiment**.
    - While G-Secs usually **fare better in terms of safety, and offer higher yields than fixed deposits (FDs)** in banks, they provide **lower after-tax returns compared to other small savings instruments** such as deposits in post office, public provident fund (PPF), SSY etc.
    - Therefore, the government needs to **suitably compensate** the retail investors, including senior citizens, by **issuing tax-free bonds/price discounts** and the like.
- **Robust infrastructure:** Recent outage in **online digital services of HDFC Bank** highlighted the need for robust **trading infrastructure, cyber security and customer protection** to build **confidence** among the retail investors and enhance usage of **Retail-Direct.**
- **Financial and Digital literacy:** As public awareness about G-Secs is relatively lower, Retail-Direct will be successful when **financial and digital literacy** are imparted in **simple, clear and Indian languages**. **76 per cent of adults** in India do not even understand the **basic financial concepts** like interest rate, inflation, yield to maturity, etc. **(Standard & Poor's, 2015).**



Mains 365 – Economy

4.2. CRYPTOCURRENCY

CRYPTOCURRENCY AT A GLANCE

A cryptocurrency is a digital or virtual currency that is secured by cryptography. As a currency, it satisfies all major functions of money i.e., acting as a unit of account, store of value and a standard for deferred payment. Its system works on following lines-

Generation: They get generated through a mining process in a decentralized and distributed ledger system called Blockchain.

Distribution: They can be traded on cryptocurrency exchanges or exchanged on a peer-to-peer basis.

Maintenance: Blockchain serves as a distributed ledger for maintenance of records.

Cryptocurrencies as a tool of economic empowerment

- **Eliminating the middleman**, resulting in significantly lowered transaction costs and increased pace of transactions.
- **Effectively serving the functions of money** as they can be transacted over long distances and reduces leakages by increasing transparency.
- **Enhancing security of the payment systems** by enabling cryptographic encryption to protect against cyberthreats.
- **Being an enabler of financial inclusion** by overcoming the issues related banking infrastructure and discrimination regarding access to finance.
- **Empowering businesses** by **complementing the technological revolution** by creating tools like Smart Contracts among others.

Regulatory challenges in their adoption

- **Controlling the macroeconomic variables** like money supply, inflation etc. with advent of an alternate currency.
- **Checking the misuse of technology in criminal activities** like money laundering and terrorist financing.
- **Controlling tax evasion** and avoidance as there is no central oversight.
- **Managing cybersecurity issues** which could be susceptible to hackers and malicious users.
- **Ensuring that advent of digital currency does not create a new divide** due to limited financial inclusion and technological access.
- **Weaponization of cryptocurrency** in the context of geopolitics.

Balancing regulatory challenges and potential benefits of cryptocurrencies

- **Mastering the regulatory sandbox** by adopting a regulatory approach which evolves rapidly and fixes problems along the way.
- **Exploring the idea of Central Bank Digital Currencies (CBDCs)** to enable precise interventions in the macroeconomy and help increase the efficiency of the payment system
- **Preparing the ecosystem for adoption of digital finance** by improving financial literacy, increasing digital penetration, and strengthening cybersecurity ecosystem
- **Involving private sector to encourage innovation** through supportive policies and encouraging competition.
- **Evolving a monetary policy for the digital age** by redesigning traditional mechanisms and experimenting with financial elements like 'Stablecoins' among others.
- **Maintaining international collaboration for financial stability** through international forums like Financial Stability Board (FSB).

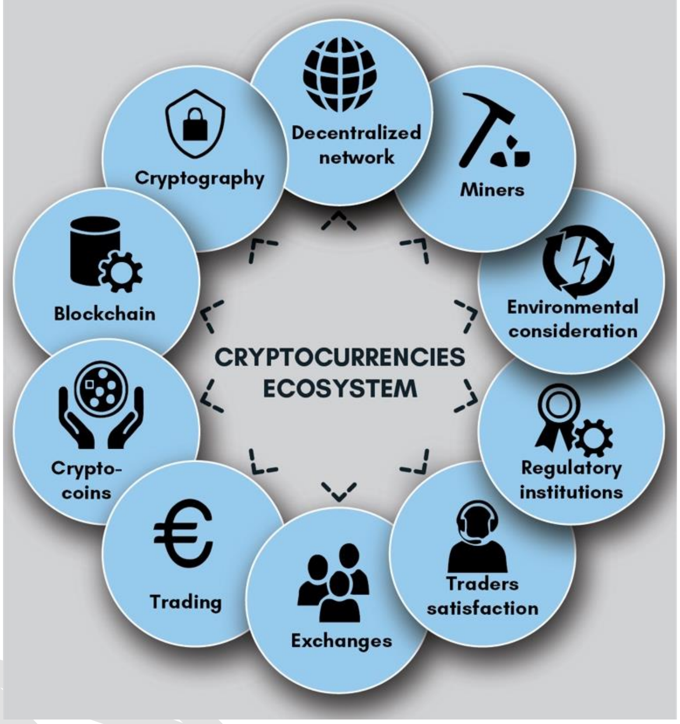
4.2.1. CRYPTOCURRENCY AND ECONOMIC SOVEREIGNTY

Why in News?

Recently, RBI officials told the **Parliamentary Standing Committee on Finance** that **cryptocurrencies** could lead to **dollarization of the economy** and would be **against India's sovereign interest**.

Cryptocurrencies in India

- In India, they are identified as **Virtual Digital Asset (VDA).** Under **Section 2 (47A) of the Income Tax Act (1961).**
- Though there is **no official data** on **size of Indian crypto market**, it is estimated that India has **15-20 million crypto investors**, with total crypto holdings of around **USD 5.34 billion**.



Economic Sovereignty: Threats from Cryptocurrencies

Traditionally, **State (Central Banks)** enjoy a **monopoly** over currency in a nation, as currency requires **trust among people** to be accepted as a **medium of exchange**, i.e., trust a person paying it; trust in the person issuing it and trust in the bank which is honoring it.

But in case of cryptocurrencies **nobody knows** who is **creating most of these currencies** and who is **guaranteeing the same**. Therefore, **trust and the absence of accountability** creates number of other concerns, such as:

- **Financial Instability:** Acceptance of any kind of international currency pose a threat to the stability of the financial system of the country as it may:
  - Have negative consequences on the economy due to their highly volatile nature, and
  - It can lend significant **economic control in the country to anonymous players-** who can be anyone like businessmen, foreign governments, or their proxies.
- **Dollarization of Economy:** With almost all cryptocurrencies in India being **dollar-denominated** and **issued by foreign private entities**, they can replace the rupee in financial transactions.
  - Dollarization means **use of the US Dollar** as a **medium of exchange** or **legal tender in addition to or instead** of the **domestic currency** of the country.
- **Monetary Policy Transmission:** Use of cryptocurrencies will undermine the RBI's role and its capacity to **determine monetary policy** and **regulate the money supply**.
- **Anonymity:** Cryptocurrencies can be used anonymously to conduct transactions between account holders worldwide. This makes them liable to be misused for **terror financing, money laundering** and **drug trafficking**.
- **Negative Impact on the Banking System:** Banking System has an important function in a well-functioning financial system. As more people invest their savings in cryptocurrencies, lesser resources will be available for banking system.
- **Consumer Protection:** In cryptocurrencies, huge **Information asymmetry** exists between insiders and lay investors. The high volatility of cryptocurrencies and being **largely unregulated**, **no regulatory recourse** is available for any loss of the consumer.

So, in the long-term, crypto usage and volatility can have a negative impact on India, causing loss of hard-earned money of the general public, leading to undesirable consequences on **society** and **legitimacy of institutions**.

Challenges in Overcoming Cryptocurrencies Concerns

With the pace, scale and level of cryptocurrencies development and investment, overcoming of threats from cryptocurrencies is a complex tax as they:

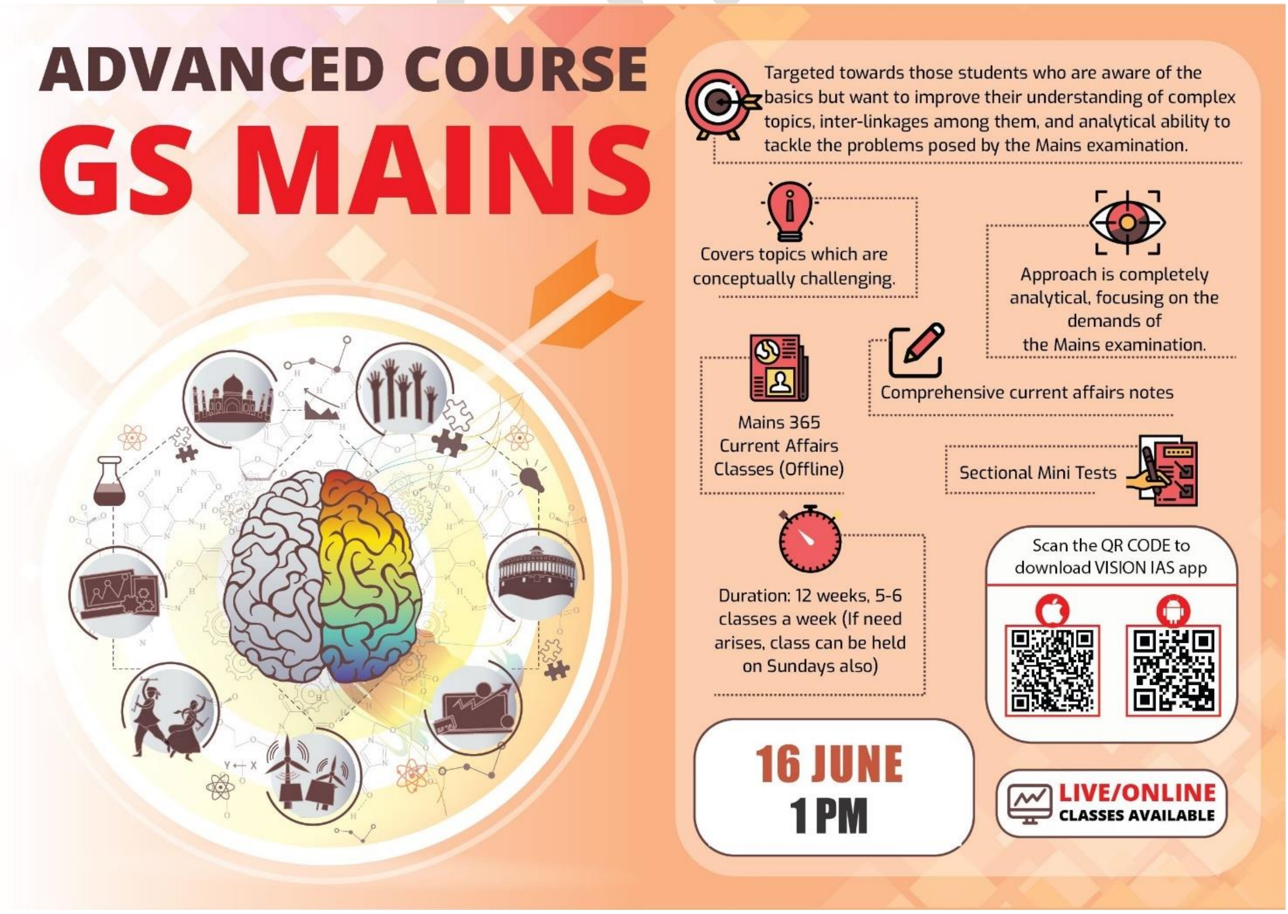
- **Promoted by many influential people**; leading to **mainstreaming** and giving an **appearance of credibility** and **legitimacy** to them.
- Though regulatory focus has been placed on VDAs across the world, including India, we lack any **global or local regulatory framework to manage cryptocurrencies ecosystem**. E.g.
  - The draft bill 'Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019' is yet to be introduced in Parliament.

Steps taken in India on VDAs Regulation

- **Flat 30% Capital Gain Tax** (plus cess and surcharges) on all transactions involving VDAs with no offsetting of losses from April 1, 2022.
- **Mandatory Profit/loss disclosure** from Crypto exchanges.
- **Parliamentary Standing Committee on Finance** working towards a **draft bill** for **overall regulatory policy for VDAs**.
- The **Advertising Standards Council of India (ASCI)** has also issued guidelines on advertising and promotion of crypto assets in India.

Way Forward

- **Legal Framework/Regulations** for licensing and authorization of crypto-asset service providers to **mitigate consumer risks, ensure market integrity** and **financial stability**.
- **Mechanism for Tracking and Reporting of Suspected Transactions** by crypto exchanges and other institutions to investigate its use for financial crimes and illicit activities.
- **Managing Macroeconomic Risks** by strengthening monetary policy credibility and de-dollarization policies. For instance, early introduction of Central Bank Digital Currency can also help in this by replacing/competing with private cryptocurrencies.
- **Working towards Global Crypto Regulation** for principles based **Comprehensive, Consistent** and **Coordinated** global framework. It can help in safeguarding financial stability and integrity of national as well as global systems.
- **Prioritize Cross-border collaboration and cooperation** to address technical, legal, regulatory and supervisory challenges. E.g.
  - **Financial Action Task Force (FATF)** can be engaged for principles and mechanisms to curb cryptocurrencies use for money-laundering and terrorism.



5. BANKING AND PAYMENT SYSTEMS

5.1. BANKING

BANKING AT A GLANCE

- **9.2%** Credit Growth for Scheduled Commercial Banks (SCBs)
- **6.9%** Gross NPA ratio and 2.2% Net NPA of SCBs at end-September 2021.
- **68.1%** was the Provision Coverage Raito (PCR) of SCBs.
- **Annualised Return on Assets (RoA)** and Return on Equity (RoE) for PSBs turned positive in 2020after remaining negative since March 2016.

Key objectives

- **Promote a diversified, efficient**, and competitive financial system that could then contribute in greater measure to stimulate growth.
- **Improve the allocative efficiency** of resources through operational flexibility, improved financial viability and institutional strengthening.
- **Removing financial repression** through reductions in statutory pre-emptions, while **stepping up prudential regulations** at the same time.

Schemes/Initiatives

- **Enhanced Access and Service Excellence (EASE) 5.0** reforms for **PSBs**.
- Platform for Regulated Entities for Integrated Supervision and Monitoring **(PRISM)**.
- Creation of **Regulatory Review Authority 2.0** to reduce compliance burden on Regulated Entities (REs).
- Regulatory reforms including expansion of the **Bank Licensing Framework.**
- **Supervisory** initiatives such as **Prompt Corrective Action (PCA).**
- **Increase in Deposit Insurance to ₹5 lakh** with interim payments.

Constraints

- **High proportion of NPAs** especially for Public Sector Banks (PSBs) at 8.6%.
- **Increasing Burden** of Regulatory Compliance and steady decline in capital adequacy for Indian banks, especially for PSBs.
- **Emerging competition** from non-banking companies, FinTechs etc. because of limited integration in different sectors of the financial system.
- **Limited adoption of technology** especially at the ground level.
- **Changing consumer's expectations** with growing security breaches.
- In addition to these, PSBs also face other problems like **bureaucratization, political interference etc.**

Way forward

- **Streamlining of the supervision process** with combination of on-site and off-site surveillance along with external auditing.
- **Introduction of the process of structured and discretionary intervention** for problem banks through a PCA mechanism.
- Institutionalisation of a mechanism facilitating greater coordination for **regulation and supervision of financial conglomerates.**
- Strengthening **creditor rights** and **corporate governance.**
- **Restoration of PSBs** net worth through recapitaliza-tion, where needed.
- **Invest in emerging technologies** todeliver superior experience in a secure manner; helping to withstand competition.

5.1.1. BANK RECAPITALISATION

Why in News?

Centre announced ₹15000 cr capital infusion in weak Public Sector Banks (PSB) to recapitalise them, augmenting **Capital adequacy ratio (CAR)** to avoid **prompt corrective action (PCA) framework**.

About Bank Recapitalisation

- Bank recapitalization means **infusing more capital in state-run banks** so that they meet the capital adequacy norms.
    - **Capital adequacy ratio (CAR)** or capital to risk-weighted assets ratio (CRAR) is the **ratio of regulatory capital funds to risk-weighted assets**.
- As majority shareholder, the primary **responsibility of PSBs recapitalisation often** devolves on the Government.

Drivers of Bank Recapitalisation

- **Meeting regulatory requirements of capital adequacy** as framed by the Basel Committee on Banking Supervision. So far, **3 sets of Basel norms** have been issued (refer box).
- **Creating a virtuous cycle of investment and jobs** through **Credit Growth**.
- **Tackling Non-Performing Assets (NPAs)** by strengthening the capital base, helping them to write-off bad loans.
- **Stimulus to Economy** by pulling down lending rates, spur aggregate demand, putting idle factories to work, exhaust capacity and spark investment.
- **Saving large and systemically important banks** from failing.

Concerns over Recapitalisation

- **Increased Fiscal deficit** of government or **cuts in welfare and capital expenditures.**
- **Use of Public funds or taxpayer money** without any intrinsic changes in the PSBs governance.
- **Impact working culture** as PSBs might not take adequate precautions in future while lending when they know that the government will step in to help if the loans turn sour.
- **No Accountability from PSBs** as bank recapitalization is an ad-hoc measure with no linkage to the banks' performance or efficiency.

New PCA Framework for Commercial Banks

- It was **reviewed in 2017** based on the recommendations of the working group of the **Financial Stability and Development Council and the Financial Sector Legislative Reforms Commission.**
- Latest **PCA Framework**, effective from January 1, 2022 has revised PCA Framework.

Benefits of Prompt Corrective Action

- **Helps in bank recapitalisation and maintain capital requirements** as most bank activities are funded by deposits which need to be repaid.
- **Ensures limited Regulation** as RBI will regulate loan disbursals/ credit by PCA banks to unrated borrowers or those with high risks; however, it don't place complete ban on the bank's lending.

Criticism of PCA

- **Lack of capital**: PCA banks already starve for funds because government finances are too tight. **These banks are not in a position to raise capital on their own.**
- **Further decline:** PCA sometimes accelerate the loss of market share and cause further decline of the position of the PSBs in the financial system in favour of private banks and foreign banks.
- **Not much on the governance or reform front.**

Way forward

- **Structural Reforms:** A key recommendation of the **P.J. Nayak committee**, government should form a **Bank Investment Company** for professional running of these banks and their boards.
- **Criteria for infusion:** Criteria for fund infusion, once finalized, may be **consistently applied** across all PSBs, however in case of variation, reasons should be well documented.
- **Better Monitoring:** There should be an **effective monitoring system** in place and this system should ensure fulfilment of the intended objectives of fund infusion.

- **Autonomy for banks:** PSBs must be given adequate **functional autonomy and operational flexibility** and bureaucratic and political interference must be consciously minimized.

- **Modern HR management: Re-skilling** the existing staff, along with direct recruitment of specialists, is needed to address the talent issue, especially in domains like forex, treasury, IT, data, and research etc.

5.1.2. PRIVATISATION OF PUBLIC SECTOR BANKS

Why in news?

Finance secretary recently said that the government will "eventually" **privatise most of the Public Sector Banks (PSBs)** and keep its **presence to a bare minimum**.

Concerns associated with Privatisation of PSBs

- **Financial exclusion of the weaker sections** as private banks are driven by the profit motive, leading to **high concentration** in metropolitan/urban areas. In comparison, PSBs also focus on **public interests** and provide many services to the common people at **affordable cost.**
- **Job loss** as happened with PSB mergers through **employee retrenchment and branch closures**. It will also shrink reservation benefits for **SC/ST/OBC**.
- **Concerns regarding safety of deposits** as a number of private banks and financial institutions have failed in recent times. Privatisation of PSBs will **remove the sovereign guarantee** and make household **savings less secure.**
- **Macroeconomic effects of bank failures** can cause **tremendous contagion effect and derail the economy**. E.g. From 1935 to 1947, there were **900 bank failures** in our country. From 1947 to 1969, **665 banks failed**. This became driving factor for **bank nationalisation** in 1969.
- **Privatisation is not a panacea to problems faced by PSBs** as NPAs problem **is common for both the private and public sector banks.**

Recent steps taken to strengthen PSBs

Area	Details
Tech-enabled, smart banking	• Setting up of **Loan Management Systems and Centralised Processing Centres**, resulting in reduced retail loan disbursement turnaround time. • Launch of **PSBloansin59minutes.com** and adoption of the **Trade Receivables Discounting System (TReDS) for digital lending for MSMEs** and retail customers. • **Advanced queue management systems** in transaction-intensive branches, with **single-window operations,** to reduce customer waiting and transaction time. • Larger PSBs are providing **customer-need driven credit offers** through analytics.
Monitoring of loans	• Institution of comprehensive, **automated Early Warning Systems (EWS)** in banks, **use of third-party data and workflow** for time-bound remedial actions, to proactively **detect stress and reducing slippage into NPAs.**
Risk management	• Institution of **technology- and data-driven Risk Scoring and Scrutiny systems** in banks that comprehensively factor in **third-party data and non-financial risk factors** and provide for higher scrutiny of high-risk cases; • **Improved adherence** to risk-based pricing; • **Empowerment of bank Boards** to recruit the bank's Chief Risk Officer from the market, on **market-linked compensation.**
Resolution and recovery	• RBI's **revised prudential framework on stressed assets.** • Putting into place **one-time settlement** platforms and portals, eDRT (Debt Recovery Tribunals) for online recovery case management.
Governance	• Introduction of **non-executive chairmen**; • Strengthening of the **Board committees** system; • Effective use of **non-official directors**, by giving them mandate to play role akin to independent director, institution of **peer evaluation and training.**
Human resource	• Ensuring **role-based e-learning** for continuous learning for all officers; • Putting in place **objective Performance Management Systems.**
Recapitalisation	• Infusion of **Rs.3.17 lakh crore by the Government;** • **Mobilisation of over Rs. 2.49 lakh crore** by the banks themselves;
Marketing strategy and reach	• **Doubling of the dedicated marketing sales force** between March 2018 and March 2020; • **Quadrupling of sourcing of loans** through the sales force and marketing tie-ups between Q4 FY2017-18 and Q4 FY2019-20.

Road Ahead

- **Limit Privatisation to few PSBs** in light of immense benefits. Attempting to privatise all banks will **undermine the tremendous contribution of these banks** to the country over the years.
- **Graded Format towards privatisation,** i.e. no **full exit** from the state-run banks that are to be privatised and **instead retain at least a 26% stake** for the first few years. E.g. Narasimham Committee – I had recommended **dilution of government stake in PSBs to 33 percent.**

- **Identification of fit and proper investor** to own the stake in these banks is important. Explore option of **stakeholders of existing large banks acquiring** these PSBs, retain them as **wholly owned subsidiaries** with independent identity until they attain **better operational efficiency**.
- **Achieving the objective of big banks** by merging privatized PSBs **with existing large private banks,** to attain the **kind of scale and size** to develop **higher risk appetite and lending capacity**.
- **Developing new asset quality review (AQR)** as last asset quality review (AQR) of banks in 2015 failed to **detect lenders evergreening loans** outside the formal restructuring process.

5.2. ASSET QUALITY AND RESTRUCTURING

ASSET QUALITY AND RESTRUCTURING AT A GLANCE

A nonperforming asset (NPA) refers to a classification for loans or advances of a bank that are in default or in arrears. They are further sub-classified into sub-standard (NPA < 12 months), standard (NPA > 12 months) and loss assets.

- The Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs) fell to a six-year low of 5.9% in March 2022 and Net NPAs reduced to 1.7%
- The crisis is larger and more broad-based.
- Disproportionate share of Public Sector Banks (PSBs) i.e., about 9/10th of NPAs.
- The sectoral share of the NPAs is dominated by the infrastructure sector.
- India has been one of the worst affected economies from the Global Financial Crisis of 2008.

Reasons for emergence of the India's NPA problem

- **Economic Reasons:**
  - **Overoptimism** in relation to the growth experienced in 2006-08 period.
  - **Structural issues** in the economy such as poor Ease of Doing Business (EoDB).
- **Systemic Reasons:**
  - **Absence of a swift NPA identification mechanism** accompanied with a prolonged policy of regulatory forbearance.
  - **Abandoning of projects** due to loss of promoter and banker interest in the project.
  - **Governance issues** such as weak corporate gover nance and foot-dragging with respect to permissions by government
- **Ethical Reasons:**
  - **Malfeasance by Bankers** in the form of limited due diligence or outsourcing of analysis.
  - **Manipulation of the restructuring process** by the promoters.

Challenges that still remain

- **Apathy in decision making process** due to risk-averse nature of bankers.
- **Absence of clear accountability** flows creates the issue of moral hazard and inadequate due diligence.
- **Corporate Governance Issues,** especially with PSBs in the form of appointment delays, interference etc.
- **Absence of integrated approach towards** asset quality in the financial sector as the Banking sector, NBFC sector and other elements of financial sector are not viewed together.
- **Growth of the ARCs has not been consistent** and not always been synchronous with the trends in NPAs of banks.

Steps taken to halt the growth of NPAs

- **Recognition:** Post the Asset Quality Review of 2015, NPA recognition steps includes **Prompt Corrective Action Framework** and Creation of a large credit database among others
- **Recapitalization** includes Budgetary allocations and schemes like Mission Indradhanush
- **Resolution:** These include Insolvency and Bankruptcy Code (IBC), Project Sashakt, RBI's framework for COVID-19 related stress and other specific schemes like MSME SAMADHAN.
- **Reform:** Long-term steps for sectoral reformation have been taken such as implying a more robust Credit Risk Management system, widening of powers of RBI and key reforms undertaken for PSBs.
- **Enhanced Access and Service Excellence (EASE)-EASENext Reforms (or EASE 5.0).**

NPA resolution as a catalyst for reformation of the Banking Sector

- **Strengthening the core banking function** by making lending practices more efficient.
- **Enhancing the level of governance** through transparency and creation of clear communication channels.
- **Attitudinal change** among all stakeholders by clearly highlighting that regulatory forbearance should be an exception and not a staple diet
- **Accelerating the use of technology** through tools like Blockchain, Artificial Intelligence etc.
- **Driving integration in the financial system** by addressing the connected issues in the NBFC and FinTech sector.
- Aids in the **development of linkages** between the industrial sector and the financial sector.

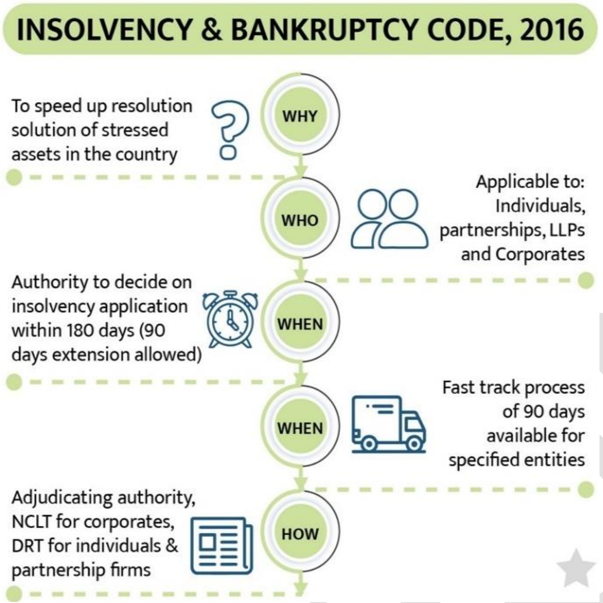
5.2.1. INSOLVENCY AND BANKRUPTCY CODE, 2016

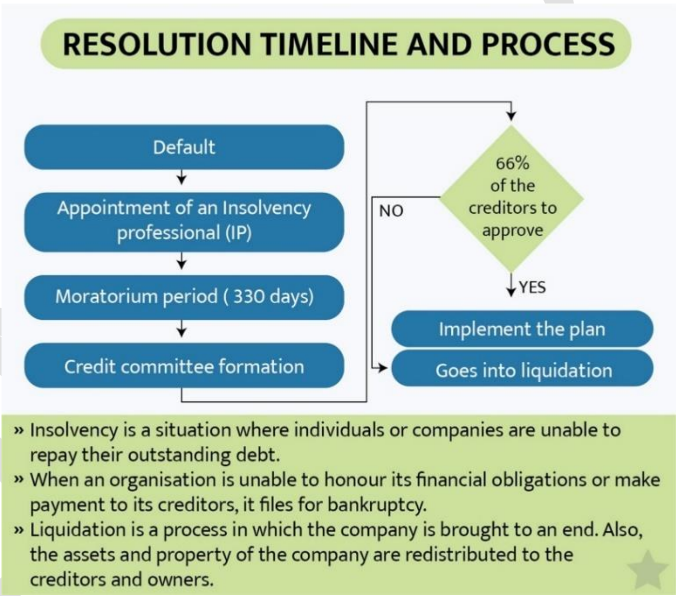
Why in news?

The recovery for financial creditors from the resolution of stressed firms under the IBC crashed to a **record quarterly low of 10.2%** of their admitted claims in **Q4**.

The Insolvency and Bankruptcy Code (IBC)

- It was introduced in **2016** through an **act of Parliament** to act as **one stop solution for resolving insolvencies** to tackle the **bad loan problems**.
- It **consolidates and amends** the laws relating to **reorganisation and insolvency resolution** of all entities- both corporate and individuals.
- It provides for a time-bound process to resolve insolvency (see **infographic on IBC, its timeline and process**) to-
    - o **Maximise the value of assets** of such persons, to **promote entrepreneurship**, **availability of credit** and **balance the interests** of **all the stakeholders**.





Significance of IBC

- **Profound change in creditor-debtor relationship** through its "creditor-in-control" model.
- **Establishment of Committee of Creditors** to function as a public institution, ensuring maximisation of value for stakeholders in resolution of a **corporate debtor (CD).**
- **Increased Negotiating Power of Operational Creditors** by allowing them to make applications for the **Corporate Insolvency Resolution Process (CIRP)**.
- **Increased Resolutions** with reduced **Time and Cost** of bankruptcy resolution. The average time taken for resolution was reduced from 4.3 years in 2017 to 650 days in 2021-22.
- **Behavioural Change** among debtors leading to earlier stages resolution of distressed assets, to avoid gradual decline in distressed assets value and consequences of the resolution process.
- **Ease of Doing Business** with **regular Changes to Strengthen Code**. E.g. Introduction of **Pre-Packaged Insolvency Resolution Process (PPIRP) for corporate MSMEs.**

Issues in IBC Implementation

- **Increasing Adjudicatory Delays** in resolution from specified time due to protracted legal tussles and bottlenecks in the adjudicating system such as **unfilled vacancies at tribunals.**
- **Reducing recovery rates** with creditors undergoing CIRP suffering huge haircuts, at times between 90-95% due to delays in application admission, resolution and bids or unsolicited bids.
    - o The **reduced market appetite** for insolvent firms due to **pandemic** has further added to **asset value erosion.**
- **Cross-Border Insolvency:** IBC lacks **standardized cross-border insolvency**, as observed in Videocon and Jet Airways case.

- **Difficult to uphold Home Buyers Rights** despite being recognized as **financial creditors** (Chitra Sharma v. Union of India), due to a minimum threshold of **10%** or **100 homebuyers** (whichever is lower) of one project to initiate the process.
- **Issues in Functioning of Insolvency Professionals (IPs) and Insolvency Professional Associations (IPAs)** due to multiple IPAs regulating IPs leading to absence of common standards.

Way Forward

- **Overcoming Adjudicatory Delays** by filling up vacancies and a fixed time for approving or rejecting a resolution plan by the adjudicating authority.
  - **Extension of PPIRP** to CDs (other than MSMEs) can be looked at to **reduce burden** at NCLT with **quicker and cost-effective** resolution in least disruptive manner.
  - **More Benches or Specialised Benches** of NCLT should be set up.
- **Setting a benchmark for the quantum of haircuts allowed** as per global standards or giving leeway to banks in taking haircuts without inviting enforcement agencies persecution.
- Adopting the **United Nations Commission on International Trade Law (UNCITRAL)** Model Law on Cross-border Insolvency (1997) with certain modifications to suit Indian context for an internationally competitive and comprehensive insolvency framework.
- **Implementing recommendations** of **GN Bajpai Committee**.
- **Formulating a professional code** for the CoC, who take over a company in distress.
- **Found one single professional self-regulatory IPAs** to set standards and regulate the functioning of IPs.
- **Deepen the Credit Risk Market** by allowing additional types of securitizations.
- **Digitise IBC process** to improve records and conduct virtual hearings at NCLT and NCLAT.
- **Reduce threshold on homebuyer** to initiate insolvency proceedings or duty-bound real estate owners to provide details of other home buyers of the project to others, when requested.

Major Recommendations of GN Bajpai committee on IBC

- **Standardised framework to assess the success of the IBC** and improve its implementation.
- **Reliable real-time data is essential to assess the performance** of the insolvency process.
- **Measure** and track both **quantifiable and non-quantifiable outcomes** of the Code.
- **Non-quantifiable outcomes such as behavioural changes** in the debtors and creditors, ushered in by the Code need to be corroborated by research and quantifiable proxy indicators.

5.3. PAYMENT SYSTEMS

PAYMENT SYSTEMS AT A GLANCE

As per RBI, cash accounts for nearly 50% of all transactions in India, adding that the number went further north up to 70% for transactions below Rs 500

50% volume of India's digital payments is dominated by Debit Cards, PPIs and IMPS.

53% value of India's digital payments is dominated by RTGS and NEFT.

22.4 digital transactions were happening per capita in 2019 (from 2.4 in 2014).

KEY TARGETS

- Providing **real-time, secure, accesible and easy payment** mechanisms.
- The transfusion of one form of payment to another is seamless, thus envisaging an **integrated payment system.**
- Making the **transaction costs as low as possible.**
- **Creating institutional, digital and physical infrastructure** to manage and sustain high transaction volumes.

SCHEMES/POLICIES/INITIATIVES

- NEFT, RTGS, Credit Cards, Debit Cards
- **NPCI products-** UPI, IMPS, RuPay, Bharat Bill Pay, etc.
- **Payments Infrastructure Development Fund (PIDF)** by RBI
- Reserve Bank of India **(Digital Payment Security Controls) directions, 2021**
- Rationalisation of **Merchant Discount Rate (MDR)**
- **Regulatory Sandbox (RS) initiative** of RBI which has currently covered Digital Payments, Cross border Payments and MSME Lending.

CONSTRAINTS

- Migration of the economy from predominantly a cash-based to a **predominantly digital has only gradual acceptance.**
- Cyberattacks, Data leaks, platform downtimes, and information theft leading to **Data security and privacy risks**
- **Lack of Digital Financial Awareness** and Digital Financial Literacy.
- Low internet and smartphone penetration.
- Less digital payment products for the **non-smartphone users.**
- **Customer Protection** and Security of Digital Payments.
- Issue of **cost and connectivity** especially in the hinterland.

WAY FORWARD

- Strengthening **foundational infrastructures** such as telecommunications, along with digital and financial infrastructures for efficient data collection, processing, and transmission
- Need of **Single Regulatory mechanism** for the system.
- Providing more option for **off-line payments through mobile devices.**
- **Digital Payment Awareness** along with Financial Literacy.
- Safeguard the **Integrity of Financial Systems** by identifying, understanding, assessing, and mitigating the risks of criminal misuse
- To measure the adoption of digital payments, **geo-tagging can be used.**
- Increased **coordination among regulators.**
- **Internet penetration, financial education, financial inclusion, and growth in payment systems** need to be pursued in tandem.

5.3.1. PAYMENTS VISION 2025

Why in News?

The Reserve Bank of India (RBI) has unveiled **'Payments Vision 2025'**, to outline the thought process for the period up to December 2025.

Regulation and Development of Indian Payment System

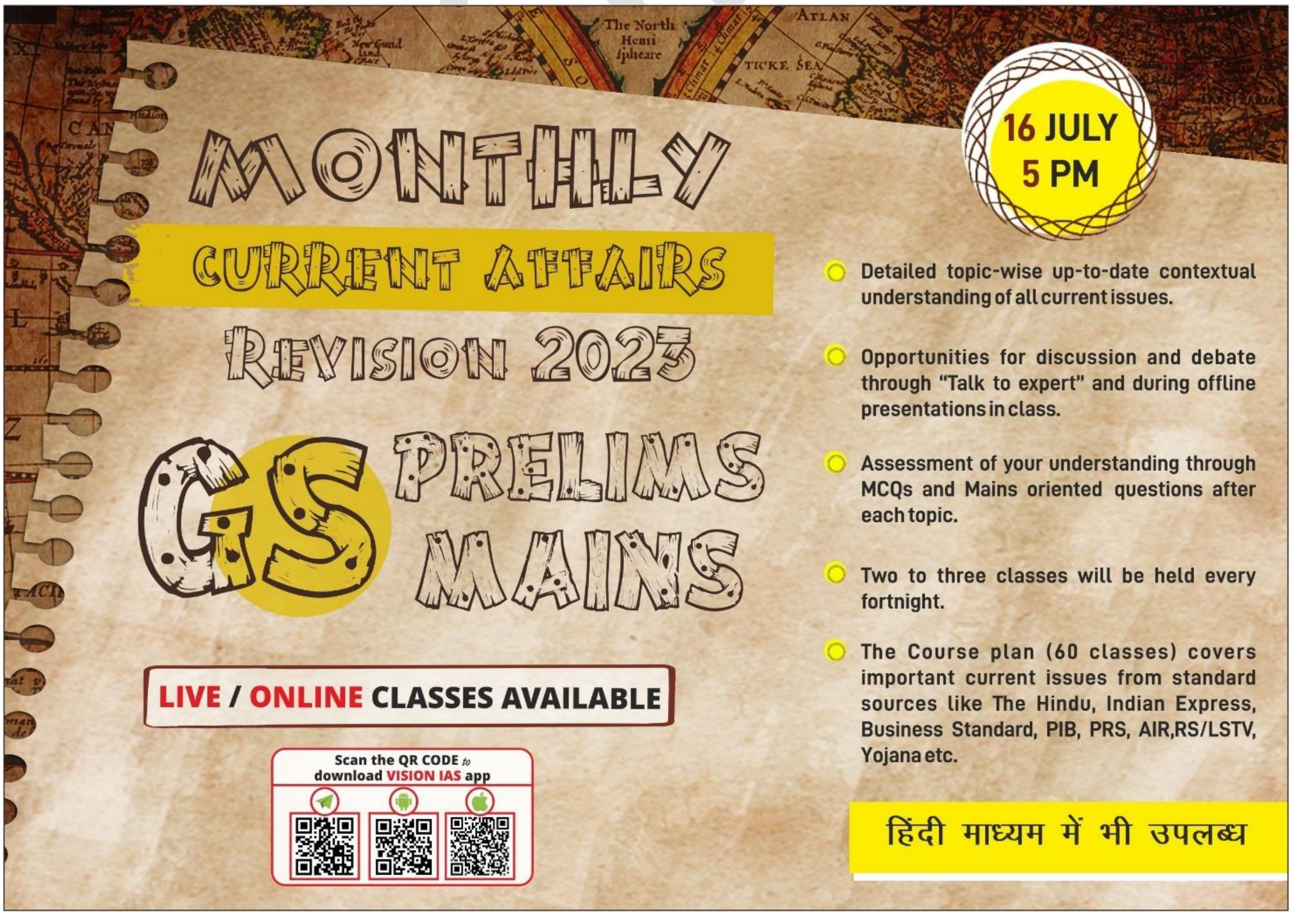
- It is **regulated** and **supervised** by RBI under the **Payment and Settlement Systems Act, 2007**.
- Also, as a **creator**, RBI is providing **strategic direction** and **implementation plan** for **structured development** of the payments ecosystem through periodic **Payments Vision** documents since **2001** to achieve the objective of:
    - Ensuring **safe, secure, reliable, accessible, affordable** and **efficient payment systems**.

Payment Vision 2025

- Building upon the **four goalposts** (**competition, cost, convenience and confidence**) of the Payments Vision 2021, the **Payments Vision 2025** has set **five anchor goalposts** as:
    - **Integrity, Inclusion, Innovation, Institutionalisation** and **Internationalisation** for enhanced outreach, customer centricity, cyber security and digital deepening.
- **Core Theme: E-payments** for **everyone, everywhere, everytime** (4Es).
- **Vision:** Provide every user with **Safe, Secure, Fast, Convenient, Accessible**, and **Affordable** e-payment options.

Key Features of Payments Vision 2025

- **Bring Central bank Digital Currencies (CBDC)** with **Framework for regulation of all significant intermediaries** in payments ecosystem, i.e. BigTechs, Fintechs, Buy Now Pay Later (BNPL) etc.
- Check the feasibility of creation of a **Digital Payments Protection Fund** to protect victims of online payment frauds.
- **Enabling Geo-tagging of digital payment infrastructure** and **transactions** with revisiting guidelines for prepaid payment instruments (PPIs), including closed system PPIs.
- **Link credit cards and credit components** of banking products to UPI.
- Bringing in enhancements to **Cheque Truncation System (CTS)**, including One Nation One Grid clearing and settlement perspective.
- **Real-time reporting** of payment frauds.'



5.4. FINTECH SECTOR

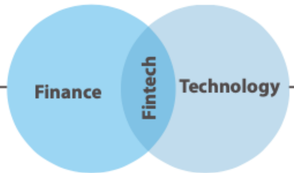
FINTECH SECTOR AT A GLANCE

Indian FinTech industry valued at $50-60 Bn in FY20.

India had a Fintech adoption rate of 87% in March 2020, compared to a global average of 64%.

Convergance of Financial services and Technology

Bank
payment
NBFC
Security Broking
Wealth Management
Distribution



Hardware provider
Software provider
Cloud provider
Platform provider

Growth drivers of FinTech in India

- **Technological innovation** driven by technologies such as Machine Learning and Artificial Intelligence.
- **Increasing internet and smartphone penetration** with India having the 2nd highest number of smartphone as well as internet users.
- **Favourable demographics** with India adding 140 mn middle income and 21 mn high income households by 2030.
- **Financial Inclusion** initiatives such as PMJDY, DAY-NRLM, Direct Benefit Transfers, Atal Pension Yojana etc.

Sectoral Potential of Fintech

- **Credit:** Potential to **transform the lending and investment landscape** by helping consumers and businesses with **faster and easier access to capital** through online services.
- **Payments:** Fintech's **enable transfer of funds for various use cases - P2P (Person-to-Person), P2M (Person-to-Merchant), G2P (Government-to-Person) etc.**
- **Pensions: Fintech-**enabled technologies can make **financial planning more accessible through risk management applications, automation of investment processes and facilitation of regulatory compliance.**
- **Account aggregator services by aggregating financial data of a customer** from different financial services and build analytics and insights to help consumers manage their financial commitments and goals.

Issues in FDI inflow in India

- **Data leaks, platform downtimes, and information** theft leading to **Data security and privacy risks.**
- **Varied adoption** as it is not easy for **every type of business** to adopt FinTech.
- **Rapidly changing regulations** which increase compliance costs and reduce confidence.
  - Also, evolving regulations for investment exits, cryptocurrency, payment regulations, data, infrastructure security, and consumer protection.
- **Lack of financial literacy and awareness** as almost 2/3rd Indians live in the villages.

Way forward

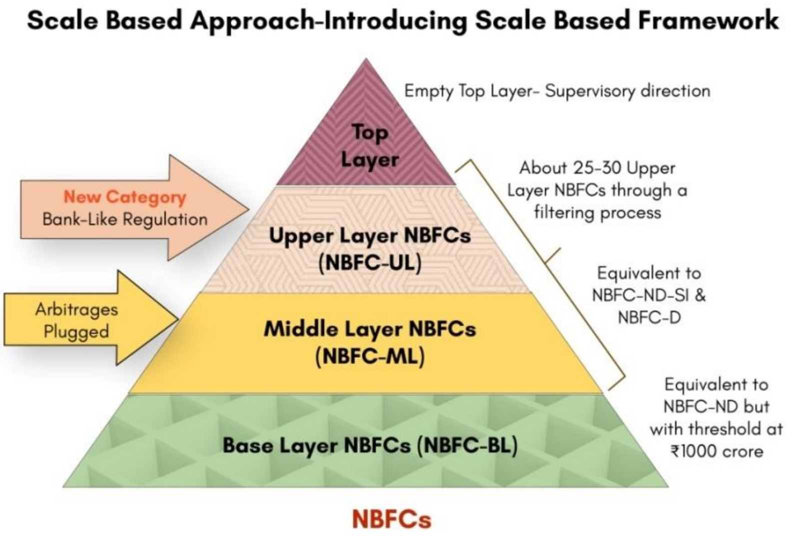
- **Strengthening foundational infrastructures** such as telecommunications, along with digital and financial infrastructures for **efficient data collection, processing, and transmission.**
- **Conducive Policy framework,** addressing the risks of **market concentration, standardization** and interoperability to facilitate large-scale adoption of technology.
- **Forging global alliances for smooth retail mobile payments of low value and high velocity.** E.g. partnering through an **extension of UPI networks.**
- **Collaborate with industry players** to build consensus and **harmonise standards of visual representation** of payment systems in rural hinterlands for improved experience.
- **Safeguard the Integrity of Financial Systems** by identifying, understanding, assessing, and mitigating the risks of criminal misuse of fintech.
- **Modernize Legal Frameworks to Provide an Enabling Legal Landscape** with greater legal clarity and certainty regarding key aspects of fintech activities.

5.5. OTHER FINANCIAL ENTITIES

5.5.1. SCALE-BASED REGULATORY FRAMEWORK FOR NBFCS

Why in news?

Recently, Reserve Bank of India (RBI) introduced a revised scale-based regulatory framework for non-banking financial companies (NBFCs).



Scale-based regulation for NBFCs

- Regulatory structure for NBFCs shall comprise of 4 layers (refer infographic) based on their size, activity, and perceived riskiness.
- **NPA Classification:** The existing NPA classification norm stands changed to the overdue period of **more than 90 days for all categories of NBFCs.**
- **Experience of the Board:** At least one of the directors should have relevant work experience of a bank/ NBFC.
- **Ceiling on IPO funding:** A ceiling of ₹1 crore per borrower has been fixed for financing subscription to Initial Public Offer (IPO). NBFCs can fix more conservative limits.

Significance of the Framework

- **Asset-Liability mismatch:** Majority NBFCs gave loans for long durations while raising capital for lending through short term instruments such as Commercial papers (CP).
- **'Roll-over' of funds:** When repayments were due, NBFCs issued new set of CPs and borrowed again. This way they **"rolled over"** funds to meet their short-term obligations.
- **Faulty Credit Ratings:** Many NBFCs were given AAA/AA (safest investment) ratings by various agencies without a deeper analysis of their business models and operations. For eg: IL&FS credit rating went from AAA to junk overnight which created panic in market.
- **Impact of COVID-19:** Stringent lockdowns imposed due to Covid-19 pandemic adversely impacted revenues of NBFCs and led to rise in their non-performing assets.
- **Systemic failure:** Due to above reasons, NBFCs such as IL&FS (classified as 'too-big-to-fail') defaulted on repayments and created liquidity stress. This created a domino effect which brought recession in the economy.

Way Forward

- **Better Regulatory Regime** by creating a body with powers to monitor risk-cutting across sectors (recommended by Financial Sector Legislative Reform Commission (FSLRC)).
- **Timely Project clearances**, especially to infrastructural projects, to minimise cost inflation of these projects.
- **Reform of Methodology adopted by Ratings agencies** to make better predictions as most of the failed NBFCs were AA/AAA rated, i.e., implying that possibility of a default was near zero.
- **Frequent Stress Test of NBFCs** to regain confidence among the investors and lenders.
- **Sound Asset and Liability Management (ALM) practices** on balance sheet.

5.5.2. DIGITAL BANKING UNITS (DBUS)

Why in News?

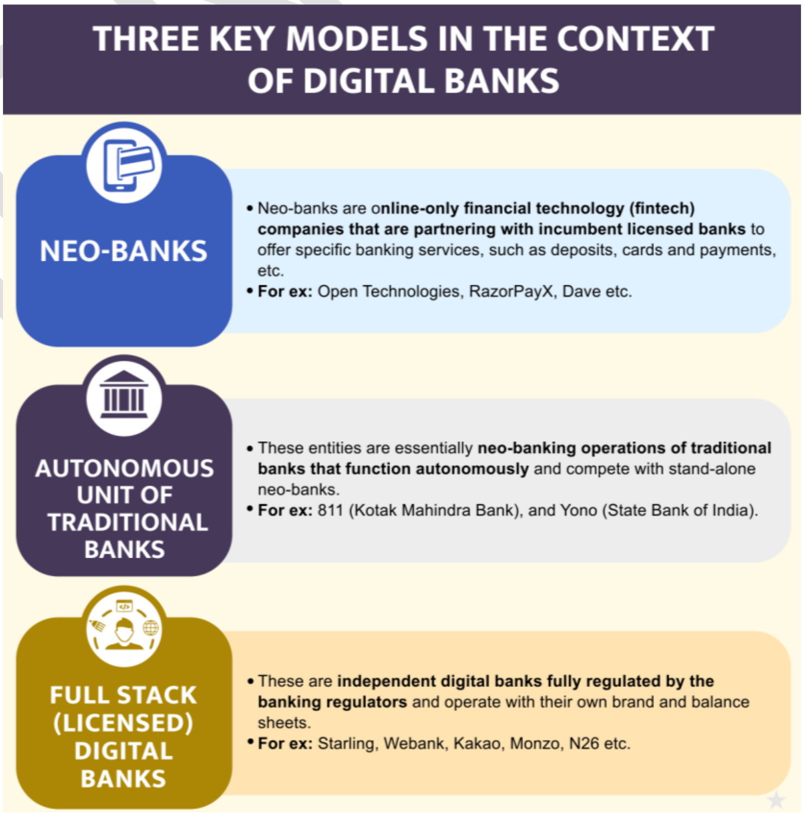
Reserve Bank of India (RBI) released Guidelines on Establishment of Digital Banking Units (DBUs) based on the **'Committee for establishment of Digital Banking Units (DBUs)' recommendations.**

Key features of RBI's guidelines on DBU's

What are DBUs?	• DBUs are **specialised fixed point business unit / hub** housing certain minimum digital infrastructure **for delivering digital banking products & services** as well as servicing existing financial products & services digitally.
Who is permitted to start DBUs?	• **All scheduled commercial banks** (except Regional Rural Banks, Payment Banks and Lead Area Banks) with past digital banking experience **are permitted to open DBUs in Tier 1 to Tier 6 centres** without having the need to take permission from the central bank in each case. • These DBUs **will be treated as Banking Outlets (BOs).**
Infrastructure and resources	• Each DBU shall be housed distinctly, with the **separate entry and exit provisions.** They will be **separate from an existing BO** with formats and designs most appropriate for digital banking users. • Banks are **free to adopt an in-sourced or out-sourced model for operations** of the digital banking segment including DBUs.
Products and services	Each DBU should offer a certain minimum digital banking products and services such as: • **Liability Products and services:** Account opening, Digital Kit for customers and merchants etc. • **Asset Products and services:** Making applications for and onboarding of customer for identified retail, MSME or schematic loans etc. • **Digital Services:** Cash withdrawal and Cash Deposit only through ATM and Cash Deposit Machines respectively, Internet Banking Kiosk, Lodging of grievance digitally etc.
Other features	• Banks will have the **options to engage digital business facilitator /correspondents** to expand the virtual footprint of DBUs. • DBUs to offer hands-on **customer education on safe digital banking products and practices** for inducting customers to self-service digital banking services. ○ **The district** where the DBU is located **will be the catchment area for the purpose.** • There should be adequate digital mechanism to offer real time assistance and redress customer grievances, directly or through Business Facilitators / Correspondents.

Advantages of Digital Banks

Combining online and mobile banking services under one umbrella, Digital Banks follow one of the **three key models** with benefits like:



- **Light Banking approach** by reducing physical footprint with fewer brick and mortar branches.
- **Efficiency enhancement** through tailored approach to a particular banking area with products and services which makes banking simpler and convenient to the end consumers.
- **Better Customer Experience** with lesser staff and maintenance due to technological tools while **traditional brick and mortar banking** faces issues of high transaction costs, lack of product innovation, low risk appetite, limited underwriting ability etc.
- **Improving financial inclusion** in a cost-effective manner as a significant number of MSMEs (around 63.88 million) still remain outside the ambit of formal finance.
- **Open Rural Markets for service providers** by widening the reach of digital banking services.

Limitations of Digital Banks

- **Low public awareness** due to low financial literacy in semi-urban and rural areas. Offline presence may be necessary for educating and driving customers to online mode.
- **Low internet and smartphone penetration** in lower-tier cities making adoption of services difficult.
- **Challenges in Building Trust** because of no physical presence.
- **Absence of enabling regulations** with issues of no deposits or offering lending products on their own books.
- **Small range of services** when compared with whole gamut of services provided by traditional banks offer.

Conclusion

In developed nations, digital banks have ushered in considerable efficiencies, reduced costs and significantly transformed many areas of old-world banking. In like manner, India needs to push the envelope and a well thought out strategy may have to be devised to overcome the constraints.

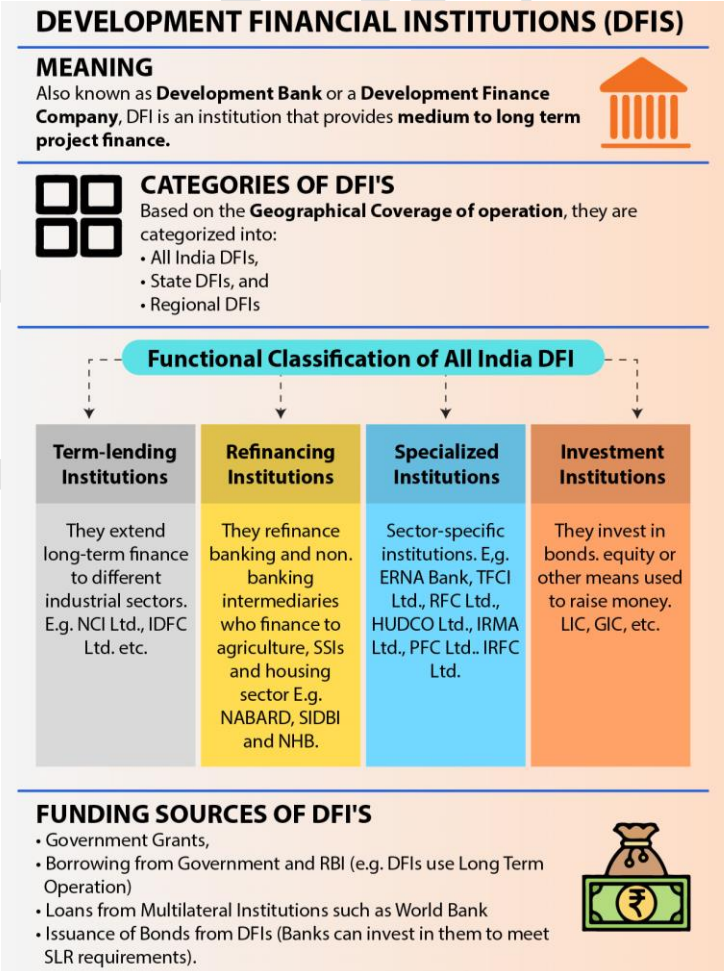
5.5.3. DEVELOPMENT FINANCIAL INSTITUTIONS (DFIS)

Why in News?

With government backed **National Bank for Financial Infrastructure and Development (NaBFID)** to start operation from Q1 of FY23, **₹1 trillion** infrastructure lending target is set for the year.

DFIs: Objectives and their Significance

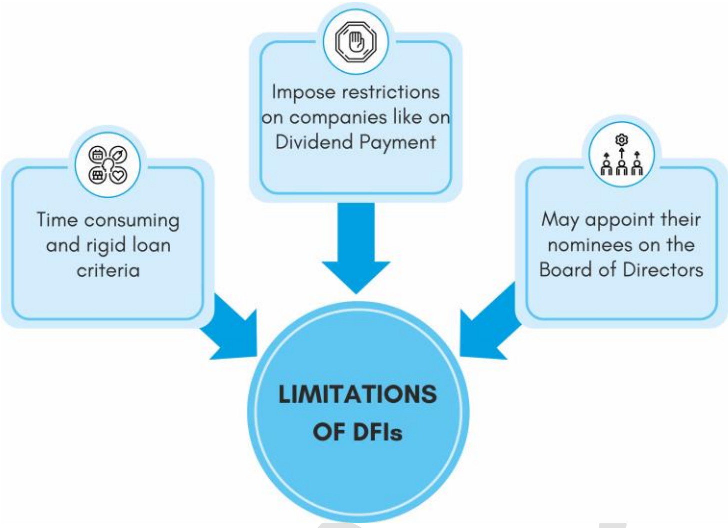
- **Financing:** They provide funds to projects from **Medium to Long Gestation periods** with greater risks- in comparison to acceptable limits of commercial banks and other financial institutions.
- **Support Function:** Apart from financial help, many DFIs provide financial, managerial, and technical advice and consultancy to business firms for overall economic growth of the nation.
- **Diversity of Options:** Based on DFIs functional classification, enterprises can get funds through **bonds and debentures** of the companies, **underwriting of securities**, **refinancing** of loans, and **credit guarantee** for loans from other foreign and domestic sources.
- **Building Goodwill:** Loan from DFIs help companies in building goodwill, helping them to borrow from capital market and other sources as well.
- **Crisis Funding:** DFIs help companies even in crisis or times of recession when other sources are not available or have high costs attached.
- **Lesser Repayment Burden:** Through moratorium and easy repayment options for loan, the loan repayment burden on businesses is lesser than from other sources of funds.



Challenges in DFIs Financing

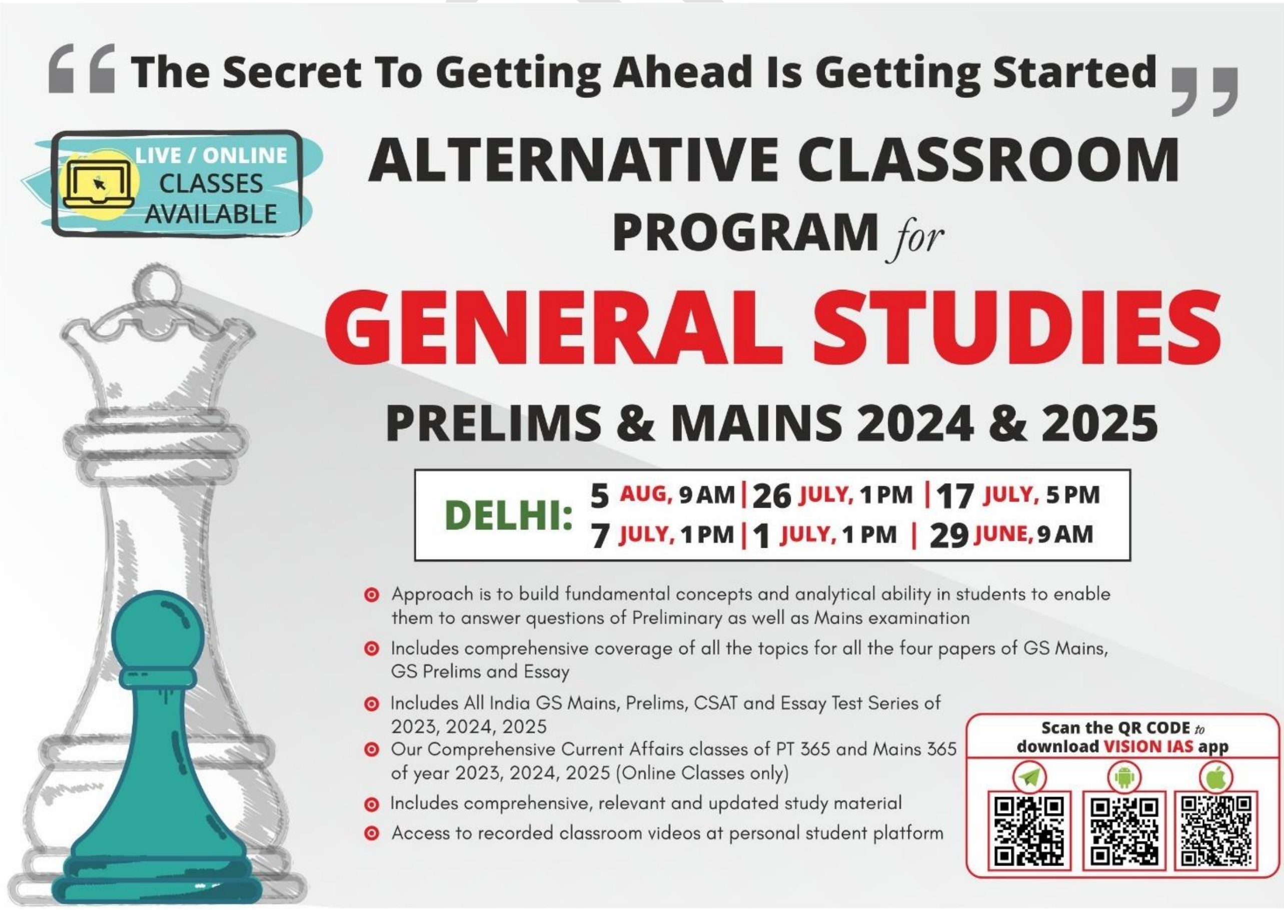
- **Governance issues:** Being primarily owned by the Government, DFIs are vulnerable to **political interference** affecting their decision making.
- **Competence:** DFIs are supposed to be ahead of time with a strategy to meet the ambitious societal and economic change goals as well as the risks; raising such capabilities and skills within the management is a challenging task.

- **Financial Sustainability issues:** DFIs have important role of development and often it takes precedence over profitability, leading to loses.
- **Intense Competition:** Increased flow of foreign funds and options to raise money from outside has increased challenges for DFIs to retain their low-cost advantage, withstand competition etc.



Way Forward

- **Allow Flexible Organisation Structure**, a prerequisite for agile organisation and to **meet intense competition** through operational flexibility. E.g. Company rather than statutory DFI.
- **Improve Quality of Board Deliberation** for correct positioning and a business strategy to establish clear mandates and meet future goals.
- **Operational autonomy** to overcome issues of political interference in selection policies and compete with others in talent acquisition and retention. E.g., **Performance-based remuneration** can help in retention of high-performing staff.
- **Provide Adequate Safeguards** for decision-making to address risk-aversion or fear of extra compliance.
- **Capacity Building** to maintain operational efficiency under changing environment and impart new set of skills to remain competent as well as provide better support to others.
- **Embed Financial Sustainability principles** in product structures and pricing to help DFIs in targeting **private (retail) investors** looking for low yield, low risk, and long-term assets.
- **Adoption of Broad Corporate Governance principles** by unlisted DFIs based on SEBI guidelines to incorporate best good governance practices with greater **coordination and cooperation**.



6. EXTERNAL SECTOR

6.1. INTERNATIONAL TRADE

INDIA'S EXPORT SECTOR AT A GLANCE

- **US$ 526.6 billion** was India's overall exports (merchandise and services combined) in 2019-20.
- **1.7%** was India's share in world's exports (from 0.6% in 1991 but still less than China-13% and US-9%).
- India's exports are about **18% of its GDP.**
- India's **services trade has been a major driver of its exports.**

Reasons for India's Underperformance in ExportsExports

- **Low Level of India's Participation in Global Value Chains (GVCs)** as compared to the major exporting nations in East and Southeast Asia.
- **Limited diversification of India's export basket** with top 10 principal exports, in terms of commodity groups, accounting for as much as 78% of total merchandise exports.
- **Low competitiveness of Indian Products** due to domestic factors like lackluster infrastructure, complex land and labour laws, fragmented and unregulated logistics sector.
- **Inability to exploit comparative advantage** in lower-skilled and labor-intensive exports.
- **Three fundamental challenges with regard to export promotion:**
  - Intra- and inter-regional disparities in export infrastructure
  - Poor trade support and growth orientation
  - Poor research & development infrastructure which hinders complex and unique exports

India's need for Export Led growth

- **Self-reliance:** Exports can help India to achieve the target of making India a developed economy by focusing on **'Atma Nirbhar Bharat'.**
- **Economic Growth:** Higher exports draw more foreign remittances, create more jobs and lower the current account deficit, create demand and infrastructure.
- Major economies around the world are also major exporters. To corroborate this claim, it is to be noted that China is the world's leading exporter of goods
- **Becoming a part of Global Value Chains:** Exports give domestic sellers increased access to the market, presenting a golden opportunity to capture a good chunk of global market share.
- **Mitigate Regional Disparities:** Improving the export competitiveness of states can mitigate regional disparities through export-led growth and the consequent rise in standard of living.

Steps taken to boost India's exports

- **RoDTEP (Remission of Duties and Taxes on Exported Products) Scheme:** It enables zero-rating of exports by ensuring domestic taxes are not exported.
- **Service Exports from India Scheme (SEIS):** Service providers of notified services are eligible for freely transferable duty credit scrip
- **Advance Authorisation Scheme (AAS)** allows traders to import raw materials at 0% import duty
- **Export Promotion Capital Goods Scheme (EPCG Scheme)**
  Export Preparedness Index' (EPI) as a data-driven endeavour to identify fundamental areas critical for subnational export promotion.
- **Other initiatives:**
  - **IndiaXports Initiative** to increase MSME exports.
  - **Capital Infusion in Export Credit Guarantee Corporation**
  - **Production-Linked Incentive (PLI)** is provided in 14 sectors
  - **Continuation of National Export Insurance Account (NEIA)**

Way ahead for post COVID times

- **Increasing Competitiveness of Made in India Products:**
  - **Promoting Ease of doing Business**
  - **Improving India's manufacturing base**
  - **Trade Liberalization by bringing down import tariffs**
  - **Focus on Research and Development (R&D)** for greater innovation and **improving the quality of Indian products**
- **Exploring and strengthening potential sectors:**
  - **Diversification of India's export basket.**
  - **Promote local manufacturing in high-potential sectors** under the PLI Scheme.
- **Robust Foreign Trade Policy:** It is important to adopt an integrated approach in the new FTP which is being formulated for implementation.
- **Complete Free Trade Agreements** with the EU and Britain soon as done with UAE and Australia.
- **Learning from neighbors,** E.g. Bangladesh has become the second largest apparel exporter after China. Vietnam's exports have grown by about 240% in the past eight years.

6.2. INTERNATIONAL INVESTMENT

FOREIGN DIRECT INVESTMENT AT A GLANCE

- **10% growth** has been witnessed in growth of FDI in 2021 compared to 2020.
- **Expected to reach to the tune of $100 Billion.**
- **5th largest** recipient of FDI with US being first and China second.
- **Computer Software & Hardware'** has emerged as the top sector during 2020-21 with around 44% share of the total FDI Equity inflow.
- FDI into India reached an all-time high of **$83.57 billion in 2021-22.**

Significance of FDI in India

- **Long-term Capital for Economic Growth:** FDI is a stable source of **non-debt financial resource.**
- **Human Resource Development:** With FDI, management techniques also flow, bringing knowledge and skills necessary for human resource development.
- **Technology Transfer:** For emerging countries like India, FDI is an important source of advanced production technology and equipment for efficient production**.**
- **Increased Exports:** It helps in global integration of the economy with an external network. This network then manifests itself in increase of exports in the long-term.

Schemes/Initiatives

- **Liberalization of FDI in sectors** like Insurance, Power exchanges etc.
- Investment promotion and facilitation through **Invest India Programme.**
- Attracting foreign investment through **initiatives like Make in India.**
- Specific partnerships like **India and the UK** agreed for an investment boost to strengthen bilateral ties for an **'Enhanced Trade Partnership'.**
- **Project Development Cell (PDC)** in the ministries/departments with a view to attracting investments.

Issues in FDI inflow in India

- **Decline in Growth Rate:** Though record FDI, the gross incoming FDI growth rate fell sharply to 2% in 2021-22, from 10% in 2020-21 and 20% in 2019-20.
- **Increasing FDI outflows:** The net FDI inflows (what's coming in minus what's going out) fell by 10.6%, i.e., $39.3 billion net FDI in FY22 in comparison to $44 billion in FY21.
- **Concentrated to Few Sectors:** 62% of the total FDI inflow went into just five sectors, i.e., Computer Hardware and Software, Services, Automobile, Trading and Construction.
- **Few Pockets of FDI:** 78% of the total inbound FDI was limited to three states/UT [Karnataka (38%), Maharashtra (26%) and Delhi (14%)].
- **Use of Offshore financial hubs and tax havens:** Tax havens like **Mauritius and Cayman Islands** continue to feature in top FDI sources.
- **Low actual realization of commitments:** The gap between MoUs signed and actual FDIs in India remains high.
- **Lesser reinvestments:** Foreign investors prefer to take surpluses out of India rather than reinvest.

Way forward

- To support India's flourishing economy with a large youth population, continued FDI inflow is critical. But the **changing global environment** for international business and **cross-border investment** on top of the lingering pandemic effect is a major challenge to continued flow. Therefore, India will have to:
  - **Continue policy reforms** and **ensure stable public finances** to overcome uncertainty in the minds of investors.
  - **Improve transparency and efficiency** of governance to build confidence in foreign and domestic businesses.
  - Take initiatives to **diversify FDI** with protection of environment, culture, and small businesses for holistic development of India.

6.2.1. SOVEREIGN CREDIT RATINGS

Why in News?

Recently, the Finance Secretary accused rating agencies of 'double standards' on **Sovereign Credit Ratings** when assessing emerging markets and developing economies.

About Credit Ratings and Rating Agencies

- Credit ratings are **forward looking opinions** on the **relative ability** of an entity to meet its **financial commitments**, i.e., the **credit risk** or **relative creditworthiness** of a borrower.
- **Sovereign Credit Ratings (SCR)** represents an **objective** and **independent assessment** of a country's or sovereign entity's ability to meet debt obligations.
- Global credit rating is dominated by **three credit rating agencies** (S&P, Moody's, and Fitch).
- They issue ratings based on country's **overall economic** and **political stability**, showing whether a country, equity or debt is financially stable and whether it is at low/high default risk.
- Based on it, SCR broadly rate countries under two grades as:
  - **Investment Grade:** Starting from highest credit ratings to moderate credit risk.
  - **Speculative Grade:** Higher level of default risk or a default has already occurred.
- **Rating agencies** also provide a **rating outlook** indicating the potential for change in the rating as **stable, positive,** or **negative**.

Importance of SCR

Importance of SCR	
For Governments	Governments obtain SCR to facilitate- • **Borrowing Money from global capital markets** by indicating its ability to pay back the money borrowed. • **Attract Foreign Investment** by indicating the country's worth as an investment destination. • **Assessment** on the country's economic and political environment to benchmark itself with other nations.
For Investors	Though not a **guarantee or absolute measure**, it is used by investors, as part of multiple analytical resources, to make **informed investment decisions** by- • **Highlighting Level of Risk**, i.e., providing information on the level of risk involved with investing in a particular country, including any political risk. • **Strategic Planning** through relative comparison against similar peers. • These investors include **sovereign wealth funds, pension funds etc.**

India's Sovereign Credit Ratings (SCR)

- India's SCR and outlook from three global rating agencies is as given in **image.**
- Despite being the World's **6th largest economy** (**3rd on Purchasing Power Parity**, or PPP) its SCR is at the bottom of investment grade or just above the speculative grade.
  - Also, China and India are only exceptions in the history of SCRs with the fifth largest economy in the world being rated in the lower rung of the investment grade.

Reasons for differing view between Rating Agencies and Government	
Reasons given by Rating Agencies for Low Rank	• **India** is the **most indebted emerging market**. • Deteriorating fiscal position or **high deficit**. • Budgetary support for near-term growth with **lack of clarity on long-term fiscal consolidation.** • Challenges in implementation of policies to mitigate risks of a sustained period of low growth such as **little financial headroom to respond to potential growth shocks**.
Reasons given by Government for its higher SCR	• **Zero sovereign default** history. • **High GDP growth rate**, **low inflation,** and **V shaped recovery**. • **Improved financial stability** with large recovery of bank bad loans. Recently, NARCL and IDRCL were also set up to address the bad loans. • **Higher Foreign Exchange Reserves** when compared to the country's debt. • **High political stability** with improved Ease of Doing Business, Rule of Law, corruption control etc.

Impact of Poor Rating

- **Reduced Investors' confidence**: Poor rating acts as deterrence against investment in emerging and developing economies like India.
- **Increased Borrowing Costs:** Poor rating increases the credit risk perception, forcing emerging countries to offer greatest interest on securities to get investors interest.
- **Financial Market Instability:** Often, rating agencies do rating upgrades after market rallies and downgrades after downturns. It carries risk to trigger market jitters as many institutional investors can hold only investment-grade instruments.

- **Isolation from Capital Markets:** Poor ratings for commercial banks and corporate debt to sub-investment grade makes it-
  - Costly for banks to issue internationally recognized letters of credit for domestic exporters and importers.
  - Firms face difficulties in issuing debt on the international capital market.
- **Policy Implications:** Poor rating carries risk of country's policy being beholden by SCR rather than considerations of growth and development.

Domestic Rating Agencies

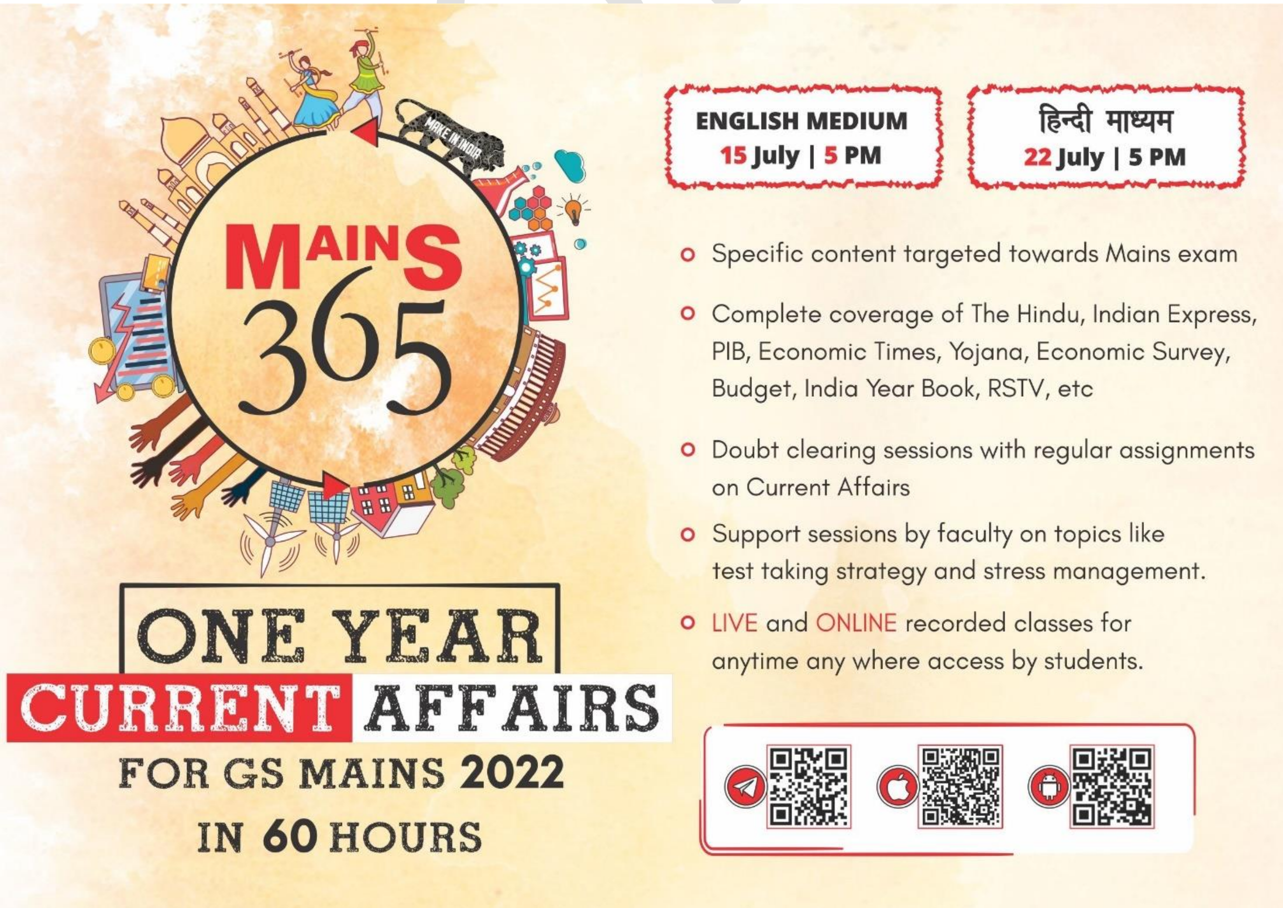
- In India, Credit rating agencies are **regulated by SEBI** under SEBI (Credit Rating Agencies) Regulations, 1999 of the Securities and Exchange Board of India Act, 1992.

Recent steps by SEBI for Accountability from Rating Agencies

- **Tightened disclosure standards** for credit rating agencies while assigning ratings to companies and their debt instruments.
- **Disclose liquidity position** of a company being rated.
- **Disclose rating history** and how the ratings have transitioned across categories.
- **Disclose the source of funding** if rating is assigned on the **assumption of cash inflow**.
- **Analyze the deterioration of liquidity** and also check for **asset liability mismatch.**

Way Forward from Rating Agencies

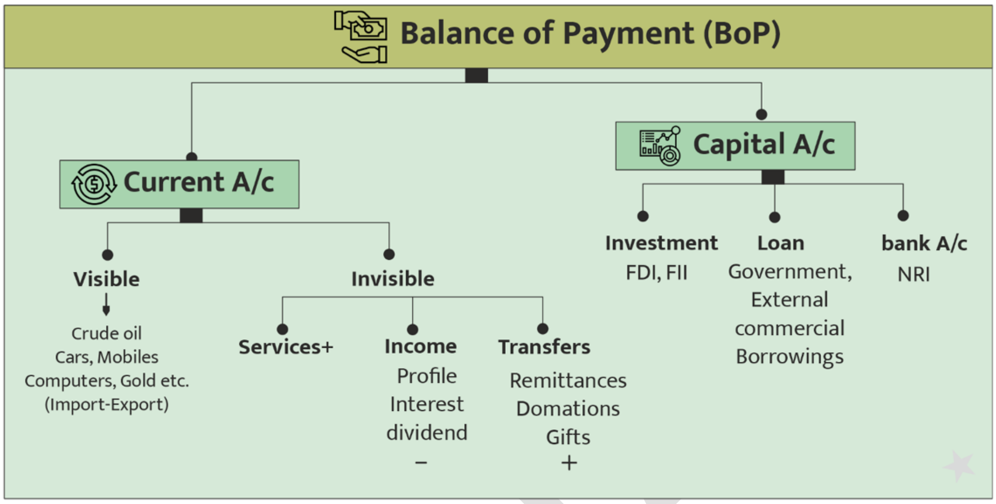
- **Improve transparency** in ratings to address concerns like **higher probability** and **higher size** of **downgrade** of emerging countries compared to developed economies.
- **Avoiding Reactive SCR** for emerging countries to keep them free from any bias and subjectivity.
- **Engage emerging countries and their rating agencies** to ensure their methodology reflects the true ability of economies and willingness to pay their external obligations.
- **Proper scrutiny of entities** from developed countries.
  - E.g., Positive credit ratings for mortgage-backed securities by them in US lead to **bad investments,** contributing to great recession of 2007-09.
  - Similarly, downgrading of Greece, Portugal, and Ireland by S&P in 2010 worsened the European sovereign debt crisis.



6.3. CURRENT ACCOUNT DEFICIT (CAD)

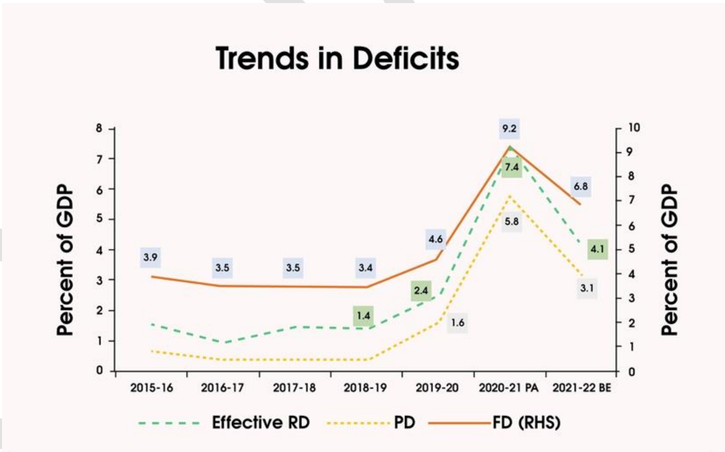
Why in News?

In the December quarter of FY22 India's Current Account Deficit (CAD) reached $23 billion (**2.7% of GDP**), a nine-year high since $31 billion CAD during December 2012.



Current Account Deficit (CAD)

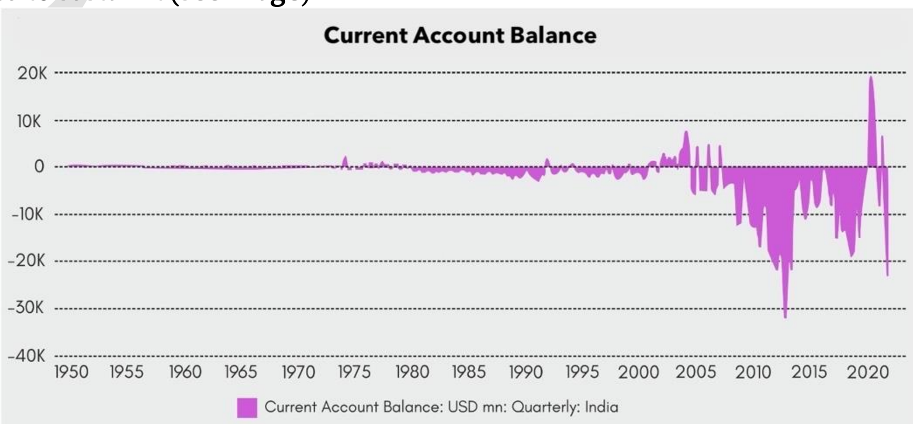
- One of the **two main accounts** in the **Balance of Payments (BoP),** CAD records **exports** and **imports** in **goods and services** and **transfer payments** of a country.
  - Transfer payments are **receipts received by the residents** 'for free', without any present or future payments in return. It includes remittances, gifts and grants.
- **Capital account** is the second account, recording all international purchases and sales of assets such as money, stocks, bonds, etc. for a specified time, usually a year.



Source: Union Budget Documents & CGA
BE: Budget Estimate, PA: Provisional Actuals
FD: Fiscal Deficit; RD: Revenue Deficit; PD: Primary Deficit

India's CAD trend

- India is a CAD country, facing BoP crisis in 1991 due to higher CAD.
- In the last few years, few isolated quarters of **Current Account surplus** are recorded such as **Q1 of 2021-22** after more than a decade gap but failed to sustain it (see **image**).
- Behind the continued CAD of India is its **trade deficit in Merchandise Goods** as it has **trade surplus in services,** and it is the **world's largest recipient of remittances** (US$ 87 billion).



Potential threats from increasing CAD

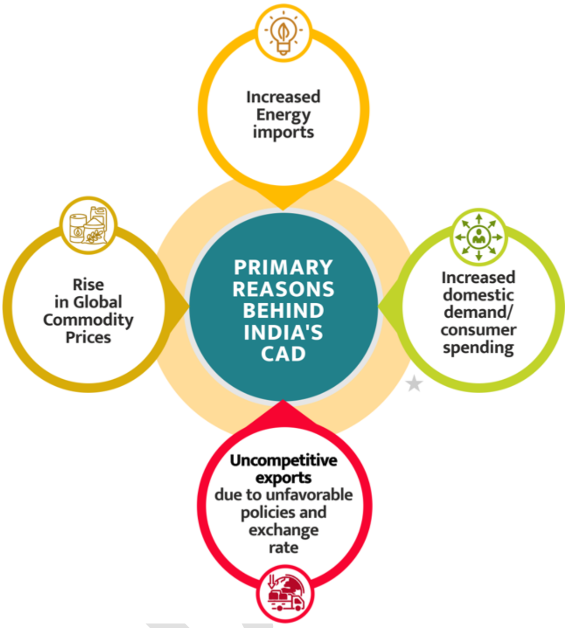
Based on historical perspective, India can sustain a **CAD of 2.5-3.0% of GDP** without getting into an external sector crisis (Economic Survey 2021-22). But **rising geo-political risks, elevated global commodity prices, new Covid-19 variants fear** and **looming threat of US monetary policy normalization** can widen CAD with other threats such as:

- **Pull out of foreign institutional investors** or limited capital flow.

- **Costly macroeconomic adjustments** due to free fall in currency exchange rate.
- **Inflationary concerns** leading to further reduction in domestic savings, leading to lower investments or foreign borrowing to fund growth needs.
- **Payment imbalances, leading to BoP crisis** as observed in the **Asian Financial Crisis** (1997) and the recent **Sri Lankan crisis**.

Way Forward

- **Increase domestic production** of oil and gas with **faster adoption of renewable energy fuels** such as solar, hydrogen etc.
- **Import substitution** under AtmaNirbhar Bharat with steps to curb non-essential imports such as gold, mobiles, and electronics.
- **Increasing Indian exports** through optimum utilization of Free Trade Agreements.
- **Maintain Capital inflows** through further Ease of Doing Business reforms and gain investors' confidence through FDI reforms for ease of flow of foreign investments.
- **Starting Fiscal Consolidation** through tight monetary policy to control inflation and promote savings to control CAD. For example, as suggested by the NK Singh Committee.



6.4. CAPITAL ACCOUNT CONVERTIBILITY (CAC)

Why in news?

Recently, Deputy Governor of RBI indicated towards fundamental shifts in the capital account convertibility framework in India, resurrecting a debate relating to Capital account liberalization.

What does capital account convertibility (CAC) mean?

- Convertibility refers to the **ability to convert domestic currency into foreign currencies and vice versa** to make payments for balance of payments transactions.
- Thus, CAC is the ability or freedom to convert domestic currency for capital account transactions.
- Capital account liberalization is the process of removing impediments to inflows of capital, or allowing domestic investors to invest more freely in foreign assets.
    - A full CAC allows local currency to be exchanged for foreign currency without any restriction on the amount.

RELATED CONCEPTS: BALANCE OF PAYMENTS (BoP), CAPITAL ACCOUNT AND CURRENT ACCOUNT

BoP of a country records all economic transactions of a country (that is, of its individuals, businesses and governments) with the rest of the world during a defined period, usually one year. It has 2 components-

Current account (country's short-term transactions or the difference between its savings and investments)
- **Visible trade:** export and import of goods
- **Invisible trade:** export and import of services.
- **Unilateral transfers.**
- **Investment income** (income from factors such as land or foreign shares)
- **Transfers** (grants, gifts, remittances, etc.)

Capital Account (inflows and outflows of capital that directly affect a nation's foreign assets and liabilities)
- **Foreign investment:** Foreign Direct Investment (FDI) and Portfolio Investment.
- **Loans:** external assistance, external commercial borrowings and trade credit.
- **Banking capital.**
- **Non-resident Indian (NRI) deposits.**

Regulation of CAC

- India has cautiously opened up its capital account since the early 1990s and presently there exists a **partial capital account convertibility in India.**
- Several committees have been established by the RBI in the past to recommend a pathway towards fuller CAC including-

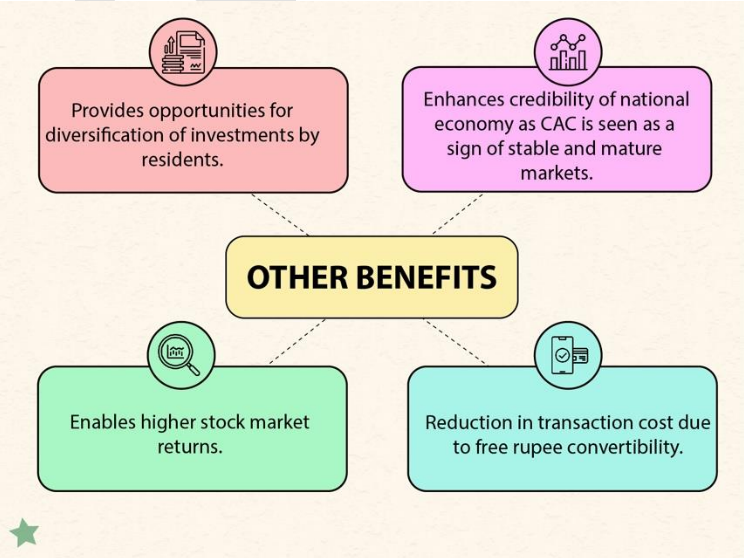
- Committee on CAC, 1997 (Tarapore Committee, 1997) recommended full CAC for 1999-2000 based on fulfilment of certain benchmarks related to Fiscal Deficit, Inflation, Non-Performing Asset (NPA) etc.
- **Committee on Fuller CAC, 2006 (Tarapore Committee, 2006)** suggested measures for gradual capital account liberalisation.

Steps taken to move towards fuller CAC

- **Introduction of the Fully Accessible Route (FAR)**, which places no limit on non-resident investment in specified Government securities (G-Secs).
- **Allowing banks to trade in non-convertible forward (NDF) rupee market** if it operates in International Financial Services Centre Banking Units (IBUs).
  - An NDF is a foreign exchange derivative contract, which allows investors to trade in non-convertible currencies, with contract settlement in a convertible currency. NDFs trade principally beyond the borders of the currency's home jurisdiction, enabling investors to transact outside the regulatory framework of the home market.
- **Liberalised Remittance Scheme** to allow all resident individuals, including minors, to freely remit up to USD 2,50,000 per FY for any permissible current or capital account transaction or a combination of both.
- **Rationalisation of External Commercial Borrowing (ECB)**: Steps taken by RBI include-
  - **Replacing the system of sector wise limits**: All entities eligible to receive FDI have been permitted to raise ECBs up to USD 750 million per financial year under automatic route subject to certain terms and conditions prescribed in the Guidelines.
  - **Relaxed the end-use restrictions related to ECBs**: allowing corporates and non-banking finance companies (NBFCs) to raise ECBs for working capital and general corporate purposes.
- **Foreign Direct Investment has been made more or less unrestricted** except (i) for some sectoral caps and (ii) restrictions in a few socially sensitive (e.g., gambling) or volatile (e.g., real estate) or strategic (e.g., atomic energy) sectors.

Benefits associated with CAC

- **Facilitates economic growth:** Opens markets to global players including investors, businesses, and trade partners, leading to enhanced investment flows with economic benefits like-
  - Improved liquidity in financial markets and better risk allocation.
  - Reduction in the cost of both foreign equity and debt capital.
  - Offshore rupee market development.
  - Improved employment and business opportunities.
  - Positive pressures for better infrastructure and business practices.
- **Improves the efficiency of the financial sector**: as openness to capital flows can-
  - expose a country's financial sector to greater competition.
  - spur improvements in domestic corporate governance to meet standards of foreign investors.
  - impose discipline on macroeconomic policies, and the government.



Risks associated with free capital mobility

- **Exchange rate volatility:** A lack of suitable regulatory control and rates subject to open markets with a large number of global market participants can lead to sudden exit of capital causing volatility, devaluation, or inflation in forex.
- **Unsustainable Foreign Debts:** Businesses are prone to the risk of high repayments in case of foreign debt if exchange rates become unfavorable.
- **Credit and asset bubbles:** Foreign investors may use equity markets in emerging countries to bet on currency appreciation, thereby distorting asset values and adding to the risk of speculative bubbles.
- **Exposure to global macroeconomic shocks**: Fuller CAC exacerbates risks associated with Global financial crises, especially for emerging economies like India.

  - For instance, the 1997 Asian financial crisis was exacerbated because the countries affected had full capital account convertibility and the financial crisis of 2008 led to huge foreign capital outflows from emerging countries.
- **Effects on Balance of Trade and Exports:** Substantial inflows could lead to an overvalued exchange rate which can make Indian exports less competitive in the international markets.
- **Lack of effectiveness in generating growth:** Foreign capital inflows by themselves only have temporary effects on growth because productivity growth is the main determinant of long-term growth which needs robust infrastructure, ease of business, technological advancements etc.

Is India ready for a full/fuller CAC?

Several economic parameters have considerably improved in India, indicating a readiness to fuller CAC-

- Burgeoning forex reserves of around $640 billion.
- Higher increase in FDI flows than unstable portfolio flows (see graph).
- Low current account deficit (CAD) ~1.0 per cent of GDP in fourth quarter of 2020-21.

But strain on India's macroeconomic situation is evident by high Fiscal deficit (9.3 per cent for 2020-21) and inflation (4.48% in October of 2021). Further, increase in international oil prices and the pace of economic recovery post COVID-19, can substantially increase CAD. Thus, India needs a **pragmatic approach towards CA liberalization, as underlined below-**

- **Proceeding in a phased manner**: Gradually, through the Fully Accessible Route, the entire G-sec issuance can be eligible for non-resident investment.
- **Develop a System of Checks and balances to deal with the risks of CAC**:
  - **Tools to manage the volume and composition of capital inflows**.
  - **Macro prudential tools** like counter cyclical capital buffers.
  - **Proper mechanism for information flow** so that exchange and interest rate management can continue to be effective in an environment of larger offshore transactions.
- **Preparing market participants, particularly banks**, to manage the business process changes and the global risks associated with capital convertibility.
- **Developing sound macroeconomic fundamentals:** Recommendations of Committee on Fuller CAC, 2006 (Tarapore Committee, 2006) in this regard include-
  - Earmarking substantial part of the revenue surplus of the Centre for meeting the repayment liability under the Centre's market borrowing programme.
  - Central Government and the States should graduate from the present system of computing the fiscal deficit to a measure of the Public Sector Borrowing Requirement (PSBR).
  - **Setting up an Office of Public Debt** to function independently outside the RBI.
- **Strengthening business environment**: A fuller CAC would culminate into higher growth facilitated by factors like quick bankruptcy proceedings, infrastructural growth, streamlining FDI transactions, tax clarity and policy certainty etc.

Conclusion

India has come a long way in achieving increasing levels of convertibility on the capital account. It has broadly achieved the desired outcome for the policy choices, in terms of achieving a stable composition of foreign capital inflow.

The rate of change in capital convertibility will only increase with each of these and similar measures. With that comes the responsibility to ensure that such flows are managed effectively with the right combination of capital flow measures, macro-prudential measures and market intervention.

6.5. INDIA AND GLOBAL INDICES

Why in News?

India has rebutted the **Environment Performance Index (EPI) 2022** findings on account of **extrapolations** and **unfounded assumptions** after being ranked at the **bottom of its analysis**.

Global Indices and their utility

- Global Indices are benchmarks which evaluate the **strength** and **weaknesses** of different nations on various parameters such as **economic, environmental, socio-cultural, governance-related**, or a **mix/other** parameters.

VISION IAS

- E.g. **Global Gender Gap** based on- **Economic Participation and Opportunity**; **Educational Attainment**; **Health and Survival**; and **Political Empowerment** parameters.

- These Indices are released by government agencies, private agencies, educational institutions, NGOs or intergovernmental organizations/institutions.
- **Utility of Global Indices**
  - **Holding Government Accountable**: They help in identifying quality of public services and civil services for improved **effectiveness of governance**.
  - **Freedom of Expression:** Accountability strengthens citizens and media freedom of expression and association by acting as a safety valve against **politically motivated violence and biased domestic media.**
  - **Force for Reforms:** These indices help in capturing perceptions on institutions, policies, and regulations, forcing government towards reforms, and establishing **rule of law**.
    - ✓ For instance, it helps in private sector development through reforms toward Ease of Doing Business such as contract enforcement, property rights etc.
  - **Controlling Corruption:** By capturing the state of elites and private interests, creating awareness on use of public power for private gains, including grand forms of collusive corruption.

Issues in India's Rating by Global Indices

Indices	Released by	India's Position	Issues in India's Rating
International Religious Freedom Report	US Commission on International Religious Freedom (USCIRF)	In **Countries of Particular Concern**	India questions the **locus standi of USCIRF** with issues of **bias** and **misrepresentation** as it places India alongside countries like Afghanistan, China, North Korea, Pakistan, etc.
World Press Freedom Index	Reporters Sans Frontiers	**150** out of **180**	India was declared as one of the **world's most dangerous countries** for the media, just **6 places** ahead of **Afghanistan** and **7** ahead of **Pakistan.**
Global Hunger Index	Concern Worldwide and Welthungerhilfe	**101** out of **116**	It uses Food and Agriculture Organisation (FAO) estimates which uses **opinion poll** rather than any **scientific methodology**.
Democracy Index	Economic Intelligence Unit (EIU)	**46** out of **167**	Though India's score recovered from **lowest** of **6.61** in **2020** to **6.91** in **2021**, the issue remains on its classification among **'flawed democracies'**.
Index of Economic Freedom	Heritage Foundation	**131** out of **184**	It ranks India among **'Mostly Unfree'** with very low score on fiscal health based on **deficit** and **debt** despite extremely low foreign currency denominated debt and zero sovereign default.
Freedom in the World	Freedom House	Score of **66** out of **100**	It ranks India among **'Partly Free'** category in terms of democracy and free society.

Impact of Poor Rating

- **Investment:** The negative commentary from **think tanks, survey agencies** etc. impact **India's global image**, hurting **investment sentiment** and **India's performance** at other places.
  - E.g., World Bank's **WorldWide Governance Indicators (WGI)** is a proxy of it as it uses data sources of EIU, Freedom House, Heritage Foundation etc. among others (see image on India's WGI score).
- **Sovereign rating:** It can also hurt India's sovereign rating as **18-26%** of a country's sovereign rating is based on factors like **governance, political stability, rule of law, corruption, press freedom** etc.
- **Global perception:** Showcasing India's Social, Economic and Political variables in negative light creates a negative global perception affecting global Indian community, Tourism sector etc.

Concerns over use of Global Indices

Due to **questionable methodologies** and **biases**, the governments shouldn't be too dependent on them as:

- They **change infrequently** as agencies often fail to constantly monitor developments.
- They may lead to **herding behavior**.
- Use of ratings from government provides official sanction to these agencies and their assumptions, increasing **moral hazard risk**.
- Use of these indices in policies **carries risk of more such indices seeking legitimacy.**

Way Forward

- **Strengthening domestic Statistical Ecosystem and Data Collection:** More frequent and detailed domestic data collection and its sharing to help these agencies' in-depth objective analysis or provide alternative response.

- **Outreach to Agencies:** Work on ways to reach out to these agencies to better understand their methodologies and clearly spell out the country's reform measures with sensitization on our internal matters.
- **Accountability of Agencies:** Keep questioning them on genuine concerns and visible biases. E.g. Democracy Index improved India's score in 2021 after questioning it in 2020.
- **Laws and Policies:** Strong Laws and Policies with proper implementation must be ensured for a positive domestic environment on Indian Democracy, Minorities, Media etc.
- **Support Indian States:** As matters like law and order, health etc. are **state subjects**, **financial** and **technical support** must be provided to them.
- **Engaging Indian Diaspora:** Use Indian Embassies to engage Indian Diaspora for spreading information on India among others and inspire them to visit India for direct observation.

Global Indices can be **good supplement to India's Statistical Ecosystem but it cannot be and should not be a substitute** to the domestic data ecosystem and data-based policy architecture.

6.6. GLOBAL MINIMUM TAX RATE

Why in News?

Organisation for Economic Co-operation and Development (OECD) released Pillar Two model rules for domestic implementation of 15% global minimum tax.

About Global Minimum Tax Rate

- It requires countries to impose a **minimum tax on large MNCs** like Google, Amazon, Facebook and Apple (GAFA) to counter their efforts **to escape taxes in their country of operations.**
- It will **undercut any advantage of shifting to lower-tax places** and pressures countries to conform to the global norm.
  - Large MNCs are traditionally **taxed based on where they declare their profits rather than where they actually do business.**
  - This **allowed several large companies to avoid paying high taxes** in countries where they do most of their business by shifting their profits to low-tax jurisdictions.
- Global Minimum Tax is **part of the inclusive framework on Base Erosion and Profit Shifting (BEPS)** agreed upon by G20 countries and OECD.
- Global Minimum Tax **will apply to MNCs with revenue above €750 million** and it aims for developing a **taxation structure that is relevant for a digital and globalised world.**

Need for a Global Minimum Tax Rate

Neutralizes Low Tax Incentive

- It will help stop the "race to the bottom" as countries compete against each other to cut taxes to attract businesses.

Additional Tax Revenue

- With budgets strained after the COVID-19 crisis, this will shore up tax revenues and help governments invest in social development, fighting the pandemic etc.
- OECD estimates the minimum tax will generate $150 billion in additional global tax revenues annually.

Checking Tax Abuse

- According to the Tax Justice Network report, countries are losing a total of $483 billion in tax a year to global tax abuse committed by MNCs and wealthy individuals.
- India's annual tax loss is estimated at over $10 billion.

Check on Tax Havens

- It neutralizes the low tax incentive and will discourage multinationals from shifting profits - and tax revenues - to low-tax countries.
- Almost 90% of the world's top 200 companies have a presence in tax havens.

Better Competition Among Nations

- Based on economic fundamentals like the skill of workforces, capacity to innovate, and strength of legal and economic institutions, rather than ever-lower tax rates that deprive governments of money for infrastructure and education.

Challenges

- **Global consensus** as small economies benefited a lot from attracting investments with low corporate tax, helping to compete against large and developed economies with better infrastructure quality, labor quality, economic and political stability etc.
- **Impact on socio-economic development** as countries use tax incentives to attract MNCs to gain FDI and generate demand with efficient utilisation of resources and create employment.
- **Consensus on tax rate** as 15% rate is lower than what working-class and middle class people typically pay in high-income countries (**World Inequality Report**). It is also lower than the average statutory rate that corporations face in those places.
- **Reduced ability to pursue specific policy objectives** by governments through tax incentives, such as promoting innovative activities via investment tax incentives or tax incentives for R&D.
- **Favoring rich nations** as G7 and EU will take home two-thirds of new cash that GMT will bring in, while the world's poorest countries will recover less than 3%, despite being home to more than a third of the world's population (Oxfam report).
- **Ban on unilateral taxes** as implementation of these new taxing rules being conditioned upon them removing all unilateral taxes on technology companies. E.g. Equalization Levy by India.

Other Implications on India

- Overall, it is believed to be advantageous for India as the **effective domestic tax rate is above the threshold** and India, being a large potential market, would continue to attract FDI.
- Though it means **removal of existing digital service taxes and other unilateral measures by 2023** but it will **get additional taxing rights which are beneficial**. Its exact quantum will need to be compared to domestic equalisation levy.
- **Large Indian headquartered MNEs may also need to comply with Pillar One rules** and India will need to share its taxing right with other countries.
- It is also **likely to negate any treaty benefit** to achieve minimum taxation and India could end up **losing revenue from other not-so-digitised companies** in the top 100.
- In respect of outbound investments, it **will prevent base erosion of tax in the country** as the government will be able to claw back any shortfall in tax paid below 15% by an overseas business owned by an Indian resident.
- However, India **needs to insist for a greater share of profits** to be allocated to countries that are important markets for these tech firms.

Conclusion

A global minimum tax is a laudable **attempt to make international tax arrangements fairer and work better** in a digitalised and globalised world economy. However, there are **major obstacles that may impede the overall implementation** of the agreement. There is a need to support this effort to build a consensus as **countries, rich and poor, need more resources to fight the pandemic and the consequent economic fallouts.**

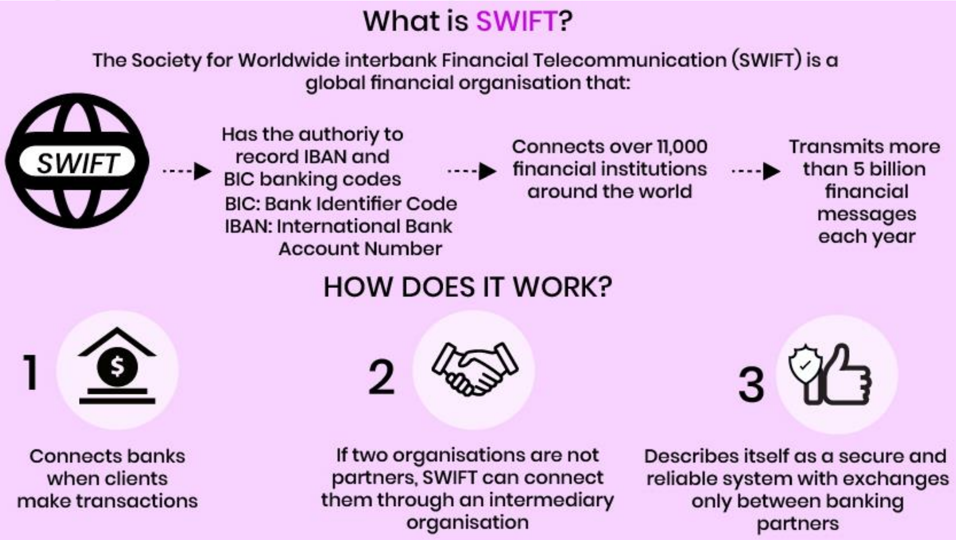
6.7. SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION (SWIFT)

Why in news?

Recently, few Russian banks have been disconnected from SWIFT amidst Russia-Ukraine crisis.

Significance of SWIFT system

- **Global coverage** of SWIFT (**covering over 11,000 institutions in over 200 countries**) makes it an almost-universally accepted system.

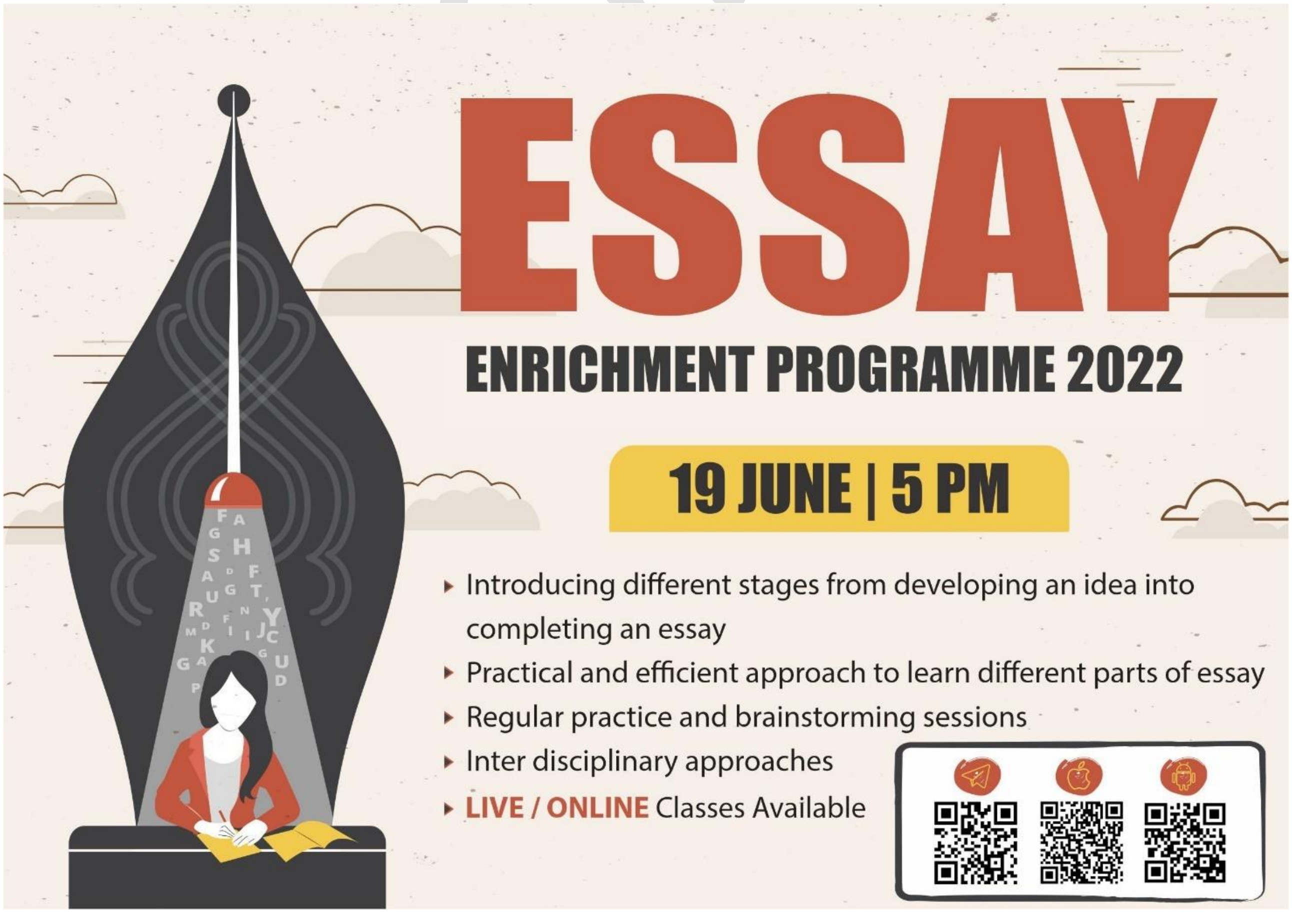


* **Standardized and reliable communication** to facilitate the transaction- **allowing individuals and businesses to take electronic or card payments** even if the customer or vendor uses a different bank than the payee.
* **Neutral** platform as its shareholders, consisting of 3,500 firms across the globe, elect the 25-member board, who are responsible for oversight and management of the company.
    * It is a cooperative company under Belgian law, headquartered in Belgium. It is overseen by G-10 central banks and European Central Bank with National Bank of Belgium as its lead overseer.

What happens if one is excluded from SWIFT?

* If a country is excluded from the most participatory financial facilitating platform, its **foreign funding would take a hit, making it entirely reliant on domestic investors**.
    * A SWIFT ban would **make exports and imports from and to Russia almost impossible, and Russia would have to look for alternative means to transfer money.**
    * Russian banks will find it harder to communicate with peers internationally, slowing trade and making transactions costlier.

* **SWIFT offers Range of service** that assist businesses and individuals to complete seamless and accurate business transactions such as:
    * Applications for processing clearing and settlement instructions for payments, securities, forex, and derivatives transactions.
    * Business Intelligence and compliance services.
    * Messaging, Connectivity, and Software Solutions.



7. AGRICULTURE AND ALLIED ACTIVITIES

7.1. AGRICULTURAL INPUT MANAGEMENT- PART I

AGRICULTURAL INPUTS AT A GLANCE (ESSENTIAL INPUTS)

SOIL AT A GLANCE

Soils supply the essential nutrients, water, oxygen and root support that food-producing plants need to grow and flourish.

CHALLENGES

- Decline in soil organic matter
- Poor soil fertility
- Decline in Soil Physical Conditions such as structure, stability etc.
- Acidification, Salinization, Alkalization and Waterlogging.
- Induction of Poor Lands into Agriculture
- Weaknesses of Soil Testing Service
- Ad hoc fertilizer prescriptions

MEASURES TAKEN

- **Soil Health Card Scheme** for effective soil health monitoring and management
- Rashtriya Krishi Vigyan Yojana (RKVY) **to protect the loss of topsoil, improving soil fertility.**
- **NABARD Loan-** Soil & Water Conservation Scheme under Rural Infrastructure Development Fund (RIDF)
- **Other related initiatives** under National Food Security Mission, National Horticulture Mission, National Mission for Sustainable Agriculture etc.

POSSIBILITIES GOING FORWARD

- Revamping soil testing services
- Strengthening Soil Health Card
- Promoting balanced and integrated use of fertilizers
- Enhancing nutrient use efficiency through precision nutrient management (PNM
- Enhance awareness of farmers
- Promotion of community level mechanised composting
- Promoting conservation agriculture

WATER AT A GLANCE

Conservative and efficient use of water is important to increase farming intensity, higher productivity and farm income and to ensure sustainable agricultural development and food security.

CHALLENGES

- General scarcity of water and regional imbalance.
- Substantial area under rainfed cultivation
- Sub-optimal utilization of existing irrigation facilities
- Poor irrigation efficiency
- Poor quality of water used in cultivation.

MEASURES TAKEN

- **Pradhan Mantri Krishi Sinchayee Yojana** to provide assured irrigation to cultivated areas, reduce wastage of water and improve water-use efficiency.
- **Mahatma Gandhi National Rural Employment Guarantee Scheme** for creating small irrigation infrastructure.
- **Rashtriya Krishi Vikas Yojana (RKVY)** under which funds are provided for water conservation and management activities.
- **Atal Bhujal Yojana** for sustainable management of groundwater with community participation.

POSSIBILITIES GOING FORWARD

- Addressing the problems of over-exploitation of ground water
- Irrigation development in eastern and north eastern region
- Conservation Agriculture
- Extensive promotion of organic farming and compost
- Crop alignment and diversification with agro-climatic status

7.2. AGRICULTURAL INPUT MANAGEMENT- PART II

AGRICULTURAL INPUTS AT A GLANCE (ESSENTIAL CONSUMABLE INPUTS)

SEEDS AT A GLANCE

Use of quality seeds can increase productivity, can help in meeting country's food and nutritional security need and improves the response of all other inputs.

CHALLENGES

- **Seed production:** Major issues are **quality, price, and availability of seeds.**
- Tardy progress **of seed delivery system** Poor soil fertility: Certified/labelled seed availability is only around 35-40 percent
- **Poor Assessment of Seed Requirement**

MEASURES TAKEN

- National Seeds Corporation (NSC)1963
- High Yielding Variety programme(1966-67)
- National Seeds Policy 2002
- Various legislative frameworks such as Seed Act (1966), Protection of Plant Varieties and Farmers' Right Act (2001), the Essential Commodities Act, 1955 etc.
- Sub-mission on seed & planting material under National Mission on Agriculture Extension & technology (NMAET)
- Seed Village Programme (SVP), 2005
- Other initiatives such as Establishment of seed banks and seed grid.

POSSIBILITIES GOING FORWARD

- **Assessing Seed Requirement**
- **Seed Production and Supply Chain**
- **Integrating Forage crops** into effective seed chain to support dairy and livestock sector
- **Enhance seed replacement rate** of all self-pollinated crops like paddy
- **Establishment and up-gradation of seed processing and storage plants**
- **Developing strong seed production chain** for climate resistant Nutri-cereals
- **Explore opportunities for seed export**
- **Decentralise and broad-base the seed production platform**
- **Community Seed Banks (CSBs)** for promotion of local varieties
- **Cost rationalisation of certified seeds**

PESTICIDES AT A GLANCE

Pesticides help farmers grow more food on less land by protecting crops from pests, diseases and weeds as well as raising productivity per hectare, and to maximize the benefits of other inputs such as seeds and water.

CHALLENGES

- Poor quality of pesticides
- Optimum application of pesticide is not practiced
- Limited reach of Integrated Pest Management (IPM) techniques which emphasises on use of bio-pesticides.
- Unregulated price of pesticides

MEASURES TAKEN

- **Insecticides Act (I.A.), 1968**
- Scheme on Monitoring of **Pesticide Residues at National Level** (MPRNL)
- Other initiatives such as Electronic platform for pest surveillance, Regional Pesticide Testing Laboratories, **Sensitisation of farmers** through media etc.
- Promotion of organic fertilizers though schemes like Paramparagat Krishi Vikas Yojana .
- Research **Organizations (ICAR/SAU) Interventions** including develop pest resistant varieties, timely dissemination of IPM recommendations etc.

POSSIBILITIES GOING FORWARD

- Reducing Pesticide Consumption through proper diagnosis, use of injection syringes and proper application.
- Awareness & education for effective and safe use
- Decentralised production and mass multiplication of bio-agents through SHGs, FPOs etc.
- Registration of pesticides
- Monitoring and surveillance to detect fake pesticides.
- Promoting organic and environment friendly pesticides

7.3. AGRICULTURAL INPUT MANAGEMENT- PART III

AGRICULTURAL INPUTS AT A GLANCE (GROWTH DRIVING CAPITAL INPUTS)

AGRICULTURAL MECHANIZATION AT A GLANCE

Effective use of agriculture machinery helps to increase productivity & production of output, undertake timely farm operations, reduce the drudgery, enable the farmers to quickly rotate crops on the same land, improves cropping intensity, make agricultural land commercially more viable and ultimately aid in enhancing farmers' income.

CHALLENGES

- Small size of farms
- Hilly and rolling topography
- Mixed cropping and integrated farming
- Shortage of power
- Poor servicing facilities
- Surplus agricultural workers
- Poor financial ability

MEASURES TAKEN

- **Sub Mission on Agricultural Mechanization (SMAM):** Major objectives under it include:
  - o Promoting 'Custom Hiring Centres and Hi-tech Hubs of High-Value Machines'
  - o Ensuring performance testing and certification and creating awareness
- Other benefits provided under various schemes such as
  - o **Land Conservation Department** offers 90% subsidy to the women establishments for purchasing the machines.
  - o Subsidies provided under NABARD loan scheme.

POSSIBILITIES GOING FORWARD

- **Greater engineering inputs and introduction** of high capacity, precision, reliable and energy efficient equipments.
- **Developing mechanisation in horticulture and important commercial crops**
- **To set up 'Agriculture Machine Banks' (AMBs) at District level**
- **Indigenous Research and Development (R&D)** to roll out farmer-friendly, location-specific and easy-to-manage agricultural machinery.
- **Leveraging technology**

AGRICULTURAL CREDIT AT A GLANCE

Every 1 per cent increase in agricultural credit produces 0.29 per cent increase in agricultural GDP and consequently aiding in increased income.

CHALLENGES

- High dependence on non-institutional channels
- Poor share of investment credit
- Regional Imbalance in Credit Disbursement
- Skewed credit distribution
- Anomalies in the Priority Sector Lending (PSL) in
- Agriculture

MEASURES TAKEN

- Policy of **doubling the income of farmers** by 2022
- Dedicated **Long Term Irrigation Fund (LTIF)** with NABARD
- Unified **Agricultural Marketing e-Platform**
- Pradhan Mantri Kisan Samman Nidhi **(PM-KISAN)**
- Pradhan Mantri Fasal Bima Yojana **(PMFBY)**
- Other measures such as interest subvention scheme and **Kisan Credit Card scheme** for hassle-free loan to small and marginal farmers

POSSIBILITIES GOING FORWARD

- Dispensation of long term credit to boost capital formation
- Share of loans to SMF in total loans to agriculture to be raised
- Special focus on eastern, central, hilly and north eastern states to tackle regional imbalances.
- Enhance farmer inclusion process
- Encourage aggregation / collectives of farmers/ FPOs
- Promotion of Joint Liability Groups (JLGs) as an alternative channel
- Access to infrastructure and common assets
- Training and skilling

7.4. AGRICULTURAL MARKETING

AGRICULTURAL MARKETING AT A GLANCE

It can be defined as the commercial functions involved in **transferring agricultural products producer to consumer**. Majorly following three methods are used for Agri-marketing:

- Traditional Marketing Methods
- Cooperative based marketing
- Emerging models of agricultural marketing

Importance of Agricultural markets

- **Monetization of agricultural produce** in the market.
- Acting as a source of **market information and price signal**.
- **Reducing the role of intermediaries**.
- Encouraging **capital formation** and investment in **technology.**
- **Value addition in agriculture** by providing

Issues faced by these markets in India

- **Institutional Issues** like **licensing barriers for new traders** for entering the market, **high incidence of market charges** (including in APMCs) and **absence of standardized grading mechanism** for the produce.
- **Infrastructural Issues** like **limited Access of Agricultural Produce Markets** in some parts of the country, **poor Infrastructure in Agricultural Markets** such as drying yards or cold storage and **long gestation period and economic unviability** of agricultural infrastructure projects.
- **Market information system issues** like **absence of efficient real-time informational channels** leading to lag in demand signals, **limited information and content** is available to farmers and **lack of awareness among farmers** vis-à-vis the new information channels.
- **Other issues** like **absence of a National Integrated Market** despite a large physical network of APMCs and **limited public investment** on marketing infrastructure development.

Effect of the recently launched agri.-reforms on these issues

- **Checking Monopolies** by creating an ecosystem where the farmers and traders enjoy **freedom of choice of sale and purchase** of agri-produce.
- Taking forward the **idea of 'one Nation, one Agri-market'** by Abolition of market fee and giving permission for electronic trading of agri-produce.
- **Encouraging private sector participation** by providing the **legislative framework needed to boost contract farming**.
- **Better inventory management of Agricultural Produce** due to removal of restrictions through on storage of food commodities.
- **Improving price discovery and realization for farmers** by creating alternate and direct channels of marketing which decreases the interference of

Way Forward to ensure holistic reformation of the markets

- **Reforms in APMCs** like appointment of an independent regulator and encouraging private sector participation in APMCs (through Private Wholesale Markets, Unified Single Registration etc.).
- **Creating a National Integrated Market via strengthening e-NAM** by creating a third party assessment certification, encouraging involvement of farmer groups and other intermediaries.
- **Promotion of Investment in Marketing Infrastructure Development** by creating a long-term National Policy on storage and movement of agricultural produce, increasing infrastructure investment in RKVY and prompting states to promote PPP Model for infrastructure development.
- **Creating more robust Information dissemination systems** by popularizing more accessible methods, catering to personalized information needs via Mobile devices and providing farmers a broader set of information.
- **Rationalization of Market Fee/ Commission Charges** to maximum 2% of the value of the produce.
- **Other reforms** can also be taken like encouraging grading and standardization in produce, organization of farmer groups to enhance their bargaining power and developing a more consistent import-export policy.

7.5. FINANCIAL SUPPORT TO FARMERS

FINANCIAL SUPPORT TO FARMERS AT A GLANCE

More than 11.60 crore farmers have been given the financial benefits of **approximately Rs 1.60 lakh crore.**	**Overall 2-2.5% of GDP** is provided as subsidy annually in the form of fertilizer, credit, crop insurance and price support subsidies.	**1/5th** of the aggregate farm income is in the form of subsidies.	**50.2%** of the agricultural households are under some kind of debt.	**About 70%** of the loans taken by farmers were from institutional sources.

Key objectives

- **Provide income support** to all landholding farmers' families (irrespective of the size of landholdings) in the country.
- **Supplement financial needs of farmers** for procuring various inputs related to agriculture and allied activities as well as domestic needs.
- Providing additional income sources to keep **farming remunerative** and **Doubling Farm Income** by **2022**.

Schemes/Initiatives

- **Increased Subsidy on Fertilisers** to ensure fair prices for farmers.
- **Transport and Marketing Assistance** for Specified Agriculture Products' –to mitigate the freight disadvantage on international component.
- **Farmer Connect Portal** for farmers, FPOs/FPCs, cooperatives to interact with exporters.
- **Assistance to agricultural products exporters** under the Export Promotion Schemes of APEDA, MPEDA, Tea Board etc.
- **Agristack** to build a digital data stack of information, like land records.
- **Other Schemes:** Kisan Credit Card, PM KISAN, PM Fasal Bima Yojana (PMFBY), Interest Subvention Scheme, PM Kisan Man Dhan Yojana, PM-AASHA, Kisan Suvidha App etc.

Constraint

- **Increasing farmer's distress** due to **rising input costs, low productivity, indebtedness, monsoon vagaries,** lack of remunerative output prices etc.
- Lack of **farmer database**, increasing difficulty in **Identifying Beneficiary Farmers.**
- **Inadequate financial room** available to government results in creation of a trade-off between farmer support and agri-investment.
- **One-size fits all approach.**
- **Lack of farmer's awareness** regarding various schemes and programs.
- Dependence upon **non-institutional sources for credit requirement**.

Way Forward

- Strengthen the **institutional and digital infrastructure**.
- Gradually transitioning all **subsidies to the process of DBT**.
- **Improve irrigation facilities, warehousing and cold storage** to double farmer's income.
- **Support Agricultural R&D** to raise crop production and overcome climate change impact.
- **Adopt Bottom-up strategy** with **region specific schemes** and interventions.
- **Increase awareness** among farmers on various schemes.
- **Promote healthy credit culture** and **address distortion in the agriculture sector.**
- Create a **real-time dynamic distress index of farmers**.

7.5.1. AGRICULTURAL INDEBTEDNESS IN INDIA

Why in News?

The average outstanding loan per agricultural household increased 57.7 per cent from 2013 to 2018, according to the latest findings of a **'Situation Assessment of Agricultural Households and Land Holdings of Households in Rural India, 2019' survey by the National Statistical Office**.

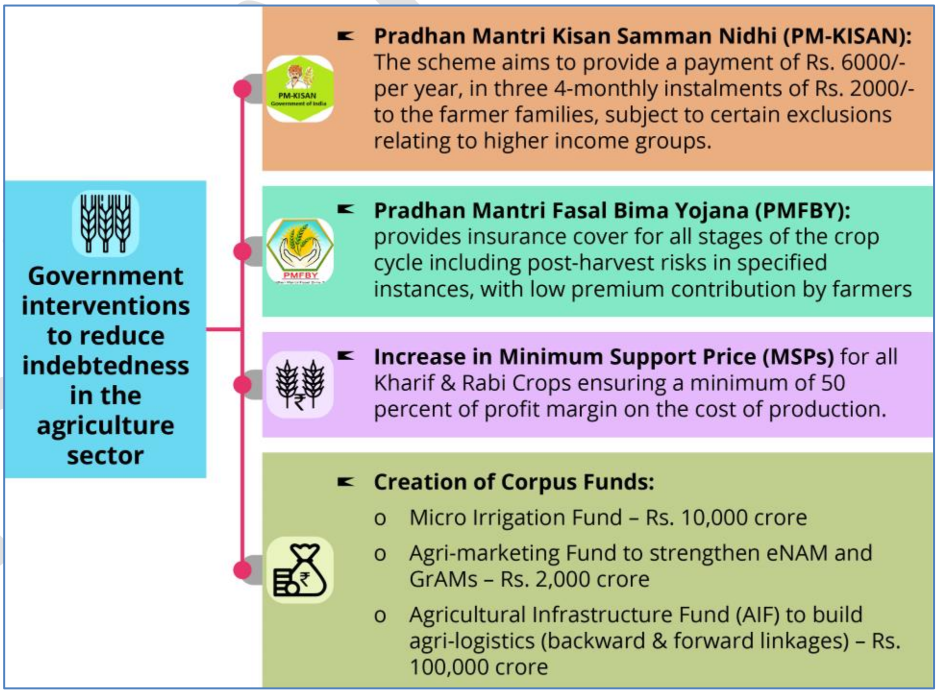
Reasons for rising indebtedness

Indebtedness is described as impoverishment by debt or as a situation where a household is caught in spiral debts. Following factors can be held responsible for rising indebtedness in agricultural households-

- **Inadequate growth in farm productivity and income**: This can be attributed to factors like **rising cost of cultivation, Climate change, poor agricultural marketing practices and value addition.**
- **Poor risk mitigation mechanism:** Crop Insurance uptake is still low in India due to lack of awareness and delays in claim payments.
- **High cost of informal loans:** The small and marginal farmers, tenants and agricultural labourers still heavily depend upon informal sources of finance to meet their credit needs and pay very high rates of interest, which pushes them into debt cycle.
- **Ancestral/Inherited Debt:** Rural people incur debts for non-productive purposes such as to meet the family needs, perform social functions (related to marriages, birth, death), etc. This debt burden traps farmers into an intergenerational debt cycle which becomes harder to break due to uncertainty of farm income.
- **Farm loan waivers:** With more agriculture loans being waived-off, it is easier for farmers to take loans without the fear of repaying the amount if there is a loss.
- **Litigation:** Agriculturists in India are involved in various kinds of disputes related to land, property, etc., which involve heavy expenditure and time.

Impacts of indebtedness

- **Reduced investment** in modernisation of agriculture.
- **Distress selling to fulfil debt obligations.**
- **Marginalization of farming community** and in extreme cases farmer suicides.
- **Enhanced rural poverty and impact on overall socioeconomic growth** in agricultural households in terms of educational and health outcomes.
- **Indebtedness inhibits the provision of new loans** and creates pressure on the banking system due to increased possibility of default.



- **Loss of property rights to money lenders** can turn famers into landless labourers which limits their ability to take farming decisions.
- Mounting debt **exacerbates the unviability of agriculture as an economic activity**, threatening food security and pushing farmers into a seemingly endless spiral of debt.

Way Forward

- **Enhancing agricultural productivity and farmers income** by initiating programmes that focus on teaching farm-related technologies to the farmers and promote climate suitable and high value agriculture.
- **Risk mitigation** by raising awareness about crop insurance schemes.

- **Enhance accessibility of institutional credit facilities**, especially for small and marginal farmers through steps such as setting-up mobile branches of banks in rural areas, reducing the transaction costs, computerisation of lands records etc.
- **Establishing Financial Literacy and credit Counselling Centres (FLCCs):** Training can be provided to banks SHG federations, agri clinics and other similar institutions to educate farmers about sustainable debt practices.
- **Setting up of a "Money Lenders Debt Redemption Fund"** as a one-time measure for providing long-term loans by banks to farmers to enable them to repay their debts to the moneylenders.
    - Local Civil Society Organisations, NGOs or Panchayati Raj Institutions could be involved in arriving at negotiated settlements with the moneylenders.

7.5.2. PM-KISAN

Why in news?

According to agriculture ministry, since 2019, about **₹374.78 crore amount is pending for reprocessing** after failed transactions occurred under **PM-KISAN scheme.**

About Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) Scheme

- It is a **central Sector scheme** which provides **₹6000 per annum** to each **eligible farmer's family** in three instalments of Rs 2000 each.
- **Objectives of the scheme is to**
    - **Provide income support to all landholding farmers' families** (irrespective of the landholdings) in the country.
    - **Supplement financial needs of farmers** for procuring various inputs related to agriculture and allied activities as well as domestic needs.

Benefits of PM-KISAN

- **Direct Income support** to farmers to address **liquidity constraints** in agricultural inputs.
- **Verification and validation of Pm-Kisan data**, including **Aadhar and income tax databases.**
- **No selection bias** in terms of social, economic, and farming characteristics. 30% of farmers received the **income benefit within three months** of the scheme's implementation.
- **Compatible with WTO norms** as direct income support is part of the **Green Box** at WTO, helping to avoid challenges to **farm subsidy** at WTO for violating multilateral trading rules..

Issues with the scheme

- **Insufficient amount of support** as the income support of **₹17 a day for a household** (offered by PM-KISAN), is largely insufficient for **even bare minimum sustenance** of vulnerable farmers.
- **Neglect of lessee cultivators and sharecroppers** under PM KISAN.
- **Concerns of data inconsistencies in identification of beneficiaries** as many states have **incomplete tenancy records** and land data are not digitised**.**
- **Failed transactions** due to several reasons such as **account closed or transferred, invalid IFSC code, account inactive, account dormant**, amount exceeding the limit set on account by the bank for credit/debit per transaction, among others.
- **Difficulties in identifying beneficiaries** as there are multiple owners for a single land or a single owner for multiple landholdings.
- **Role of Banks** as there are reports that several bank branches adjusted the deposit money against past liabilities of few farmers.
- Lack of grievance redressal mechanism to resolve complaints and curb corruption.

Road Ahead

- **Adequate cash transfer** to help **bring an affected segment out of poverty**. For this, the transfers can be **indexed with local inflation**, helping to face **volatile market and price fluctuations**.
- **Better timing of providing benefits** such as peak season (**IFPRI-ICAR study**) for increased spending on agriculture. As an **off-season**, money is more likely to be spent on **consumption**.
- **Invest in agricultural advisory services** to encourage farmers to **invest some or all part of the income support in productive assets** for achieving the multiplier effect of PM-KISAN.

- **Strengthening IT backbone** as States with **robust computerized land records data base and a good IT infrastructure** are in a better position to implement PM-KISAN.
- **Encourage Farmers** with no bank accounts **to open 'no-frills' accounts** under the Jan-Dhan Yojana.
- **Enhance investment in infrastructure and R&D** such as roads; irrigation, marketing infrastructure, etc. for long-term outcomes in **raising farm incomes.**
- Targeted updation of land records to ensure that eligible cases are not deprived while fraudulent claims are avoided.
- **More freedom to states** for a **bottom-up strategy** and well-planned implementation mechanism.

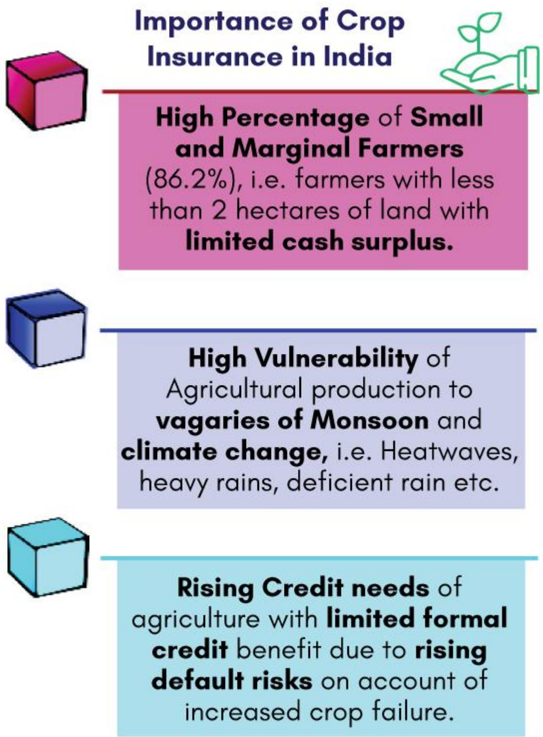
7.5.3. PRADHAN MANTRI FASAL BIMA YOJANA (PMFBY)

Why in News?

The **two working groups**, set up by the **Ministry of Agriculture and Farmers' Welfare** to review the PMFBY, submitted their recommendations to **reverse the falling coverage** of the scheme.

About PMFBY

- It is a Central Government's flagship **crop insurance scheme** launched in 2016, replacing the earlier **National Agricultural Insurance Scheme (NAIS)** and **Modified NAIS**.
- It aims at **supporting sustainable production** in agriculture sector by way of:
    - Providing **financial support to farmers** suffering crop loss/ damage arising out of unforeseen events;
    - **Stabilizing farmers income** to ensure their continuance in farming;
    - **Encouraging farmers** to **adopt innovative and modern agricultural practices**; and
    - **Ensuring credit worthiness** of the farmers, **crop diversification** and **enhancing growth** and **competitiveness of agriculture sector** besides **protecting the farmers** from production risks.



Reasons behind poor insurance coverage despite initiatives

- **Non-implementation/suspension of the scheme by some States** because of more than **six-fold increase** in PMFBY **premium**; increasing **subsidy liability** of the government.
- **Delays in settlement of farmers' claims** due to various reasons like delays in payment of state share of subsidy, delays in Crop Cutting Experiments (CCEs) and delays in processing claims by insurance companies.
    - CCEs are conducted just before harvest to assess crop loss by estimating average yield for all notified crops in the notified insurance unit. But it suffers from issues of **reliability, lack of funds and trained professionals, high time consumption** and **labor intensive nature**.
- **Lack of participation from insurance companies** in certain clusters like smaller states/UTs due to low coverage (E.g. Tripura, Meghalaya) and in big clusters like in Maharashtra due to higher risk level/sum insured.
    - The number of participating insurance schemes has also decreased from 19 at start to 11 companies in Kharif 2021.
- **Limited training and Capacity Building** of stakeholders to remove deficiency in knowledge and services which is vital for efficient claim settlement process.
    - It becomes more significant due to **multiple layers of hierarchy** within **each stakeholder** with different training needs.
- **Other reasons like**- Announcement of **Debt Waiver Scheme** by States; **Limited Publicity and Awareness** on scheme due to **low literacy** and **poor socio-economic conditions** of majority farmers among others.

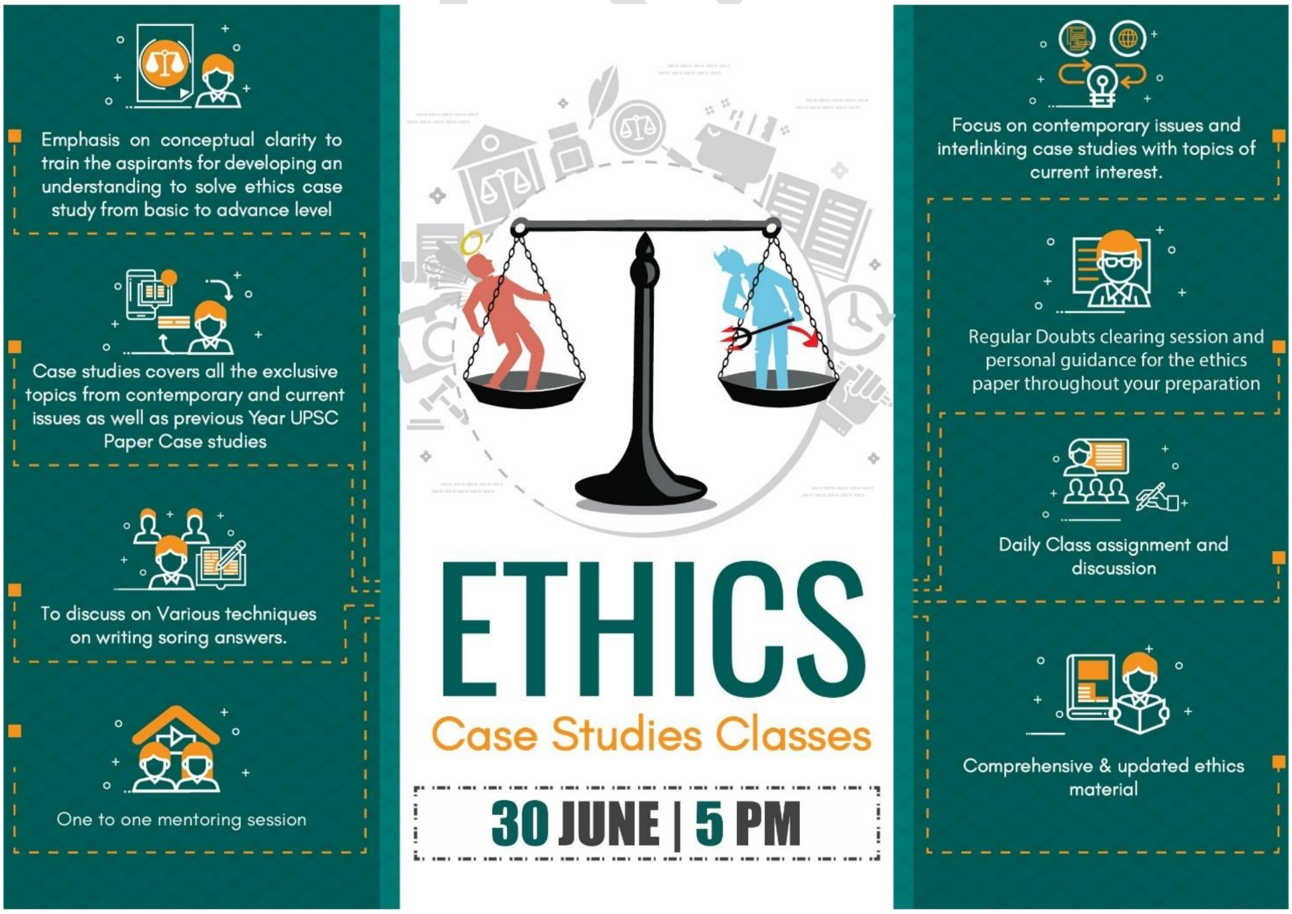
Recent Steps and Recommendations of Working Groups

An MoU is signed with **UNDP** as well to provide **responsive, demand-driven technical support** on PMFBY. The two Working Groups have also recommended steps to address specific issues as:

- **Coverage: Targeted Premium subsidies** for Small Farmers to increase penetration and bring down the average premium rates with a uniform coverage.
- **Overcoming Delays: Empower Centre to levy penalty** on States for delay in subsidy settlements or **adjust such subsidies against other liabilities** of the central government; and **Use of remote sensing data and weather data** extensively for faster and more accurate crop yield assessment.

Other Steps to improve PMFBY:

- **Strengthen Infrastructure and technology** for hassle free and farmer-friendly delivery of the Scheme. E.g.
    - **Functional office of insurance companies** in each Tehsil as mandated by the PMFBY.
    - Extensive use of technology to assess yield and losses should be supported by actions to gain farmers trust in order to avoid misuse of technology.
- **Evaluate Insurance Companies performance** on a **regular basis** and take action against the defaulting Companies to complete penalization within a fixed timeframe.
- **Monitoring** the compliance to requirement of expenditure of **0.5% of Gross Premium per Company per Season** for publicity and awareness.
- **Utilizing CSR Funds** from the profits of Insurance Companies from PMFBY in the State/District towards development of rural areas in the respective State/District.
- **Linking crop insurance with climatic changes** and redesigning insurance products to make them not just risk transfer tools but a tool to reduce the risk and loss of crops.
- **Offering insurance as priority insurance on the lines of priority sector lending** can increase penetration of crop insurance in rural areas.
- **Competitive Pricing** by having at least two insurance companies in a cluster to help farmers benefit from competitive pricing for insurance products.



7.6. ALLIED SECTOR

ALLIED SECTOR AT A GLANCE

8.15% CAGR of Livestock sector during 2014-15 to 2019-20, contributing **29.35%** in total agriculture GVA in 2019-20 (at constant prices).

23% of the global milk production happens in India, contributing **5%** of national economy and employing **more than 8 crore** farmers directly.

37% of India's total exports are contributed by the Horticultural Sector.

2[nd] **largest** fish producing country in the world accounting for **7.56% of global production.**

Key objectives

- **Increasing livestock productivity and production in a sustainable manner**, while protecting the environment, preserving animal bio-diversity, ensuring bio-security and farmers' livelihood.
- Promote holistic growth of **horticulture sector**, augmenting **farmer's income** and strengthen **nutritional security.**
- Ushering in a **rainbow revolution** to ensure balanced and holistic development in all the areas.

Constraints

- Use of **outdated and inefficient technology** is the primary reason for low productivity of crops and livestock.
- **Affordability of high yielding breeds, farm equipment** becomes a significant constraint.
- A **huge gap exists between the demand for and supply of skills** in agriculture, hindering diversification.
- **Absence of adequate capital** vis-à-vis technological adoption.
- **Limited processing infrastructure** leading to **high post-harvest losses.**
- **Low scale** is a serious constraint on the adoption of improved practices in all the allied activities.

Schemes/Initiatives

- **Mission for Integrated Development of Horticulture (MIDH)**- National Horticulture Mission (NHM), National Horticulture Board, Coconut Development Board.
- **Schemes for Blue Revolution** such as Integrated Development and Management of Fisheries, Mission Fingerling and Pradhan Mantri Matsya Sampada Yojana (PMMSY) for the fisheries sector.
- **National Livestock Mission (NLM)** and Livestock Insurance Scheme.
- **Kisan Credit Card** for animal husbandry and fisheries.
- **National Program for Bovine Breeding and Dairy Development (NPBBDD).**
- **National Mission on Bovine Productivity.** Encouraging new techniques like Permaculture etc.

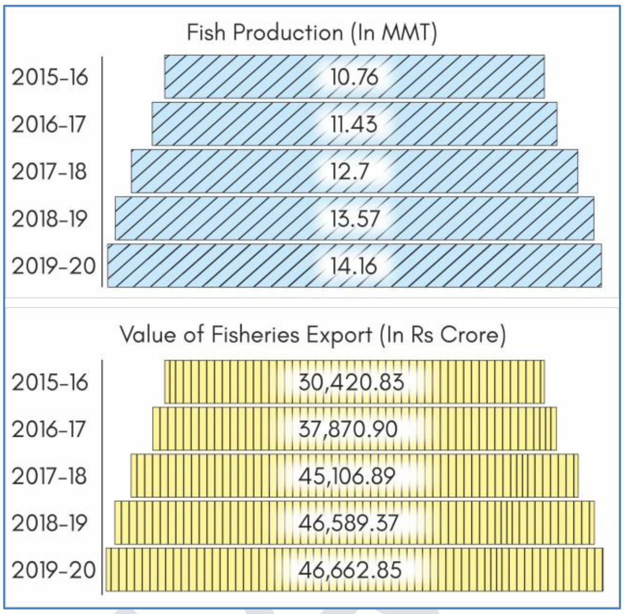
Way Forward

- **Modernize and strengthen the value chain** across allied sectors.
- Ensure **social, physical and economic security** for farmers engaged in allied sectors.
- **Convergence of schemes** in different allied sectors such as fisheries sector and **Capacity building** for farmers and fish breeders.
- Encourage **diversification to High Value Crops** for enhanced income and employment generation.
- **Smart horticulture**: using techniques such as **high-density plantation, hybrid technology** in vegetables and **Rootstock Technology** in fruits.
- Strengthen **market for organic products**.
- Breed **indigenous cattle with exotic breeds.**
- **Reduce post-harvest losses** by facilitating private investment and entrepreneurship in processing.

7.6.1. FISHERIES SECTOR IN INDIA

Why in news?

Recently, the Government has set target of ₹1 lakh crore exports from fisheries sector by 2024-25.



About Fisheries in India

- India is the **3rd largest fish producing and 2nd largest aquaculture nation** in the world.
- India has more than 10% of the global biodiversity in terms of fish and shellfish species.
- Fisheries **being a State subject, the States play a pivotal role in fisheries governance**.
  - The role of the **Central Government is to complement the former's efforts** in this regard under the guiding principles of cooperative federalism.
  - While **Inland Fisheries are fully managed by State Governments, Marine Fisheries are a shared responsibility between the Central and Coastal State/UT Governments**.

Significance of fisheries sector

- **Food Security:** It provides **important food and nutritional resources**, especially for the rural economies.
  - E.g., Inland fishing helps in addressing **'Hidden hunger'** by **providing micronutrients to those where other nutritional sources are not available** or are cost prohibitive.
- **Livelihood:** Many of these fisheries are conducted by the rural poor, often for **subsistence and small-scale economic security**. Fisheries provides livelihood to about **25 million fishers and fish farmers** at the primary level and twice the number along the value chain.
  - This role is particularly important in **poverty prevention for marginalized populations including ethnic minorities, the rural poor, and women.**
- **Environment:** Inland fishes serve as **indicators of ecosystem function and ecosystem change.** Additionally, because of the **low environmental impact** of many inland capture fisheries and aquaculture operations, they can be recognized as relevant to the **'green food' movement**.
- **Social:** They play an **important role in communities** around the globe. In many cultures, inland fish are **sacred and contribute to community identities**.
- **Human health and well-being:** It contributes to advancements in disease control and medical research. E.g., Larvivorous fish are frequently used for the **control of disease-carrying (e.g., malaria, Dengue fever, yellow fever) mosquitoes.**

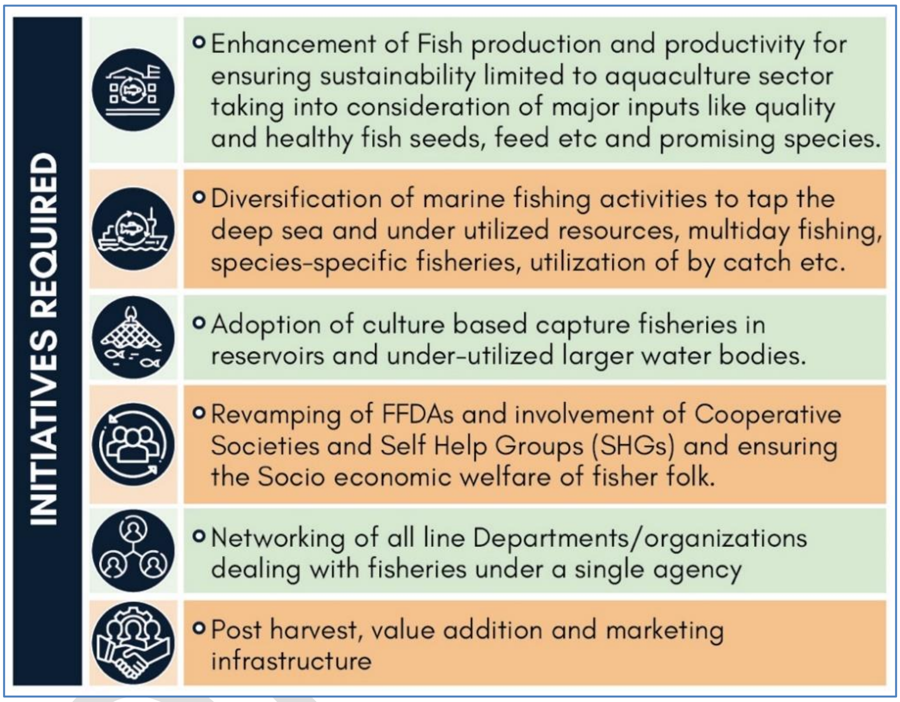
Constraints in the Growth of Fisheries Sector

- **Inadequate infrastructure:** Especially **fishing harbours, landing centers, cold chain and distribution systems, poor processing and value addition, wastage, traceability and certification, non-availability of skilled manpower** etc.

Government initiatives

- **Blue Revolution** focuses on creating an **enabling environment for integrated and holistic development and management of fisheries** for the socio-economic development of the fishers and fish farmers.
- **Pradhan Mantri Matsya Sampada Yojana (PMMSY):** to **double fishers and fish farmers' incomes and generate meaningful employment** and **enhance the contribution of the fisheries sector to Agricultural GVA and exports.**
  - A nationwide **"River ranching programme"** under **Pradhan Mantri Matsya Sampada Yojana (PMMSY) scheme** has been launched for augmenting and enhancing the **fish production and productivity** through expansion, intensification, diversification and productive utilization of land and water.
- **Establishment of Fisheries and Aquaculture Infrastructure Development Fund (FIDF).**
- **In 2019,** The Government has created a **new Ministry of Fisheries, Animal Husbandry and Dairying with two separate Departments:**
  - The Department of Fisheries
  - The Department of Animal Husbandry and Dairying
- **National Policy on Marine Fisheries, 2020:** launched to develop an **ecologically healthy, economically viable and socially inclusive fisheries sector**.
- **Kisan Credit Card (KCC) to fishermen and women.**

- **Technological lag and financial constraints:** It is a major bottleneck in the delayed take off the deep-sea fishing industry in India.
- **Overexploitation: Unsustainable fishing poses a serious threat to fish and aquatic biodiversity** and to the livelihoods of people in riverine and lake communities.
    - Major causes are **excessive food demands, market pressures, fishing gear technology development, weak or lack of appropriate management approaches and policies, accidental by-catches, and an unregulated aquarium trade in wild species**.
- **Climate change:** As fishes cannot control their body temperature, **increasing or decreasing water temperatures impact growth, reproduction** and ultimately survival of the fisheries.
- **Invasive species:** The introduction of **exotic or alien invasive species is one of the greatest global threats** to native fish communities and their freshwater ecosystems.
- **Habitat modification, fragmentation, and destruction:** by damming, agriculture practices, urban development, rivers dredging and geomorphological modifications etc.



Conclusion

Sustainable resources exploitation from fisheries sector is still possible through **regulatory management strategies and concerted policy efforts** for different species and for different regions. There is a need to come up with **environment-friendly fishing and look for sustaining the sector while continuing the consumption.**

7.6.2. SUGAR MILLS

Why in news?

Recently, the Department of Food and Public Distribution issued guidelines for restructuring under Sugar Development Fund (SDF) Rules 1983.

Benefits of new guidelines

Uniformly applicable for SDF loans availed by all types of concerns, including Co-operative Societies, Private Limited Companies and Public Limited Companies, it will bring benefits like:

- **Relief to financially weak sugar mills** through **2 years of moratorium** and 5 years of repayment.
- **Waiver of additional interest** in full will be given to the eligible sugar factories.
- **The rate of interest will be changed** to the interest rate as per the prevailing bank rate on the date of approval of the rehabilitation package as per SDF Rule 26 (9) (a).

Sugarcane pricing policy

- **Fair and Remunerative Price (FRP):** With the amendment of the Sugarcane (Control) Order, 1966 in 2009, the concept of Statutory Minimum Price (SMP) of sugarcane was replaced with the FRP.
    - The FRP is the **minimum price that sugar mills have to pay sugarcane farmers** to insulate them from increasing input costs.
    - It is linked to a **basic recovery rate of sugar** and determined on the basis of **recommendations given by the Commission for Agricultural Costs and Prices (CACP)**.
    - **State-Advised Prices (SAPs),** generally higher than the FRP, is declared by States including Uttar Pradesh for sugarcane considering the cost of production and productivity levels.

Sugar pricing policy
- **Minimum Selling Price (MSP):** In exercise of the powers conferred by the Essential Commodities Act, 1955, Centre notified **Sugar Price (Control) Order, 2018** under which the Centre fixes the MSP after taking into account the FRP of sugarcane and minimum conversion cost of the most efficient mills.
- **Public Distribution System:** At present, sugar is distributed at a subsided rate of Rs 13.5 per kg to 2.5 crore families under the Antyodaya Anna Yojana (AAY).
- **Export policy:** India's export subsidy includes Production Assistance Scheme, Buffer Stock Scheme and Marketing and Transportation Scheme.

Why sugar mills face liquidity crunch so frequently?

- **High sugarcane production due to combination of factors like:**
  - **Fixed prices for sugarcane** from government; **Controlled domestic prices for sugar** which make them immune to any international price; **Availability of High yield sugarcane varieties.**
- **Cane reservation area and bonding:** Every designated mill is obligated to purchase from cane farmers within the cane reservation area, and conversely, farmers are bound to sell to the mill.
  - It **reduces the bargaining power of the farmer** who is forced to sell to a mill even if there are cane arrears (occurs when sugar mill owners delay payment to farmers for the sugarcane supplied).
  - **Mills lose flexibility** in augmenting cane supplies, especially when there is a shortfall and restricted to the quality of cane that is supplied by farmers in the area.
- **Minimum distance criterion**: Under the Sugarcane Control Order, the central government has prescribed a minimum radial distance of 15 km between any two sugar mills. This regulation is expected to ensure a minimum availability of cane for all mills.
  - However, it often **causes distortion in the market** by reducing competition and giving virtual monopoly to mills over farmers, especially when landholdings are smaller.
- **Trade policy for sugar:** Due to government controls on both exports and imports, India's trade in the world trade of sugar is small. It increases instability for the sugar cane industry and its production.

Steps taken for resolving the liquidity crunch of sugar mills and their Effectiveness

- **National Policy on Biofuels – 2018** for **20% target blending rate for ethanol by 2030.**
- **A tripartite agreement** between sugar companies, banks and Oil Marketing Companies (OMCs) to ensure ethanol availability.
- **Export subsidy for sugar** to make Indian exports viable as cost of producing sugar (due to high cane price) is way above the international sugar price.

What could be done to resolve the liquidity crunch being faced by sugar mills?

Based on the recommendations from C. Rangarajan committee ('Report on the Regulation of Sugar Sector in India: The Way Forward' [submitted in 2012]):

- **Phase out cane reservation area and bonding** over a period of time and encourage development of market-based long-term contractual arrangements for flexibility to farmers for decision on which mill they want to sell their produce to.
- **Distance norm be reviewed** for better prices to farmers and force existing mills to pay them the cane price on time.
- **Change Trade Policy** to remove all Quantitative Restrictions on Sugar Trade and convert them into tariffs, not exceeding 5-10%. Such a trade policy will be neutral to consumers and producers. The tariff can be changed when world prices are very high or low.

7.7. FOOD PROCESSING SECTOR

FOOD PROCESSING SECTOR AT A GLANCE

Sunrise sector with **11%** CAGR, contributing **2.24 lakh crore Gross Value added (GVA) in 2019-20- 1.69% of the total GVA in the country.**

20.05 lakh employees, Annual Survey of Industries 2018-19, with **largest share** of **11.22% of total persons engaged in the registered manufacturing sector in the country.**

22 Operational Mega Food Parks out of 37 approved across the country.

Rising exports with **increasing regional tastes preference.**

Key objectives

- **Integrating two important pillars of the economy** i.e., economy and agriculture through Food Processing Sector.
- **Exploiting India's food processing (FP) potential due to increasing demand** in sectors like milk, pulses, ginger, bananas and mangoes.
- **Creating global food manufacturing champions.**
- **Supporting branding and marketing** of the Indian products abroad.
- Addressing the problems of currently **low processing level of food products** and **huge wastage in the supply chain.**

Schemes/Initiatives

- **PM Kisan SAMPADA Yojana**
- Expansion of **Operation Greens** scope from TOP to 22 perishables.
- **Prime Minister-Formalisation of Micro Food Processing Enterprises** (PM-FME) for financial, technical and business support to micro enterprises.
- **One District One Product (ODOP)** initiative under PMFME to upgrade SMEs on selected products.
- **Production Linked Incentive Scheme** for Food Processing Industry (PLISFPI)
- **100% FDI** and inclusion of food and agro-based processing units and cold chain as agricultural activity under **Priority Sector Lending**.

Constraints

- **Informalization** in Food Processing Industry.
- **Lack of efficient supply chain** infrastructure.
- Hurdles in getting **access to raw materials and Cold Chain capacity.**
- **High requirement of working capital**, low availability of new reliable and better accuracy instruments and equipment's, inadequate automation.
- **Under-developed linkages** of farmers/sector with R&D labs, processors, exporters and bulk purchasers.
- **Poor Credit Facility, Bureaucratic hurdles and Stringent Labour Laws.**
- **Inadequate training and skill development.**
- **Limited ability to control quality and safety.**

Way Forward

- **Policy:** Streamline the **regulatory structure**, labour law, food and packaging standards.
- **Financial:** Provide appropriate **tax incentives** and **holidays for setting up food processing industries**, taking care of market promotion and ancillary activities expenses.
- **Infrastructure: Plug supply side and infrastructure bottlenecks** through farmer–producer-investors-R&D labs linkages.
- **Human Resource:** Create Skilled Manpower and reorient stakeholders mindset towards 'demand and profit driven production'.

7.8. AGRICULTURAL EXPORTS

Why in news?

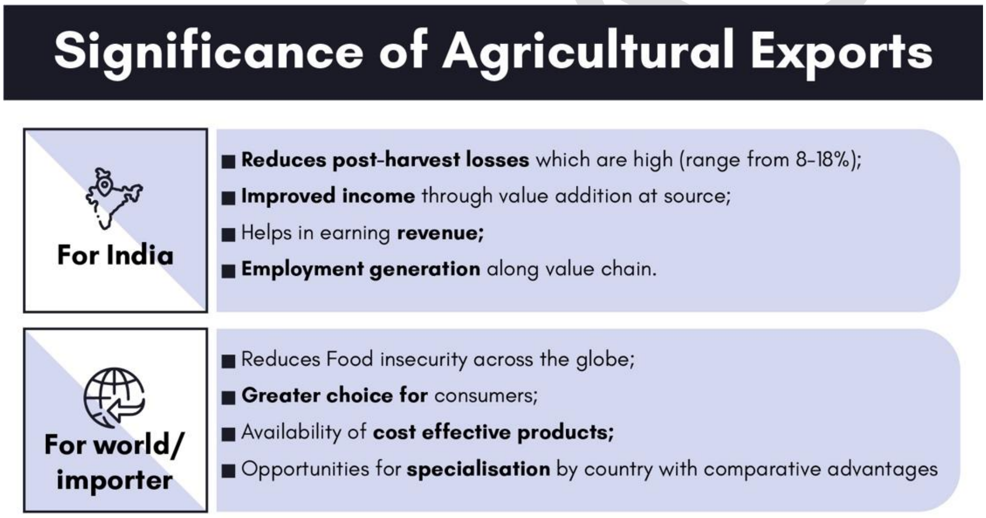
India's agriculture exports touched a historic high of USD 50 billion during 2021-22.

More about news

- As per the provisional figures released by the Ministry of Commerce, the **agricultural exports have grown by 19.92%** to touch $50.21 billion.
    - The growth is over and above the growth of **17.66%, at $41.87 billion, achieved in 2020-21.**
    - Highest ever exports have been **achieved for staples** like rice, wheat, sugar, and other cereals.
    - Export of **marine products** ($7.71b) is also the **highest ever.**

India's Agricultural Exports and its Significance

- **Share in world trade:** India has been a **net exporter** of agri-products **since the economic reforms began in 1991**. As per WTO's Trade Statistics, **share of India's agricultural exports** and imports in the **world agriculture trade** in 2017 was **2.27%** and 1.90%, respectively.
- **Share in overall domestic exports**: India's total exports have an **11% contribution** from **agricultural and processed food products**.
- **Key Exported commodities:** Marine products, basmati rice, buffalo meat, spices, non-basmati rice, cotton raw, oil meals, sugar, castor oil and tea.
- **Key Destinations:** Exported to more than **100 countries/regions** with **USA as the largest export destination** during 2020-21, followed by China. Other major destinations were **Bangladesh, UAE, Vietnam and Saudi Arabia**.
- **Export as percentage of GDP:** The agricultural exports **as a percentage of India's agricultural GDP** has increased from 9.4 % in 2017-18 to **9.9** % in 2018-19.
- **Agri-exports** help in **bringing down cost of production** through economy of scale with enhanced trade related **R&D, product quality and packaging standards** etc. along with other domestic and global benefits (see image).



Government Initiatives to increase exports

- **Agriculture export policy** to increase farmers' income, harness export potential and make India a **leading player** in the agriculture sector.
- Issuing **online certificates** for exports with increased **testing facilities** and **control rooms** to handle issues.
- **Transport and Marketing Assistance Scheme** for Specified Agriculture Products' –for providing assistance for the **international component of freight** to mitigate the freight disadvantage.
- A **Farmer Connect Portal** set up for **farmers, FPOs/FPCs, cooperatives** to interact with exporters.
- Regular interactions with the **Indian Missions** abroad.
- Assistance to the exporters of agricultural products available under the **Export Promotion Schemes** of APEDA, MPEDA, Tea Board etc.
- Krishi UDAN 2.0 Scheme, by Ministry of Civil Aviation, **to facilitate and incentivize movement of Agri-produce by air transportation** at 53 airports across the country **mainly focusing on Northeast and tribal regions.**

Constraints in Agricultural exports

- **Poor backward integration**, especially for perishables is **inefficient and unorganized**, resulting in **quality and longevity issues.**
- **Lack of Training & Skill development:**
    - **At farm level: Unregulated input** (chemicals) usage at the farm level and I**nadequate harvest and post-harvest management** affects **quality and shelf life** of the produce.

- At exporters' level regarding documentation and procedures to be followed for exports and lack of awareness on **existing schemes and policies** related to exports.

- **Low Value addition** when compared with **global agri export value chain** as majority of India's exports are **low value, raw or semi-processed** and marketed **in bulk**. Share of India's **high value and value added agri produce** is **less than 15%** compared to 25% in US and 49% in China.
- **Non-tariff barriers (NTBs)** in attractive markets such as Europe (e.g., **more stringent inspections** than for other top exporting countries). NTBs and **lack of strong trade agreement with target markets** are key inhibitors to dramatically increasing Indian agriculture exports.
- **Quality issues** over **sanitary and phytosanitary (SPS) standards in US and EU market**, leading to **at-port rejections**, especially for **shrimps and spices** and ability to penetrate these markets.
- **Inability to export its vast horticultural produce** due to **lack of uniformity in quality, standardization** and its inability to curtail losses across the value chain.

Agriculture Export Policy

A **comprehensive Agriculture Export Policy** has been brought in 2018, with a focus on agriculture **export oriented production**, export promotion and **synchronization** within policies and programmes of Government of India.

Objectives:

- To **diversify** our **export basket, destinations** and boost high value and value added agricultural exports, including focus on **perishables**.
- To promote **novel, indigenous, organic, ethnic, traditional and non-traditional** Agri products exports.
- To provide an **institutional mechanism** for pursuing market access, tackling barriers and dealing with sanitary and phytosanitary issues.
- To strive to **double India's share in world agri exports** by integrating with **global value chains.**
- Enable **farmers to get benefit of export opportunities** in overseas market.

Road Ahead

- **Policy alignment:** Domestic policies and schemes should be **aligned with the disruptive modifications** that Artificial Intelligence, IoT, and Blockchain will bring in the coming days. The policies relating to **Minimum Support Price (MSP)** will also have to be made **WTO compliant**.
- **Addressing SPS issue**: A **unified body** that can handle all Sanitary-Phyto Sanitary (SPS) issues **from a single window** can be considered.
- **Strengthening agri-food supply chain:** To emerge as a top global exporter, various elements of the agri-food supply chain like **Agri-production practices,** Supply chain and **logistics,** delivering transparency and traceability using technology etc needs attention.
- **Implementing recommendations made by HLEG set up by 15th FC** such as:
  - Centre should be an **enabler**.
  - Create **State led export plan** with participation from stakeholders.
  - Need for **higher investments in R&D, technology** with regulatory clarity around IP issues.
  - Create a **sharper, more coordinated investment strategy** specifically for promotion of agricultural exports, with a focus on **value addition.**

7.8.1. FLUCTUATION IN PRICE OF AGRICULTURAL COMMODITIES

Why in news?

Recently, India banned wheat exports to control rising domestic prices.

More on news

- India is the **world's second biggest wheat producer**, but **accounts for less than 1% of the global wheat trade.**
  - India's top **export markets are Bangladesh, Nepal, Sri Lanka** and **United Arab Emirates (UAE).**
- **Reasons behind wheat ban**
  - To **manage country's overall food security** and support needs of neighbouring and vulnerable countries.
  - Because of sharp rise in global prices (due to Russia-Ukraine war), **farmers were selling wheat to traders resulting in sharp drop in procurement** for buffer stocks by Food Corporation of India (FCI).
  - India's wheat harvest has **suffered from heatwave, drought and floods** that is stunting production.
  - Rising food and energy prices have pushed India's annual **retail inflation near an eight-year high.**

What are the potential impacts of rising domestic prices?

- **Overall economy:** Price rise is a key determinant of monetary policy. Moderate inflation helps RBI to keep interest rates low to spur economic activity.
- **Producer:** Higher food prices have not necessarily translated into better prices for farmers.
    - Also, intermediaries are facing higher transportation costs which they are in turn passing on to farmers.
- **Consumers:** Immediate impact of steep surge in price is expected to be negative and especially **troublesome for poorer households** that allocate majority of their consumption expenditures to food.

Impact of Wheat Export Ban globally

- **Distort global market:** Due to soaring demand and higher prices offered by private traders, shortage of wheat has caused a **spike in wheat flour prices in international markets.**
- **Decreased Buffer stock:** Low crop yields in 2022, has brought **global wheat stocks to their lowest level since 2008 financial crisis.**
- **Increase threat of widespread hunger:** The World Food Program, has warned that an additional 47 million people could go hungry due to Russia-Ukraine war and export ban by India.
- **Violence:** Soaring bread prices have **triggered protests in Iran due to cut in government subsidies for imported wheat** that caused price hikes as high as 300 percent for a variety of flour-based staples.

Measures that can be taken to prevent price rise and fluctuations

- **Buffer stock:** Buffer stocking with **ample storage has to be created**.
- **Value chain development:** India's cold storage capacity at present is short by 30-40 lakh tonnes. Besides **cold storages need to be upgraded to store fruit and vegetables** at right temperatures so that they stay fresh.
- **Eliminating middlemen:** Direct buying by organised retailers from FPOs through contract farming, bypassing mandi system should be encouraged.
- **Mandi reforms:** Reforms can be undertaken on PPP basis, commissions can be reduced, contract farming encouraged, along with setting up of private mandis for better efficiency.
- **Managing the interest of various stakeholders:** Striking a balance among key stakeholders could address the issue of price fluctuation i.e., consumer wants to buy a commodity at lowest price; farmer desires to sell at maximum price; middleman wants to maximise profits.

8. INDUSTRY

8.1. INDUSTRIAL POLICY

INDUSTRIAL POLICY AT A GLANCE

16% contribution of manufacturing sector to GDP, almost stagnant since 1991.

Improvement on several internationally reputed indices such as the Global Competitiveness Index, Logistic Performance Index and the Global Innovation Index has been seen recently.

63rd position in the Ease of Doing Business Index (from 142nd in 2014).

7 Indian companies feature in Fortune 500 list of 2021.

Key Objectives

- **Transform India into a major partner and player in the global arena.**
- **Maintain a sustained growth in productivity, enhance gainful employment** and **attain international competitiveness.**
- Promote in a planned manner the adoption of **'Industry 4.0'.**
- Increasing the number of global-Indian firms in **Fortune 500 category.**
- Attract **$100 bn inward FDI** annually and support outward FDI to assert Indian presence in world markets.

Policy/Schemes/Initiatives

- **Progressive Liberalization of Industrial Policy** since 1991 for bigger role of private initiatives.
- **Infrastructure Development** through SEZ, NIMZ, Technology parks, National Investment and Manufacturing Zones' (NIMZs), National Industrial Corridors Programme (NICP) etc.
- **PM Gati Shakti National Master Plan** for providing multimodal connectivity infrastructure to various economic zones.
- **Production-Linked Incentive (PLI)** for various sectors to boost manufacturing and export.
- **Other Laws, Policies and Reforms-** Competition Act (2002), Micro, Small & Medium Enterprises Act (2006) and National Manufacturing Policy (2011), GST Reforms, IBC Code, Make in India, Start Up India, DTI Scheme, 29 labour laws amalgamated into 4 labour laws

Constraints

- Distortions in industrial pattern owing to **selective** inflow of investments.
- **Cyclical slowdown in fresh investment** since 2011-12 with issues of credit constraints, high unit labour costs etc.
- Challenges to **technology development** an **adoption** including Data security, reliability of data and stability in communication/ transmission.
- **Lack of quality industrial infrastructure** and connectivity leading to high logistics cost and reduced export competitiveness of Indian goods.
- Challenges of **regulatory uncertainty,** restrictive **labour laws, IPR issues** and delays, power shortages, firm-level data, multiple agencies, supply chain disruptions, rising input costs etc.

Way forward

- **Revitalising Manufacturing Economy** through demand generation, augmenting industrial **infrastructure and promotion of MSMEs.**
- **Continued Liberalization** to encourage **FDI and private investment in manufacturing.**
- Setting up of **mega parks and manufacturing clusters in labour intensive sectors.**
- Initiative to **push industry to adopt Industry 4.0.**
- Introduce a **"single window" regulatory system** in all states.
- **Green Industrial Policy** as part of the New Industrial Policy.
- **Tax Reforms** through multilateral and Bilateral Agree-ments.
- **Increase R&D expenditure and robust IPR regime** for holistic and sustainable development of IPRs.

8.1.1. EASE OF DOING BUSINESS

Why in News?

Recently, World Bank Group announced that it has decided to discontinue publication of its 'Doing Business' rankings of country business climates.

Why is Ease of Doing Business (EoDB) needed?

- **The business regulatory environment and economic outcomes** are believed to have an **important and robust relationship** as regulatory environment affects **productivity, growth, employment, trade, investment, access to finance,** and the **size of the informal economy**.
- EoDB points to transparent rules on the ground to promote efficient markets, rev up enterprise and boost the development delivery mechanism, and, therefore, **help change perceptions and investor sentiments.**
- **Regulatory burden on a business has a significant impact on its performance.** To ensure compliance, regulations impose both time and cost and affect competitiveness of business.
  - Low regulatory burden means more time on productive activities by entrepreneurs.
- NITI Aayog has come out with State-level EoDB ranking based on the progress of states in completing annual reform action plan; helping states to **attract investments, foster healthy competition and increase Ease of Doing Business in each State.**

Issues with Ease of 'Doing Business' rankings

- **Irregularities in ranking:** Decision to discontinue came **after a review of data irregularities found in 2018 and 2020 reports.**
  - Irregularities had affected four countries: China; Saudi Arabia; UAE; and Azerbaijan.
- **Libertarian bias:** It tends to reduce the complexity of economic activity to a few quantifiable metrics with a libertarian bias. It **creates an incentive for countries to pursue economic policies that conform with the World Bank's vision of economic development**.
- **Ignore deeper structural, social, or political issues:** Ranking have been criticized for gaming the system (obsessing over moving up in the rankings) rather than pushing for real and lasting structural reforms.
- **One size fits all approach**: A one-size-fits-all approach to measuring and understanding economic growth and development, especially one based on the ideological priors of institutions and stakeholders, is always likely to contain some fatal flaws.

Challenges to Ease of Doing Business in India

Lagging on critical parameters
- Though progress has been made, India still lags behind many larger nations in critical metrics such as starting a business, enforcing contracts and registering property.

High tariffs and protectionist policies
- India's tariffs and trade regulations were already non-transparent and often unpredictable, leaving many U.S. investors and exporters with limited access to the market.
- India's average applied tariff is among the highest bound tariff rates in the World Trade Organization (WTO).

Unstable Policy Environment
- A good example of the recent past is the telecom sector, which saw a huge enthusiastic entry of large MNCs when the sector was opened up for FDI, and soon enough, many exited, thanks to the ever-changing policy framework.

Infrastructure
- India's infrastructure of roads, railroads, airports, seaports, power grids, and telecommunications infrastructure present challenges to its growing economic status and ability to deliver public services.

Safeguarding intellectual property
- Although local laws are thorough and generally compatible with EU and U.S. IP laws, there is some concern about enforcement of these laws.
- Bureaucratic delays and a general lack of transparency are both areas of concern in terms of protecting sensitive intellectual assets.

Some Ease of Doing Reforms implemented by India to improve its ranking

- **Make in India** led to launch of reforms like getting FDI, foster business, alleviate the business environment from outdated policies and regulations, infrastructure development etc.
- **Launch of web-based SPICe+ and AGILE-PROform** has enabled new company incorporation in 3-steps as compared to the 14 steps process in 2014.

- **Establishment of a modern insolvency regime through Insolvency and Bankruptcy Code (IBC)**in 2016 as part of a comprehensive strategy to reform corporate law.
- **Easy procedure for filing GST returns,** elimination of incorporation fees for small businesses etc.
- Number of days required for **getting electricity connection reduced from 105 days in 2014 to 53 days** in 2019 in India.
- **Dedicated Commercial Courts with modern facilities** in Delhi and Mumbai have been established for early redressal of commercial disputes.
- **Single window for all import and export transactions,** integration of all stakeholders such as port and terminal operators at a common platform and fast-tracking clearances of consignments at ports.
- Passage of the **Taxation laws (amendment) Act, 2021** which scrapped the retrospective taxation bringing certainty in taxation laws.
- **Enforcing Contracts Portal** as a comprehensive source of information pertaining to legislative and policy reforms being undertaken on "Enforcing Contracts" parameters.

8.1.2. PUBLIC PROCUREMENT AND PROJECT MANAGEMENT

Why in News?

Recently, Department of Expenditure under Ministry of Finance released guidelines for reforms in Public Procurement and Project Management.

Public Procurement and Project Management Framework in India

- **Public Procurement and Project Management** includes the procurement of goods and services by public entities and execution of different projects. E.g., **goods or services purchased by government entities** for **public service delivery**.
- Presently, **General Financial Rules (GFR), 2017** and **Ministry of Finance Procurement Manuals** act as general guidelines to be followed by all agencies with freedom to have its own procurement rules.
  - **E.g.,** Ministry of **Defence** with almost **50%** of its **budget** spent on **public procurement** has its own procurement guidelines such as Defence Acquisition Procedure 2020.

Why was a need felt to tweak the framework?

- **Absence of a comprehensive law:** Efficient public procurement and project management is vital for ensuring **prudent use of public finance** and **good governance**. Thus, there is need of **a comprehensive law** on activities like Public Procurement.
- **Complex regulatory framework: Three-tiers of governance with diverse ministries and objectives,** large number of **statutory bodies, autonomous institutions, PSUs** etc. with different needs.
- **Growing share of public procurement:** Competition Commission of India (CCI) estimates public procurement in India to be 30% of the GDP (in 2013).
- **Adherence to Least Cost Selection (or 'L1') method:** In high impact and technologically complex procurements it leads to sub-optimal delivery, non-performances, higher life cycle cost, delays, and arbitrations.
  - E.g., **Quality Council of India** study of highway development sector highlighted that the L1 method **fails to consider quality and performance.**

The new guidelines work on **aligning all stakeholders' interests** for successful project execution within **specified time, cost, and quality** for **faster, efficient** and **transparent** project execution.

Key Provisions under latest Guidelines

- **Procedural Clarity** via. Clear expression of Technical and Financial eligibility criteria for bidders; Defining the role of Project Management Consultant (PMC) clearly in the contracts etc.
- **Digital Thrust** through **Open Online Tendering** as default; Implementation of **Electronic-Measurement books (e-MBs)** and its integration with IT-enabled project monitoring system for recording progress of works etc.
- **Better Project Execution and Quality** via. **Detailed Project Reports and Feasibility Study/Ground Survey** before undertaking a project; Inclusion of **Quality Assurance Plan** in tender documents; **Stage-wise progress** and **quality review** of large contracts; etc.
- **Strict payment timelines** such as **75% of ad-hoc payments** within 10 working days of bill submission; Interest on payment delay etc. to **improve liquidity at contractors** especially MSMEs.

VISIONIAS

- **Dispute Reduction** through critical review arbitration/court award and appeal against award only on genuine merit by Public Authorities.
- **Introduction of incentives** by allowing public authorities to devise strategies for giving incentives to stakeholders including bonus, better rating etc.
- **Allowing Fixed Budget-based Selection** (FBS) for consultancy service and **Consultant substitution** only in compelling or unavoidable circumstances.

Way Forward

Building on existing Rules and procedure, India need reforms in whole public procurement and project management with features, practices, incentives /disincentives etc. as:

- **Back the General Financial Rules** through **legislative power** for a transparent, accountable, and competitive procurement regime. For example, giving penalty for poor project deliveries legal backing.
- **Simplify existing procedures** to provide flexibility on use of discretion while maintaining enough transparency and active supervision by **bringing policy planners, and other stakeholders together to work in tandem.**
- **Identify alternative procurement mechanisms** based on emerging trends along with regularly used methods for flexibility and better public service delivery. E.g.
  - **Promotion of E-procurement methods** such as **Central Public Procurement Portal** and **GeM** portal.
  - **Introduction of a Debriefing Procedure** to let unsuccessful bidders know why they were not successful as part of **'Right to Know'**.
  - **Incorporate Integrity Pacts** where possible and appoint more Independent External Monitors (first approved by CVC in 2016 for 132 procuring entities).
- **Close coordination** between CCI and Governments/ Departments/ PSUs to detect and deter unfair practices. Revamp and strictly enforce blacklisting rules for corrupt firms.
- **Periodic awareness and training** of procurement officials in all aspects of public procurement for capacity building at various governance levels.

> **WTO Agreement on Government Procurement (GPA)**
> - It is a **plurilateral agreement** (i.e., applying to a number of WTO Members but not all) to ensure **open, fair** and **transparent** conditions of competition in the government procurement markets.
> - It guarantees **national treatment** and **non-discrimination** for the suppliers of parties to the Agreement with respect to procurement of covered goods, services, and construction services as set out in each party's schedules
> - **India is not a party** to it but an **observer government** from **2010.**

8.1.3. SPECIAL ECONOMIC ZONES (SEZS)

Why in News?

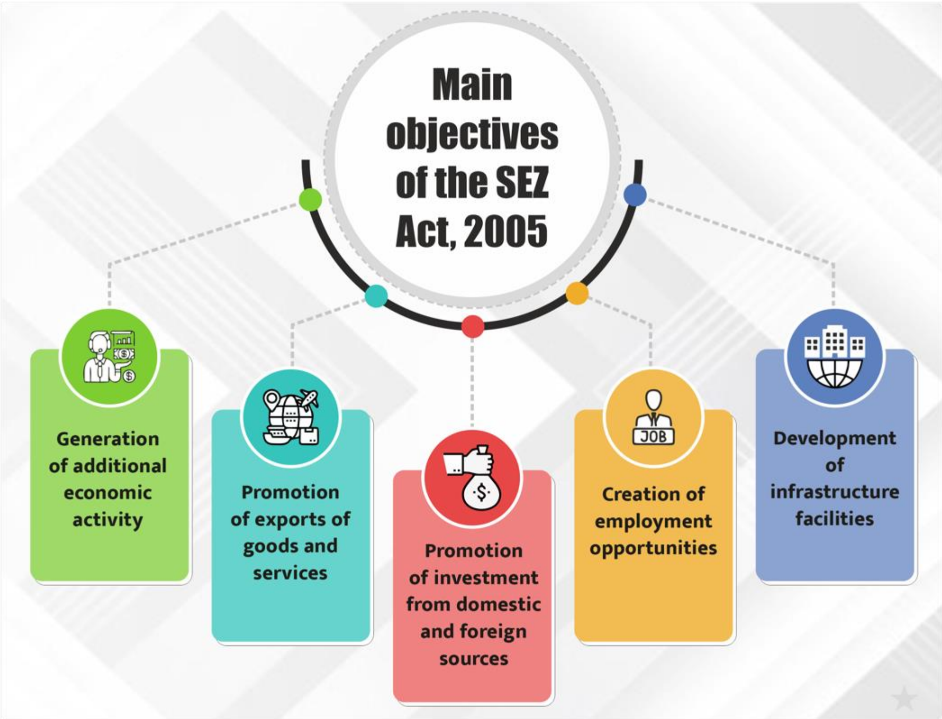
The government has released a draft **Development Enterprise and Services Hub (DESH) Bill, 2022** for consultation to replace the **Special Economic Zones (SEZs) Act, 2005.**

SEZs in India and their significance

- SEZ is a specifically delineated **duty-free enclave** and **deemed to be foreign territory** for the purposes of trade operations and duties and tariff.

- India recognized the effectiveness of such **Export Processing Zone (EPZ) model** early and established Asia's first EPZ in Kandla in 1965.
- In **2000**. **SEZ policy** was announced to make SEZs an engine for economic growth under the provisions of the **Foreign Trade Policy**.
- Subsequently, the **SEZ Act** was brought in **2005** with **SEZ Rules in 2006** for a comprehensive stable regime on SEZ to achieve various **objectives** (see image) through:
    - **Simplified procedures** for development, operation, and maintenance of the SEZs,
    - **Single window clearance** for setting up a unit in a SEZ and clearance on matters relating to Central as well as State Governments.
    - **Simplified compliance procedures and documentation** with an emphasis on self-certification etc. to overcome the shortcomings experienced on account of the multiplicity of controls and clearances.

SEZ's Performance



- **Number of SEZs:** As of January 2022, India has **268 operational SEZs** against **357 notified** and **425 formal approvals**.
- **Promising economic indicators:** **Exports** from SEZs have increased to **₹7.59 trillion** in **FY21** from just **₹22,840 crore** in **FY06**, creating **2.35 million jobs** with a **total investment of ₹6.17 trillion** by **FY21**.
- **Underperformed vis-à-vis China**: But these exports were less than **$112.3 billion** in **FY20** and nowhere close to the success achieved by China.
- **Competitive advantage of SEZs is waning** with several businesses moving away from SEZs or shifting business units to ASEAN countries because of better incentives from them and various domestic challenges.

Challenges faced by SEZs

- **Withdrawal of tax concessions** after the imposition of **minimum alternate tax** in 2012 and a **sunset clause** to remove **tax sops**.
    - SEZ units enjoy **100% income tax exemption** on export income for the first **5 years**, **50%** for the next **5 years** and **50%** of the ploughed back export profit for next 5 years.
- **Under-utilized** or vacant parcels of land under the SEZs due to **sector-specific restrictions**.
- **WTOs dispute settlement panel** ruled India's export-related schemes, including the **SEZ Scheme**, as inconsistent with WTO rules, since it **directly linked tax benefits to exports**.
    - Countries aren't allowed to directly subsidize exports as it can distort market prices.
- Policy inconsistencies and other issues in them like-
    - Need for **payment of full customs duty** on final product for domestic sales;
    - **Requirement of payment in foreign exchange** for services provided by SEZ units to Domestic Tariff Area (DTA);
        - ✓ Any area that lies outside of SEZ or any other custom bonded zone in India is known as the DTA.
    - **Limited states role** as most decisions are made by the Commerce Department at the Centre, leading to lack of support from the state government for clearances;
    - **SEZs need to be net foreign exchange positive** cumulatively in five years (i.e., export more than they import).

Mains 365 - Economy

DESH Provisions and its Benefits

An outcome of proposals made by an expert committee in 2018, DESH aims to **transform the narrow export-oriented SEZs** into **comprehensive economic hubs**. SEZs will be renamed as DESH and it will cover **all large existing** and new industrial enclaves to **optimally utilize** available infrastructure and enhance **competitiveness** of exports through:

- **Partial denotification** of SEZs to free up area not in demand. Also, no requirement to have specific demarcation for trading and warehousing activities.
- **Easier selling in domestic markets** with duties paid only on the imported inputs and raw materials instead of the final product. **Also, no mandatory payment** requirement in forex.
    - The government may impose an **equalization levy** on **goods or services** supplied to the domestic market to bring taxes at par with those provided by units outside.
- **Single-window portal** within six months from the date of commencement of the Act for time-bound approval for establishing and operating the hubs, including the single application forms and returns.
- **Removal** of need to become **net foreign exchange positive** cumulatively in **5 years.**
- **Active State Participation** by allowing them to directly send recommendations for development hubs to a central board for approval and set up of state boards to oversee the functioning of the hubs.
    - State boards will have powers to approve imports or procurement of goods, and monitor the utilization of goods or services, warehousing, and trading in DESH.
- **WTO-compliance** by removing the direct tax incentives for units.

Conclusion

While the draft bill is still unclear on some issues like extension of sunset clauses, it allows states and the Centre to give further incentives in the form of tax rebates, incentives, exemptions, and duty drawbacks. For this push for revival to be successful, collective engagement with states, industry and markets would be a good starting point.

8.2. MSMES

MSMEs AT A GLANCE

- **6.34 crore MSMEs** are currently operational in India.
- The number of MSMEs in India increased by a **CAGR of 18.5% from 2019 to 2020.**
- **More than 111 million** people are employed in MSMEs.
- **30.5%** of the country's GDP is contributed by MSMEs.
- **45% of manufacturing output** is contributed by MSMEs.
- **48% of overall exports** are generated by MSMEs.

Key Targets

- India's vision of becoming a $5 trillion economy is possible when the MSME sector contributes to **50% of GDP.**
- The government is planning to increase the contribution of MSMEs to 50% of GDP by 2024 and **create around 15crore employment by then.**

Policy/Schemes/Initiatives

- **New MSME definition and removal of artificial separation between manufacturing and service MSMEs.**
- ANIC-ARISE (Atal New India Challenges in Applied Research and Innovation for Medium and Small Enterprises).
- Production Linked Incentive (PLI) Scheme
- **Emergency Credit Line Guarantee Scheme (ECLGS)**
- Credit Linked Capital Subsidy- Upgradation Scheme
- MSE-Cluster Development Program
- **Zero Defect and Zero Effect Scheme**
- **Honey Mission, Solar Charkha Mission**
- ASPIRE, SFURTI, MUDRA
- Udyami Mitra portal, CHAMPIONS PORTAL, SAMADHAAN, SAMPARK and SAMBANDH portals.
- **Raising and Accelerating MSME Performance (RAMP) Scheme**

Constraints

- **Impacts of COVID-19 pandemic** as more than 50% shut down or reported drop in production.
- **Infrastructure bottlenecks** especially digital and institutional infrastructure.
- **Limited capital accessibility** and knowledgebase
- **Non-availability of suitable technology** leading to slower production processes and compromised product quality
- **Labour challenges** such as extensive labour compliances and dearth of skilled labour.

Way forward

- **Larger economic package, soft loan** and assessment of losses due to pandemic
- **Simplified loan processing** and assessment
- Integration of MSME sector with **global value chains (GVC)**
- Lenders to **collaborate with FinTech companies**
- A **Central Research Institute for enterprises** and entrepreneurship
- Setting up of **mega parks and manufacturing clusters in labour-intensive sectors.**

8.2. ELECTRONICS INDUSTRY

ELECTRONICS SECTOR AT A GLANCE

Electronics sector of India contributes **around 3.6% of country's GDP in 2020** and is expected to contribute **6.4 percent in next few years.**

India's **domestic production in electronics has increased** from $ 29 Billion in 2014-15 to $ 67 Billion in 2020-21.

National Policy on Electronics (NPE) 2019 set **target of $400 billion turnover by 2025.**

India consumer **electronics market size** was estimated at **$71.17 billion in 2021** and is **expected to reach $73.7 billion in 2022.**

USA is largest importer of India's electronic exports followed by UAE, China, Netherland & Germany.

India's export of electronic goods rose by almost 88% from $6.6 billion in 2013-14 to $12.4 billion in 2021-22.

Key objectives

- Make Electronics Goods amongst India's 2-3 top ranking exports by 2026.
- Positioning India as a **global hub for Electronics System Design and Manufacturing** (ESDM) by creating an enabling environment for industry to compete globally.
- **Provide incentives and support for manufacturing** of core electronic components.
- **Formulate suitable schemes and incentive mechanisms** to encourage new units and expansion of existing units.
- To improve national cyber security profile.

Schemes/Initiatives

- **Digital India programme** to transform India into a digitally enabled society.
- **Production-linked incentive (PLI) scheme to provide financial incentives** to boost domestic manufacturing.
- **Make in India** to facilitate investment, foster innovation, and make India hub for manufacturing, design, and innovation.
- **Modified Electronics Manufacturing Clusters (EMC 2.0)** Scheme for development of world class infrastructure along with common facilities and amenities.
- **Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS)**

Constraints

- **Meagre presence of India** in global manufacturing sector of electronics at around 1-2%.
- **Physical infrastructural Gaps** like power shortages, shortages of basic utilities.
- Compared to China and Vietnam,India provides **lower income tax exemptions and reductions** to electronics manufacturers.
- **Supply chain and logistical constraints** such as high cost for transportation costs and raw materials.
- **Lacks in manufacturing of components** that are labour intensive, given the availability of cheap and skilled manpower.
- **Trade Barriers** like high import duties, additional state-level taxes and inverted duty structure.
- **Lack of Free Trade Agreements** with developed countries.

Way forward

- **Upgrade required infrastructure, ultra-modern technological supplies etc.** as electronics is manufacturing industry.
- Government should **encourage small and medium scale enterprises engaged in electronics manufacturing sector** with necessary financial aids to sustain growth.
- **Enhance Research and Development** by collaborating and capacity building of central and state university.
- Need to **promote semiconductor manufacturing alongside assembly units in India** to induce greater local production of components and fuel the growth of industry as a whole.
- To attract Global Value Chains, **open trade and investment policies** are required. **Tariff and non-tariff barriers can deter the movement** of component and sub-assembly manufacturers.
- **FDI norms need greater clarity** with respect to electronics sector manufacturing.

8.4. TEXTILE INDUSTRY

TEXTILE SECTOR AT A GLANCE

- Textile sector contributes 2.3% to Indian GDP, 7% of the Industrial Output, 12% to the export earnings of India and held 5% of the global trade in textiles and apparel in 2018-19.
- India is the largest producer of cotton & jute in the world, the second largest producer of silk in the world the 6th largest producer of Technical Textiles.
- 95% of the world's hand-woven fabric comes from India.
- India has a share of 5% of the global trade in textiles and apparel.
- It provides direct employment of over 45 million people (21 % of total employment) including 35.22 lakh handloom workers and source of livelihood for over 100 million people indirectly.

Steps taken by the Government for growth of Textile industry

- **Infrastructure development: Setting up of 7 Mega Integrated Textile Region and Apparel Parks (PM MITRA) parks** to create an integrated textiles value chain.
- **Production linked incentive (PLI) Scheme** for the Textile Sector.
- **Technology Upgradation: Amended Technology Fund Uprgradation Scheme (ATUFS)** to upgrade technology/machineries of textile industry.
- **Sector specific missions:** National Handloom Development Programme and National Technical Textile Mission
- **Capacity building and social security: SAMARTH (Scheme for Capacity Building in Textile Sector), Scheme for Incubation in Apparel Manufacturing (SIAM) and Scheme for Textile Industry Workers' Accommodation (STIWA) etc.**

Challenges faced by the textile sector in India

- **High fragmentation:** and is dominated by the unorganized sector and small and medium industries.
- **Increase in input costs:** Unpredictable market conditions, weather, policies etc. have resulted in shortage in supply of raw materials and increase in their material costs.
- **Impact of Goods and Services Tax (GST):** GST has created distortions in the Textile and Apparel sector in India, impeding its competitiveness.
  For instance, man-made fibres (MMF) are taxed at 18 per cent for fibre, 12 per cent for yarn and 5 per cent for fabric. This inverted tax structure makes MMF textiles costly.
- **Infrastructure bottlenecks:** Poor conditions of roads, highways, etc. creates supply chain constraints and increases lead time, inventory holding cost and inventory carrying cost.
- **Highly competitive export market:** In the global market tariff and non-tariff barriers coupled with lack of free/preferential trade agreements are major challenge to Indian textile Industry.

Way forward

- **Utilizing upcoming opportunities in nonwovens and technical textiles** based on changing consumer trends including increasing emphasis on fitness and hygiene, rising brand consciousness, fast changing fashion trends, etc. are enhancing the demand in these sectors.
- **Infrastructure development** such as setting up mega apparel parks close to ports with `plug and play' facilities and common infrastructure for effluent treatment, etc. to scale up operations.
- **Correction of inverted duty** as proposed by 45th GST Council Meeting for correction in inverted duty structure in textiles from 1st January 2022.
- **Fast tracking Free trade agreements (FTA)** negotiation with countries like EU to enhance export competitiveness of Indian apparels.
- **Focus on technology up-gradation** by utilizing new and upcoming development in AI and automation.
- **Incentivizing production of sustainable fabrics and apparels** by promoting up-scaling and reuse of existing fabrics and adoption of natural dyes

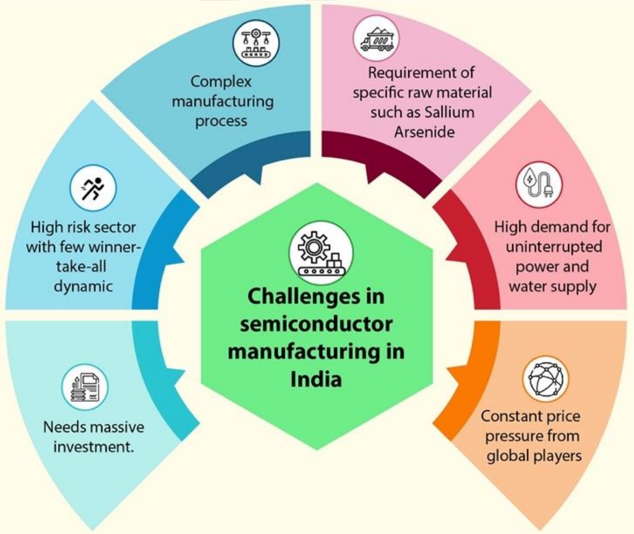
8.5. SEMICONDUCTOR MANUFACTURING IN INDIA

Why in news?

The Ministry of Electronics and Information Technology (MeitY) announced the formation of an **advisory committee** to steer and guide the government's ₹76,000 crore **semiconductor mission.**

Significance of semiconductor manufacturing in India

- **Insulation of domestic sector from global supply disruptions** due to **supply disruptions** triggered by the prolonged impact of the **Covid-19 pandemic.**
    - **Main reasons for sudden spike includes- demand** for gadgets during the coronavirus-induced lockdowns, **chip hoarding** by manufacturers, **sanctions against Chinese** technology companies, the **US-China trade war** and roll out of **5G infrastructure.**
- **Fulfil growing demand: Rapid digitization**, coupled with **technological advancements** in the capacity for **intelligent computing** and **growth of AI** has led to the **unprecedented demand of semiconductors** and chipsets across the world for manufacturing **tech-enabled products**.
    - According to MeitY, Indian semiconductor market, estimated **around $15 billion in 2020**, is expected to grow to **around $63 billion by 2026.**
    - The Indian government's stress on the **need for adoption of electric vehicles** has also led to an increased demand for chips. For instance, a **normal car** typically uses **roughly 300 chips**, whereas one **new electric vehicle** can have up **to 3,000 chips.**
- **Reducing imports and achieving self-sufficiency** as India **imports 100% of its chips** from Taiwan, Singapore, Hong Kong, Thailand, and Vietnam.
- Semiconductor manufacturing in India will help domestic companies **reduce dependence on semiconductor imports** with **revenue generation** from exports to other countries.
- **Multiplier effect** of developing domestic semiconductor manufacturing capabilities across different sectors of the economy, helping towards achievement of **USD 1 trillion digital economy and a USD 5 trillion GDP by 2025.**
- **Strategic importance** as domestic capabilities is key to the security of the country's **critical information infrastructure,** digital independence or **sovereignty,** and **technological leadership**. Self-sufficiency would give India a **far better global positioning** in terms of geopolitics.



Initiatives taken for semiconductor manufacturing in India

- **Semicon India Program (Program for Development of Semiconductors and Display Manufacturing Ecosystem in India)** with **four schemes**-
    - **Scheme for setting up of Semiconductor Fabs in India,**
    - Scheme for setting up of **Display Fabs** in India,
    - **Scheme for setting up of Compound Semiconductors / Silicon Photonics / Sensors Fab and Semiconductor Assembly, Testing, Marking and Packaging (ATMP) / OSAT facilities in India, and**
    - **Design Linked Incentive (DLI) Scheme** (Chip Design Infrastructure Support, Product Design Linked Incentive and Deployment Linked Incentive).
- **India Semiconductor Mission (ISM)** as an **Independent Business Division within Digital India Corporation** to drive **India's long term strategies** for developing semiconductors and display manufacturing facilities and semiconductor design ecosystem.
- **Modified Special Incentive Package Scheme (M-SIPS)** to **boost semiconductor** industry.
- **Chips to Startup (C2S) Programme** with aim to train 85 thousand high-quality and qualified engineers in the area of Very large-scale integration and Embedded System Design.

Way Forward

With **20%** of world's semiconductor design engineers and support under **National Policy on Electronics 2019**, India can achieve self-reliance and technology leadership in **semiconductor ecosystem** through:

- **Promotion of leading-edge research** through collaboration between industry and academia.
- **Work on supply-chain resilience** to ensure availability of components and equipment from suppliers around the world.
- **Improve patent environment to protect Intellectual Property** as the payback has a long gestation period.
- **Create a positive business environment** through long-term policy, provision of tax benefits, establishment of industrial clusters etc. to prompt firms to move operations to India.
- **Increase government investment in skill development** to provide necessary talent in all parts of ecosystem.
- **Improve logistics facility with reduction in costs** (port costs, freight and insurance costs etc.) as semiconductor industry involves geographic dispersion of operations.
- **Start with assembly, testing, marking, and packaging (ATMP)** as it generate more employment and require less investment than full-fledged fabrication plants (fabs).

9. SERVICES SECTOR

9.1. E-COMMERCE

E-COMMERCE SECTOR AT A GLANCE

- 8th largest e-commerce market globally.
- A sunrise sector with 10-15% share in India's retail market.
- US$ 55.6 Billion was generated by the industry in 2021 and expected to reach US$ 111 billion by 2024; US$ 350 billion by 2030.
- 3rd largest online shopper base of 140 million in 2020.
- 10 million internet users are added monthly (majorly from tier-II cities) due to increasing internet and Smartphone penetration.

Key Objectives

- Ending **Digital Monopolies** and have a more **inclusive e-commerce industry.**
- Bring **Transparency** in pricing for easy price comparisons.
- **Access** to **Indian** and **Global markets** for small enterprises.
- Help in **promotion of Digital payments,** growth in **logistics sector** or supporting new innovations across digital space like payments, service delivery etc.
- **Better deals and offers** for customers, genuine reviews etc.

Policy/Schemes/Initiatives

- **Consumer Protection (E-commerce) Rules, 2020** to protect consumer interest and encourage free and fair competition.
- **Open Network for Digital Commerce (ONDC)** to control digital monopolies by setting protocols for cataloguing, vendor discovery and price discovery.
- **Government e-Marketplace (GeM) portal** with 45 lakh registered small businesses.
- **Prioritizing Technology** under **Digital India** through initiatives like Umang, Start Up, BHIM, BharatNet etc.
- **Equalisation Levy Rules,** 2016 and its amendment in 2020.
- 100% **FDI allowed in B2B E-commerce** and in **e-commerce marketplace model.**

Constraints

- **Infrastructural problems** such as availability of internet, power, devices, etc.
- **Absence of data protection law** with outdated framework of **Cyber Laws.**
- **Privacy and Security** Concerns
- **Payment and Tax Related Issues**
- **Digital Illiteracy.**
- **Evolving regulatory framework** of e-commerce industry with issues of fake reviews, predatory pricing, misuse of data, digital monopolies etc.

Way forward

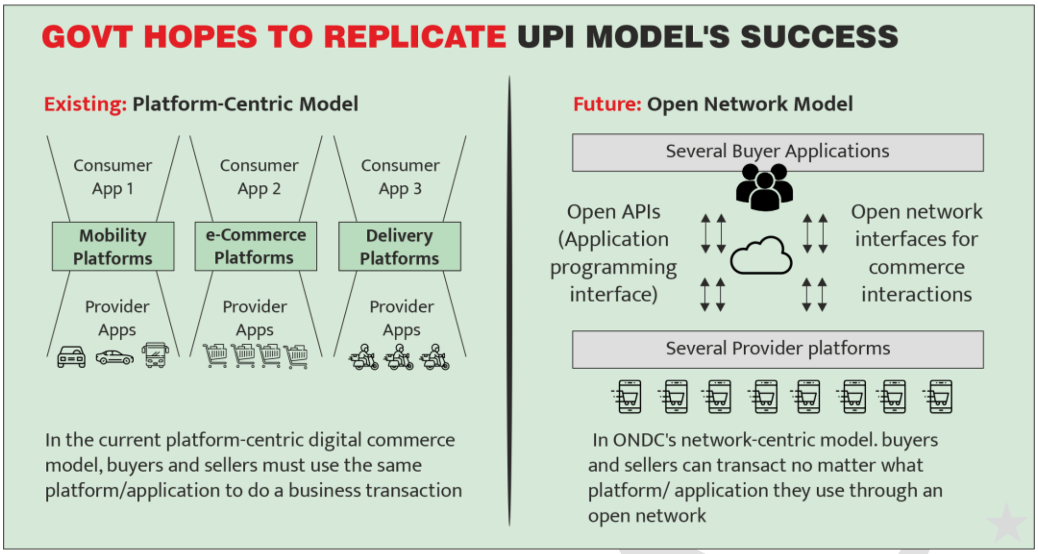
- **Bring Data protection law** on lines of EU GDPR with proper awareness and enforcement mechanism.
- **Model National Retail Policy** for uniform and favourable environment.
- **Clear definitions of what constitute Unfair Trade Practice** (including flash sale, mis-selling).
- **Corrective mechanism to discourage deceptive** tactics including manipulation of algorithms, fake product reviews, etc.
- **Appropriate Grievance redressal** for consumers.
- Increasing **internet access, digitizing payments,** further improving **transportation infrastructure, logistics and distributed warehousing support.**

9.1.1. OPEN NETWORK FOR DIGITAL COMMERCE

Why in News?

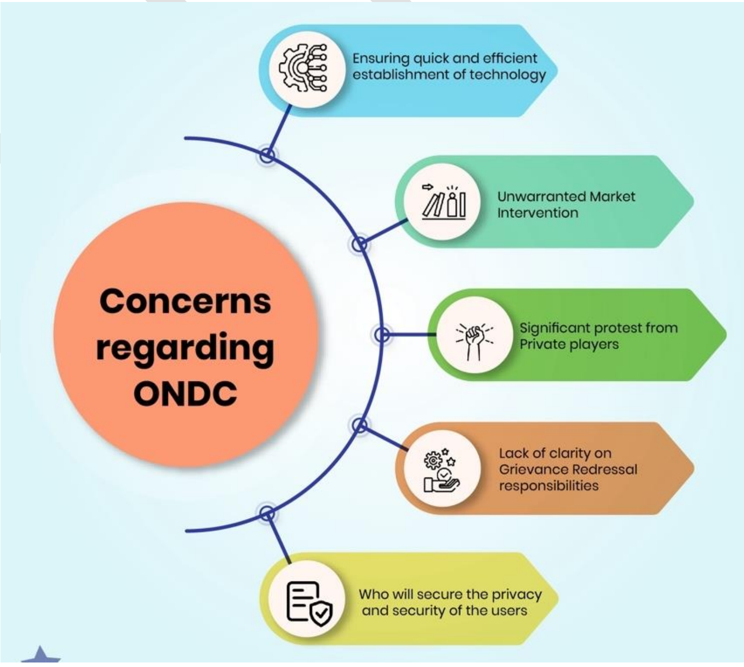
Recently, Department of Promotion of Industry and Trade (DPIIT) launched the pilot phase of open network for digital commerce (ONDC).

About open network for digital commerce (ONDC)



- It is an **initiative of DPIIT** under the Ministry of Commerce and Industry. **Quality Council of India will provide the integration** of the e-commerce platform for it.
- It is aiming at **promoting open networks for all aspects of exchange of goods and services** over digital or electronic networks.
- ONDC **goes beyond the current platform-centric digital commerce model** where the buyer and seller have to use the same platform or application to be digitally visible and do a business transaction.
- ONDC is to be **based on open-sourced methodology,** using open specifications and open network protocols independent of any specific platform.
- ONDC project is **modelled around the Unified Payments Interface (UPI) project.**

Significance of ONDC project



- **Ending monopolistic tendencies:** such as Amazon and Flipkart, who are accused of practicing discriminating among sellers on their platforms.
- **Interoperability:** An open digital infrastructure will make e-commerce highly interoperable for sellers and customers who want to connect between two or more marketplaces for a particular product.
- **Level playing field for small retailers:** Once a retailer lists its products or services using the ONDC's open protocol, the business can be discovered by consumers on e-commerce platforms that follow the same protocol, increasing income of small retailers.
- **Increasing efficiency in logistics movement:** It would help in standardizing operations and promote inclusion of local suppliers which would drive efficiencies in logistics and lead to enhancement of value for consumers.
- **Ease of doing business**: Businesses are expected to benefit from transparent rules, lightweight investment, and lower cost of business acquisition.
    - It is also expected that the time-to-market as well as time-to-scale shall also be substantially reduced.
- **Faster adoption of digital means**: It would encourage easy adoption of digital means by those currently not on digital commerce networks.
- **Overall development of the sector** by digitizing the entire value chain, standardized operations, inclusion of suppliers, efficiencies in logistics and enhanced value for consumers.

Conclusion

ONDC's success depends on how the government takes it forward and builds a seamless platform which is user-friendly and capable of giving a better shopping environment than Amazon and Flipkart. Also, a swift dispute resolution is required to enhance credibility of the platform.

9.2. TELECOM SECTOR

TELECOM SECTOR AT A GLANCE

It is the **2nd largest telecom sector** of the world with its market **split into three main segments -** wireless, wireline and internet services

In terms of **Urban-Rural India,** around 66 crore connections are in Urban India and 53 crore in **Rural India** (Rural tele-density of **59%**).

India has the **second-highest number of internet subscribers** globally with total internet connections of **83.37 crore** (June 2021).

It is the **3rd largest sector in terms of FDI inflows,** contributing 7.1% of total FDI inflow.

The sector contributes **directly to 2.2 Mn employments and indirectly to 1.8 Mn jobs.**

OBJECTIVES FOR THE SECTOR

- **Broadband for all**
- Creating **4 million additional jobs**
- Enhancing India's **contribution to Global Value Chains**
- **Ensuring Digital Sovereignty**
- **Enhancing contribution of the sector to 8% of India's GDP** (from 6% in 2017)

CHALLENGES FACED BY TELECOM SECTOR

- **Debt ridden sector** with estimated industry debt at **over ₹3.6 lakh crore.**
- The definition of adjusted gross revenue (AGR) has been **under litigation for 14 years.**
- **Lack of uniformity in Right of Way (RoW) rules**
- **Pressure on Margins Due to Stiff Competition**
- **Substantial investment in 5G infrastructure**
- **High Spectrum usage charges (SUC)** compared to other countries.
- **Illegal mobile boosters** impacting the **overall cellular network quality and issues like call drops.**
- **Lack of Telecom Infrastructure in Semi-rural**

STEPS TAKEN TO OVERCOME THESE CHALLENGES

- **Four-year moratorium on AGR payments and spectrum dues**
- **Rationalization of AGR** by excluding non-telecom revenue from the definition of AGR progressively.
- The telcos would also **not have to pay any spectrum usage charge** for airwaves acquired in future auctions.
- **Cumbersome requirement of licenses** under 1953 Customs Notification for wireless equipment has been replaced with **self-declaration.**
- **Auction calendar has been fixed**

POTENTIAL BENEFITS OF REFORM

- **Promotion of healthy competition,** by keeping at least three private players in the market,
- **Space for cash-strapped firms,** helping them to retain the ability to continue and improve its business to clear dues over a longer period;
- **Employment protection** of existing people and generate future employment opportunities, encourage investment and reduce regulatory burden on Telecom Service Providers (TSPs);
- **Infuse liquidity** in the sector to continue with investment in far-flung areas by raising funds and pave the way for the entry of new players.

9.3. TOURISM

TOURISM SECTOR AT A GLANCE

- 54th rank out of 117 countries in Global Travel and Tourism Development Index 2021 of WEF, down from 46th in 2019.
- The National Council of Applied Economic Research (NCAER) reports that tourism in India won't return to pre-pandemic levels until 2026.
- In 2020, the sector contributed around 4.7 % to the total GDP of the country, a significant decline compared to 7% in 2019.
- Third largest foreign exchange earner for the country until 2019.

Key objectives

- To develop **Iconic Tourist Sites in to world class tourist destinations.**
- Develop a **Brand India** for Medical and Wellness Tourism
- To enhance India's **share in MICE** (Meetings, Incentives, Conferences, and Exhibitions) Tourism to 2% in five years from the current share of approximately 1%.
- To develop **MICE as a 'Niche Tourism'** product to overcome the 'seasonality' aspect and promote India as a 365 days' destination.
- **Tourism for All:** making it inclusive and accessible
- To make the sector sustainable as stated in **Sustainable Development Goals (SDGs) 8, 12 and 14.**

Schemes/Initiatives

- **Loan Guarantee scheme for COVID Affected Tourism Sector** (LGSCATSS)- up to Rs 10 lakh collateral free loans
- **Swadesh Darshan2.0** - Integrated Development of Theme-Based Tourist Circuits focussing sustainable tourism
- **PRASHAD**- Pilgrimage Rejuvenation and Spiritual, Heritage Augmentation Drive
- **Iconic Tourist Sites Development Project**
- **RCS-UDAN 3.0** along tourist routes
- **Adopt a Heritage:** Apni Dharohar, Apni Pehchaan Project.
- **'MEET IN INDIA' and INCREDIBLE INDIA 2.0**
- National Strategy and Roadmap for **Sustainable Tourism**
- Draft National Strategy for **MICE, Medical and Wellness and Rural Tourism.**

Constraints

- **Contact-Sensitive Sector**
- Luxury tourism is **Heavily taxed.**
- **Poor infrastructure, accessibility issue** and safety concerns
- Well-funded, large B2B companies like Make my Trip and Clear Trip giving **tough competition to smaller players**
- **Regional competition** from countries like Singapore, Thailand, Malaysia, etc.
- Lack of **reliable data and statistics.**

Way forward

- Strong **Health and Sanitation protocol** to make tourism COVID resilient
- **Infrastructure status**, as provided by **Rajasthan government**
- **Stimulus Recovery programmes** to help recover the sector
- **Training and skill development** in hospitality
- **Promotion and marketing**, especially with respect to cultural sites

9.3.1. NATIONAL DIGITAL TOURISM MISSION

Why in news?

The Ministry of Tourism has invited final comments from the stakeholders on draft report for setting up of National Digital Tourism Mission (NDTM).

Key highlights of the Draft NDTM

Vision:

- NDTM envisages achieving the objective of **harnessing the full potential of digitization in tourism sector** by facilitating exchange of information and services in tourism sector spreading across national and state tourism organizations, tourism service providers, tourism destinations, products, experiences and tourists.
- The vision of NDTM is to **bridge the existing information gap amongst different stakeholders of tourism** ecosystem through digital highways.

Current Status of Digitization in Tourism Sector

- **Widespread use of technology in travel and tourism:** Digital disruptors like social media, mobile devices and accessible information enable destination marketers to engage with consumers and stakeholders on a larger scale than ever before.
- **Development of travel portals and platforms: Such platforms by** the private sector, cater to various needs such as transport, accommodation, etc.
- **Hyper-personalization:** By capturing personal data from customers and learning more about their behavioural patterns.

Efforts of the Ministry of Tourism

- A multi-lingual **'Incredible India' website and mobile application** assist international and domestic tourists.
- A platform namely **National Integrated Database of Hospitality Industry (NIDHI)** for registration and classification of tourism service providers.
- **Digitization of Swadesh and PRASHAD Schemes**
- **24x7 Toll Free Multi-Lingual Tourist Info-Helpline**

Principles of National Digital Tourism Mission

Domain Principles	Design and Architecture Principles	Technology Principles
• **Value-driven with central focus on interest of beneficiaries.** • **Unifying Services** to realize the goal of a connected ecosystem. • **Outcome-driven** by defining service levels and outcomes benchmarking with the best. • **Affordable choices** • **Diversity and Inclusion** across device types, linguistic barriers, geography and accessibility compliant.	• **Ecosystem Thinking** spanning across Centre and States, public and private and other systems. • **Assured Service levels** for all participating stakeholders. • **Federated Architecture** build around the constructs of Single-Source-of-Truth and System-of-Records. • **Be open and inter-operable.** • **Resilient** to withstand failures by building automated recoveries and adaptation. • **Minimal, Reusable, Unbundled and Shareabl**e architecture. • **Innovation** and responsible deployment of emerging technologies.	• **Data as an asset.** • **Data sharing.** • **Standards:** Specify the existing technology and data standards applicable to the ecosystem. Define methods to ensure compliance. • **Secure and Trust Based.**

Conclusion

The implementation of NDTM shall have multifold benefits to various entities of the tourism ecosystem. Not only will it improve the efficiency and effectiveness, but it will also increase transparency and provide a boost to tourism economy by preventing data leakages.

9.4. INSURANCE SECTOR

INSURANCE SECTOR AT A GLANCE

- 4.2% overall insurance penetration FY21 and US$ 78 overall insurance density in FY21;much lower than global standards,
- 12% is the average annual growth rate of insurance sector in India.
- The insurance density in India has increased from $11.5 in 2001 to $78 in 2019.
- 83% is the protection gap in the insurance industry indicating a huge opportunity for the sector.
- 57 insurance companies including 24 life-insurers and 33 non-life insurers.

Key objectives

- **Ensuring social protection** in the form of health security, financial security etc.
- **Decreasing out-of-pocket expenditure in** case of critical illnesses.
- **Improve accessibility and affordability** of insurance for every citizen in the country.

Schemes/Initiatives

- The General Insurance Business (Nationalisation) Amendment Act, 2021.
- FDI limit in insurance increased from **49%** to **74%** in Budget 2021.
- **The Insurance Laws (Amendment) Act, 2015**
- Employees' State Insurance Act, 1948
- Pradhan Mantri Suraksha Bima Yojana (PMSBY), Rashtriya Swasthya Bima Yojana (RSBY) andPradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) for insurance to
- PM-Jan Arogya Yojana
- Atal Bimit Vyakti Kalyan Yojana
- PM-Fasal Beema Yojana
- Mahatma Gandhi Bunkar Beema Yojana
- Identification of LIC, GIC and New India as Domestic Systemically Important insurers for additional measures to avoid **systemic risks** and **moral hazard.**

Constraints

- The **multiplicity of government sponsored insurance schemes** has resulted in the fragmentation of the risk pool.
- The **'missing middle'** between the deprived poorer sections and the relatively well-off neither qualify under subsidised health insurance (for poor) nor social health insurance (for organised sector) schemes
- **Low awareness** on insurance products and risk acceptance among Indians.

Way forward

- Expanding **private voluntary insurance** through commercial insurers.
- Sharing **Government data and infrastructure** as a public good to reduce operational and distribution costs.
- Ensuring standardization and improving simplicity through a **guaranteed basic minimum package** of services.
- Building **consumer confidence** by ensuring quality of services.
- Swift **grievance redressal mechanisms,** and robust auditing procedures.

10. TRANSPORT

10.1. MULTIMODAL CONNECTIVITY AND LOGISTICS

10.1.1. GATI SHAKTI

Why in News?

Recently, The Prime Minister launched the Rs 100-trillion Gati Shakti or the National Master Plan for multimodal connectivity **to expedite infrastructure project implementation in India.**

6 Pillars of GATI SHAKTI: Comprehensiveness, Prioritization, Optimization, Synchronization, Analytical and Dynamic.

- **Comprehensiveness:**
    - It will include all the existing and planned initiatives of various Ministries and Departments with **one centralized portal.**
    - Each and every department will now have visibility of each other's activities **providing critical data while planning & execution** of projects in a comprehensive manner.
- **Prioritization:**
    - Through this, different departments will be able to prioritize their projects through **cross-sectoral interactions.**
- **Optimization:**
    - It will assist different ministries in planning for projects after **Identification of critical gaps.**
    - For the transportation of the goods from one place to another, the plan will help in **selecting the most optimum route in terms of time and cost.**
- **Synchronization:**
    - It will help in synchronizing the activities of each department, as well as pf different layers of governance, in a holistic manner by ensuring coordination of work between them.
- **Analytical:**
    - The plan will provide the entire data at one place with GIS based spatial planning and analytical tools having 200+ layers, enabling better visibility to the executing agency.
- **Dynamic:**
    - All ministries will now be able to visualize, review and monitor the progress of cross-sectoral projects, through **GIS platform**, as the **satellite imagery will give on-ground progress periodically** and progress of the projects will be **updated on the regular basis on the portal.**

How will Gati Shakti help in overcoming bottlenecks and challenges associated with development of Multi-Model connectivity infrastructure in India?

Challenges	Aid provided by GATI Shakti
Siloed Structure	The master plan will ensure that projects will be designed and executed with a **collective vision** across various Ministries and will **improve coordination among them.**
Time and Cost Overruns	The initiative with its **technology platform**, for **real time monitoring and coordination mechanisms** is expected prioritize timely approval of such projects.
Lack of common vision	The projects will be designed and executed with a **common vision** across various ministries.
Wasteful expenditure	The initiative helps to address these issues through **institutionalizing holistic planning for stakeholders** for various infrastructure projects.

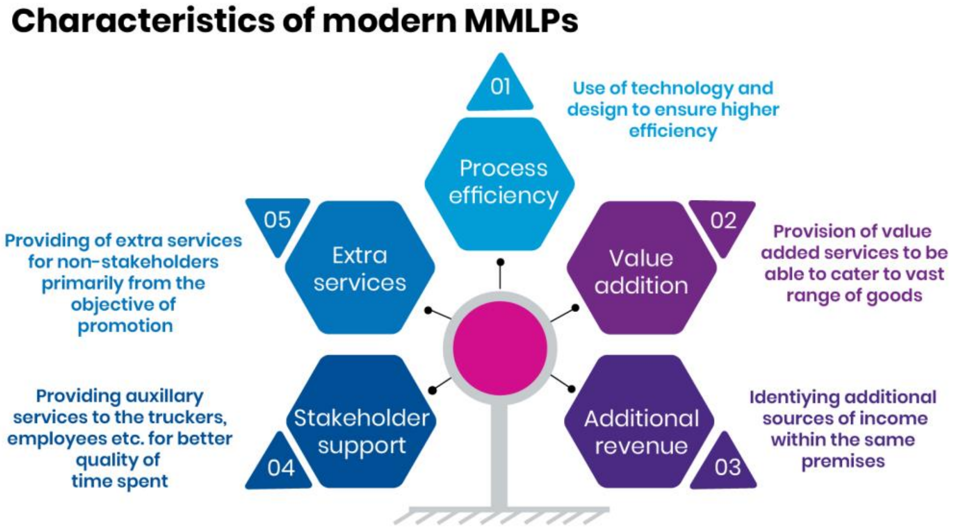
Conclusion

Coming close on the heels of the National Infrastructure Pipeline and the National Monetisation Plan, the Gati Shakti vision will underscore the primacy of place on development of world-class infra facilities crucial to improving business sentiment and speeding up the country's vision to emerge a $5-trillion economy soon**.**

10.1.2. MULTIMODAL LOGISTICS PARKS

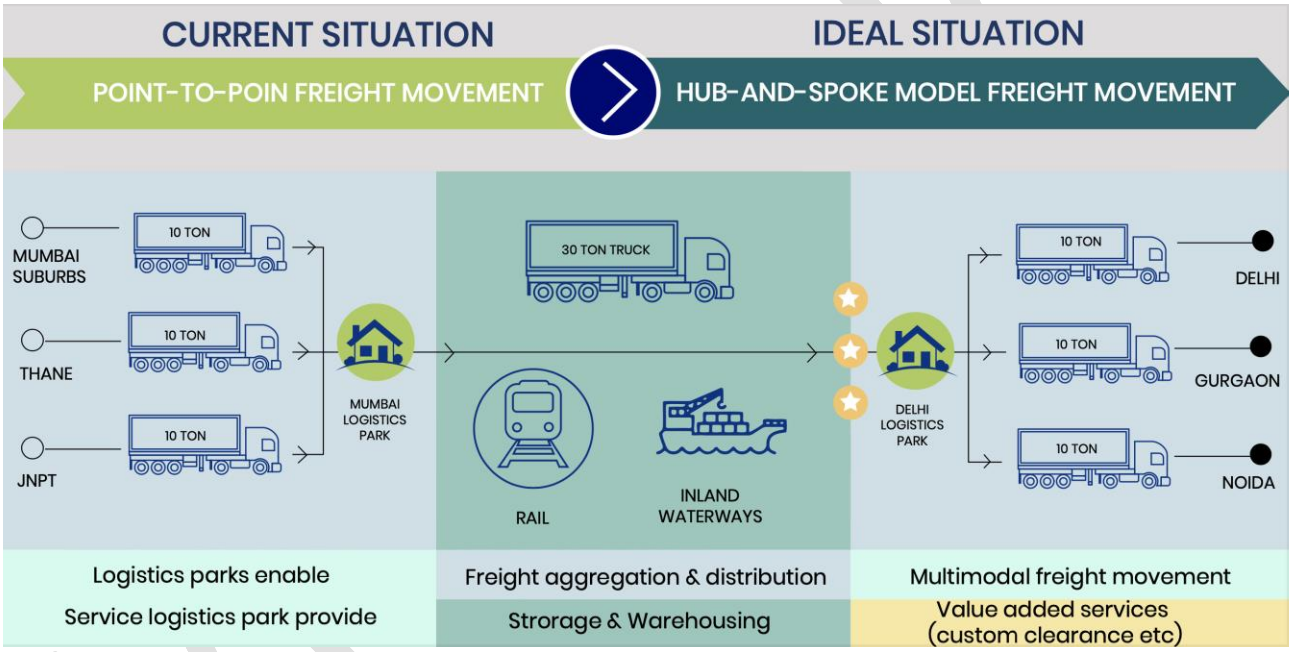
Why in news?

Finance Minister announced that contracts for implementation of Multimodal Logistics Parks at four locations through PPP mode will be awarded in 2022-23.



About MMLP

- It is an **inter-modal freight-handling establishment** comprising warehouses, dedicated cold chain facilities, freight or container terminals and bulk cargo terminals eases and optimizes merchandise movement via road, rail, waterway and air, consequently, rationalizes the cost of logistics and improves the competitiveness of logistics.



Challenges in establishing MMLP

- **No specific definition of MMLP** leading to clearance issues for these parks at different ministries including railways, shipping and the department of industrial policy and promotion.
- **Infrastructure Constraints** as MMLPs success depends on improvement in roads, railways, and other available modes of transportation for smooth and uninterrupted linkages among adjacent parks, industrial clusters, and consumption centers.
- **Need of Cutting-edge information technology** for effective delivery management.
- **COVID-19 led slowdown** and challenges faced in infrastructure development, in particular aerial coverage and shipping coverage.
- **Administrative hassles:** In the absence of a nodal agency to supervise the construction, execution and working of the proposed MMLPs, around 50 different approvals are required from various central and state ministries in order to develop and operate. This is also expected to fend off investors.

Way Forward

The address these challenges, concerned ministries need to work together to overcome hassles and effectively use various levers of MMLP for its success (see image). Also, use the

- LEADS (Logistics Ease Across Different States) Report, 1st launched in 2018, to enhance focus on **improving logistics performance** through state/UT level initiatives to reduce transaction cost.
- Promote innovation through startups, such as the **Unified Logistics Interface Platform's (ULIP) Hackathon – 'LogiXtics'** to crowdsource ideas for **enhancing efficiency and reducing logistics cost.**

Levers	Description
1 Regional connectivity	• Strong regional connectivty through multi-modal infrastructure linkage. • Coherent and well-coordinated transport and industry policies • Presence of large industrial corridors • Advanced human resources capability in logistics • Leading IT and digital infrastructure.
2 Adopting leading practices in transportation	• Continuous upgrading of road,maritime and air infrastructure • Improvement of efficiency of transportation • Increased inter-modal connections and cargo transfer through such nodes • Intelligent transport system
3 Adopting digital solution	• Demand forecasting • Using warehouse management system • Digital enablers for modal shift at cargo
4 Efficiently operating logistics parks	• Optimising the location of the park and easy land availability • Flexibility in land allotment for logistics park development • Keeping provisions for end-to-end logistical services, including value added servies • Using leading storage technologies and practices • Adopting digital architecture for efficient operations
5 Nodal agency	• Create MMLP Authority of India' (MMLPAI), in line with Land Ports Authority of India (LPAI), National Highways Authority of India (NHAI), etc., which will have the requisite expertise for overseeing the day-to-day operations of MMLPs and act as a facilitator between the concerned stakeholders.

10.2. RAILWAYS

INDIAN RAILWAYS AT A GLANCE

- **4th Largest** Railway Network in the world (Indian Railways).
- A daily passenger count of **24 million passengers and 203.88 million tonnes of freight.**
- **1st and 4th** respectively in passenger and freight transport globally.
- Indian **Railways' revenue** reached US$ 23.30 billion in FY22
- **Foreign Direct Investment (FDI) Inflows** in railway-related components stood at **US$ 1.23 billion** from April 2000- June 2021.

KEY TARGETS

- Create a **'future ready' Railway system by 2030.**
- Increase **modal share of the Railways in freight to 45%** from existing 27%.
- **100% electrification** (Green Energy), **multi-tracking** of congested routes, upgradation of speed and **elimination of all Level Crossings** on all GQ/GD route by 2024.
- Identify new **Dedicated Freight Corridors** and new **High Speed Rail Corridors.**
- **Zero fatalities** in Railway transport.
- Increase the **share of non-fare revenues in total revenue to 20 per cent.**

SCHEMES

- **Rail Kaushal Vikas Yojana** under PMKVY.
- **PM Gati Shakti** (Cargo terminal development)
- **KAVACH** (Automatic Train Collision System)
- **One Station One Product**
- **Bharat Gaurav** and Vande Bharat
- **PRAKASH** (Power Rail Koila availability through Supply Harmony)
- **Rashtriya Rail Sanraksha Kosh**

CONSTRAINTS

- **Infrastructure bottlenecks:** Ageing infrastructure and delays in execution of new projects.
- **Internal generation of resources is low** with negligible non-fare revenues and high freight tariffs.
- **Safety and poor quality of service delivery.**
- **Poor terminal facilities** lengthen loading and unloading time.
- **Poor finances of Railways** leading to low investment, poor services and issues of low speed, delays, and safety concerns.
- **Capital Output Ratio (COR) increased in 2019-20,** indicates the decrease in physical performance of the IR as compared to capital employed.
- **Heavy dependence on transportation of coal** which constituted around **49% of the total freight earnings** during 2019-20.
- **Cross-Subsidization** as profits from freight traffic were utilised to compensate for the loss on operation of passenger services.

WAY FORWARD

- **Infrastructure:** Need major **infrastructure expansion and decongestion programme** with up-gradation of technology and judicious tracks electrification with terminal capacity enhancement.
- **Technology:** Build a technology base of the country to achieve self-sufficiency in railway sector. Also, use **higher horsepower electric and diesel locomotives** which are more fuel efficient.
- **Diversify freight basket:** There is need to take steps to diversify their freight basket to enhance freight earnings and also exploit its idle assets to increase other earnings.
- **Improve service quality:** To keep railway stations and trains clean, punishable law can be introduced along with improving food quality and amenities at railway station, train coaches etc.
- **Revisit tariffs:** It is imperative to revisit the passenger and other coaching tariffs so as to recover the cost of operations in a phased manner and reduce its losses in its core activities.

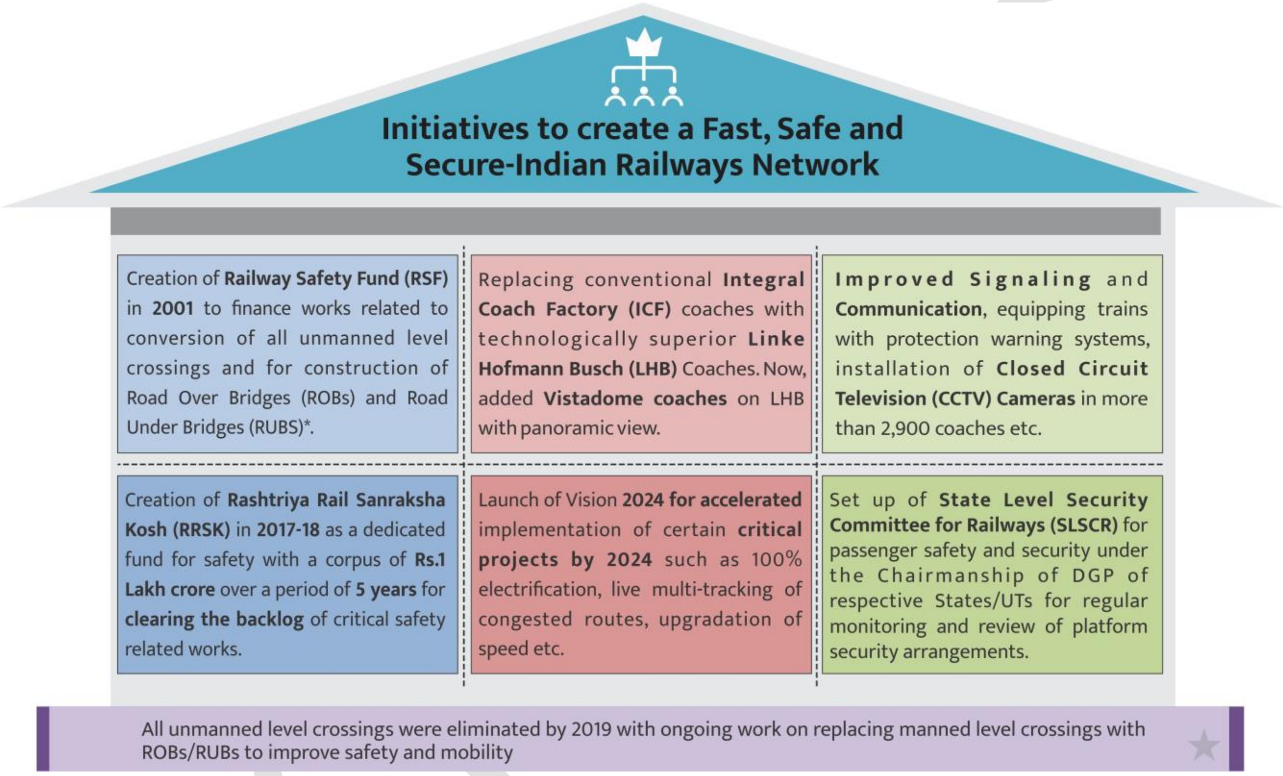
10.2.1. RAILWAY SAFETY

Why in News?

After a recent train accident in West Bengal killing at least 9 people, the Railway Board Chairman asked for a thorough probe to identify all aspects related to the accident.

Previous Committee's and Initiatives for Fast, Safe and Secure Railways

- **Railway Safety Review Committee** (Khanna Committee) in 1998,
- **High Level Safety Review Committee** (Kakodkar Committee) in 2012
- **Expert Group for Modernization of Indian Railways** (Pitroda Committee) in 2012,
- **Committee for Mobilization of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board** (Debroy Committee) in 2015.



Gaps in creating a Safe and Secure Railway Network

- **Structural gaps:** Huge backlog of renewal and replacement of over aged assets for safe running of railways. According to the **Standing Committee on Railways** (in 2019), Indian Railways network has 1,47,523 number of bridges with serious issues over care.
- **Operational gaps:** Lack of **Fire Detection System**; issues of maintenance of tracks with some of the railway network being in extreme weather conditions.
- **Financial Gaps:** The severely underwhelmed railway finance due to poor internal resource generation for capital expenditure (around 3-3.5% of total capex) limits the financial capabilities of Indian Railways.
- **Railway Staff Lapses:** Out of 13,018 accidents in 2020, 12,440 accidents happened due to **locomotive pilot fault.** Rest was due to errors on part of the signalman, mechanical errors, poor track repair infrastructure, bridge/tunnel collapse etc.
- **Other Gaps/Issues:** All States/Union Territories are yet to form **State Level Security Committee for**

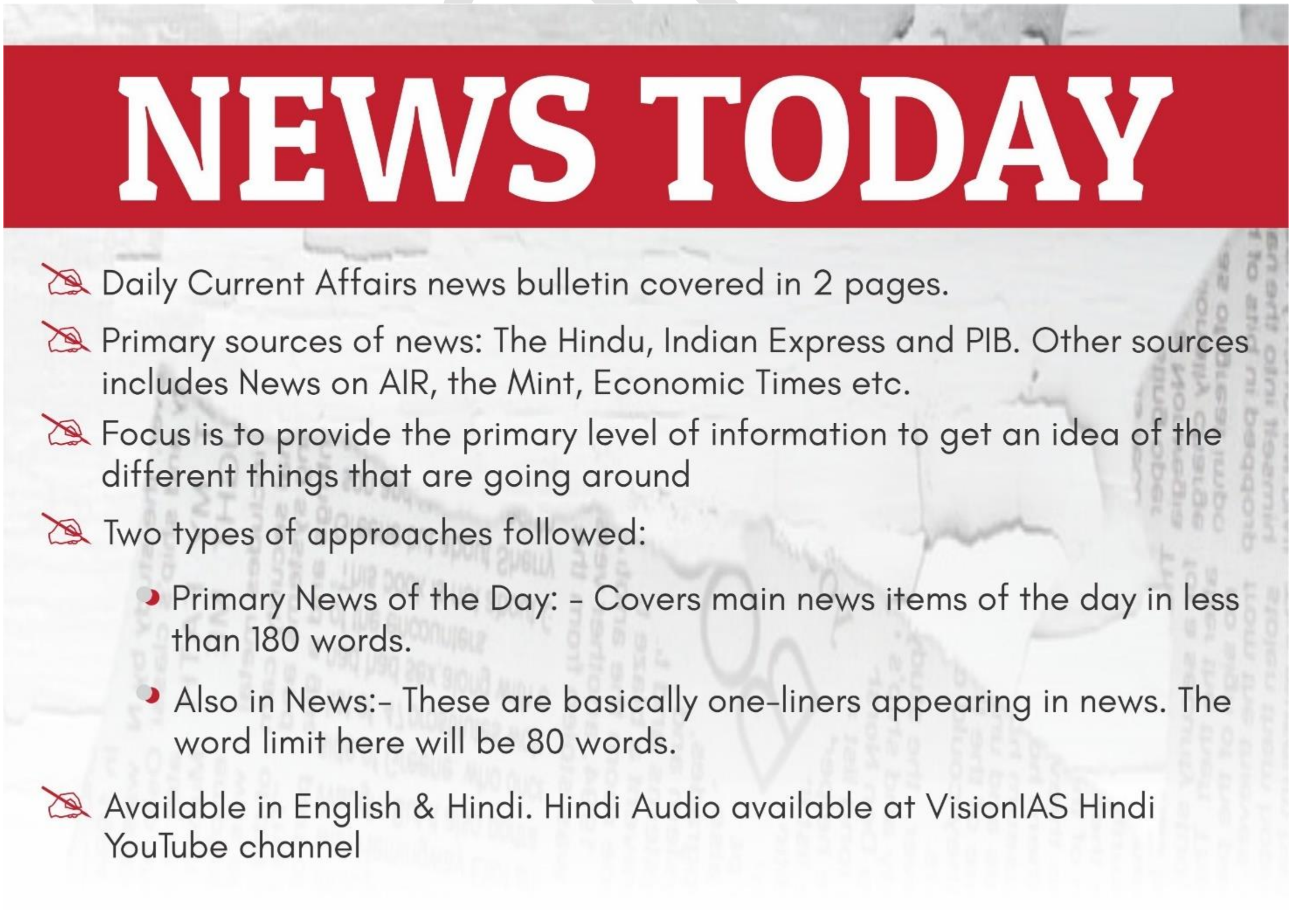
> Railway Accidents
> - **Train Collisions and Derailments:** Between **2014-15** and **2019-**
> - **1,014 accidents** reported at various **20**, the number of such accidents and number of deaths reduced from **135 to 55** and from **292 to 5** respectively.
> - **Passenger Safety:** As per NCRB, as compared to **27,987 accidents** in **2019**, **13,018** accidents happened in **2020** leading to death of nearly **12,000** railway passengers.
>   - Around **8,400** people or 70% lost their lives either due to falling off from the train or while crossing the railway track.
> - **Road Users Safety:** Around railway crossings **with 1,185 deaths**.

Railways; Gaps in providing Safe Drinking Water and other amenities to passengers; issues of water Logging in Railway Under Bridges (RUBs); yet to accept important recommendations of various committees such as creation of railway safety authority.

Way Forward

Safety is **not an attribute but an ethos** that should be instilled and nurtured. Like the **National Rail Plan** with an objective to create capacity ahead of demand, Indian Railways should have a safety plan for qualitative and quantitative improvement in its network safety. This includes steps like:

- **Renewal or Replacement of railway network** to ensure structural safety of old tracks/bridges to meet dynamics of heavier and faster trains of present and future.
- **Augmentation of internal resources** to replace obsolete technology and materials while creating new infrastructure.
- **Encouraging Indigenous R&D in railway safety** to make optimum use of indigenous technology for safety as well as to reduce passenger casualties, road users casualties etc.
- **Set up of Rail Safety Authority** to co-ordinate with various railways departments, helping the concerned departments to discharge their safety functions effectively.
- **Set up of State Level Security Committee for Railways** by all states/UTs at the earliest for increased co-ordination and addressing misuse of railway network by criminal elements.
- **Creating a code of conduct for safety** to infuse the safety ethos among employees, helping to **address human errors as well through behavioral changes.**



10.3. ROADWAYS

ROADWAYS AT A GLANCE

- India has the **second-largest road network** in the world, spanning a total of **5.89 million kilometres (kms).**
- Highway construction in India increased at 17.00% CAGR between FY16-FY21.
- **2.2%** of the country's total road network are National Highways.
- **40%** of India's total traffic is carried by the National Highways.
- **1% of total vehicle** population in the world, but accounts for 11% of road crashes and fatalities, costing 3-5% of GDP.

Key objectives

- NHAI plans to construct **18,000 kilometres** of **national highways in 2022-23** at a pace of 50 km per day
- To construct **65,000 kms** of national highways at a cost of Rs. 5.35 lakh crore by 2022
- Double the length of **National Highways (NHs)** to 2 lakh km by 2022-23
- Widen single/intermediate lane NHs and reduce the length to less **than 10% of total length by 2022-23.**
- **Reduce the number of road accidents** and fatalities by half by 2025
- Completing **Bharatmala Pariyojana** Phase-I by 2027 (initial target year was 2022).

Schemes/Initiatives

- **PM Gati Shakti** (81 high impact roadways projects)
- **National Infrastructure Pipeline**
- **Bharatmala Pariyojana**, Golden Quadrilateral Super Highways
- North East Road Sector Development Scheme
- **Pradhan Mantri Gram Sadak Yojana**
- **Setu-Bharatam project**
- **Multi- Modal Logistics Parks (MMLPs)**
- **BHARAT series** (BH vehicles)
- **Vehicle scrap page policy**

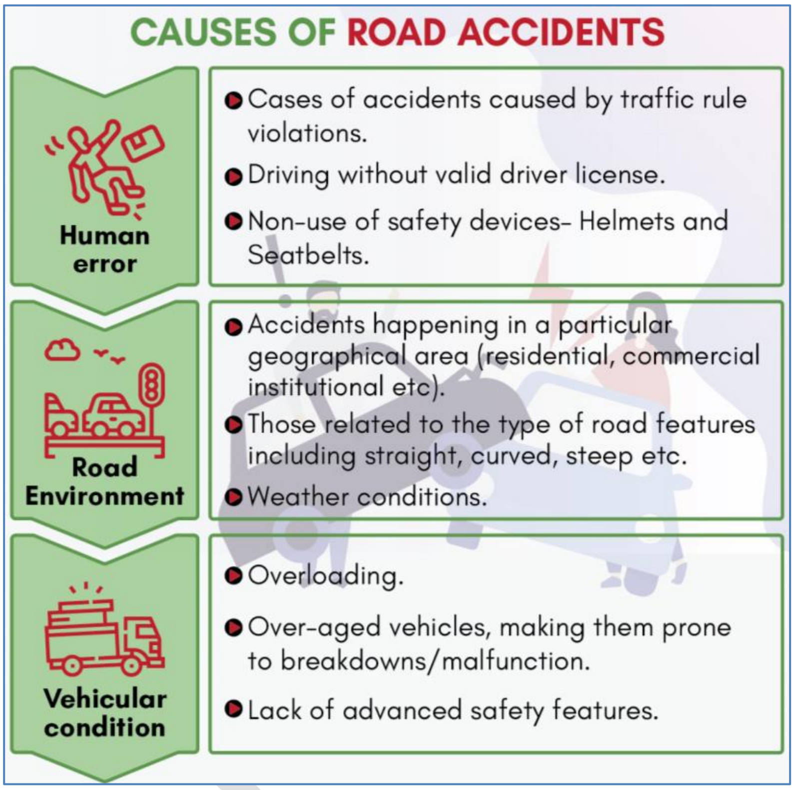
Constraints

- **Land acquisition delays**, increasing cost of the projects.
- **Inadequate road infrastructure, multiple checkpoints, and congestion.**
- Bad traffic management, Parking issues
- Overstrained NHs and SHs, carrying more than **65% of the road traffic.**
- **Annual outlay** earmarked for maintenance and repair of national highway is only about 40% of the funds required.
- Expansion of the **public transport** fleets has been hampered by the short supply of vehicles

Way forward

- **Earmark funds** from the Central Road Fund (CRF) for regular maintenance activities.
- Streamline **land acquisition** to decrease development costs.
- Increase the capacity, accessibility and affordability of **public transport**.
- Increase **technology adoption and seamless movement between different modes of transport.**

10.3.1. ROAD SAFETY



Why in news?

Ministry of Road Transport & Highways (MoRTH) has notified constitution of the **National Road Safety Board.**

Road Accidents: Globally and in India

- **Global Statistics:** According to a World Bank report (2021), road accidents globally **injure more than 3000 persons every day.**
    - India **tops the world in road crash deaths** (WHO, 2018), with more than 400 fatalities per day.
- **Road accidents in India**: According to MoRTH, Road accidents in India kill almost **1.5 lakh people annually**. India has 1% **of the world's vehicles** but accounts for **11% of all** road accident **deaths**.
- **Economic cost:** 2019 World Bank report puts the road crash and serious injury cost **estimate at 7.5 per cent of India's GDP for 2016.** It is **more than twice the figure cited by the government** at 3 per cent of GDP.

How National Road Safety Board will help in reducing it?

- It will formulate **specific standards** for road safety, traffic management and road construction for hilly region and guidelines for **capacity building** of traffic police, highway authorities etc.
- It will formulate Guidelines for **establishing and operating** trauma facilities and para-medical facilities, for consideration by the Central Government.
- It will provide **technical advice** and assistance, promote **good Samaritans** and good practices and **conduct research** for road safety and traffic management.
- It will **promote consistency** between international technical standards and domestic technical standards.

Other measures from MoRTH to improve road safety and ameliorate the impact of road accidents

I.	VISION ZERO
	• The Ministry has formulated a comprehensive **National Road Safety Strategy** to address the issue of road safety which provides the framework for **National collaboration** on road safety improvement and allow for a **move towards VISION ZERO.** • This strategy covered **themes on Education, Publicity and awareness campaigns, Engineering (both of roads and vehicles), Enforcement and Emergency Care**.

II.	**Research oriented**	
	Integrated Road Accident Database (IRAD)	• IRAD is a **robust system** to enable the States and Centre to: ○ **Comprehend the information** related to road accidents, ○ **Analyses the root cause** of road accidents and ○ To develop and implement **'data-led' road safety interventions**
	Research in Road Safety	• Encourages **increased activity in programmes of road safety research** by identifying **priority areas**, funding etc. • Establishing **centres of excellence** in research and academic institutions.
III.	**Behavioural change**	
	Improved road use behaviour	• Guidelines for the "Scheme for setting up of **Driving Training Centres (DTC)** • Establishment of **Institute of Driving Training and Research (IDTR) and Regional Driving Training Centre (RDTC)**
	Publicity and awareness campaigns	• **Spreading Awareness** through TV, Films, Radio Spots and Print media; • Road Safety **Awareness Workshops** Conducted in States; • Involvement of **NGOs and other Stakeholders.**
IV.	**Changing Transit Systems**	
	Engineering (both of roads and vehicles) measures	• **For road:** ○ Identification and rectification of accident **black spots** and Road Safety **Audits;** ○ **National Ropeways Development Programme – "Parvatmala"**, a preferred **ecologically sustainable and safer alternative in place of conventional roads in difficult hilly areas.** • **For Vehicles:** ○ **Mandated 'Automatic Headlamp On' (AHO)** in two wheelers; ○ Notified **bus body code and truck body code;** ○ **Compulsory Anti-lock Braking System (ABS) System** in new vehicles from 2018.
	Promoting Intelligent Transport System (ITS)	• E-Challan and M-Parivahan (to access various transport related services); • **Transport Mission Mode Project** (VAHAN for vehicle registration and SARATHI for driver license); • **Electronic Monitoring** and Enforcement of Road Safety.
V.	**Enforcement measures**	
	Motor Vehicle Amendment Act (MVAA), 2019	• It has provisions related to vehicle scrapping policy, vehicle **recall** system, national register for vehicle registration, driving license and **electronics surveillance & monitoring**, etc.
	Emergency (Post-crash response and Trauma care)	• Effective Trauma Care and **Good Samaritan** Guidelines; • Motor Vehicle Accident **Fund** and **Cashless Treatment** during Golden Hour; • **Compensation payable** to road accident victims.

Conclusion

Being a signatory to the **Stockholm declaration,** India has a committed to **bringing down fatalities** from road accidents **by 50 percent by 2030**. To achieve this goal and **make every road safer for everyone at all times**, we need to improve in all areas, i.e., technological, institutional and psychological.

10.4. CIVIL AVIATION SECTOR

CIVIL AVIATION SECTOR AT A GLANCE

- India has become **third largest domestic aviation market** in the worldafter USA and China.
- India is expected to **overtake UK to become world's third largest air passengermarket by 2024**
- Between 2009- 2019, India contributed **5.9% to global growth in passenger traffic** and expected to grow by **6.2 percent per annum by 2040.**
- Overall, aviation industry **contributes $35 billion annually to India's GDP and** offer **7 million jobs** through tourism and related activities.
- India's ranking in **Travel and Tourism Competitiveness Index** has improved from 52nd in 2015 to **34th in 2019.**

Key objectives

- **To regulate air transport services** to/from/within India and enforce civil air regulations, and airworthiness standards.
- Establish an integrated eco-system to **promote tourism, increase employment** and lead to balanced regional growth.
- **Ensure safety, security and sustainability of aviation sector** through use of technology and effective monitoring.
- **Enhance regional connectivity** through fiscal support and infrastructure development.

Schemes/Initiatives

- **National Civil Aviation Policy (NCAP), 2016** toenhance ease of doing business through deregulation, and e-governance.
- **Upto 100% FDI is permitted in Non-scheduled air transport services,** helicopter services and seaplanes under **automatic route.**
- **Regional Connectivity Scheme UDAN** to make flying affordable for common citizen.
- **AirSewa app** for air-passengers to register their complaints for swift redressal.
- New **policy for Maintenance, Repair and Overhaul (MRO) services** has been announced.
- **e Sahaj portal** provide security clearance to citizens in online mode.
- **Digi Yatra enhance seamless travel experience** for passengers andsimultaneously improving security.

Constraints

- **High jet fuel prices increase cost of operations for airlines** which could lead to an increase in air fares by up to 15%.
- **Lack of infrastructure and airports** limits the growth of aviation market and hampers regional connectivity.
- **Inadequate trained and skilled manpower** from airline pilots and crew to maintenance personnel.
- **Lack of technological advancements in upgrading aircraft communication systems,** causing the entire system to collapse.
- **Commercial liberalization** led to intense competition and reduction in real yields.
- **Increasing fear of terrorism** leads to stringent check-ins and consequently longer lines and delays.

Way forward

- **Reduction in fuel cost** which made low-cost airlines model possible and sustainable.
- Carriers need to **maintain their current fleet and ensure to purchase new, modern ones,** while ensuring fuel efficiency and lowered costs.
- Need to **promote collaboration between original equipment manufacturers (OEMs),** industry and educational institutes to assimilate latest technology and management practices in aviation industry.
- **Taxation and pricing structure of aviation turbine fuel (ATF) should be aligned to global benchmarks by** considering bringing under ambit of GST.
- **Complete the ongoing projects under UDAN initiative in** time-bound manner.
- **Establishing India as a trans-shipment hub in the region** to reap its multiple benefit.
- **Formulation of long-term plans for advanced research in aviation technologies** to create a manufacturing ecosystem in the country.

10.5. SHIPPING SECTOR

SHIPPING SECTOR AT A GLANCE

significance of port development

- **Economy**
  - Reducing Logistics cost
  - Blue Economy
- **Security**
  - Ensuring safety of strategic installations
  - Curtailing transnational organized crime at sea
  - Keeping an eye on maritime traffic
- **International Relations**
  - Countering the influence of China
  - Regional integration
  - Net Security Provider in the IOR
- **Environment**
  - Good design of Ports for sustanable development
- **Social**
  - Inclusive development
  - Sustainable livelihood

Governance of ports

- **Major Ports:** They fall in the **Union list** of the Constitution and are administered under the Indian Ports Act 1908 and the Major Port Trust Act, 1963.
- **Minor Ports:** Minor ports are managed at the **State level.**
- **Governance model:** Until the enactment of MPA Act, 2021, the 11 ports owned by the Indian government widely followed a **hybrid format** of the **service port model** and the **landlord model.**

Hurdles in enhancing India's port connectivity

- **Infrastructure bottleneck:** Shallow ports, subdued capacity utilization at ports, logistics bottleneck.
- **Regulatory bottleneck:** Lack of level-playing field between major and minor ports, bureaucratic challenges.
- **Issues related to investment:** Lack of financing, subpar private sector participation.
- **Labour issues:** Overstaffed, unskilled and untrained labour.
- **Less competitive on global front**

Steps taken to enhance India's port connectivity

- **Ease of doing business:** Encouraging investments, Centralized web-based Port Community System (PCS), Captive Policy for Port Dependent Industries.
- **Dealing with infrastructural bottleneck: Sagarmala Programme, Bharatmala programme,** Project Unnati - Operational Efficiency Improvement, Capacity Expansion of existing Major Ports, New Port Development, Development of a transshipment terminal (hub).
- **Legislative reforms: Major Port Authorities Act, 2021.**
- **Cooperation with neighboring countries**

Way ahead

- **Regulatory reforms:** Opening up the dredging market, coordinated efforts for last-mile connectivity to ports.
- **Dealing with the issues of financing:** Cruise tourism as a revenue source, investment opportunities in bunkering.
- **Improving infrastructure:** Prioritisation of projects under Sagarmala, multimodal connectivity, smart ports and blockchain logistics.
- **Policy interventions to promote inland waterways:** Navigable route development, enhancing last-mile connectivity, development of industrial corridors, promoting passenger transportation, ensuring adequate air clearance.

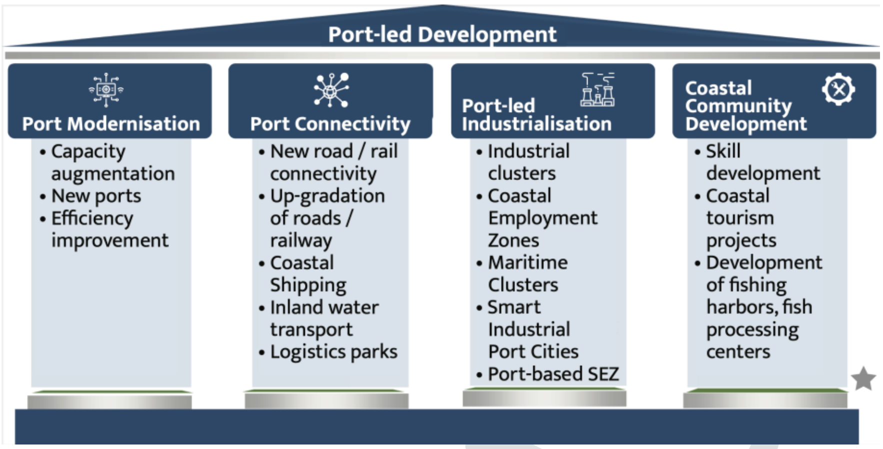
10.5.1. SAGARMALA PROGRAMME

Why in News?

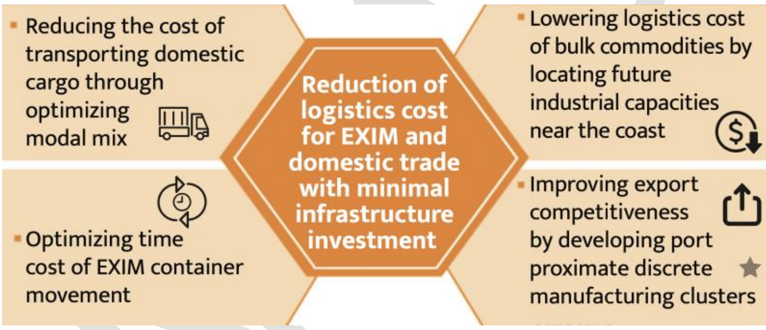
Sagarmala, the flagship programme of the Ministry of Ports, Shipping and Waterways completed seven years.

About Sagarmala

- It aims to achieve **Port-led development** based on **four pillars** (see image).
- Implementation of the projects identified under the Sagarmala Programme will be taken up by the relevant Ports, State Governments / Maritime Boards, Central Ministries, mainly through private or **Public Private Partnership (PPP)** mode.
- The **financial assistance is provided to State Government and other MoPSW agencies** for port infrastructure projects, coastal berth projects, Road and Rail projects, fishing harbours, skill development projects, cruise terminal and unique projects such as Ro-Pax ferry services etc.



Significance of Sagarmala program



- **Reduction of logistics cost** for EXIM and domestic trade with minimal infrastructure investment.
- **Modern governance of major ports** with greater autonomy through the 'Landlord Model' of development and world class port infrastructure.
- **Ease of Doing Business (EODB) in Major Ports and Shipping Sector**
  - **Seamless Cargo movement** through **simplified procedures for cargo movement and usage of electronic channels for information exchange.**
  - **Improvement of operational efficiency** through business process re-engineering, modernizing and upgrading of existing infrastructure and improved mechanization.
- **Aid the Economy** through development of a Blue Economy, i.e., port efficiency and modernisation, port connectivity, port-linked industrialisation and coastal community development.
- **Aid Regional growth** by reviving old trade links and promote India's strategic interest in the Indian Ocean region.
- **Coastal Community Development** through skill development & livelihood generation activities, fisheries development, coastal tourism etc.

Challenges

- **Resource mobilization:** According to a study by ICRA, mobilisation of the investments in a timely manner, allocation and availability of adequate budgetary support impedes the project.
- **Multiple Taxes:** The shipping industry in India is subjected to multiple taxes as compared to leading maritime nations due to which shipping companies are not attracted to invest in India.
- **Poor coordination**: The **Parliamentary Standing Committee on Transport, Tourism and Culture** expressed dismay regarding the poor coordination between the Ministry of Ports, Shipping and Waterways and the implementing agencies.
  - The panel has recommended a **dedicated monitoring mechanism to ensure completion within the approved cost and designated timeline**.
- **Rise in crude prices:** The rise in crude prices is further aggravating the trouble for the shipping lines, as the bunkering costs have gone up by significantly in the last one year.
- **Environmental issues:** Serious concerns over environmental effects on the coasts with like coastal erosion, coastal accretion, dredging and the effects on the seabed.
- **Security Issue:** The creation of around 200 small ports all along the coastline may enhance the security issues for India.

11. MINING AND POWER SECTOR

11.1. MINES AND MINERALS

MINES AND MINERALS AT A GLANCE

India continues to be **largely self-sufficient** in minerals which constitute **primary raw materials** supplied to industries such as **iron & steel, aluminium etc.**

India is deficient in **kyanite, magnesite, rock phosphate, manganese ore** etc. which are imported to meet demand.

Indian mining industry is **characterized by a large number of small operational mines.**

Out of 1303 reporting mines, **most of the mines reported are in Madhya Pradesh.**

In terms of **value of mineral production, about 87% comes from 10 states.**

Only **10% of the obvious geological potential (OGP)** area of India has been explored.

KEY TARGETS

- Accelerate the growth of the mining sector from 3% in **2017-18 to 14%,** with an average growth of 8.5% during 2018-23.
- **Double the area explored from 10%** of obvious geological potential (OGP) area to 20%.
- Increase the job contribution from the **current 10 million to 15 million in 2022-23.**

POLICIES/SCHEMES/INITIATIVES

- **Mines & Mineral (Development and Regulation) Act** 1957; and Amendments 2015 and 2020.
- **Pradhan Mantri Khanij Kshtera Kalyan Yojana (PMKKKY) and District Mineral Foundation (DMF)**
- **National Mineral Policy, 2019**
- **SHAKTI** (Scheme for Harnessing and Allocating Koyala transparently in India).
- **Project SUDOOR DRISHTI** between Indian Bureau of Mines and National Remote Sensing Centre.
- **Scheme for Accreditation of Private Exploration Agencies** for Undertaking Prospecting Operations of Mineral.

CONSTRAINTS

- **Regulatory challenges** such as **no guarantee of obtaining mining lease** even if a successful exploration is done by a company
- Mining licenses being awarded on a **first come first serve basis** in principle but there is **no transparent system.**
- **Inadequate Infrastructure facilities** such as absence of proper transportation and logistics etc.
- **Sustainability challenges** as **40%** of mining proposals **failed to get environmental clearance.**
- **Environmental Pollution:**
  - o **Air pollution** from Surface Mines, coal mines and smelting operations.
  - o **Water pollution** due to leaching of heavy metals and toxic elements.
  - o **Land pollution** due to activities like blasting and surface mining.
- **Health and safety challenges** as mining operations can be extremely hazardous.

WAY FORWARD

- Facilitating **private party participation** in exploration through reforms in licensing policy.
- **Single window** and **time-bound** environment and forest clearances.
- **A National Data Repository (NDR)** of Mineral Resources should be created and uploaded online.
- Robust and transparent **public reporting mechanism** for exploration firms.
- **Capping taxation and other levies** at a maximum of 40% of the sale value, as per global practice.
- **Effective Utilization of PMKKKY and DMF funds** on drinking water/environment preservation and pollution control/Health care/education/skill development/welfare of women, children, aged and disabled people / sanitation.

11.1.1. MINERAL CONSERVATION AND DEVELOPMENT (AMENDMENT) RULES, 2021

Why in news?

Ministry of Mines has notified the Mineral Conservation and Development (Amendment) Rules, 2021 to amend the Mineral Conservation and Development Rules, 2017.

About Mineral Conservation and Development (Amendment) Rules, 2021

- **Submission of Digital plans:** All plans related to mine shall be prepared by combination of **Digital Global Positioning System (DGPS)** or **Total Station** or **by drone survey** for certain or all leases as **specified by Indian Bureau of Mines (IBM).**
- **Mandatory drone survey**
  - Persons holding lease of mines (Lessees), with **excavation plan of 1 million tonne or more/leased area of 50 hectare or more**, are required to submit **drone survey images of leased area and up to 100 meters outside the lease boundary every year**.
  - Rest will **submit high resolution satellite images.**
- **Enhance employment:** Mining Engineer can have **diploma in mining and mine surveying** along with a **second class certificate of competency** issued by the **Director General of Mines Safety.**
- **Reduction of compliance burden**
  - Provision of daily return has been **omitted to reduce compliance burden**. In addition to State Government, **IBM also has power of taking action** against wrong information in monthly or annual returns.
  - **Part-time mining engineer** or **part-time geologist** can be engaged for **category 'A' mines** (leased area below 25 hectares). This will **ease compliance burden for small miners.**
- **Financial assurance:** If lease holder does not submit final mine plan within specified time frame, he/she **forfeits financial assurance** or **performance security**.
- **Rationalization of penalty rules** by categorizing violations as Major (fine, imprisonment or both), Minor (Only fine, reduced penalty) and decriminalized other violations.

11.1.2. LITHIUM SUPPLY

Why in news?

Lithium is the **most sought-after mineral** in past few years on back of its usage in battery manufacturing.

About Lithium supply

- **Global Production and Demand**: Lithium is currently produced from **hard rock or brine mines. Australia** is the **world's biggest supplier**, with production from **hard rock** mines. **Argentina, Chile and China** are mainly producing it from **salt lakes.**
- **Lithium in India:** The ancient igneous rock deposits in the **Karnataka's Mandya district** holds the **first traces of Lithium ever to be discovered** in India. The preliminary find is relatively small: a mere 1,600 tonnes of lithium deposits.
  - But it is **mere inference** at this point, with **mining and extraction many months away**.
  - India currently **imports all its lithium needs**. Over **165 crore lithium batteries** are estimated to have been imported into India between 2016-17 and 2019-20 (up to November 30, 2019), at an estimated **import bill of upwards of $3.3 billion**.

Significance of secured Lithium supply

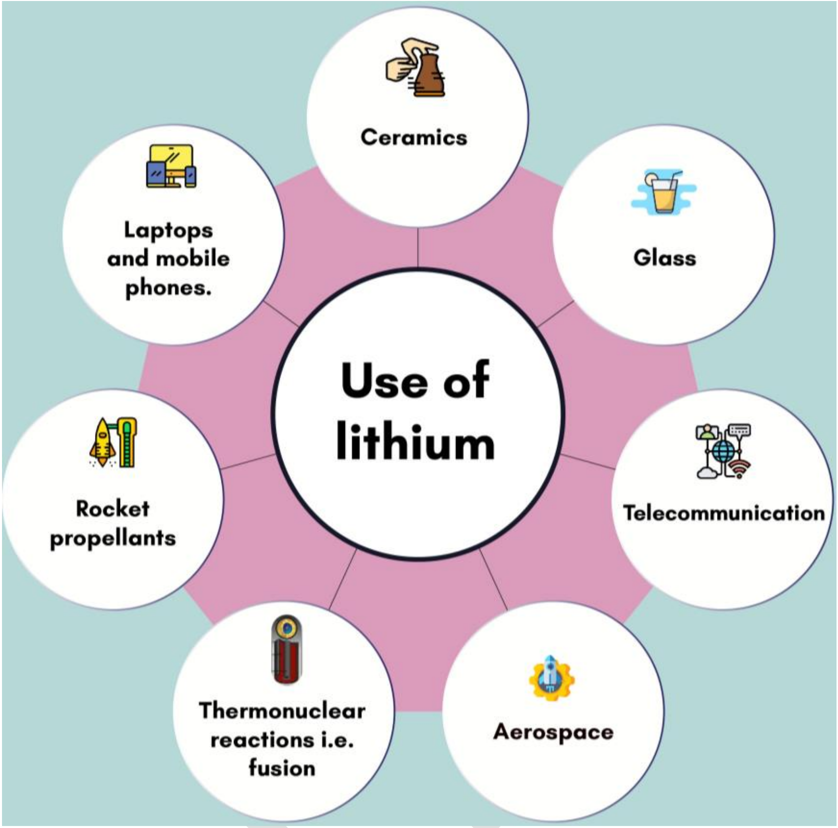
Lithium is an integral part of the **Critical Mineral value chain,** whose importance was clearly highlighted by the COVID caused supply chain disruption.

- India has unveiled plan for developing a **battery storage ecosystem**, which involves setting up at **least 50-gigawatt hour manufacturing capacity** for advanced chemistry cell batteries.
- The union government has also announced a **₹18,100 crore production-linked incentive (PLI) scheme** to make **lithium-ion cells** to promote e-mobility in India.
- Success of both of them depends on **securing lithium supplies** and move to **greener economy.**
- Demand is further expected to rise as Lithium is a **key element for new technologies** and finds its use in various industries (see image).

VISION IAS

Concerns associated with import reliance of Lithium

- **Concentration of reserves: Chile, Argentina and Bolivia** (**Lithium triangle**) in South America is believed to account for **more than 50%** of the world's **proven Lithium reserves. Australia and China** are the two other geographies that claim the **top spot.**
- **China's dominant position and inevitable geopolitical race:** China has a **huge head start** on India in terms of **securing lithium deposits**, which are a critical component of **electric vehicle batteries**. This could **slowdown India's efforts to become self-sufficient** in the EV era.



Steps taken by India to ensure secured lithium supply

- **Exploration projects:** Apart from the discovery in Karnataka's Mandya district, the Geological Survey of India has taken up seven other lithium exploration projects in **Arunachal Pradesh, Andhra Pradesh, Chhattisgarh, Jharkhand, Jammu and Kashmir and Rajasthan.**
- **Collaboration with other countries:** In March 2019, India signed a **MoU with Bolivia** to **explore and extract Lithium**. India has also signed **bilateral agreement with Argentina** for securing strategic minerals, which will be operationalized via Khanij Bidesh India Ltd (**KABIL)'s contract with three state-owned organizations** in Argentina.
    - KABIL is also exploring the **direct purchase** of cobalt and lithium.
- **Lithium plant**: India's **first Lithium plant** has been set up **at Gujarat** in 2021, where a private company has planned investment of Rs 1000 crore to **set up a refinery**. The refinery will use Lithium ore to **produce base battery material.**

Measures that can be taken for a secured Lithium supply

- **Focus on recycling**: Apart from intensifying exploration, India should explore the opportunities to **re-purpose and recycle used lithium-ion batteries**. Reports suggest battery recycling as a solution to meet surging lithium-ion batteries demand, recovering **80-90% of lithium, cobalt, nickel, manganese and graphite.**
    - Recycling is also significant because of the **environmental and human rights concerns** surrounding the mining of these precious metals.
    - It will also help in our goal of **circular economy** apart from ensuring a **supply security**.
- **Looking for alternatives to Lithium-ion battery: Solid-state batteries** are a promising option due to their **high energy density** and **wide operating temperature.** They are expected to become commercially viable within the next 5-10 years.

11.2. POWER SECTOR

POWER SECTOR AT A GLANCE

- Third-largest producer and second-largest consumer of electricity worldwide, with installed power capacity of 395 GWin 2022 (152 GW Renewable Energy and 203 GW Coal-based).
- Solar energy contributed 50.30 GW, 40 GW from wind power, 10.2 GW from biomass and 46.5 GW from hydropower.
- Coal based installed power capacity expected to reach 330-441 GW by 2040.
- 1181 kWh is India's per capita power consumption as against the world average at 3,260 kWh.
- FDI in power sector reached $ 15.84 billion (2000-2021).

Key objectives

- Achieve **227 GW capacity in renewable energy** (including 114 GW of solar power and 67 GW of wind power) by 2022.
- Establish **renewable energy capacity of 500 GW by 2030.**
- Providing **accessible, affordable and on-demand access to consumers** across the country.
- **Diversifying the sources of production of energy to ensure** sustainability of production without compromising level or consistency of production.
- **Increase distribution efficiency** by minimizing the Aggregate Technical & Commercial (AT & C) losses.

Schemes/Initiatives

- **Sovereign green bonds**
- **Infrastructure status** to energy storage systems, including grid-scale battery systems.
- **PLI Scheme**
- **Deen Dayal Upadhyay Gram Jyoti Yojana** (DDUG-JY),
- **Ujwal DISCOM Assurance Yojana** (UDAY)
- **Integrated Power Development Scheme** (IPDS).
- **Pradhan Mantri Sahaj Bijli Har Ghar Yojana,** "Saubhagya"
- **National Smart Grid Mission** (NSGM)

Constraints

- **Power DISCOMS under** losses (about Rs 90,000 crore in 2021).
- Installed capacity to produce electricity is not enough to support an annual economic growth of **7 to 8%.**
- **High line losses due to both geographical constraints and underinvestment.**
- **Politico-economic issues**
- Grid constraints, Theft, **Power cuts, Voltage fluctuation, and** extremely high tariffs in some areas.
- The **thermal power plant the main source of generating power is facing a high deficit of coal and raw materials supplies.**

Way forward

- **Improve DISCOMs' revenue recovery** through performance incentives, improving staff capacity and building revenue collection capacity.
- **Making fiscal headroom through subsidy** reduction by making them more targeted.
- **Reducing government** dues with better financial management.
- **Regular Tariff** revision and addressing idle regulatory assets through monetization.

11.2.1. GENERAL NETWORK ACCESS (GNA)

Why in news?

Central Electricity Regulatory Commission issued draft Connectivity and **General Network Access** to the inter-State Transmission System Regulations, 2021.

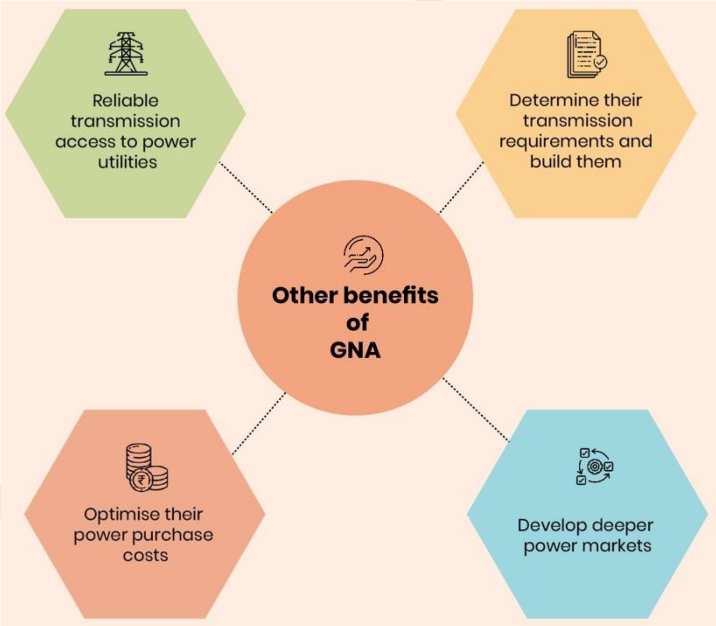
What is General Network Access (GNA)?

GNA means **open and non-discriminatory access** to the inter-State transmission system. This is in keeping with the concept of **"one nation, one grid".** It does away with **unnecessary contracts** between power **producers and the bulk consumers** for delivery of power.

About the Regulations

- It provides for a **regulatory framework** to facilitate **non-discriminatory open access** to licensees or generating companies or consumers for use of **inter-State transmission system** (ISTS) through General Network Access and **consolidate the related regulations**.
- **Entities eligible for connecting to ISTS:** It includes types of **Generating stations, Captive generating plants, Standalone Energy Storage Systems (ESS)** and **Renewable Power Park Developer.**
- **Dedicated transmission lines**: If the connectivity is granted to a **generating station or a captive generating project, or a standalone ESS**, the dedicated transmission lines should be **established, operated, and maintained** by such entities.
- **Grant of GNA to entities other than STU:** Entities granted **connectivity to ISTS will be deemed to have been granted GNA**, equal to the quantum of connectivity from connectivity start date.
- **Temporary GNA (T-GNA):** Certain entities like Distribution licensee or Bulk consumer directly connected to ISTS, Captive generating plant etc. are eligible to apply for T-GNA to ISTS.

Benefits of GNA



- **For power generators**: It will ensure that a generator focuses **only on producing power** rather than work out **how the supply will be done** due to the **point-to-point access concept** which is **restrictive**. GNA will allow them to **supply from any point**.
- **For Consumers:** Removes worry about **where the supply will come from and what energy source** it will come from.
- **Support country's Renewable Energy programme**: At present, power evacuation from renewable energy projects is **hampered by transmission constraints** in renewable-rich states.
- **Encourage investments in Transmission Segment:** GNA is expected to **increase investments in the transmission segment** by providing **hassle-free access to the ISTS** network to renewable energy generators.

Challenges in utilizing the GNA

- **Difficult to forecast demand:** States will face difficulties in **accurately estimating GNA requirements** because of **uncertainty in demand assessment**.
- **Emerging areas of demand:** A growing trend towards the **electrification of transport, agriculture and cooking** is further likely to **increase demand uncertainty** in the coming years.
- **Variability in consumer's choice:** State discoms find it challenging to **assess the number of open access customers** that may source power from outside the state, thereby impacting **accurate assessment** of GNA requirements.
- **Supply Variability:** Demand variability, coupled with **supply variability due to the growth of renewables** will present a double whammy for system planners and may lead to **overplanning of the ISTS**.

Way Forward

Enabling **One Nation, One Grid** through GNA are much needed. But due to the financially fragile system it is essential that the **cost implications** of transmission planning are **studied thoroughly** for various load generation scenarios. Also, in the **case of default** by generating companies, care must be taken that the **additional expenditure** on the transmission system is **not passed on to the beneficiaries**.

11.3. COAL, OIL AND GAS SECTOR

COAL, OIL AND GAS SECTOR AT A GLANCE

- 50% of India's overall energy mix comes from Coal.
- 28% of India's overall energy mix comes from Oil.
- 729 million tonnes of coal is produced by India every year.
- 4.9 million barrels of oil consumed per day with 87.6% of India's Oil needs being fulfilled through imports in FY20.
- 70% of India's Energy needs come from West Asia.
- Overall, India's primary energy demand is expected to nearly double to 1,123 million tonnes of oil equivalent by 2040.

Key Objectives

- **Increasing the Geologically explored area** from 10% to 20%.
- **Increase the growth of the mining sector** from 3% to 14% by 2023.
- **Reduce imports of oil and gas** by 10 per cent by 2022-23.
- **More than double the oil and gas exploration area** by 2030 to increase domestic output. Boost the use of natural gas in India's primary energy mix from the current 6.2 per cent to 15 per cent by 2030.
- **Increase the job contribution** (direct, associated and indirect) from the current 10 million to 15 million in 2022-23.
- **Commercialise 50%** of the Strategic Petroleum Reserves (SPR) to raise funds and build additional storage tanks to offset high oil prices.

Schemes/Initiatives

- Pradhan Mantri **Ujjwala Yojana**
  Pratyaksh Hanstantrit Labh **(PAHAL)**
- **Pradhan Mantri Ji-Van** (Jaiv Indhan-Vatavaran Anukool Fasal Awashesh Nivaran) Yojana
- Creation of **National Gas Grid** with authorized network of nearly **34,000 km.**
- **Shakti** (Scheme for Harnessing and Allocating Koyala Transparently in India)
- **Simplified mining plan approval and permission for Commercial coal mining**
- **100% FDI** allowed in various segments of oil and gas sector including natural gas, petroleum products and refineries.
- Plans to **invest ₹ 7.5 trillion on oil and gas infrastructure in the next 5 years and double its refining capacity to 450-500 million tonnes** by 2030.

Constraints

- Arranging land for **Coal Mining** remains a major issue.
- There is a **tendency to expand opencast mining** and discourage underground operation even for better quality coal reserves.
- **Limited competition and private participation** in the Coal Market.
- **High import dependence** for raw material in all three sectors.
- **Declining domestic crude oil and natural gas production** since **FY 2011-12** due to ageing wells, low investments and low interest of foreign players.
- **Rising oil and gas prices**

Way forward

- **Diversifying and limiting the sources of imports** as far as possible.
- Oil, natural gas, electricity and coal can be brought under **GST to enable input tax credit.**
- Expeditiously complete **detailed exploration** through exploration-cum-mining leases based on production/revenue sharing model.
- Review and provide the required **flexibility** in contract terms to make **stranded oil and gas assets functional.**
- Provide for **shared infrastructure for evacuation** of oil and gas from small and scattered onshore and offshore fields.
- Promote **city gas distribution** to increase accessibility of piped natural gas (PNG).

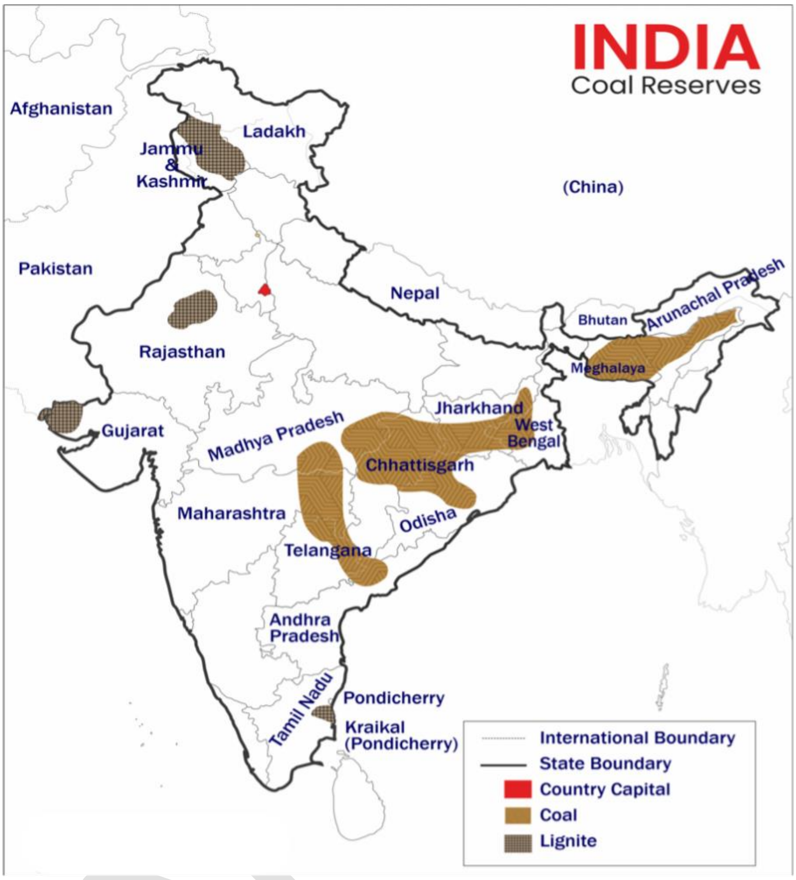
11.3.1. COAL SECTOR IN INDIA

Why in News?

Union Cabinet recently approved the policy for land acquired under the Coal Bearing Areas (Acquisition & Development) Act, 1957 (CBA Act).

Coal sector in India

- **India** has the **fifth** (when accounting for only proven reserves) **largest coal reserves in the world.**
- **India** is the **2nd largest importer of coal.**
- As per the Draft National Energy Policy of Niti Aayog, the **demand for coal is expected to rise in the range of 1.3-1.5 billion tonnes by 2030.**



Issues in Coal Sector:

- **Regulatory challenges:** A stricter regulatory framework for land acquisition, resettlement and rehabilitation (R&R) and environment management leading to higher cost of compliance for access and extraction of coal.
- **Limited technology use:** Indian coal mining sector is still beset with relatively small-scale mining with limited mechanisation/scale of equipment.
- **Import dependency:** A little over a fifth of the demand is fulfilled through coal imports (mainly from Indonesia, South Africa and Australia).
- **Transportation challenges:** Bottlenecks in domestic coal transportation and lack of proper road connectivity further increase the challenge.
- **High ash content in coal:** It creates problems for coal users that include erosion, difficulty in pulverization, poor emissivity and flame temperature and generation of excessive amounts of fly-ash.
- **Poor financial state of DISCOMs:** It leads to financial challenge in overall power sector. Several states, including Jharkhand and Maharashtra, have large outstanding dues to coal companies.
- **Increased water stress:** Coal-fired power plants require large amounts of water for cooling purposes.
- **Safety issue in mining:** High proportion of deaths in coal mining accidents from strata fall (or fall of the roof and sides of underground mines) in India than from the use of explosives.

Reasons for recent coal shortage?

- **Sudden surge in demand** due to demand pick up of industries after the second wave of COVID-19.
- **Rising heatwaves** adding extra pressure on the nearly exhausted thermal power plants. Peak power demand is expected to hit a record high of 215-220 gigawatt (GW) in May-June.
- **High international price of imported coal** because of supply disruptions resulting from the Ukraine war.

- **Cash flow problem in the electricity sector** due to the inability of DISCOMs to recover costs, leading to outstanding dues of over ₹1 lakh crore to power generation companies.

Steps taken to address recent crisis

- Centre has allowed **States to use its captive coal reserves up to 25%** to meet growing domestic demand.
- Government **cancelled several passenger trains to allow for faster movement of coal carriages.** Indian Railways are also planning to add 100,000 more wagons to their fleet and construct dedicated freight corridors for faster delivery.
- Some states are looking to **blend domestic and imported coal to augment stocks.**

Long-Term Solutions

- **Simplifying regulations** to ensure timely and smooth completion of land acquisition and R&R related issues. It will also boost timely development with increased industry participation.
- **Securing sustainable supply** by identifying new avenues for supply, like Mozambique, Columbia and others due to changing regulations in current countries of import.
- **Promote research and exploration activities** and **modern underground mass production technologies** to deal with land acquisition related issues.
- **Improvements in transport and infrastructure** to meet demand and stock build up requirements.

11.3.2. CITY GAS DISTRIBUTION (CGD) NETWORK

Why in news?

Recently, the Petroleum and Natural Gas Regulatory Board (PNGRB) invited bids for CGD network in **five geographical areas (GAs)** covering 27 districts across Uttar Pradesh, Bihar, Jharkhand, Chhattisgarh and West Bengal.

About CGD Network

- CGD **refers to transportation or distribution of natural gas** to supply cleaner fuel (like **Piped Natural Gas or PNG**) through a network of pipelines.
- **Benefits of CNG:** Predominantly used as auto-fuel, and **PNG used in domestic, commercial, and Industrial segments**, it offers benefits like- Very low levels of emissions, unlikely to ignite due to high ignition temperature, lowest injury and death rate per vehicle mile etc.
- **Benefits of PNG:** Safe and assured supply, convenient to use, no wastage, no hassle for replacement of cylinder or cylinder booking etc.

Challenges in establishing CGD network

- **Demand Creation challenges** due to low Penetration of Gas-Based Equipment and Appliances as well as consumers not opting for PNG connections for reasons like rented accommodation.
- **Clearance issues** as different types of clearances are needed to be taken from the Gram Panchayat, district authorities, State and from other entities who have laid pipelines for water usage, telephones and cable network.
- **Competition difficulties** as domestic PNG competes directly with the subsidised LPG.
- **Gas Pricing methodology** as India's natural gas pricing policy factors are dependent upon other countries' consumption and prices, such as the total annual volume of natural gas consumed in the USA, Mexico, Canada, European Union etc.
- **Safety concerns in CGD network** like gas supply leak or rupture of pipeline resulting in uncontrolled gas release which can prove hazardous if mishandled or not properly disposed-off.

Initiatives taken to promote CGD network

- The Reserve Bank of India has accorded the **status of infrastructure to CGD projects**.
- **Changes in methodology for awarding licence:** The tariff to be charged for transportation of the priority fuel, i.e., **CNG and PNG** – which was previously the sole basis for awarding a licence – **now has a mere 10% weightage**, with primacy given to infrastructure creation.

Incentives to bid winner

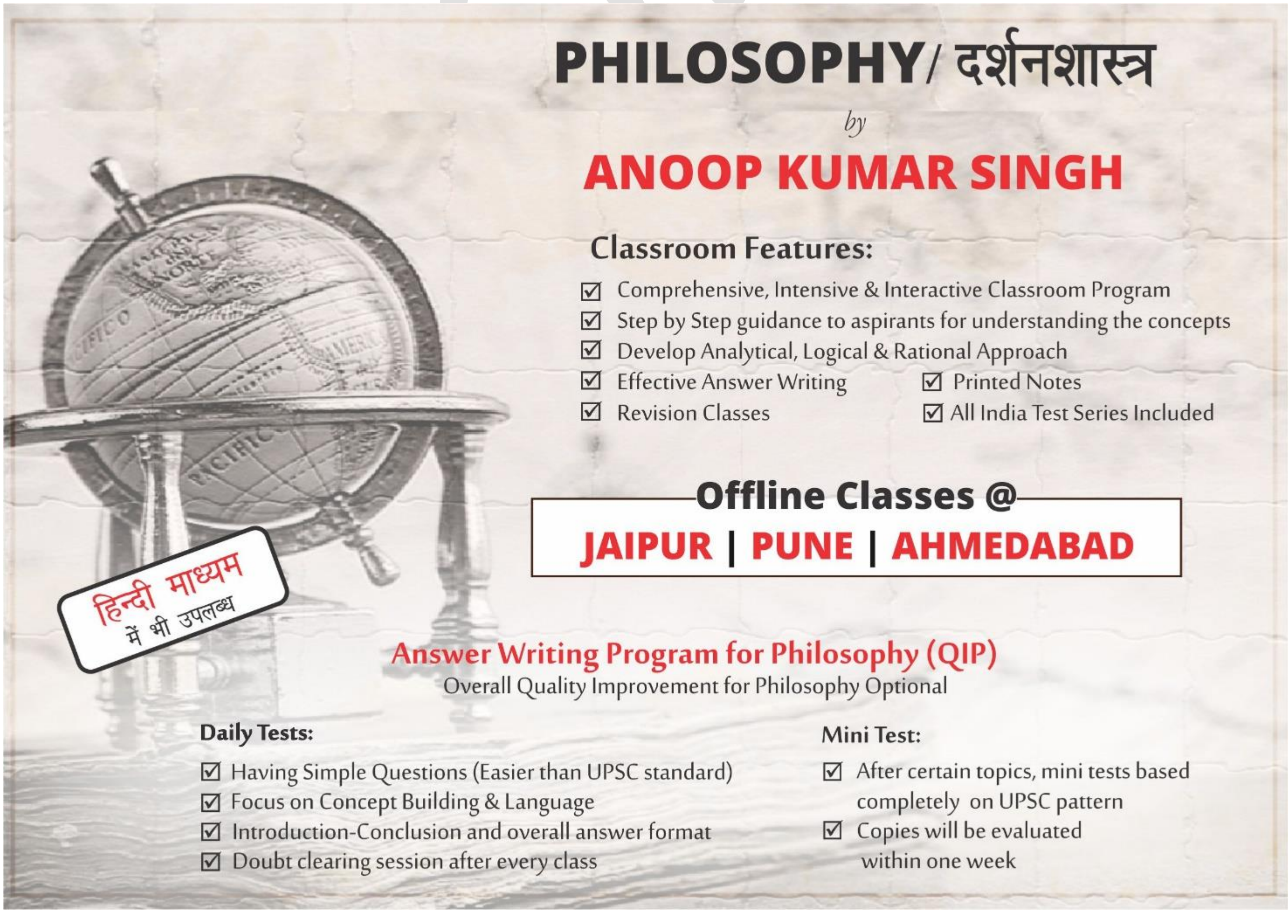
- **Market exclusivity for a period of eight years**, extendable up to ten years for performers, as compared to only five years of exclusivity under previous rounds.
- **Right to first use**, an incentive for the bidders to enjoy monopoly, and to make good off their investments.

Ways for ensuring successful implementation of CGD network

- **Coordination amongst all stakeholders**, i.e., government, PNGRB, transporters and gas suppliers, CGD entities and vendors to overcome operational challenges and maintaining revenue efficiencies.

VISION IAS

* **Operation and maintenance** should involve frequent safety audit and inspection, behaviour based safety and training, implementation of control & monitoring activities, risk analysis, etc. for safety of the system and the surrounding areas.
* **Leveraging scalable, data-driven solutions** to enable the operators to recognize the peak hour consumption patterns based on which differential pricing during peak hours can be introduced.
    * It can also support the customer to reduce operational cost, increase operational safety, and provide uninterrupted, safer, and affordable PNG supply to thousands of consumers.
* **Promoting Research & Development (R&D)** for **innovative** and **cost-effective technological solutions** to **mitigate the costs of pipeline replacement and excavation**.



12. BUSINESS AND INNOVATION

12.1. BUSINESS POLICY

BUSINESS POLICY AT A GLANCE

- New firms, new ideas, new technologies and new operating processes have grown in India post-liberalization.
- Number of procedures required to set up a business in India, has reduced from 13 to 10 over last decade.
- 18 days are needed to set up a business in India now, down from 30 days in 2009.
- Highest-ever Merchandise ($421 billion) and services ($254 billion) exports in FY22.
- Highest-ever FDI inflow at $83 billion in FY22.

Key Objectives

- **Boost Aatmanirbhar Bharat** through pro-business policy and unleash the power of **competitive markets** to generate wealth.
- **Weaning away from pro-crony policy** that may favour specific private interests, especially powerful incumbents, on the other hand.
- Making India an **Investment-Friendly Destination** and liberalised rules to promote **New Sectors** such as Drones, Electric Vehicles, Space etc.
- **Integrating the Environment, Social and Governance (ESG)** parameters in the business processes and climate.

Constraints

- Multiplicity of **legislation** and **statutory compliance requirements.**
- Delays in **construction permits, dispute resolution** and enforcing contracts.
- **Infrastructure deficiencies** in the overall business environment.
- **Market failures** when the macroeconomic climate is poor.
- **Excessive intervention in the market dynamics** makes the market sticky and inefficient.
- **Issues of** crony capitalism, bureaucratic hurdles, corruption, fragmented markets, supply chain disruptions, digital disparities etc.

Policy/Schemes/Initiatives

- **Direct Taxation reforms - reduction of corporate tax** from 30% to 25% for mid-sized companies, relief on **Minimum Alternate Tax.**
- **Indirect Taxation reforms** such as Goods and Service Tax (GST).
- **Amendments to the Companies Act, 2013 and Insolvency and Bankruptcy Code (IBC), 2016.**
- **Sector specific structural and procedural reforms** for easier compliance. including new sectors with liberalised rules and incentives for growth.
- **PPP Model** in Railways, Highways, Airports and Health Infrastructure.
- **Invest India Platform:** One-stop solution for foreign investments.
- **Other reforms** such as Business Reform Action Plan (2020), Indian Customs Single Window Project and Companies (CSR Policy) Amendment Rules, 2021.

Way forward

- Can subscribe to the disruptive ideology of **creative destruction.**
- Creating **level playing field** for all market participants.
- **Optimized allocation of resources** via tools like auction.
- **Structural changes to enhance** Ease of Doing Business.
- Streamlining logistics processes.
- Create Resilience through profound adoption of **Environmental, Social and Governance (ESG)** norms.

12.1.1. SUSTAINABLE BUSINESS PRACTICES

Why in News?

Recently, the **Federation of Indian Chambers of Commerce and Industry (FICCI)** organized an event on the role of **'Business Responsibility and Sustainability Report' (BRSR)** in driving climate actions in India at the **CoP26 (Glasgow)**.

About Business Responsibility and Sustainability Reporting

- With increased **global push** from **investors**, regulators are **mandating companies** to report their **sustainability performance** globally. E.g., all companies with more than 500 employees in the EU need ESG disclosure.
- Indian version of **Sustainability performance**, or **ESG disclosures** or BRSR was introduced by **SEBI** in **May 2021** to push the listed companies to make additional disclosures on **non-financial parameters** along with the **mandatory financial disclosures**.

What is BRSR and its principles?

- BRSR includes **essential (mandatory) and leadership (voluntary)** disclosures related to **Environment, Social and Governance (ESG)** under the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**
- Presently, it is reported **voluntarily by few companies**. E.g. IndiGo as first Indian carrier to show its efforts for sustainable aviation through ESG report.
- Segregated into three sections- **General disclosures**, **Management disclosures** and **Principle-wise performance disclosures**, with **nine principles**, BRSR will measure the impact of companies on **economy; environment and people** using **key performance indicators**, bringing higher transparency on its contribution to sustainability and **creates value** for the company.

KEY PERFORMANCE INDICATORS

ENVIRONMENTAL	SOCIAL	CORPORATE GOVERNANCE
GHG Emissions	CEO Pay Ratio	Board Diversity
Energy and Emission Intensity	Gender Diversity	Board Dependence
Waste management	Gender Pay Ratio	Ethics and Anti-Corruption
Water Usage	Global Health and Safety	Data Privacy
Climate Risk Mitigation etc.	Human Rights etc.	Disclosure practices etc.

What is the need for Business Responsibility and Sustainability Practice?

- **Business Resilience** through corporate adaptation and mitigation efforts against climate change impact.
- **Helping transition towards a sustainable economy** by promoting low-carbon, climate resilient and sustainable economy; vital for India in meeting its **Net Zero Ambition** by 2070.
- **Creating Long-term Value** for stakeholders, especially investors to identify future risks by comparing companies and sectors.
    - E.g. Banks making investment decisions on **Green Deposits**, i.e. the term deposits to be invested in environmentally beneficial projects and initiatives.

Major Global standards on Reporting of Sustainability
- **GRI Standards** by Global Reporting Initiative (GRI), an independent, international organization,
- **Sustainability Accounting Standards Board (SASB)**, also by Value Reporting Foundation, a global nonprofit organization,
- **ISO 26000 Standards** on social responsibility by International Organization for Standardization, an independent, non-governmental international organization.
- **United Nations Global Compact**, world's largest voluntary corporate sustainability initiative based on universal sustainability principles.

- **Increased Access to Capital** by opening up rising **capital of global sustainable funds**.
- **Inclusive growth in India** through socially responsible business practices.
- **Strengthening of Corporate Governance** through improvements in transparency, diversity among others.

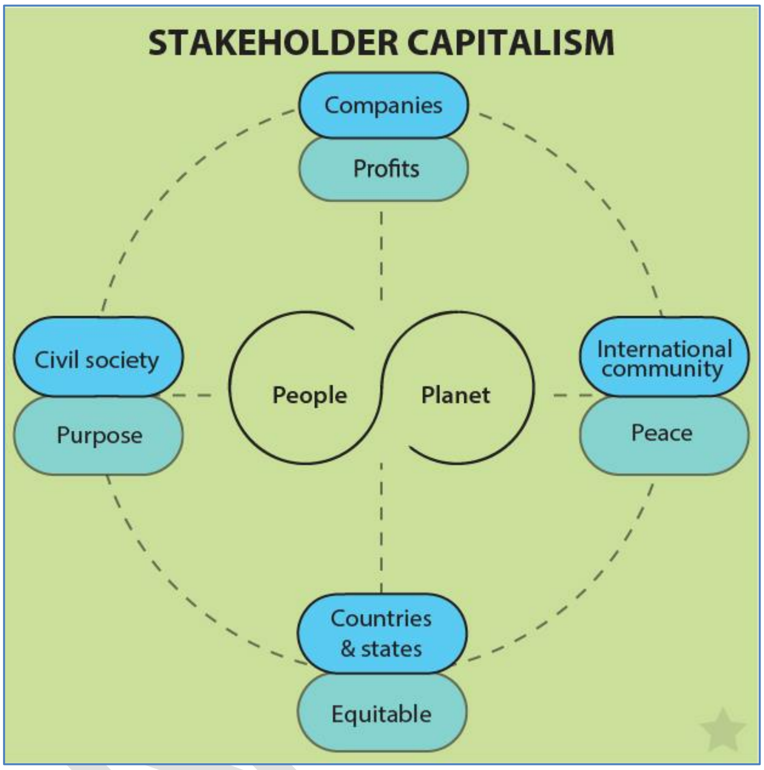
Challenges to adoption of BRSR practices in India

- **Reporting Standard and Framework:** With multiplicity of **sectors** and **standards**, no one-size fits all criteria can be provided for all companies.
- **Compliance Risks:** In near future, compliance to the **qualitative** and **quantitative** standards by organizations will be a challenge due to issues like:
    - **Increased expenditure** on collecting ESG-related data, monitor it and report the same.
    - **Limited access to technology and qualified professionals** to ensure compliance.
    - **Sustainability risks** for certain businesses to meet a low carbon economy due to the transitions, risks to assets (due to climate change) and reputation.
- **Lack of Performance Benchmark Indicators:** Lack of benchmarks makes it difficult for companies and stakeholders to make sense of disclosures.
- **Greenwashing:** A practice of conveying a false impression or entities taking a path that seemingly promotes ESG, but the results do not reflect the same.

- **Leadership Issues:** The recent corporate governance lapses at Yes Bank, IL&FS etc. highlights the issues of leadership and focus on narrow interests of self or shareholders only.
- **Large informal economy:** It suffers from issues like lack of access to capital, obsolete technology, and **behavioral issues** of remaining informal to avoid scrutiny.

Way Forward

The Covid-19 pandemic highlighted the importance of **protecting people, planet, and prosperity** together for a **sustainable future**. BRSR is just a step towards it through **regulatory sanction**. We can encourage its **adoption** and **compliance** from corporate India through:



- **Promotion of stakeholder capitalism**, i.e., to serve the interests of all stakeholders (see **image**).
- **Comprehensive Disclosures** to ensure data trail for other stakeholders to confirm actions.
- **Capability Building of stakeholders** by increasing their participation to check compliance the financial and operational impact.
- **Promoting Research** in sustainability reporting to develop manpower, technologies and methods to collect and track data.
- **Promote International Cooperation** for interoperability and cross-referencing on disclosures.
- **Promote formalization of economy** through improved access to capital and technology.
- **Increase awareness** on not just **risks** but the **opportunities it offer** as well.
- **Make sustainability part of the vision and mission statement** of the **company** and its **leadership**, making it a part of business strategy.

12.1.2. CORPORATE SOCIAL RESPONSIBILITY

Why in news?

Companies in India have been mandated to submit a **comprehensive report on their corporate social responsibility (CSR) activities** in a new form – **CSR-2**.

Key Facts related to CSR spending in FY 21

- Companies spent a **total of ₹8,828 crores** in FY21 on CSR, roughly **a third of** what they had spent in the **pre-pandemic year** of FY20 at ₹24,689 crores.
- Number of companies engaged in CSR activities **dropped by about 93%** on an annualised basis in 2020-21, compared to a year ago.
- The combined expenditure of state-run firms in 2020-21 was a **mere 6% of the total amount spent** on CSR activities, while private firms contributed 94%.

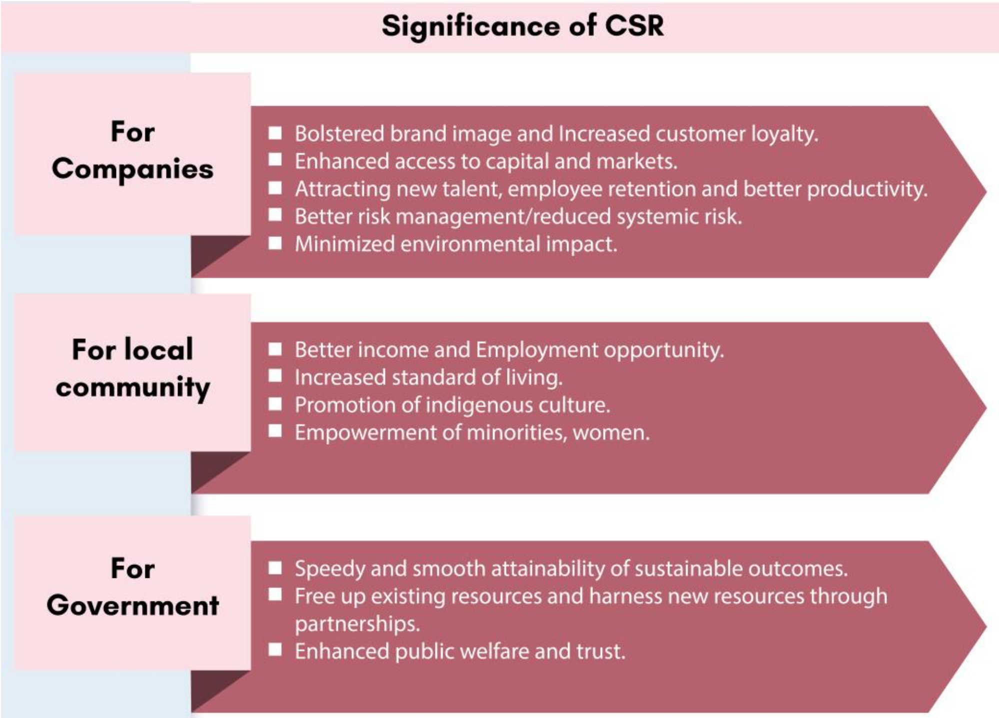
About Corporate Social Responsibility (CSR)

- CSR is a management concept whereby companies **integrate social and environmental concerns** in their business **operations and interactions** with their stakeholders.
- Every qualifying company is required to spend a **minimum 2% of its average net profit for its preceding 3 financial years'** on CSR activities.
- **Suggested Areas of Activities** (as per **Schedule VII of the act**) include, inter alia: Eradicating **hunger, poverty, and malnutrition**, promoting education, promoting gender equality, ensuring **environmental sustainability**, protection of **national heritage, art and culture**, Rural development projects and Slum area development.

Challenges in CSR

- **Failure to Consider Holistic View:** Companies still have a **narrow perception** of CSR and failed to understand its **impact on other stakeholders** including **society and the environment** as a whole.

- **Lack of Community Participation**: Due to **little or no knowledge about CSR** within the local communities they **lack interest** in participating and contributing to CSR activities.
    - It is further aggravated by **lack of communication between company and community**.
- **Inadequate Local Capacities: Local NGOs** face serious **dearth of trained and efficient people** who can effectively contribute to the ongoing CSR activities initiated by companies.
- **Regional Disparity:** Small and far-flung states get a **measly amount** of CSR funds spent by companies, while **large state economies benefit** mostly from it.



- **Skewed spending:** Companies prefer to **build physical structures** like hospitals and schools because of branding. In FY21, **education and health care** together accounted **for two-thirds of all the CSR spending**.

Road Ahead

- **Cooperation between government and corporates** for speedy and impactful implementation. This will help in **better understanding of the expected outcomes** of each initiative.
- **Using technology driven solutions** for redressal of socio-economic issues. This will **amplify the scale, reduce time and enhance impact** of CSR activities.
- **Active Participation of media** in highlighting **good cases of successful CSR initiatives** as it spreads good stories and **sensitizes the local population** about ongoing CSR initiatives.
    - Also, gradually inculcating the idea of **Individual Social Responsibility (ISR).**
- **High Level Committee** under the Chairmanship of **Injeti Srinivas** had made following recommendations:
    - **Extending the scope** of CSR applicability to **Limited Liability Partnerships (LLPs)** which are within the purview of the MCA and to **Banks** registered under the Banking Regulation Act, 1949.
    - Encourage companies to **forge partnerships** when creating assets for public purpose. The ownership **shall rest with the public** and the company may act as a **custodian to operate** it and make it **self-sustaining.**
    - Board of a Company to ascertain the **credibility of an Implementing Agency (IA)** and carry out necessary due diligence. **Register IAs with MCA** to carry out CSR activities.
    - **International organizations may be engaged** as partners for designing CSR **projects, monitoring and evaluation** as well as **capacity building** of CSR-eligible companies and implementing agencies.
    - Board of a company may engage a **CSR professional**, if it so desires, and the Government may prescribe **eligibility criteria** for such professionals.

Individual social responsibility (ISR)

- ISR refers to **our awareness** of how our actions **affect the community** as a whole.
- It deals with individuals becoming **more responsible in their actions** affecting **communities,** in their **immediate circle** of family and friends and also **beyond.**
- It can include **volunteering time, giving money, and standing up for issues** that affect the rights of others.

12.2. INNOVATION AND ENTREPRENEURSHIP

INNOVATION AND ENTREPRENEURSHIP

- 46th rank amongst 131 countries in Global Innovation Index (GII) 2021.
- 43rd rank amongst 55 countries in International Intellectual Property Index, 2022.
- Increasing patents filled (58,502) and granted (28,391) in 2020-21 from 39,400 and 7,509 in 2010-11 respectively.
- India still underpforms in innovation with 0.66% Gross Domestic Expenditure on R&D (GERD) as compared to 2.8% in USA, 4.3% in Israel and 4.2% in South Korea.
- 3rd largest start-up ecosystem globally and 95% of the entrepreneurial establishments as small enterprises.

Key Objectives

- To develop **new programmes and policies** for fostering innovation in different sectors of the economy.
- **Provide platforms and collaboration opportunities** for different stakeholders.
- Create **an umbrella structure** to oversee the innovation & entrepreneurship ecosystem of the country.
- Create **Entrepreneurial Culture** in S&T academic institutions and **foster techno-entrepreneurship** for wealth generation and employment.

Policy/Schemes/Initiatives

- National Science, Technology and Innovation Policy (STIP), 2020.
- **Schemes for innovation and Entrepreneurship** like Make in India, Accelerating Growth of New India's Innovations (AGNIi), Uchchatar Avishkaar Yojana, Women Entrepreneurship Platform, etc.
- Around **9,000 Atal Tinkering Labs** under Atal Innovation Mission.
- **Start-up India** to promote entrepreneurial mindset through innovation, incubation and incentives.
- **AIM-PRIME** (Program for Researchers on Innovations, Market-Readiness & Entrepreneurship) to promote and support science-based deep-tech start-ups.
- **MSME Innovative Scheme** for awareness about India's innovation and motivate MSME's to become MSME Champions.
- **Atal Ranking of Institutions on Innovation Achievements (ARIIA)** to rank all major HEIs and universities on Innovation and Entrepreneurship Development indicators.

Constraints

- **Delays in granting patent** due to lack of manpower.
- **Fluctuation in IPR policies** making entrepreneurship a riskier affair.
- **Risk aversion** in middle class, talent export or Brain-drain.
- **Financial and Non-Financial Constraints** such as access to finance, lack of credit facilities, lack of proficient team, wrong forecasting, social constraints, etc.
- **No publicly accessible India patent database** for start-ups.
- **Largely incremental and non-disruptive** nature of innovations.
- Weak university research and **poor industry-academia linkage.**

Way forward

- **Improve IP culture in India** to enhance awareness on IPRs and **enact laws** on issues such as anti-counterfeiting, trade secrets, financing of IP assets, AI inventions and educational copyrights.
- **Bridge gap between innovation, economic activity and IPR** for employment generation and encourage foreign exchange inflow.
- **Building innovation capacity** through increased R&D expenditure, Human Capital development through skilling, training and investment in higher education.
- **Enabling environment** through supportive policies, ICT infrastructure, research ecosystem etc.
- **Handholding of entrepreneurs** and innovators.
- **Encourage economic risk-taking and culture of entrepreneurship.**

12.2.1. STARTUP ECOSYSTEM IN INDIA

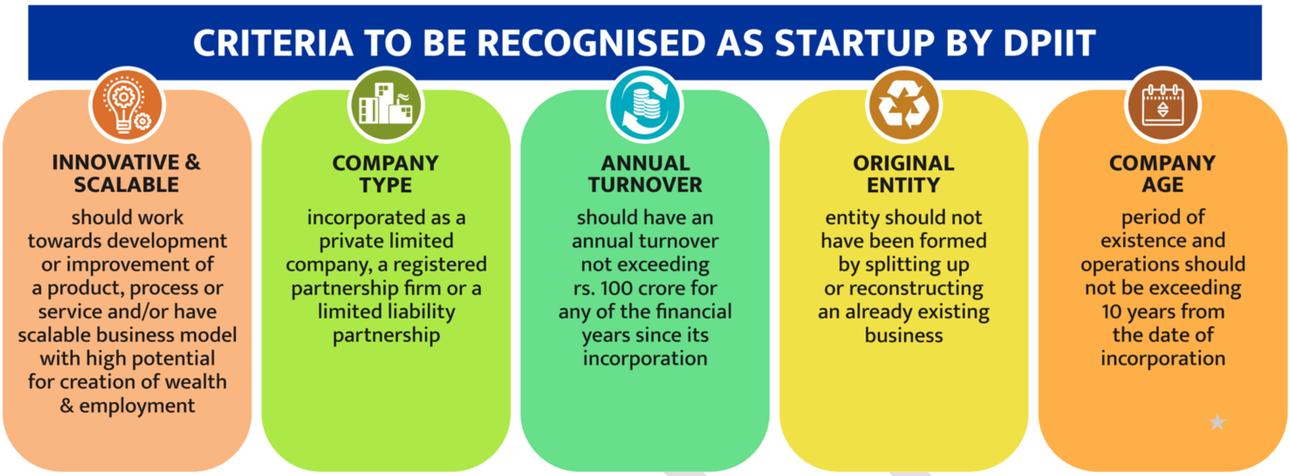
Why in News?

Recently, the PM highlighted the rising startup ecosystem in India with more than 70 unicorns i.e., startups with valuation over **$1 billion.**

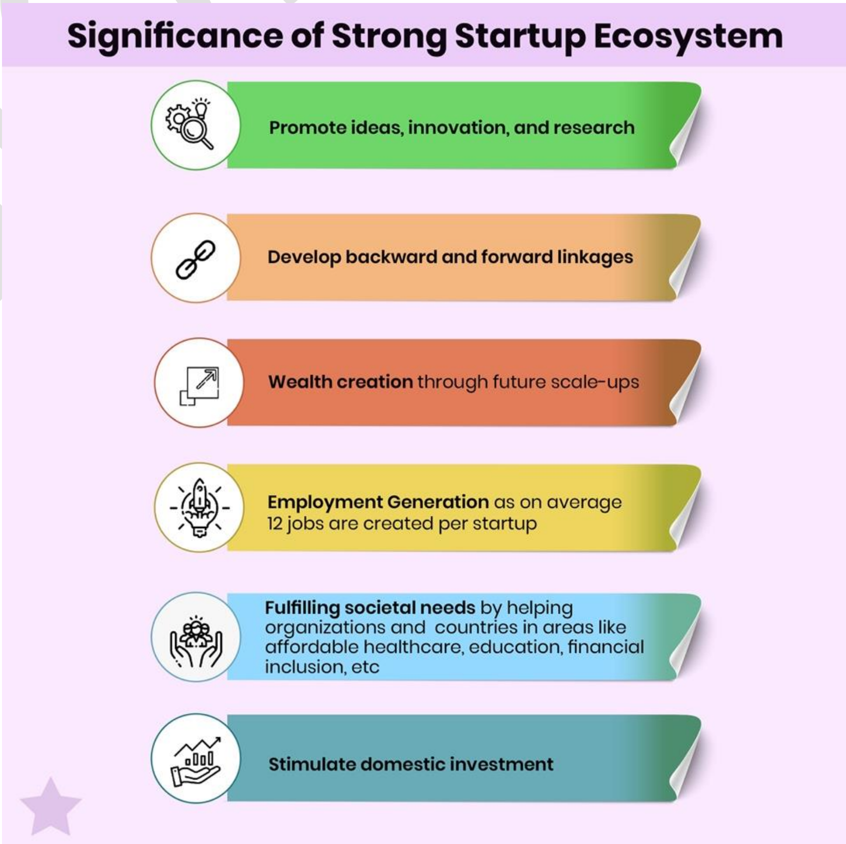
What is a Start-up?

- In essence, Startup refers to a company in the **initial stages of operations** which is driven by **ideas and innovation, risk taking**, and can-do spirit.
- To meet startups aspirations and build a strong ecosystem for nurturing innovation and startups in India, the Government of India launched **Startup India** initiative in 2016.
- Under this, eligible companies can get startup recognition from the **Department for Promotion of Industry and Internal Trade (DPIIT)** if it fulfills its criteria (**see image**).

Startup Ecosystem of India



- **Large Size:** Globally, India has the **third largest startup ecosystem** in the world with over **70,000** DPIIT recognized startups including **100+ unicorns**.
- **Diverse in nature:** Around **40%** of them are in **tier-II and tier-III cities**; **at least one startup in 630 districts** and **46%** of them having **at-least one-woman director**.
- **Accelerating technological growth:** For **tech startups**, India is the **2nd largest ecosystem** with growing technology centric startups in health, education, agriculture etc. using technologies like **Internet of Things (IoT), Blockchain, Artificial Intelligence** etc.
- **Rapidly growing ecosystem:** Overall, growing at an average growth rate of **15%** year on year, Indian Startup Ecosystem has developed into a **dynamic and vibrant ecosystem** with a large network of startup mentors, investors, incubators etc. to help innovators and entrepreneurs.



Government Initiatives to Strengthen Startups and its Ecosystem

- **Startup India Seed Fund Scheme (SISFS): ₹945 crore fund** to provide early stage financial assistance to 3,600 entrepreneurs through 300 incubators for next 4 year (starting from 2021-22).
- **Fund of Funds for Startups (FFS) Scheme:** Rs **10,000 crore**

corpus to fund startups at early stage, seed stage and growth stage with DPIIT as **monitoring agency** and **Small Industries Development Bank of India (SIDBI)** as **operating agency**.

- **Ease of Procurement:** Relaxed prior turnover and experience in public procurement for startups to onboard them on **Government e-Marketplace** (GeM portal).
- **International Access to Indian Startups:** Through government-to-government collaborations, Startup India initiative connects Indian startups to the global startup ecosystem for global market access and knowledge.
- **Support for Intellectual Property Detection:** Through Startups Intellectual Property Protection (SIPP), startups are eligible for fast-tracked patents, designs and trademarks by paying only the statutory fees.
- **Faster Exit for Startups:** By Ministry of Corporate Affairs to wind up operations within 90 days vis-à-vis 180 days for other companies.

Challenges/Limitations of Startup ecosystem and Startups

- **Mentorship and support issues** due to weak industry linkages, lack of experience on business/market and issues of availability of qualified employees.
- **Underfunded startups** due to weak Venture Capitalist and Angel investor framework alongside low risk appetite of the Indian market.
- **Difficulties of revenue generation** due to growing competition, high diversity of India and digital divide with need of certain incubation periods.
- **Sporadic supporting infrastructure** to sustain operations such as technology parks, logistical availability, business development centers etc. with high concentration in metro cities.
- **Bureaucratic hurdles** such as regulatory compliances, complex labour laws etc. and inconsistent stance on emerging technologies like cryptocurrency which complicate the growth process.
- **Business Model issues:** Some startups business models focus on users with large bets on distant outcomes, generating little or no value by way of revenues.

Way forward

- **Policy Reforms:** To **boost startups confidence** with **improved chances of success.** E.g., startups in blockchain technology still lack a government policy to provide more clarity to the sector.
- **Structural Changes:** This includes steps to strengthen the **institutional ecosystem** for startups (as planned by MeitY through SAMRIDH for technological startups), to create enabling infrastructure across India.
- **Promote Innovation and Entrepreneurship:** The educational institutions should encourage innovation and entrepreneurship in education to bring new products and services for realization of impactful solutions.
- **Strengthen industry academia linkage:** By focusing on making entrepreneurship inclusive vis-à-vis region, gender, caste or socio-economic status. For example, encouraging rural entrepreneurship or strengthening institutions like Dalit Indian Chamber of Commerce & Industry (DICCI).
- **Help to overcome hardships: Scale up accelerators network** to ease the **job loss** among software professionals, loss of revenue and other Covid-19 associate issues faced by startups
- **Domestic investments:** Though 100% FDI is allowed in startups, India needs to secure domestic investments to promote greater risk-taking and in turn building highly valued startups.

12.3. INTELLECTUAL PROPERTY RIGHTS (IPR)

INTELLECTUAL PROPERTY RIGHTS AT A GLANCE

IPRs are the **legal rights given to persons over the creations of their minds**, including inventions, literary and artistic works, symbols, names and images used in commerce to give the creator an exclusive right over the use of their creation for a certain period of time.

These rights are outlined in Article 27 of the Universal Declaration of Human Rights.

Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, is the nodal Department in India for the administration of various laws related to IPRs.

India's ranking in Global Innovation Index has climbed 35 ranks - from 81st in 2015-16 to 46th in 2021.

Need for IPRs

- **Attracts FDI and boosts research** and development as well as innovation, thus improving ease of doing business.
- **Forbid the competitors or anybody for exploiting** or misuse the property without the permission of the creator.
- **To promote consumer trust** and protection against counterfeit and pirated goods, make an educated choice about the safety, reliability and effectiveness of their purchases.

Issues associated with IPRs

- **Traditional knowledge, especially in the field of medicine,** have been kept out the reach of patents due to lack of awareness and non-synchronization of laws.
- **Weak enforcement of IPR fails** to provide relief against imitators and free riders, thereby acting as a major barrier to trade, investment in R&D and overall growth of a country's economy.
- **Product patent can lead to monopoly.** India being a party to TRIPS has to shift from process to product patent, however, it has a huge bearing on poor strata of society.
- **Compulsory Licensing (CL): S**ometimes organizations misuse CL. For instance, Indonesia gave CL for 9 patented drugs without any attempt to engage with patent holders.
  - CL is when a **government allows someone else to produce a patented product or process** without the consent of the patent owner or plans to use the patent-protected invention itself.

Measures taken to improve IPRs

- **National IPR Policy, 2016:** It aims to create and exploit synergies between all forms of IP, concerned statutes and agencies.
- **Cell for IPR Promotion and Management (CIPAM): I**t was created in 2016 under the aegis of the DPIIT to take forward the implementation of the National IPR Policy.
- **Traditional Knowledge Digital Library (TKDL):** It was created to protect Indian traditional medicinal knowledge and prevent its misappropriation at International Patent Offices.
- **India's Patents Act of 1970, 2003 Patent Rules and the 2016 Patent Amendment Rules** set out the law concerning patents.

Way forward

- **Legislative Framework:** There is need to have strong and effective IPR laws, which balance the interests of rights' owners with larger public interest.
- **Human Capital Development:** There is need to strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs.
- **Awareness:** It is important to create public awareness about the economic, social and cultural benefits of IPRs among all sections of society.
  - **IPR Facilitation Centers should be established** in the country with a focus on enhancing the awareness of MSMEs, small businessmen and traders.
- **Participation of State Governments:** State should actively participate in evolving policies that focus on sensitizing people on significance of IPRs, encouraging innovation in educational institutions and establishing State level Innovation Councils, enforcement of IPR laws and curbing IP crimes.

Copyright © by Vision IAS

All rights are reserved. No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of Vision IAS.

APPENDIX: KEY DATA AND FACTS

EMPLOYMENT AND SKILL DEVELOPMENT

Employment	**Labour Force: 41.6%** was the Labour Force Participation Rate. (PLFS 2020-21) → **About 52 crore workers** make up India's workforce. **Unemployment: 4.2%** of the workforce was unemployed despite seeking active employment. **Agriculture: 46%** of the workers are employed in Agriculture. **Gig Economy:** In 2020–21, 77 lakh workers (1.5% of total workforce) engaged in the gig economy.
Skill Development	**Trained workforce:** In 2019-20, **only 73 million** of India's 542 million workforce received any form of vocational training. → In India, only around **5%** of the workforce is **formally skilled** against **52%** in the **US**, **80%** in **Japan** and **96%** in **South Korea.** **Demographic dividend:** India has entered into its **37 years long demographic dividend period,** lasting from 2018 to 2055. **Low employability** of educated people **still remains low; 45.9%** only as per **India Skills Report, 2021.** **Target:** To train **400 million** Indians by 2022 under NSDM.

ECONOMIC AND INCLUSIVE GROWTH

Economic Growth	**GDP: National Statistical Office (NSO)** released the **first advance estimates** of GDP for **2021-22** with GDP growth rate pegged at **9.2%.** **Lag effect:** Revised estimates of GDP (most accurate GDP data) **lag almost 3 years.**
State of Poverty and inequality	**Poor in India: 364 million** people are below poverty line in India. **Extreme Poverty: 12.3%** decline in extreme poverty in India (from 22.5% in 2011 to 10.2% in 2019). **Global scenario: 2/3rd** of the World's poor live in conflict-affected countries. **Income inequality** between the **richest 10%** and **poorest 10%** in **OECD countries** increased from **7.2 times** of **mid-1980s** to **9.6 times in 2013.** **Large gulf between extreme rich and poor:** Bottom 50% of the global population owns just 2% of wealth and 8% of income. (World Inequality Report 2022)
Financial Inclusion	**Banking access: 14.7 bank branches** per 100,000 adults in **2020**, higher than **Germany, China and South Africa.** **PMJDY: 45 Crore+ PMJDY** accounts with over 55% accounts held by women. **PMJJBY: 12.77 crore** enrolment, till 2022, under **PM Jeeven Jyoti Bima Yojana (PMJJBY),** including **4.33 crore** female beneficiaries.
Housing	**Need: 3 crore and 1.2 crore** houses required in rural and urban areas respectively. **Completed (Urban):** Over **1 crore houses grounded** under **PMAY (U)** and over **61 lakh houses completed.** **Completed (Rural):** Over **2 crore houses grounded** under **PMAY (R)** and over **1.66 crore houses completed.**
Land Reforms	Average size: **1.15 ha** was the average farm size in 2010-11. **Non-agri use: <10%** of the land is under non-agricultural uses. **Forestland: 24.62%** of the total geographical area is forest.

FISCAL POLICY AND RELATED NEWS

Government Finance	**Fiscal Deficit: 6.7% of GDP** as fiscal deficit for FY22. **Debt-to-GDP Ratio: 85.2%** public debt-to-GDP ratio for FY22. → **31% combined debt-to-GDP ratio of States** at end-March 2021. **Target: 60% debt-to-GDP ratio (40% Central Government** and **20% combined debt-to-GDP ratio of States)** by FY25 to avoid the debt spiralling out of control. **States' fiscal deficit** increased from 2.9% of GDP in 2019-20 to **4.1% of GDP in 2020-21.** **Cess and surcharge revenue** remained around **10-15% of GTR** (Gross Tax Revenue) during 2011-20
Indirect Taxation	**Collection: ₹12.90 lakh crore** indirect tax collection in FY22. **Goods and services tax (GST) collection as top contributor** (₹5.9 lakh crore). **Highest Jump: 48% jump** in **Customs duty** while Excise Duty collections dropped marginally because of cut in duty for petrol and diesel. **Record: Highest ever GST collection at ₹1.68 lakh crore (April 2022).** The Budget 2021-22 has set a tax revenue target of **Rs 22.17 trillion for FY22.**
Direct Taxation	**Tax to GDP ratio: 11.7% tax-GDP ratio in FY 22** (6.1% for direct taxes and 5.6% for indirect taxes); **Collection: Record ₹14.09 lakh crore** direct tax collections for FY22, jump of 49% from previous year. **Top contributors: Corporate Tax** and **Personal Income tax** as main contributors to Direct Tax. **Tax base: More than 7.14 crore** Income Tax Returns (ITRs) by March 2022.
Financial Mobilization from Non-tax sources	**Record tax collection** with moderate non-tax revenue jump on account of higher dividends from PSU's. **Asset monetization:** Completed deals worth **₹96,000 crore** against **asset monetization target of ₹88,000 crore for FY22.** **RBI Surplus and LIC IPO:** Raised around ₹21,000 crore from LIC IPO but decade low **RBI Surplus Transfer** (₹30,307 crore) may act as drag.

BANKING AND PAYMENT SYSTEMS

Banking	**9.2% Credit Growth** for Scheduled Commercial Banks (SCBs) **6.9% Gross NPA ratio** and 2.2% Net NPA of SCBs at end-September 2021. **68.1%** was the **Provision Coverage Raito (PCR) of SCBs.** **Annualised Return on Assets (RoA)** and **Return on Equity (RoE)** for **PSBs turned positive** in 2020 after remaining **negative** since March 2016.
Asset Quality and Restructuring	**Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs)** fell to a **six-year low** of **5.9%** in **March 2022** and **Net NPAs** reduced to **1.7%** **Disproportionate share of Public Sector Banks (PSBs)** i.e., about **9/10th of NPAs.** The **sectoral share of the NPAs is dominated by the infrastructure sector.** **India has been one of the worst affected economies** from the Global Financial Crisis of 2008.
Payment Systems	**Cash dominance:** As per RBI, **cash accounts for nearly 50% of all transactions in India,** adding that the number went further north up to 70% for transactions below Rs 500 **Digitization of the payment sector: 22.4 digital transactions** were happening per capita in 2019 (from 2.4 in 2014). **Digital payment instruments: 50% volume** of India's digital payments is dominated by Debit Cards, PPIs and IMPS.
FinTech Sector	**Valuation:** Indian FinTech industry valued at **$50-60 Bn in FY20.** **Acceptance:** India had a Fintech **adoption rate of 87%** in March 2020, compared to a **global average of 64%.**

EXTERNAL SECTOR

Trade	**Exports: US$ 526.6 billion** was India's overall exports (merchandise and services combined) in 2019-20. **Global share: 1.7%** was India's share in world's exports (from 0.6% in 1991 but still less than China-13% and US-9%). **Share in GDP:** India's exports are about **18% of its GDP.** **Services dominant:** India's **services trade has been a major driver of its exports.**
Investment	**Growth: 10% growth** has been witnessed in growth of FDI in 2021 compared to 2020. **Level of FDI: Expected to reach to the tune of $100 Billion.** **Global standing: 5th largest** recipient of FDI with US being first and China second. **Sectoral dominance: Computer Software & Hardware'** has emerged as the top sector during 2020-21 with around 44% share of the total FDI Equity inflow.
IPRs	**India's ranking in Global Innovation Index** has climbed 35 ranks - from 81st in 2015-16 to **46th in 2021.**

AGRICULTURE AND ALLIED ACTIVITIES

Agricultural Input	**Soil: >23 crore** soil health cards have been distributed till February 2022. **Seed: 4.29 lakh Seed villages** have been created under Seed Village Programme. **Fertilizer: 3rd largest fertiliser** industry in terms of **production** in the world. → **2nd largest fertilizer** industry in terms of **consumption** in the world. **Mechanization: 40%-45%** farming in India can be currently called mechanized.
Financial Support to Farmers	**Assistance: More than 11.60 crore farmers** have been given the financial benefits of **approximately Rs 1.60 lakh crore.** **Overall 2-2.5% of GDP** is provided as subsidy annually in the form of fertilizer, credit, crop insurance and price support subsidies. **Subsidies vs income: 1/5th** of the aggregate farm income is in the form of subsidies. **Debt: 50.2%** of the agricultural households are under some kind of debt. **Sources of debt: About 70%** of the loans taken by farmers were from institutional sources.
Allied Sector	**Livestock: 8.15%** CAGR of Livestock sector during 2014-15 to 2019-20, contributing **29.35%** in total agriculture GVA in 2019-20 (at constant prices). **Milk production: 23%** of the global milk production happens in India, contributing 5% of national economy and employing **more than 8 crore** farmers directly. **Horticulture: 37%** of India's total exports are contributed by the Horticultural Sector. **Fish production: 2nd largest** fish producing country in the world accounting for **7.56% of global production.**
Food Processing Sector	**Sunrise sector with 11%** CAGR, contributing **₹2.24 lakh crore Gross Value added (GVA) in 2019-20- 1.69% of the total GVA in the country.** **Share in economy: 20.05 lakh** employees, Annual Survey of Industries 2018-19, with **largest share of 11.22% of total persons engaged in the registered manufacturing sector in the country.** **22 Operational Mega Food Parks** out of 37 approved across the country. **Rising exports with increasing regional tastes preference.**
Agricultural exports	**Share of India's agricultural exports and imports in the world agriculture trade** in 2017 was **2.27%** and 1.90%, respectively. **Share in overall domestic exports: India's total exports** have an 11% **contribution** from **agricultural and processed food products.** **Key Exported commodities**: Marine products, basmati rice, buffalo meat, spices, non-basmati rice, cotton raw, oil meals, sugar, castor oil and tea. **Export as percentage of GDP:** The agricultural exports **as a percentage of India's agricultural GDP** has increased.

INDUSTRY

Industrial Policy	**Contribution: 16%** contribution of manufacturing sector to GDP, almost stagnant since 1991. **Improvement on several internationally reputed indices** such as the Global Competitiveness Index, Logistic Performance Index and the Global Innovation Index has been seen recently. **EoDB Ranking: 63rd position** in the Ease of Doing Business Index (from 142nd in 2014). **Indian companies: 7 Indian companies** feature in Fortune 500 list of 2021.
MSMEs	**6.34 crore MSMEs** are currently operational in India. Growth: The number of MSMEs in India increased by a **CAGR of 18.5% from 2019 to 2020.** **More than 111 million people** are employed in MSMEs. **30.5% of the country's GDP** is contributed by MSMEs. **45% of manufacturing output** is contributed by MSMEs. **48% of overall exports** are generated by MSMEs.
Other industries	**Electronics:** → **GDP Share:** India is targeting a quantum jump of **increasing the share of electronics sector from 2% to 10% in India's GDP** in near future. → **Rising Demand:** As per MeitY, demand for electronics hardware in the country is projected to increase from USD 45 billion in 2009 to USD 400 billion by the year 2020. **Textile:** → **Textile sector contributes 2.3% to Indian GDP**, 7% of the Industrial Output, 12% to the export earnings of India and **held 5% of the global trade** in textiles and apparel in 2018-19. → **India is the largest producer of cotton & jute in the world,** the second largest producer of silk in the world the 6th largest producer of Technical Textiles. → **95% of the world's hand-woven fabric** comes from India. **Semiconductor:** → **Market:** According to MeitY, **Indian semiconductor market, estimated around $15 billion** in 2020, is expected to grow to around $63 billion by 2026.

SERVICES SECTOR

E-commerce	**Global Standing: 8th largest** e-commerce market globally. **A sunrise sector with 10-15% share** in India's retail market. **Market: US$ 55.6 Billion** was generated by the industry in 2021 and expected to reach **US$ 111 billion by 2024; US$ 350 billion by 2030.** **Potential: 10 million** internet users are added monthly (majorly from tier-II cities) due to increasing internet and Smartphone penetration.
Telecom	**2nd largest telecom sector** of the world with its market **split into three main segments** - wireless, wireline and internet services **Connections:** In terms of **Urban-Rural** India, around **66 crore** connections are in **Urban India and 53 crore in Rural India** (Rural tele-density of **59%**). **Internet users:** India has the **second-highest number of internet subscribers** globally with total internet connections of **83.37 crore** (June 2021). **3rd largest sector in terms of FDI inflows,** contributing 7.1% of total FDI inflow. **Economic Contribution:** The sector contributes **directly to 2.2 Mn employments and indirectly to 1.8 Mn jobs.**
Tourism	**54th rank** out of 117 countries in **Global Travel and Tourism Development Index 2021** of WEF, down from 46th in 2019. The National Council of Applied Economic Research **(NCAER) reports** that tourism in India **won't return to pre-pandemic levels until 2026.** In 2020, the sector contributed a**round 4.7 % to the total GDP** of the country, a significant decline compared to 7% in 2019. **Third largest foreign exchange earner** for the country until 2019.
Insurance	**Density and penetration: 4.2%** overall **insurance penetration** in FY21 and **US$ 78 overall insurance density in FY21;** much lower than global standards, **Growth: 12%** is the average annual growth rate of insurance sector in India. **83% is the protection gap** in the insurance industry indicating a huge opportunity for the sector. **57 insurance companies** including 24 life-insurers and 33 non-life insurers.

TRANSPORT

Railways	**Passengers:** A daily passenger count of **24 million passengers and 203.88 million tonnes of freight.** **Global standing: 1st and 4th** respectively in passenger and freight transport globally. **Revenue:** Indian **Railways' revenue** reached **US$ 23.30 billion** in FY22 **Foreign Direct Investment (FDI) Inflows** in railway-related components stood at **US$ 1.23 billion** from April 2000- June 2021.
Roadways	**India has the second-largest road network** in the world, spanning a total of 5.89 million kilometres (kms). **Growth:** Highway construction in India increased at 17.00% CAGR between FY16-FY21. **National Highways:** **2.2%** of the country's total road network are National Highways. **40%** of India's total traffic is carried by the National Highways. **Road Safety: 1% of total vehicle** population in the world, but accounts for 11% of road crashes and fatalities, costing 3-5% of GDP.
Civil Aviation	**Economy:** The industry contributes **$35 billion dollars annually** to India's GDP **supporting 1.5 million jobs** in the country. **Growth:** Has emerged as one of the fastest growing sectors in the economy. **Competition: the average domestic fares in India have fell by 70%** from their 2005 levels. **High Fuel Cost:** Fuel cost in India, **accounts for 45% of the overall operating cost** of low cost carriers.

MINING AND POWER SECTOR

Mines and Minerals	**Available resources:** India continues to be **largely self-sufficient** in minerals which constitute **primary raw materials** supplied to industries such as **iron & steel, aluminium** etc. **Scarce resources:** India is deficient in **kyanite, magnesite, rock phosphate, manganese ore** etc. which are imported to meet demand. Indian mining industry is **characterized by many small operational mines.** Out of 1303 reporting mines, **most of the mines reported are in Madhya Pradesh.** In terms of **value of mineral production, about 87% comes from 10 states.** **Only 10% of the obvious geological potential (OGP) area** of India has been explored.
Power	**Third-largest producer and second-largest consumer** of electricity worldwide, with installed power capacity of 395 GW in 2022 (152 GW Renewable Energy and 203 GW Coal-based). **Solar energy** contributed 50.30 GW, 40 GW from **wind power**, 10.2 GW from biomass and 46.5 GW from hydropower. **Coal based installed power capacity** expected to reach **330-441 GW by 2040.** **1181 kWh is India's per capita power consumption** as against the world average at 3,260 kWh.
Coal, Oil and Gas Sector	**50%** of India's overall energy mix comes from **Coal.** **28%** of India's overall energy mix comes from **Oil.** **4.9 million barrels of oil** consumed per day with **87.6%** of India's Oil needs being fulfilled through imports in FY20. **70%** of India's Energy needs come from **West Asia.** Overall, India's **primary energy demand** is expected to nearly **double by 2040.**

WEEKLY FOCUS

Economy

TOPIC	DESCRIPTION	LEARN MORE
Oil Prices Its Determinants And Effects	The recent Oil price crisis has reignited the debate on petroleum pricing. These fluctuations disturb global economies and create geopolitical uncertainties apart from directly affecting the consumers across the world. The document explores the supply and demand determinants of oil pricing, crude oil baskets, the impact these price fluctuations can have and most importantly what all this means for India.	
Infrastructure Financing and Business Models	In any socio-economic ecosystem, infrastructure services play an important role in determining the quality of life of its citizens. NIP estimates that to achieve adequacy in these services, India needs to spend around $4.51 trillion on infrastructure by 2030. In this background, the document provides a background of the sector, highlights its current status, discusses its issues and enumerates the recommendations stated by the NIP report in this regard. Additionally, the document also explains in detail all the major Public Private Partnership (PPP) business models.	
Informal Economy in India and COVID-19	The unfolding of COVID-19 crisis across India was synonymous with decline of informal sector with informal workers remaining exceptionally vulnerable to the economic and societal impact of the pandemic. In this context, the document discusses the nature and significance of informal economy in India, the issues that it faces, the steps taken by the Government to resolve these issues and the long-term steps that need to be taken to convert this into an opportunity.	
Reform and Codification of India's Labour Laws	It has been a long-standing agenda of the government to codify and consolidate the labour laws in order to address the prevalent issues and lay the ground for a conducive business environment. The problem came to the forefront as lockdowns due to COVID-19 affected India's economy as the labour market bore the disproportionate costs. The document analyses evolution of labour laws, the need for the codification of labour laws and how far the current labour codes addresses these needs. Further, it also discusses the potential weaknesses of the code and what more could have been done.	

Agricultural Marketing in India	'Poor Agricultural Marketing' is cited as one of the primary reasons for languishing of agricultural growth at 2%-3%. The push to the recent Agri-reform legislations vindicates the same. This document helps you understand the agricultural market in India, the issues it has been facing, and the potential presented by the Farm Laws. Further, it delineates the steps that can be taken to overhaul the agricultural market.	
India and FTAs	The Governments all over the world are mulling over the need and effectiveness of Free Trade Agreements in the backdrop of COVID-19. Consequently, there have been debates as to whether there is a need to rejig India's trade relations with the rest of the world by overhauling its Free Trade Agreement (FTA) strategy. Such a debate calls for understanding India's FTAs, the benefits it has generated and the challenges or issues that it poses. Moving forward, it becomes important for India to design the FTAs in a more effective manner, keeping in the global and bilateral dynamics.	
India and World Trade Organization	In the wake of rising trend of protectionism and fear of deglobalization sweeping across the world, multilateral institutions like WTO are in a mode of crisis. India being one of the significant global trade players, is not aloof of the impacts of this crisis. In this document, apart from learning the role played by WTO in facilitating global trade, we will also look into various facets of India's journey with the organization, present issues and the way ahead.	
Infrastructure Development in the North Eastern Region	Despite its enormous potential, the North Eastern Region of India is categorised as one of the backward regions. One of the major reasons behind this dichotomy is the poor development of infrastructure in the region. This document gives an insight into the underlying reasons for the same, the steps that are being taken by the government to improve the situation and the way forward to harness region's true potential.	
Post Pandemic Economy: New destination, New path	2020 was a year of unprecedented economic disruption globally. The Indian economy suffered an even bigger disruption with the RBI calling it "historic technical recession". This document explains how the COVID has exposed not only the fragile Indian Economy but also the multidimensional impacts of this fragility. Further, it also discusses what it takes to recover and strengthen the Indian economy for Post-Pandemic Era.	
Non-Performing Assets (NPA) From 'a Crisis' to 'a Catalyst'	NPA crisis in India has been an amalgamation of several weaknesses such as poor credit monitoring, governance issues and limited capital availability. The solution similarly has to be an amalgamation of multiple steps expressed as a '4R strategy'. At the same time, the NPA problem has the potential to be an indicator guiding the holistic reforms in the Banking sector.	

Changing Nature of Work	Over the centuries, technological, social and political transformations have changed the nature of work and employment. Globalization is a case in point. The world is at the cusp of a similar paradigm shift with 4th Industrial revolution, climate change etc. The changing nature presents intertwined opportunities and challenges for the world in general and for a developing country like India in particular. This calls for an urgent policy shift which can help grasp these opportunities and built an inclusive and secure future.	
Port connectivity: India's conduit to the world	India has a rich maritime heritage. To shape our maritime prowess into a robust engine of the nation's development and to integrate well with the global economy, port-led development acquires top priority. This document is an appraisal of India's efforts towards harnessing the potential of our ports and persisting hurdles in achieving the same. Further, it guides the way ahead towards building a robust port infrastructure that will add strength to the nation's efforts towards a prosperous and Aatmanirbhar Bharat.	
30 years of 1991 Economic Reforms from one revolution to another	Three decades ago India embarked on a new economic journey in the form of LPG reforms. Since then, the Indian economy has come a long way and marked its firm presence in the global platform. But the COVID pandemic forces us to revisit the fundamental question: Just how successful have the 1991 reforms been? This document discusses the entire story behind 1991 economic reforms, and analyses how the experiences gained can guide us to chart a path for future economic policies.	
Urban Planning in India: Building Future Cities of India	India is observing an unparalleled rate of urbanisation and it is crucial to acknowledge that our country's journey to becoming a highly productive nation depend on its engines of economic growth; Our Cities. Discussing the constituents of Urban planning and its role in development, this document elaborates on how to ensure preparedness of the nation to manage such a massive urban transition and save our cities from the clutches of unplanned urbanization and unregulated construction activities.	
Agriculture Overview: From Production-centric to Farmer-centric	The impressive agricultural growth and gains since 1947 stand as a tribute to the farmers' resilience to multiple challenges and to their grit & determination to serve and secure the nation's demand for food and raw material for its agro-industries. It is an irony, that the very same farmer is now caught in the vortex of more serious challenges. This document is first of the entire Agriculture Series that provides a larger view of the sector, its importance, evolution and the challenges and prepares a base for all the remaining documents of the series.	

 Agricultural Inputs - Part I Soil and Water: Elemental Agricultural Inputs	The foundations of sound agriculture is built on basic conditions such as good fertility of the land and availability of water. The document deals with two of the basic inputs i.e. soil and water and discusses the underlying issues with each of them. It further takes us deep into the grey areas which are often talked about and potential areas to work on.	
 Agricultural Inputs- Part II Seeds and Pesticides: Essential Consumable Inputs	Once the foundations are ensured, crop raising requires good quality seeds and their protection from damage due to pest attacks. Through this document, issues related to these two have been discussed along with the measures that have been taken to protect crops as well as our farmers. Further reading reveals how inadequate farmer awareness is still a major issue that is stalling the progress in this domain.	
 Agricultural Inputs- Part III Agricultural Mechanisation and Credit: Growth driving capital inputs	Is the availability of adequate farm credit and efficient farm machinery the panacea for all the agricultural issues being faced? This document while examining the issues in availability of these inputs, also discusses the issues that emerge even after these are available. It also identifies the future potentials in this area.	

Copyright © by Vision IAS
All rights are reserved. No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of Vision IAS.

8 IN TOP 10 SELECTIONS IN CSE 2021

from various programs of VisionIAS

2 AIR

ANKITA AGARWAL

CIVIL SERVICES EXAMINATION 2020

1 AIR

SHUBHAM KUMAR

3 AIR

GAMINI SINGLA

4 AIR

AISHWARYA VERMA

5 AIR

UTKARSH DWIVEDI

6 AIR

YAKSH CHAUDHARY

7 AIR

SAMYAK S JAIN

8 AIR

ISHITA RATHI

9 AIR

PREETAM KUMAR

YOU CAN BE NEXT

DELHI

HEAD OFFICE Apsara Arcade, 1/8-B, 1st Floor, Near Gate 6, Karol Bagh Metro Station
+91 8468022022, +91 9019066066

Mukherjee Nagar Centre
635, Opp. Signature View Apartments, Banda Bahadur Marg, Mukherjee Nagar

JAIPUR	HYDERABAD	PUNE	AHMEDABAD	LUCKNOW	CHANDIGARH	GUWAHATI
9001949244	9000104133	8007500096	9909447040	8468022022	8468022022	8468022022

/c/VisionIASdelhi /vision_ias /visionias_upsc /VisionIAS_UPSC