VISIONIAS
INSPIRING INNOVATION

ECONOMY

Classroom Study Material 2023

(August 2022- May 2023)

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ECONOMY

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ADDITIONAL RESOURCES OF ECONOMICS PREPARATION

Summary of Economic Survey 2022-23	Key ideas of the Economic Survey 2022-23 have been summarized (along with practice questions).	
Summary of Union Budget 2023-24	Major highlights of the Union Budget 2023-24 have been highlighted (with basics of Budgetary process).	
Previous Year Questions (PYQs)	A reference sheet of syllabus-wise segregated PYQs from 2013-2022 (for the Economy Section) has been provided.	

A NOTE FOR THE STUDENTS

Dear Students,

- Understanding current affairs can add depth to your perception of intricate issues and help you form nuanced perspectives, especially in the context of the Mains examination.
- In light of this, Mains 365 documents attempt to simplify your study process by including features that assist in creating answers, reviewing content, and retaining information.

Here are the key features we have integrated in the document:

A Topic at Glance: This offers a comprehensive view of the topic, seamlessly connecting current and static aspects while providing necessary data and facts.

Enhanced Infographics: These are designed to effectively revise as well as to be readily used in your answers, making your responses more engaging and informative.

Data Banks: To help you identify and revise the crucial datasets of topics, we have designed and integrated data banks in the articles.

Appendix: We have added an appendix of key data and facts at the end of each document, aiming to facilitate quick revision.

Weekly Focus Document List: A QR code linked list of relevant weekly focus documents has been added at the end of each document, ensuring a smoother journey while approaching these topics.

PYQs and Supplementary documents To facilitate efficient revision, a QR Code linked Economic Survey Summary 2022-23, Union Budget 2023-24 and Previous Year Questions (PYQs) have been provided

We sincerely hope Mains 365 documents will guide you effectively in your preparation and aid you in scoring better in your Mains examination.

"Learn everything you can, anytime you can, from anyone you can. There will always come a time when you will be grateful you did."

All the best! Team VisionIAS

1. EMPLOYMENT, SOCIAL SECURITY AND SKILL DEVELOPMENT

1.1. EMPLOYMENT

EMPLOYMENT AT A GLANCE

Status of Employement in India

- **41.3%** was the Labour Force Participation Rate. (PLFS 2021-22)
- **4.1%** 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.**

Schemes/Initiatives

- **Mahatma Gandhi National Rural Employment Guarantee Act** (MGNREGA)
- **Sampoorna Rozgar Yojana**
- **Aajeevika- National Rural Livelihoods 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) and** to act as live, organic databases, providing G2C, B2C and B2B services.
- **Foreign Universities** like Harvard, MIT roped in to give **lessons on Employability Skills** (under Skills India Mission).

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**
- **Decline in manufacturing jobs** due to **automation and multi-skilling.**
- **Other factors like shrinking public sector, rise in voluntary unemployment, lack of employability, moonlighting** etc.
- **Recovery in youth employment is still lagging (due to COVID-19)** as per ILO's 'Global Employment Trends for Youth 2022'

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** for workers.

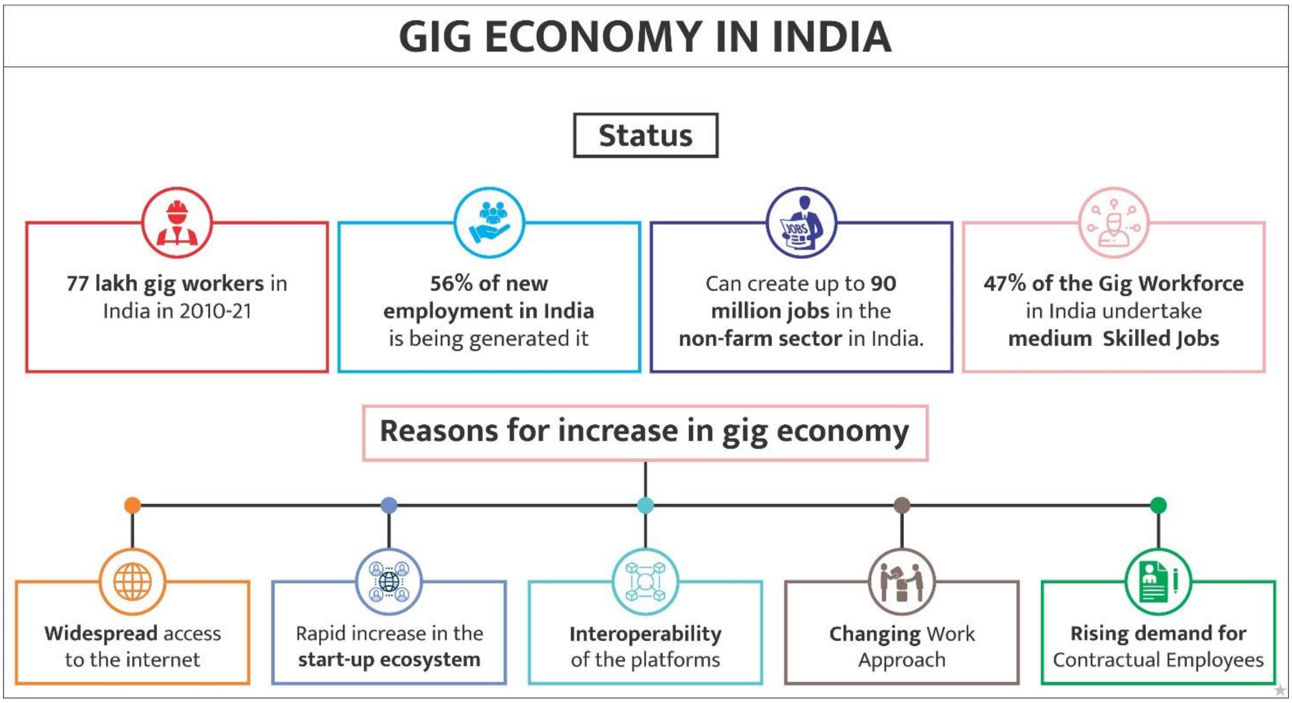
Way forward

- 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.
- **Enabling Orange economy (creative economy)** as it is one of the fastest-growing sectors worldwide.
- **Encouraging the apprenticeship** ecosystem to the tune of 10 million apprenticeships in the coming 10 years.

1.1.1. GIG ECONOMY

Why in news?

Recently, **Blinkit delivery agents went on strike** as a reaction to changes in their pay structure.



Major Challenges with Gig Economy

- **Unavailability of reliable data:** No official data to clearly estimate the extent of gig work in India, thereby rendering the gig workforce invisible.
- **Poor service conditions for platform workers:** Low wages, bait-and-switch incentives, opaque pay calculations, commission deductions, and constant monitoring on aggregator platforms.
- **Bound by the Terms of Contract:** Due to such contracts, platform workers cannot access many of the workplace protections and entitlements such as Health Insurance etc.
- **Nascent regulatory framework:** Considering it as extension of unorganized sector hinders effective regulation.
- **Other challenges:**
  - **Limited opportunities for skill upgradation** as career progression in these areas is very slow.
  - **Unpredictable income** and high risk of unclear employment status.
  - **Potential exploitation of workers** due to the individualistic nature of gig work. Unlike traditional employees, gig workers cannot form unions and bargain collectively.

Benefits of Gig Economy

For Consumers	For Workers	For Companies
• **Personalised** service • **Transaction** costs are low • Products of all kinds are **delivered almost** anywhere, anytime	• **Flexibility** • **Independence** • Access to **Opportunity** • **Work-life** balance	• **Low** cost • A **diverse pool** of flexible workers • Low **administrative** and **compliance** costs

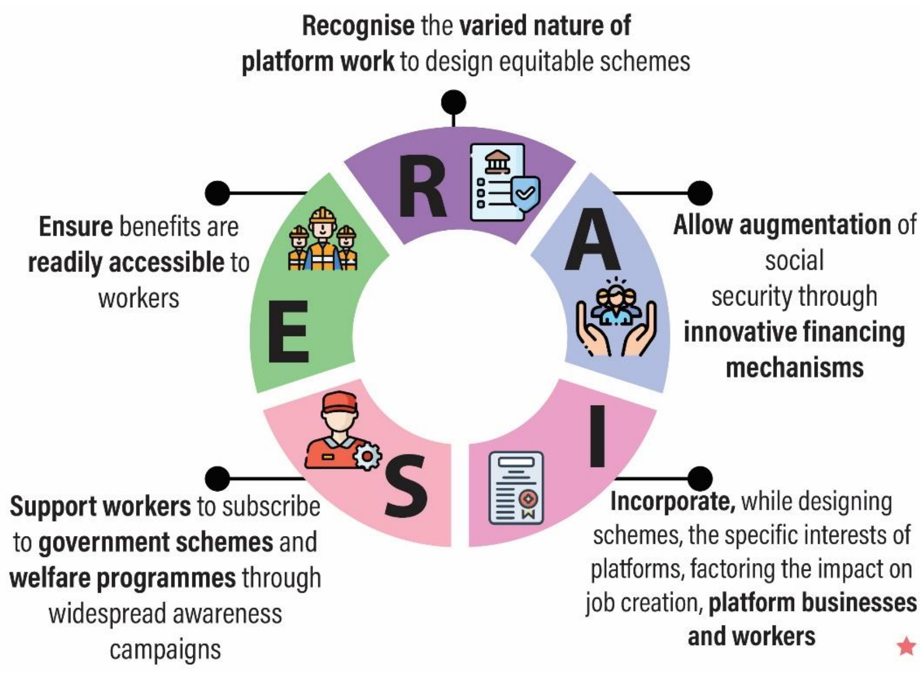
Regulatory Framework of Gig Economy in India

- **The Code on Wages, 2019:** It provides for universal minimum wage and floor wage across organized and unorganized sectors, including gig workers.
- **Code on Social Security 2020:** It seeks to protect gig workers' rights by giving them social security protections.
  - It attempts to **define gig, platform, and unorganized workers** while spelling out entitlements.
  - It also proposed to establish a **Social Security Fund and a National Social Security Board** to supervise and formulate schemes for the well-being of gig and platform workers.

Way Forward - Recommendations of India's Booming Gig and Platform Economy Report (NITI Aayog)

- **Proper estimation of Gig Workers:** E.g., through **data collected by the E-Shram portal**.

- **Catalyse Platformization:** A Platform India initiative, built on the pillars of Simplification, Funding, Skill Development, and Financial Inclusion, may be introduced.
    - On similar lines to Stand-up India.
- **Accelerate Financial Inclusion** by **leveraging FinTech and platform businesses**.
- **Skill Development** with creation of **potential "Skill Certificates"** to further increase the employability of workers.



- **Special emphasis on access to formal credit** for women, PwDs, or platform businesses started in small cities, towns, and villages in India.

1.2. LABOUR LAW REFORMS

LABOUR LAW REFORMS AT A GLANCE

Labour Laws are a body of laws, administrative rulings, and precedents which address the legal rights of, and restrictions on, working people and their organizations.

They fulfill three major roles:

- **Redistribution of legal powers** between workers and employees
- Facilitation of individual and collective **employment relationships**
- It serves as a reminder and **guarantee of fundamental principles and rights at work**

Need for reform and codification of India's Labour Laws

- Labour laws are **highly complex** and overlapping in nature and also **very high in number.**
- **Poor enforcement** of laws due to delays in referral, disposal and implementation of awards in cases.
- **Constrained growth of firms** with high administrative burden and lack of an easy exit option.
- It is indirectly **promoting more capital-intensive industries.**
- A **large number of unions** within an establishment negatively impact **collective bargaining rights of workers.**
- **Inadequate coverage** of workers **aggravates social issues like poverty.**

Potential effect of Labour Code on these issues

- It has **extended the coverage** to **more categories of workers and establishments.**
- It **guarantees timely minimum pay to all** with provisions like National Minimum Wage.
- **It facilitates growth of firms along with job creation** by increasing the permission threshold before closure, lay-off, or retrenchment to 300 workers.
- **Improves labour administration** through web-based inspections and compounding of offences in certain cases.
- It increases **protection of contract labourers rights** by increasing responsibilities of the contractor.
- It provides **recognition to negotiation unions** with 51% membership.
- Easing the process for entrepreneurs with **'one labour return, one licence and one registration'** policy.

Issues and concerns against the new consolidated codes

- **Universal minimum wage is very low** and can lead to the process of **labour cheapening.**
- Unnecessarily **wide jurisdiction of the government** in certain cases.
- **Over-delegation of legislation** leading to bypassing of legislative scrutiny in some laws.
- The central and the state government have **wide discretion in providing exemptions** from these codes.
- **Overlap between the definitions** of gig workers, platform workers and unorganized workers.
- Certain code like **social security and occupational safety do not apply to all the workers.**
- Other emerging challenges like dealing with new kind of workforce like **"crowd-work" or "on-demand" work.**

Other steps that could have been taken

- National Commission on Labour (NCL) (2002) had **recommended a separate law for small scale units.**
- Standing Committee on Labour (2020) recommended that the Code on security should **provide a framework for achieving universal social security.**
- NCL recommended a system of **labour courts, lok adalats and Labour Relations Commissions (LRCs) as the integrated adjudicatory system** in all labour matters.
- ILO (2016) highlighted that restricted use of fixed term and ad-hoc contract workers in the total workforce could prevent their over-exploitation.
- NCL recommended that a **specific provision may be made to enable workers in the unorganized sector to form trade unions.**

1.3. INSURANCE SECTOR

INSURANCE SECTOR AT A GLANCE

Status of insurance sector

- **4.2% is** India's overall **insurance penetration** in FY21
- **$91** is India's overall **insurance density** in FY21
- **12% is the average annual growth rate** of insurance sector in India
- **India** is the 10th **largest insurance market** in the world

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.
- **Doubling insurance penetration** by investing close to Rs. 50,000 crore in the sector (IRDAI).

Constraints

- **Low insurance penetration and density.**
- **Inflexible policy terms** and lack of standard insurance products.
- **Ambiguity in insurance contracts,** leading to huge pendency of consumer cases in the sector.
- **Multiplicity of government sponsored insurance schemes,** resulting in the fragmentation of the risk pool.
- The **'missing middle'** between the deprived poorer sections and the relatively well-off.
  - They 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.

Schemes/Initiatives

- **FDI** limit in insurance increased from **49% to 74%.**
- **Employees' State Insurance** Act, 1948
- Pradhan Mantri Suraksha Bima Yojana (PMSBY), **Rashtriya Swasthya Bima Yojana (RSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)**
- **PM-Jan Arogya Yojana (PMJAY)**
- **Atal Bimit Vyakti Kalyan 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.**

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.

1.4. SKILL DEVELOPMENT

SKILL DEVELOPMENT AT A GLANCE

Status of Skill Development

- **In India, only around 5% of the workforce is formally skilled** against **52%** in the **US** and 96% in **South Korea**
- India has entered its **37 years long demographic dividend period,** lasting from 2018 to 2055
- **Only 50.3% of India's educated people are employable,** as per India Skills Report, 2023
- **Quality of jobs is on decline,** highlighted by **Periodic Labour Force Survey (PLFS)**

Key Targets

- To train **400 million** Indians under NSDM.
- To encourage and promote skill development with respect to **market demand,** industry needs, services and in new-age job roles under PMKVY.
- 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 to at least **15% of the workforce.**
- Ensure **inclusivity** and reduce divisions based on gender, location, organised/unorganized sector etc.

Schemes/Policies/Initiatives

- **National Skill Development Mission (NSDM) and Skill India Mission**
- **PM Kaushal Vikas Yojana (PMKVY), PM YUVA yojana etc.**
  - **Recognition of Prior Learning (RPL)** [Component of PMKVY]
- **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.
- Adoption of **Captive Employment** (in house training and placement) methodology under DDU-GKY.
- **Bharatskills Forum, a digital knowledge- sharing platform** for the ITIs' trainees, trainers and industry

Constraints

- **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.

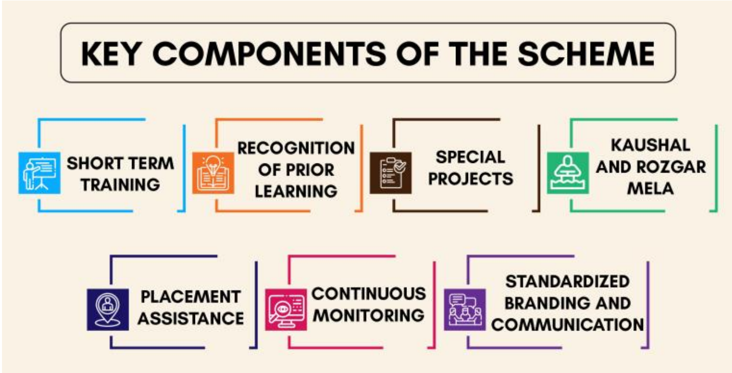
Way Forward

- 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.
- **Instill the required vocational and skill development programs** in our secondary, higher secondary, and undergraduate education. **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.

1.4.1. PRADHAN MANTRI KAUSHAL VIKAS YOJANA

Why in news?

The Standing Committee on Labour, Textiles and Skill Development recently submitted its report on **'Implementation of Pradhan Mantri Kaushal Vikas Yojana (PMKVY)'.**



About Pradhan Mantri Kaushal Vikas Yojana (PMKVY)

- It is **the flagship scheme of the Ministry of Skill Development & Entrepreneurship (MSDE)** implemented by National Skill Development Corporation (NSDC).
- **Objective of PMKVY:** To enable a large number of Indian youths to take up industry-relevant skill training that will help them in securing a better livelihood.

Implementation challenges identified in the Report

- **Non-utilization of funds:** Under PMKVY 3.0, in 2021-22, out of the total fund allocation, only 72% was utilized.
- **Low placements:** Under PMKVY 3.0, only 8% candidates have been placed.
- **Poor functioning of Aatmanirbhar Skilled Employee Employer Mapping (ASEEM) Portal** due to the large gap in the number of candidates registered and those who secured employment.
- **Issues under the Centrally Sponsored State Managed (CSSM) component:** Several State Skill Development Missions face issues such as-
  - **Delay in release of funds** from the State Treasury.
  - **Non-Availability of Trainers** with right Eligibility Criteria.
  - **Limited or non-availability of Placement Partners** due to less industrialization in the State.
  - **High pendency of assessments** with Sector Skills Councils.
  - **Delay in payments** to Sector Skills Councils etc.
  - **Lack of functional online management system:** Out of 36 States and UTs, the online management system for CSSM component is functional only in 15 States & UTs.

POSITIVE IMPACT OF THE SCHEME

	Salary	**15% increase** in mean monthly income of trainees.
	Change in employment	**76% candidates** acknowledged chances of getting another employment to be good.
	Improved efficiency in current job	**88% candidates** acknowledged rising efficiency in current job.
	Recognition of Prior Learning	**19% increase** in **mean monthly income.** **75%** acknowledged **better efficiency** in current job.

- **High dropout rates:** During the implementation of PMKVY 1.0, 2.0 & 3.0, approx. 20% of the total enrolled candidates dropped out of the training programme.
  - Reasons include medical grounds, distance from residence to training centres, accessibility to a job, and issues specific to females such as pregnancy and marriage.
- **Rural-urban disparity:** Centres of PMKVY are concentrated more in urban areas.

Way Forward: Recommendations of the report

- **Regular monitoring and strict follow up action** to ensure optimal utilisation of the earmarked funds.
- **Making the certification process more transparent and effective** so that it facilitates more self-employment besides ensuring fair wages to the skilled candidates.
- **Boost the number of employers registered on the ASEEM portal** and encourage them to make use of the portal for the purpose of hiring/employing more skilled candidates.
- **Work in tandem with the defaulting State Governments/UT Administrations** so that the online Management System is put in place there for prudent implementation of the Scheme.

- **Encourage Industry buy-in and contribution for skilling** including sharing of training infrastructure, demand aggregation, introduction of On-Job-Training (OJT), etc.
- **Enhance flexibility in course curriculums** by introducing courses in partnership with industry, Government Ministries/Departments and promote apprenticeship opportunities for candidates.

1.4.2. DEMOGRAPHIC DIVIDEND

Why in news?

Unemployment rate highlighted in recent Periodic Labour Force Survey (PLFS) Quarterly Bulletins (for the quarter January – March 2023) has raised concerns about the ability of the country to **reap the demographic dividend**.

Demographic dividend

- **Demographic dividend** refers to the economic growth potential that can arise from a favorable demographic structure within a population.
  - It occurs when a country experiences a significant proportion of its population in the working-age group, typically between 15 and 64 years, relative to dependents (14 and younger, 65 and older).
- Facts to highlight that India is in the **middle of a demographic transition-**
  - **Falling fertility** (currently ~2.0)
  - **Rising median age** (from 24 years in 2011, 29 years now and expected to be 36 years by 2036)
  - A **falling dependency ratio** (Expected to decrease from 65% to 54% in the coming decade taking 15-59 years as the working age population).
- **How working age population provides the dividend?**
  - Increase in **labour supply**.
  - Increase in **national savings rates**.
  - **Unburdened Human Capital** with healthier women and fewer economic pressures at home.
  - **Increase in Demand** with increasing GDP per capita and the decreasing dependency ratio.

Measures to reap demographic dividend

- **Health and education spending:** Evidence suggests that better health facilitates **improved economic production.**
  - Further, investment in education is crucial for ensuring that working-age people are **prepared for the demands of the economy.**
- **Increase female workforce participation**:
  - Legally compulsory **gender budgeting** to analyze gender disaggregated data and its impact on policies,
  - Increasing **childcare benefits**, and
  - Boosting **tax incentives** for part-time work.
- **Bridge skill gap**: Importance must be given to **vocational skills, internships, and embedded apprenticeship** degree programmes.
- **Encourage foreign capital inflows:** India should aim to have a **Gross Fixed Capital Formation (GFCF) of 33% of GDP** in order to meet its growth and job creation goals.
- **Transition from the agriculture sector**: India needs to facilitate the absorption of labour into **productive employment** and promote **relevant programmes and policies.**

Second Demographic dividend

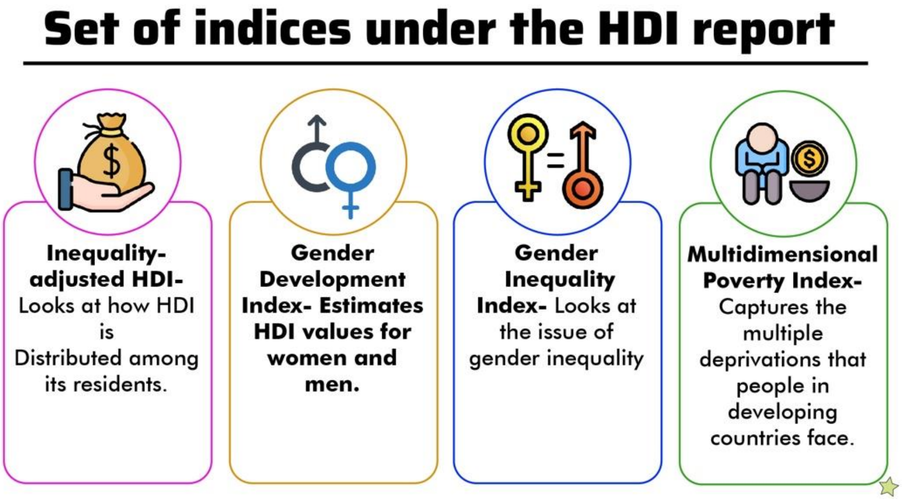
- The second demographic dividend results from an **increase in adult longevity**, which causes individuals to **save more in preparation for old age.** This increase in savings can thus contribute to **capital accumulation and economic growth**.
- Thus, if the right policies are in place, population aging can yield a **second dividend**, one that can be **long-lasting and larger** than the first dividend (can last **five decades or longer**).

2. ECONOMIC AND INCLUSIVE GROWTH

2.1. HUMAN DEVELOPMENT REPORT

Why in news?

The report for 2021/22 was released **by United Nations Development Programme (UNDP)** with the theme **'Uncertain times, unsettled lives: Shaping our Future in a Transforming World'.**

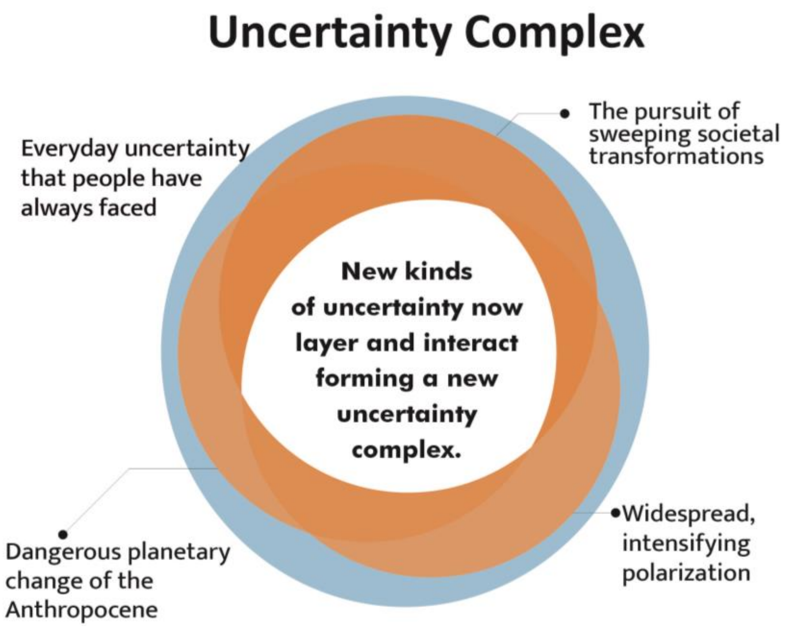


More on news

- Human development is **defined as the process of enlarging people's freedoms and opportunities and improving their well-being.**
- HDI is a measure of achievements in **three key dimensions of human development:**
    - **Long and healthy life (Life expectancy),**
    - **Access to knowledge (expected and mean years of schooling) and**
    - **Decent standard of living (GNI per capita).**

Key Findings of the report

- **Decline in global HDI:** For the first time **the index declined for two consecutive years in a row (2020 and 2021,** reversing five years of progress).
- **India is ranked 132 out of 191 countries**, after registering a decline in its score **over two consecutive years for the first time in three decades.**
- Among India's neighboring countries**, Sri Lanka, China, Bangladesh, and Bhutan have fared better** then India.
    - India is bridging the human development gap between men and women faster than the world.
    - **India's investment in health and education, access to clean water, sanitation and affordable clean energy** has been lauded by UNDP.



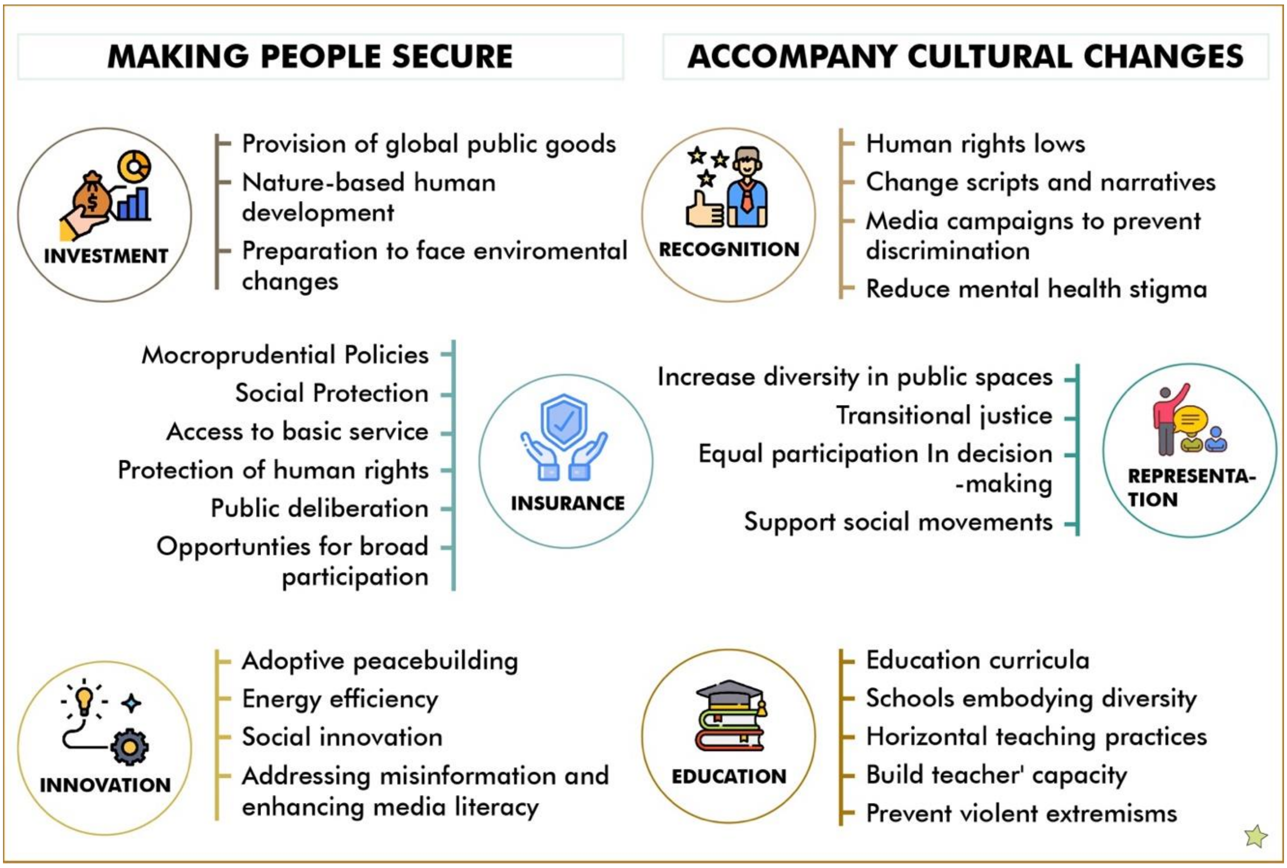
Reasons behind decline in HDI

- **Underlying Factors**
    - **Global:** A combination of the **COVID-19 pandemic, Russia's invasion of Ukraine and climate crises** dragged down the human development score.
    - **India:** India's human development value **fell,** placing the country in **medium human development category.**
        - ✓ **Reasons for downfall –**
            - **Life expectancy dropped**.
            - India's expected years of schooling stand at **11.9 years, and the mean years of schooling are at 6.7 years.**

    - India's **per capita income in terms of purchasing power parity has gone down by 5%** compared to a 2% increase for the developing countries during 2019 and 2021-22.
- **Dynamic Factors**
  - **Uncertainty Complex:** The report iterated the **"New Uncertainty Complex" facing humans in 'Human development' progress.**
    - ✓ Report showed that **six in seven people worldwide** were plagued by **feelings of insecurity**.
  - **Causes of uncertainty** which are hindering human development-
    - ✓ **The Anthropocene and its inequalities –** For the first time in our history, the most serious and immediate risks are human-made.
    - ✓ **Social transformation to ease planetary pressures –** Owing to challenges posed by Anthropocene, societies need to transform the ways in which they operate which has led to transitional uncertainty and technology transformation related uncertainty.
    - ✓ **Increase in polarization in the backdrop of rising misinformation online.** It has led to another layer of uncertainty- not knowing what to believe.

Way forward

- **Government should focus on the 3Is (Investment, Insurance, and Innovation),** which will enable people to thrive in the face of uncertainty.
  - India is already a frontrunner in these areas with its push towards **renewable energy, boosting social security for the most vulnerable and driving the world's largest vaccination drive through Co-WIN, supported by UNDP**.
- India has also **boosted access to social protection** for vulnerable sections of society, **especially during and after the pandemic.** To encourage it further, following areas can be worked upon-



2.2. PRODUCTIVITY CHALLENGE OF INDIA

PRODUCTIVITY CHALLENGE OF INDIA AT A GLANCE

- **TFP growth rate** for India for 2010-2019 was approx. 2.2%, better than emerging market and developing economies.
- Two kinds of productivity measures are usually taken into account-

Labour Productivity – Ratio of output to number of workers or number of hours worked.

Total Factor Productivity (TFP) – Total output divided by weighted average of inputs i.e., labour and capital.

Significance of Improvements in Productivity

- Improvements in productivity raises output levels,
- leading to a **higher GDP and economic growth.**
- **Brings higher profit and more investment opportunities** for businesses.
- Translates to **higher wages and better working conditions** for workers.
- Increases **tax revenues** of government and better policy formulation.
- Improved **competitiveness and trade performance** resulting in better position in global value chain.
- Achievement of **Sustainable Development Goals.**

Reasons for low productivity in India

- **Lack of skilled workforce.** Skill gap as greatest barrier for Indian companies.
- **Large unorganized sector and small size of firms** so no benefit of economies of scale.
- **Limited scale of innovation** and automation.
- **Lack of availability of quality data** for improving input and outputs.
- **Lack of adoption of good management practices.**

Initiatives taken for improving productivity

- **Various flagship programmes** such as Skill India Mission, Make in India, Digital India, Smart Cities Mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Housing for All, and Industrial Corridors.
- **Focus on infrastructure development such as** National Infrastructure Pipeline, PM Gatishakti, Dedicated Freight corridors etc.
- **Technological interventions** for processing, product development, sustainability, and export orientation in agriculture sector.

Way Forward

- **Lowering barriers to trade and investment** and greater integration into global supply chains.
- **Encouraging growth of sizes of firms** and formalization of economy.
- **Improving quality of skill training** especially for marginalized sections.
- **Investing in ICT** and **reforming education** for innovation and productivity.
- Improving productivity in **manufacturing sector** through initiatives such as trade reforms, skill upgradation, infrastructure upgradation, encouraging FDI etc.

2.3. 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 offce 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.**

2.4. POVERTY ALLEVIATION

POVERTY ALLEVIATION AT A GLANCE

364 million people are **below poverty line** in India.

More than 16% of the population in India (2020) is **multidimensionally poor.**

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.**
- Identifcation of **all forms of poverty beyond economic realm.**
- Addressing **Multi-dimensional poverty in a holistic manner.**

Schemes/Initiatives

- Proportion of elected women representatives has been rising since enactment of 73rd amendment Act.
  - Currently, **49 percent of elected local representatives (1.4 million) are women and over 4 lakh members belonged to SCs and STs.**
- **Increased spending on community-based welfare** for women, and increased reporting of crimes.
- Healthy competition among various states regarding devolution of 3Fs **(funds, functions, and functionaries).**

Constraints

- **Unequal distribution of land and other assets-** due to which free rider issue persists.
- **Amount of resources allocated is not sufficient.**
- **Implementing offcials 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 offcials.
- 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.
- **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.**
- **Focus on broad based Economic Transformation.**
- **Reorient spending away** from subsidies toward support targeted to poor and vulnerable groups.
- **Increase public investment** that supports long-run development such as investments in the human capital.
- **Mobilizing revenue without hurting the poor** by making personal and corporate taxation more progressive

2.4.1. MGNREGA

Why in news

Parliamentary Standing Committee on Rural Development and Panchayati Raj has submitted an action taken report on its recommendations for MGNREG Act, 2005 (MGNREGA).

About MGNREGA

- A scheme of Ministry of Rural Development**, it aims at** providing **at least 100 days of legal unskilled manual work as a guaranteed employment in a financial year** to every household in rural areas as per demand.
- **GeoMGNREGA** is a unique endeavour of the MoRD in association with National Remote Sensing Centre (NRSC), ISRO and National Informatics Centre for **geotagging of assets created under MGNREGA.**

Several studies have highlighted that **MGNREGA has had a positive social impact on-**

- **Providing paid employment to women.**
- **Carbon sequestration** as the Act focuses on natural resources, such as land, water and trees, which provide adaptation benefits.
- **Acting as an income cushion** for vulnerable sections during COVID-19.

Key Challenges and Recommendations made by Committee

- Ensure **effective Coordination with States** for **timely release of funds.**
  - Committee noted-
    - ✓ Delay in submission of documents for release of wages/skilled/material share by the States.
    - ✓ **Delay in release of States' share of 25% material costs.**
- **Mitigation of unspent balances** through the utilization of allocated funds in a **time-bound and financially prudent manner.**
  - There were unspent balances at the **end of FY 2020-21 of an amount of more than Rs 5000 crores.**
- **Timely payment of wages**
  - Committee found a considerable amount of **wage liabilities pending** in November, 2021.
- **Increase in wages through linkage with commensurate inflationary index.**
  - Committee recommended using **Consumer Price Index – Rural (CPI-R, released by National Statistical Organisation) in place of Consumer Price Index – Agricultural Labour (CPI- AL, released by Labour Bureau)** for indexation of wages under MGNREGA.
- **Uniform wages across the country to end the disparity of wages under MGNREGA since** it is a **Centrally sponsored scheme.**
- **Increase in number of days of work sought under MGNREGA to 150 days from 100** keeping in view the c**hanging times and emerging challenges particularly in wake of the COVID Pandemic.**
- **Promotion of 'Buldhana (Maharashtra) Pattern'**
  - Under this, a unique symbiotic relationship is observed **wherein the raw material for road construction is obtained from the clogged and overflowing water bodies through their de-siltation.**
- **Better Promotion of Women-Centric Works under MGNREGA**
  - Priority should be given to such **projects which are women centric in nature** to ensure their economic independence**.**
- **Revamping of Scheme to meet the changing demands** including Medical Facilities to meet the challenges of Covid/emergencies.
  - All labourers working under MGNREGA **must be given free basic medical facilities attached with Job Cards at the doorstep of respective villages.**

Related News

MoRD has released report on delays in social audit under MGNREGA

- According to report titled **'Social audit calendar vs audits completed'**, only **14.29%** of the planned audits have been completed.
- **Social audit** is a process of reviewing official records and determining whether state reported expenditures reflect the actual monies spent on the ground.
  - The **original MGNREG Act had provisions for social audit.**
  - Accordingly, **every Social Audit Unit is entitled to funds equivalent to 0.5% of the MNREGA expenditure** incurred by the State in the previous year.
  - To ensure their autonomy, **they are funded by the Centre and not the State.**

2.4.2. DIRECT BENEFIT TRANSFERS (DBT)

Why in News?

India **saved over $27 bn in key central government schemes** through Direct Benefit Transfers (DBT).

About Direct Benefit Transfers (DBT)

- DBT was launched in 2013, to **transfer Government benefits directly into the Citizen's Aadhaar-seeded bank accounts** for targeted delivery of the benefits.
- **Aadhaar is not mandatory in DBT schemes**. Since Aadhaar provides unique identity and is useful in targeting the intended beneficiaries, it is preferred, and beneficiaries are encouraged to have Aadhaar.

Significance of DBT

- **Efficient transfer of Government benefit** directly to the accounts of the beneficiaries.
- **Increases the transparency & accountability** in the overall payment system.
- **Reduces the ghost beneficiaries** with biometric authentication as multiple or fake entries can easily be mapped.
- **Reduces Corruption** by reducing the interactions between the beneficiary and officials, thereby reducing the possibility of bribe and corruption.
- **Aids digital economy and financial inclusion** by bringing the beneficiary into formal economy and introducing him/her to the banking system.

Key Enablers for Successful Implementation of DBT in India

- **JAM Trinity:** Jan Dhan, Aadhaar, and Mobiles (JAM) trinity to enable a leakage-proof and targeted transfer of benefits.
- **Business Correspondents (BC) Infrastructure:** BCs as an alternative to brick-and-mortar banks.
- **Payments Bank:** Its main objective is to widen the spread of payment and financial services to small business, low-income households, migrant labour workforce, etc. in secured technology-driven environment across the country.
- **Mobile Money:** It is a fast-moving way of payment in the country and helpful in providing solution to last mile issue for better accessibility of DBT.

Impediments in DBT

- **Lack of infrastructure:** Many regions in the country are yet to be brought under the regular banking system like bank branches and ATMs.
- **Digital literacy:** The digital literacy of the people in rural areas is comparatively poor.
- **Cash may not be used for intended purpose:** It may be used in unproductive areas like liquor, gambling etc. thereby derailing the purpose of welfare.
- **Ineffective grievance redressal:** The process of grievance redressal is opaque in many schemes and the point of contact in case of discrepancy is also unclear.
- **Profiteering by Banks:** Many banks have levied a fee for transactions in the Jan Dhan Accounts, over a prescribed limit, thereby discouraging the poor beneficiaries from using the banking system.

Way forward

- **Beneficiary centric grievance redressal:** The grievance redressal mechanism should be made more transparent and simplified, with a timeframe-oriented approach.
- **Increasing the digital literacy:** Basic digital literacy should be imparted to the citizens like using ATMs, accessing their banking details through phones etc.
- **Improving the infrastructure:** Improving the basic digital infrastructure in rural and remote areas is necessary to deliver the DBT in those areas.
- **Enabling doorstep delivery of cash:** For the needy like Senior Citizens, Persons with disabilities, the benefit can be delivered at their doorstep through their Aadhaar authentication.

2.5. URBAN POVERTY

URBAN POVERTY AT A GLANCE

Urban poverty is a form of poverty that is particularly visible in megacities, characterized by poor living circumstances and income, as well as a lack of essential utilities and a bad quality of life. The government aims for:

- **Sustainable Development of Cities** to ensure supply of land, shelter and services at affordable prices to all sections of society.
- **Empower urban poor and achieve high economic growth** to reduce poverty for inclusive development.
- **Meeting local communities' aspirations** while resolving main urban development issues.

Current Situation

- Urban centres are important centers of economic activity, they contribute nearly
- **65% of India's GDP.**
  Lack of Affordable Housing with **greater urban poor deprivation in sanitation** and **infrastructure.**
- **17% of urban** households (13.75 million in numbers) are **slum dwellers** (as per the Ministry of Housing and Urban Poverty Alleviation).
- **Increasing inequalities** between rich and poor; leading to **Ghettoization** of communities and rise in crimes.
- **Growing Anti-immigrant sentiments,** leading to demands for local reservations.
- **Growing Economic Distress and Desperation** due to reduced household incomes.

Steps taken

- **National Urban Livelihood Mission (NULM)** to reduce poverty and vulnerability through gainful self-employment and skilled wage employment.
- **Smart cities mission** to develop smart, **citizen friendly and sustainable cities.**
- **Atal Mission for Rejuvenation and Urban Transformation (AMRUT)** to provide basic services to households and build amenities in other cities for **improved quality of life.**
- **Pradhan Mantri Awas Yojana (Urban)** for Housing for All by 2022.
- **Jal Jeevan Mission (Urban) and Swachh Bharat Mission (Urban)** for universal drinking water supply and sanitation facilities respectively.
- **Heritage City Development and Augmentation Yojana (HRIDAY)** for integrated, inclusive and sustainable development of cities.

Persisting Challenges

- **Continued migration pressure** with urban population to exceed 590 million people by 2030 due to **Urban-pull** and **Rural-push factors.**
- **Lack of Opportunities and Formal Skilling** due to missed manufacturing phase and shortage of skilling infrastructure.
- **Higher urban inflation** with greater impact of **pandemic induced disruptions** due to market shutdowns, social distancing norms at workplace etc.
- **Low Female Labor Force Participation.**
- **Limited devolution of powers, functions and finances** to urban local bodies.

Way forward

- **Empowerment of Local Leadership** (e.g. Mayor) for more localized economic and social planning.
- **Address Structural Issues of Economy** which leads to lack of economic opportunities, low productivity and unemployment.
- **Modernization of Agriculture** and bringing **Industrialization to Rural Areas** for decongestion of cities.
- **Promotion of Entrepreneurship** with improved **financing and Vocational Education and Training infrastructure.**
- **Promotion of SHGs** and **Gender Equality** to eliminate all forms of poverty.
- **Bringing New Urban Agenda** with explicit inclusion of culture in the urbanization process to re-humanize cities and have people-centered societies.

2.5.1. URBAN EMPLOYMENT GUARANTEE SCHEME (UEGS)

Why in news?

Recently, Rajasthan launched **Indira Gandhi Urban Employment Guarantee Scheme**.

Features of Scheme

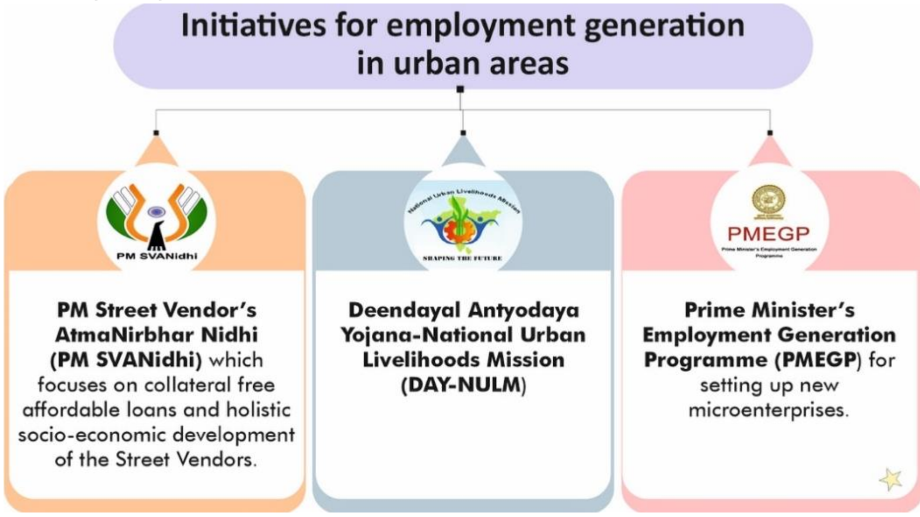
- This scheme would **provide work for 100 days to the poor and needy families living in the cities.**
    - Employment would be in the **segments of environment and water conservation, cleanliness and sanitation, stopping defacement of property, etc.**
- Earlier **Odisha, West Bengal, Himachal Pradesh, Kerala, Jharkhand and Tamil Nadu**, have introduced job schemes in urban areas.

Importance of Urban Job Guarantees

- **Marginalisation of urban poor in policy making:** Most of the central or State government schemes provide relief to only poor people in rural areas.
    - **For example,** Prime Minister Garib Kalyan Rojgar Abhiyaan (PMGKRY) during COVID-19 was launched for migrant workers returning to villages.
- **Resolve low employment in urban areas:** In 2017-18, the labour force participation rate (LFPR) in urban areas was 36.8%.
- **Tackle Persistent high inflation:** Compared to the rural regions, India's urban centres have a much higher cost of living, leading to **substandard living conditions** for urban poor.
- **Improve nature of jobs in urban areas:** Most of the jobs in urban economy are plagued by the prevalence of low-wage, poor quality, informal work.
- **Secured jobs to women:** UEGS would provide the urban women secured sources of livelihood in the same way as MGNREGA is doing in rural areas.

Issues in implementation of Urban Employment Guarantee Schemes

- **UEGS will require a greater skill sophistication** than in rural areas.
- **Deciding beneficiaries,** whether a poor person should be allowed to avail benefits under both MNREGA and UEGS is not clear.
- **The selection and definition of urban areas** (metros, cities, towns) would be a challenge, like deciding city boundaries where the scheme would be applied.
- **The Urban local bodies (ULBs) are poorly funded** and have little capacity to provide help in scheme implementation.
- **Managing Carrying capacity of urban areas** would be a challenging task for already overburdened urban administration.



Way Forward

- **Decentralised Urban Employment and Training (DUET):** This employment model has been proposed by the economist Jean Dreze.
    - Under this model, the state **government issues 'job stamps' and distributes them to approved institutions** – schools, colleges, etc.
    - The approved institution would arrange the work with the government paying the wages directly to the worker's account on presentation of job stamps.
- **Employment programme without guarantee:** The Government may consider implementing a national urban jobs programme (without the 'work guarantee') to deal with the issues of urban poverty.
- **Creation of low skilled jobs:** Low skilled jobs could be created in the field of environment conservation, construction, taking care of public property, etc. which would help absorb a low skilled workforce.

- Investment in urban infrastructure in a labour-intensive approach or high labour-capital ratio to create more employment.

- **Encouraging small enterprises** to create jobs and overcome the slowdown in major employment generating sectors due to Global Supply chain disruptions and reduced mobility.
- **Reduce Migration from rural areas** through rural development, creating employment in rural areas with improved access to basic facilities like drinking water, healthcare etc.

2.6. FINANCIAL INCLUSION

FINANCIAL INCLUSION AT A GLANCE

Status of Financial Inclusion in India

- **14.7 bank branches** per 100,000 adults in 2020, higher than Germany, China and South Africa
- **49 Crore+ PMJDY** accounts with over 55% accounts held by women
- **16.31 crore** enrolment, till May 2023, under **PM Jeeven Jyoti Bima Yojana (PMJJBY)**
- **Bottom 50% of the global population owns just 2%** of wealth and 8% of income. **(World Inequality Report 2022)**

Vision

- **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.**
- **Financial Literacy Project** through financial literacy centres and regular activities in different areas.

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.
- **Presence of a large informal sector,** promoting large scale cash transactions.

Way Forward

- **Launching a new scheme for comprehensive financial literacy** by integrating it 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.
- **Strengthen cybersecurity regime and data protection laws.**

2.6.1. INEQUALITY IN INDIA

Why in news?

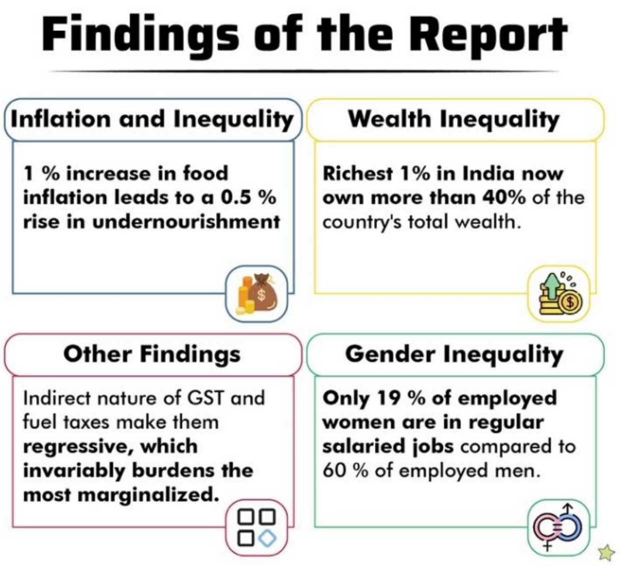
"Survival of the Richest: The India story" report recently released by **Oxfam India**, highlighted that India is not only one of the fastest growing economies in the world but also one of the most unequal countries.

About Inequality

- **According to UN, inequality is the state of not being equal**, especially in status, rights, and opportunities.
- **Two perspectives**
  - **Inequality of opportunities** - Such as **unequal access** to employment or education.
  - **Inequality of outcomes -** In various **material dimensions of human well-being**, such as the level of income, educational attainment, health status and so on.
- **Income inequality**: The most widely cited measure of inequality of outcomes - is typically measured by **Gini coefficient.**

Impact of persistent Economic Inequality (or Wealth Gap)

- **Social risks:**
  - **Increased Social Polarizations:** Inequality **hampers poverty reduction** and reduces social mobilities.
  - **Social Justice hampered:** Safety and wellbeing of vulnerable sections gets jeopardized due to lack of quality health and education facilities.
- **Policy Risk:** It can lead to a backlash against growth-enhancing economic liberalization and fuel protectionist pressures against globalization and market-oriented reforms.
- **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**.
- **Environment Risk:** Inequitable and unjust development such as **damaging wetlands, increased river pollution etc.**
- **Political Risks:** Marginalization of vulnerable segments of population in policy decisions, ability to question policies and processes.



Challenges in removing economic inequalities

- **Historical differences:** 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:** Due to vicious cycle of low income, low productivity, low taxes, and low human capital.
- **Climate change exacerbating inequality:** Poverty Alleviation is becoming harder due to price shocks caused by sudden changes in agricultural production, natural disasters, and environmentally triggered health problems among others.
- **Unplanned urbanization:** Income inequality is usually larger in cities than in rural areas. **Slums** are the most visible symptom of exclusion in divided cities.

Way ahead to reduce inequality

- **Universal Basic Income (UBI):** Introduce UBI (recommended by Economic Survey 2016-17) and raise minimum income to reduce the income gap in the labour market.
- **Urban Employment Guarantee schemes** should be introduced to rehabilitate surplus labour.

- **Equitable access to education:** Enhancing the budgetary allocation for **education to 6% of GDP**, as committed in the National Education Policy and **creation of more jobs** with long term growth are vital for triggering an upward mobility among the poor.
- **Rationalization of subsidies: Better targeting of beneficiaries** through alternatives like direct benefit transfers over existing inefficient mechanisms.

2.6.2. GENDER BUDGETING

GENDER BUDGETING AT A GLANCE

Gender Budgeting (GB) is an **ongoing process of keeping a gender perspective in policy/ programme formulation,** its implementation and review. It is also known as Gender Sensitive Budgeting (GSB) and **Gender Responsive Budgeting (GRB).**

Relevance of Gender Budgeting

- **Effective tool for achieving gender mainstreaming** since it **guarantees that men and women receive equal benefits from development**
- Ensures that **budgetary commitments to gender equality** are **reflected in government plans**

GB in India

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- **It was first introduced in 2005-06 budget. Divided in 2 parts:**
  - **Part A reflects: Women-specific schemes** (100% allocation for women). E.g., Mission Shakti
  - **Part B: Pro-women schemes** (at least 30% of the allocation is for women). E.g., Mid-Day Meal scheme.
- **Scheme for transgender 'SMILE** (Support for Marginalised Individuals for Livelihood and Enterprise)' **is also part of the GB.**
- **Performance of the GB:** The **gender gap still exists** reflected through **lack of equal opportunities for women** in the economy, education, health,

Issues in India's GB

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- **Since 2016–17,** generally there has been a **decline in allocation** for GB.
- **Merging various schemes under few umbrella schemes** resulted in reduction of allocation. E.g.,
- Allocation in Mission Shakti was less than the cumulative allocation for its components schemes earlier.
- **Underutilization of funds allocated to GB.**
- **More than 80% allocation remains concentrated only in 5 Ministries** including Ministry of Rural
- Development, Women and Child Development, Agriculture and Health.
- **Exclusion of important women empowerment schemes** from the ambit of Gender Budgeting such as the Jal Jeevan Mission (JJM) and Pradhan Mantri Mudra Yojana (PMMY).

Way ahead to make Gender budgeting more effective

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- **Need to have gender segregated data** for effective budget allocation and monitoring.
- **Estimates for allocation** should be based on a roadmap prepared by each ministry/department to meet gender needs and bridge existing gender gaps.
- **Allocation of funds where women face specific structural barriers** that prevent their holistic growth.
- **Raise awareness and motivate other departments and ministries** to participate in GB. **Implementation Targeted Gender Budgeting (TGB)** to curb the problem of underutilization of available fund.
- **Resource allocation, at every level,** needs a **gender-sensitive approach.**

2.6.3. MAHILA SAMMAN SAVINGS CERTIFICATE

Why in News?

In the recent budget, the government announced the **new small savings scheme "Mahila Samman Savings Certificate" for women.** It aims at **promoting financial inclusion and empowering women, including girls.**

Key features of scheme

- **Two-year tenure** (valid upto 2025) and provides **fixed interest rate of 7.5% compounded quarterly**.
- MSSC accountholder can **withdraw a maximum up to 40% of eligible balance once** after expiry of one year from date of opening of account but before maturity of account.
- **Minimum amount** to be invested is **Rs.1,000 and any sum in multiples of Rs.100**. **Maximum investment** limit is **Rs.2 lakh**.

Importance of Small Savings Schemes in Indian Economy

- **Support to Social Security Objectives:** By providing a safety net for vulnerable sections of society, such as senior citizens, widows, and disabled individuals.
- **Promotes National Savings:** These are low risk instruments with guaranteed returns.
- **Primary Source of Resource Mobilization for Government:** Contributing around 20% of the Centre's borrowing requirement.
- **Transfer to States:** A significant proportion of the net small saving collections, around 75%, are transferred to states as part of their loans from the Centre.
- **Direct Market Implications:** The effective return on SSS can influence the fund flow into capital and secondary markets, making them an important factor in the market.

2.6.4. SELF HELP GROUPS (SHG)

Why in News?

Recently, the Union Minister for Rural Development and Panchayati Raj asserted that the **target of having 10 Crore SHG members by 2024** will be achieved.

Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM)

- **Aim: Alleviating poverty** and reach out to around **10 crore poor households by way of mobilizing rural women into community institutions** such as SHGs.
- **Basis of the program:** DAY-NRLM is **improving rural livelihoods through the SHG ecosystem**.
- **Status of Implementation:** As of January 2023, it has **mobilized a total of 8.8 Crore women into more than 81 lakh SHGs.**

More on News

- The ministry has also signed an agreement with Meesho - an e-commerce platform - to help in marketing of products made by SHGs under the **Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM).**
- NRLM and State Rural Livelihood Missions (SRLMs) have taken several steps to **promote curated products from SHGs** through multiple channels such as **Saras Gallery, State specific retail outlets, e-Commerce platforms like GeM, Flipkart, Amazon.**

Measures Taken to Promote and Empower SHGs

Start-up Village Entrepreneurship Programme (SVEP)	Sub scheme of DAY NRLM to help the SHG members to **set up enterprises at the village level in non farm sectors**
Mahila Kisan Sashaktikaran Pariyojana (MKSP)	Sub scheme under DAY NRLM for **empowering women in agriculture** by making systematic investments
Village Poverty Reduction Plan (VPRP)	All the SHGs are involved in developing the **VPRP to be integrated in Gram Panchayat Development Plan**
SHG Bank linkage programme	**It enables each SHG to be linked to banks** and access all financial services from the banks, including loans. **Interest subvention scheme** is also being implemented for availing loans by women SHGs
National Rural Economic Transformation Project (NRETP)	With the **help of World Bank** in 13 states
Financial literacy to SHG members	Through Community Resource Persons (and deployment of **SHG members as Banking Correspondent Sakhi (BC Sakhis)**

Role of SHGs in development

- **Financial inclusion:** SHGs **promote small savings and provide small loans** to its members from its common fund. SHGs **promote financial discipline** among its members.
- **Poverty alleviation:** SHGs act as an **influential instrument** for poverty reduction, and socio-economic development.
    - The Government is implementing **Mission 1 Lakh, 2024** to provide an income stream of Rs. 1 lakh to women members of SHGs.
- **Social Development:** SHGs are creating **greater awareness** on issues like nutrition, health, sanitation and gender etc. and are also facilitating members to access their entitlements under various Government programmes/schemes.

- **Diversification of rural income streams:** Women SHGs are working in **multiple sectors** as Business Correspondents (BC), Bank Sakhis, Kisan Sakhis and Pashu Sakhis.
- **Women empowerment:** SHG structure **promotes entrepreneurship** among women through easing loans and enabling access to markets through initiatives such as connecting them with e-commerce platforms.
- **SHGs and COVID-19:** The World Bank has identified the role that women SHGs played in fighting Covid-19 pandemic through manufacturing masks, running community kitchens, and delivering essential supplies.

Issues associated with SHGs

- **Poor utilization of credit for productive purposes:** In 2020, researchers from the International Initiative for Impact Evaluation (3ie) found that **only 19% of credit were used for productive purposes**.
- **Confinement to low-productivity sectors:** Most SHGs remain crowded in low-productivity, primary-sector activities, mainly agriculture, and are bogged down by **low absorption of technology**.
- **Lack of scalability:** Most SHGs remain **confined to being microfinance units** rather than vibrant business entities due to inhibitions or lack of support.
- **Absence of digital and financial literacy:** Literacy levels are low for rural women in India (around 56%, according to National Sample Survey) and digital literacy is another missing link.
- **Limited participation in government programs:** The members of SHGs **remain mere beneficiaries of the programmes** and have little control over the decision-making process.

Way Forward

- **Diversification of livelihood:** The success of SHGs would depend on raising the **abilities of members to diversify into other high-productive activities**.
- **Integration of digital services:** To help small producer collectives scale-up and engage with the market.
- **Capacity building:** Building the capacity of SHG members by **training them in digital and financial literacy** will be critical.
- **Convergence:** The **convergence of SHGs with the Panchayats** can be ensured to enhance their say in the decision-making process. Some **southern states have taken a lead** in such integration.
- **Involvement of private sector:** The NRLM can further **tap the startup and private sector space**.
    - For example, in 2019, **Kerala's Kudumbashree tied up with Amazon for its programme Amazon Saheli**, through which it promotes women entrepreneurs by selling their products.

2.7. URBAN PLANNING

URBAN PLANNING IN INDIA AT A GLANCE

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.

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.

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.

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, job standardisation etc.
- **Executive and Legislative Reforms:** Clear division of the roles and responsibilities of various authorities; 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.

2.7.1. STREET VENDORS

Why in news?

About 41% of beneficiaries of PM-SVANidhi (PM Street Vendors' AtmaNirbhar Nidhi) **are women.**

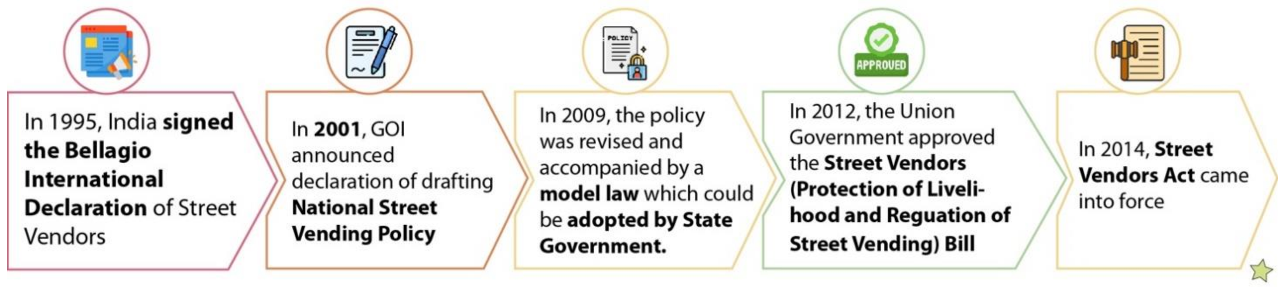
About Street Vendors

- According to government estimates, **street-vending account for 14% of the total (non-agricultural) urban informal employment** in the country.
- Other than being a **source of self-employment** for the poor, vending **is vital to provide convenient, affordable services** to the urban populace.

About PM-SVANidhi

- It was launched **to facilitate street vendors to access affordable working capital loan** for resuming their livelihoods activities, after easing of lockdown.
- **'SVANidhi se Samriddhi', an additional program of PM-SVANidhi** was launched in 2021 **to provide social security benefits** to street vendors.
  - Under this, **socio-economic profiling** of PM-SVANidhi beneficiaries and their families is conducted **to assess their eligibility for several welfare schemes** including **PM Suraksha Bima Yojana, PM Jeevan Jyoti Yojana** etc.
  - **Implementing partner:** Quality Council of India.
- **Main Bhi Digital Drive** a special Campaign for Digital Onboarding and Training for street vendors under PM SVANidhi scheme.

STREET VENDOR POLICY TIMELINE



Challenges

- **Lack of Social Security:** Problems of eviction, bribe payment, inability to access various government facilities, lack of basic amenities such as toilet, lighting, etc.
- **Unrealistic License caps:** In most cities like Mumbai which has a ceiling of around 15,000 licences as against an estimated 2.5 lakh vendors.
- **Fluctuating markets:** The street vendors always suffer competition with other street vendors because of fluctuation in market prices, insecure and irregular employment
- **Urban sprawl:** Encroachment of public spaces, causes traffic congestion, inadequate hygiene, and poor waste disposal.
- **Safety of street food:** No Government agency is authorized to verify the content of food as they are not regulated by any government agency.
- **E-Commerce:** There has been negative impact of online shopping on retailers and street vendors.

Way Forward

- **Inclusive and thoughtful urban design:** Integration with smart city mission and to allocate open public space to vendors.
- **Authenticate the quality of products sold on the streets:** To curb the menace of counterfeit products and ensure hygiene of cooked food.
- **Inclusive, market-led sustainable development:** It will arrive with the adequate support and empowerment of street entrepreneurs.
- **Buying local:** It will facilitate India's tryst with self-reliance and strengthen local supply chains to innovate and capitalize on the growing demand.

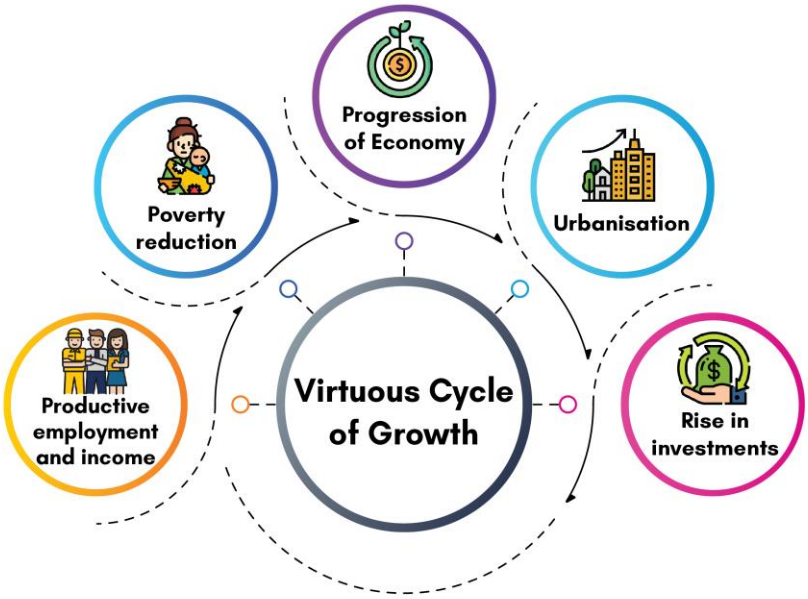
2.7.2. RURALISATION TO RURAL INDUSTRIALIZATION

Why in news?

There have been some claims that rise in urban unemployment is forcing a structural shift towards "ruralisation" in India.

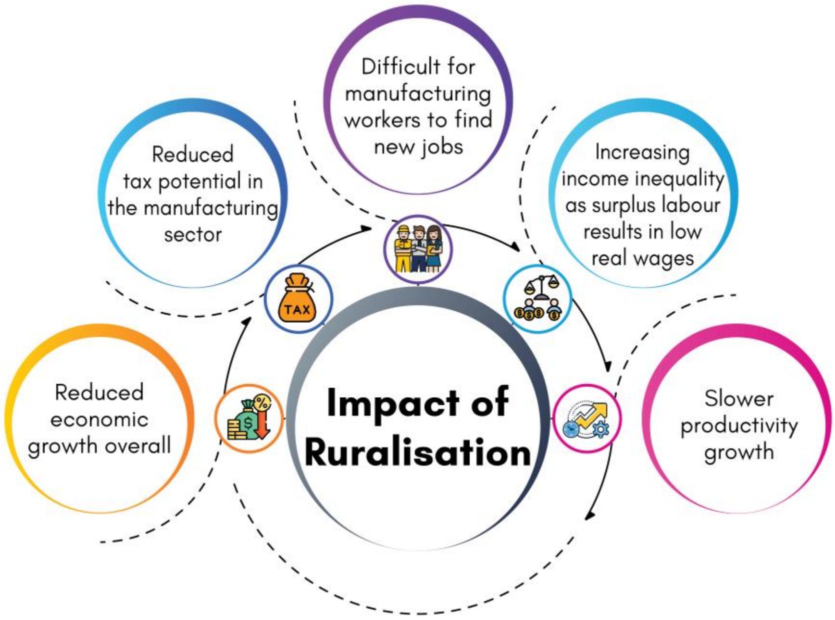
About Ruralisation

- Ruralisation refers to opening of rural areas to **renew rural generations, jobs, and farms.**
- However, **in a developing country like India, such trend is considered akin to de-industrialization.** It **refers to a situation where the productive capacity of the economy is distorted.**
    - **Workforce shift to rural India and low industrial growth point to rising poverty levels.**
- It is **opposite to the virtuous cycle of growth** (refer Infographics).



Indications of ruralisation

- **Workforce shift towards agriculture**: India's workforce dependence on agriculture has risen from 42.5 per cent (2018-19) to 45.5 per cent in 2021-22 (PLFS).
- **Demand for cereals rising again:** India's monthly per capita consumption of cereals has risen in the last decade. This indirectly creates more jobs in the rural ecosystem.
- **Fall in industrial production**: India's industrial growth fell to a 10-year average of 2.1 per cent, compared to 7.7 per cent during 2000-12. Thus, hindering creation of new jobs.
- **Persistence of unemployment problem: Employment and income situations have** remained weaker than pre-pandemic and 10 years back resulting in a worsening of per capita income, amid the rising cost of living.
- **Chronic lack of private investments:** Share of **private fixed capital formation** has continued to decline from 10.8 per cent in FY19 to estimated 8.4 per cent in FY22, affecting infrastructure development.



Certain Initiatives taken that can avert the trend

- **Production-Linked Incentive (PLI) Scheme**- across 14 key sectors.
- **PM SVANidhi**- to provide working capital loans to Street Vendors, vending in urban areas.
- **PM Gati Shakti**- transformative approach for economic growth and sustainable development.
- **Deendayal Antyodaya Yojana - National Urban Livelihoods Mission**- To reduce poverty and vulnerability of the urban poor households.
- **Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)** - to provide collateral free loans up to INR 1 cr.
- **Pradhan Mantri Mudra Yojana** - collateral free loans to MSMEs.

How can Rural Industrialization help?

- **Rural Economy:** Rural Industrialization increases **skilled as well as non-skilled employment opportunities** and **diversifies rural occupations.**

- **Addressing the problems of agricultural labourers:** These industries can provide additional and off-season employment to agricultural labourers.
- **Balanced industrialization:** It prevents concentration of economic development in already developed urban areas and channelizes investment to rural areas.
- **Preservation of India's rich culture:** It can help in preserving craftsmanship and art heritage of the country. E.g., Pashmina shawls of Kashmir, Blue Pottery of Jaipur, Bangles of Faizabad etc.
- **Promoting Micro and Small Enterprises (MSEs):** Presently, around 20% Micro and small-scale enterprises (MSEs) units are located in rural areas that act as ancillary industries for large scale industries.

Way ahead to fast-track Rural Industrialization

- Formulation of Rural Industrial Policy
- Defining rural industries
- Integrated approach for Skills development
- Harnessing the potential of rural women
- Upgrading the techniques of production
- Fulfilling the gaps in Infrastructure

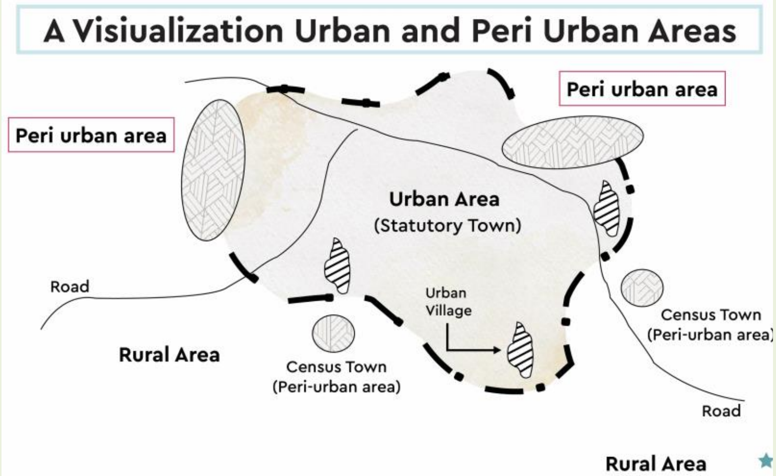
2.7.3. URBAN-RURAL CLASSIFICATION

Why in news?

Recently, the Economic Advisory Council to the Prime Minister (EAC-PM) suggested change in definition of rural-urban areas in India.

Current Definition of Rural and Urban settlements

- As of 2017, any **settlement that is not considered 'urban' is automatically considered 'rural'**.
- There are **2 types of urban settlements-**
  - **Administratively urban settlements** are those that are governed by an Urban Local Body (ULB).
  - **Census Urban Settlements** are those that have a population greater than 5000, 75% of male population working in non-agriculture, and a density of 400 people per sq. Km. (also known as **Peri-Urban areas**)



Why was this suggested?

- **Panchayats in de facto urban areas** are **ill equipped in terms of human resources.**
  - This indirectly leads to poor governance, limited resources, and inefficient implementation of schemes.
- **Slow transition** from rural administrative panchayats to ULBs **results in incorrect standards** of services being applied, **unmet requirements** of local public goods, etc.
- **Unplanned development:** Rapidly growing peri-urban areas often face the issue of haphazard development. This affects the mobility, environmental sustainability, and economic development of the region.
- **Inaccurate policy estimations:** Current classification often **inadequate in capturing speed and scale** of urbanization in India.
- **Deep seated Rural-Urban linkages:** These are Social, Financial and Cultural linkages between them. Thus, creating a water-tight division would be unsuitable in the long-run.

What can be done overcome this issue?

- **Establish "trigger mechanisms":** These mechanisms will automate transition from rural to urban settlement after prescribed threshold is reached.
- **Dedicated policy for Peri-urban areas:** This includes planning for Peri-urban areas, creating a land-use pattern and deliberation on implementation of schemes in their context etc.

- **Using available data more effectively:** Ministries should **utilize census and other settlement wide indicators** to determine rural definition that best suits their particular program's mandate.
- **Leveraging the Rurban Strategy:** Census Towns have been emerging as nodes for servicing rising rural demand and have become a marketplace for production linkages. They can be further encouraged by-
  - Building on the Rurban strategy as propounded under the **Shyama Prasad Mukherjee Rurban Mission (SPMRM),**
  - Focusing on **agri- and allied processing facilities, supporting (MSMEs**), and
  - Creating a space for **more financing institutions and NBFCs,** to strengthen local economy.

2.8. HOUSING

HOUSING AT A GLANCE

Status of Housing in India

- **3 crore and 1.2 crore** houses required in rural and urban areas respectively
- Over **1 crore houses grounded** under **PMAY (U)** and over **75 lakh houses completed**
- Over **2 crore houses grounded** under **PMAY (R)** and over **2.29 crore houses completed**
- **Six Light House Projects** completed under **GHTC-India**

Key Targets

- **'Housing for All'** by constructing more than **20 million rural homes** and 11 million urban homes.
- 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.

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.**

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).

2.8.1. PRADHAN MANTRI AWAS YOJANA (URBAN)

Why in News?

Recently, Parliamentary Standing committee on Housing and Urban Affairs submitted report on **Evaluation of implementation of Pradhan Mantri Awas Yojana (Urban).**

About Pradhan Mantri Awas Yojana (Urban) (PMAY-U)

- **Objectives:**
  - The Mission addresses urban housing shortage among the **Economically Weaker Section (EWS)/ Lower Income Group (LIG)** and **Middle-Income Group (MIG)** categories including the **slum dwellers**.
  - It adopts a **demand driven approach** wherein the Housing shortage is decided based on demand assessment by States/Union Territories.
- **Timeline:** The Mission **has now been extended up to 31st December, 2024** with all verticals except Credit Linked Subsidy Scheme (CLSS) vertical.
- PMAY (U) is being implemented through the **following four verticals:**
  - In-Situ Slum Redevelopment (ISSR)
  - Credit Linked Subsidy Scheme (CLSS)
  - Affordable Housing in Partnership (AHP) with Public & Private Sectors
  - Beneficiary-Led Construction (BLC)

Critical Observation of Committee of PMAY-U

- **Gap in housing demand assessment**: Actual demand for housing under the scheme stands at 1.23 crore and not the estimated 2 crore.
- **Lack of basic amenities**: As of December 2022, 5.6 lakh houses were not delivered to beneficiaries due to lack of basic services.
- **Timeline for grounding and completion**: Only 87% sanctioned houses have been grounded till December 2022 and 61 lakh houses have been delivered to beneficiaries.
  - As of October 2022, **less than 50% of houses have been completed in north eastern states** (except Tripura) due to geographical and economic reasons.
- **High-cost burden on beneficiary**: Some states such as Nagaland, Manipur, Meghalaya, and Rajasthan are not providing their share. As a result, the average beneficiary contribution comes about to 60%.
- **Emphasis on BLC**: Majority of the urban homeless are also landless and purchasing land in an urban area is more challenging than constructing a house on it. Therefore, the over emphasis on BLC vertical dilutes the objective of the scheme.
- **Low sanctioning of houses under ISSR vertical:** The number of houses sanctioned under it is low. Against a demand of 14.35 lakh houses, only 30% were sanctioned.

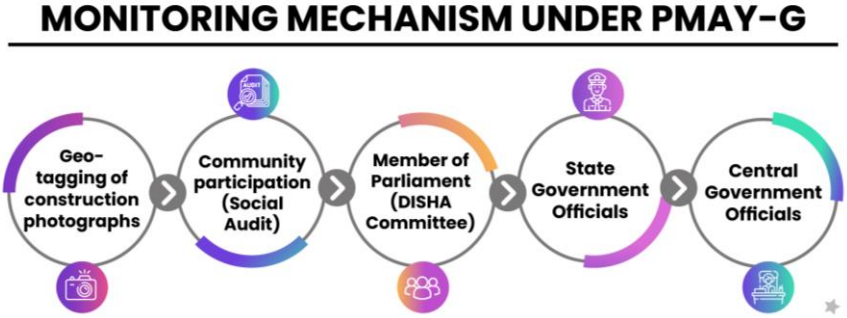
Suggestions by the committee

- **Focus on Outcome Rather Than Output:** The focus should shift from the number of houses completed to the number of houses actually occupied by beneficiaries.
- **Involvement of Beneficiaries:** Beneficiaries should be identified prior to construction, involved as stakeholders from the initiation of the project, and their feedback should be acknowledged and acted upon throughout the project to avoid later issues with unoccupied housing.
- **Collating Data on De-Notification of Slums-Land:** The Ministry should collate data on the impact of ISSR vertical in terms of de-notification of slums by States and place the same before the Committee.
- **Impact Assessment and Necessary Changes**: The Ministry needs to conduct an impact assessment and accordingly extend the scheme with necessary changes or formulate another scheme to provide housing for the urban poor.
- **Strict Timelines for Construction:** The Ministry should ensure strict timelines for starting and completing the construction of houses.
- **Varying Central Assistance Based on State Factors:** Uniform and fixed central assistance across states may be removed and should vary according to factors such as a state's topography.
- **Smoothening of Pre-Construction Processes:** Availability of land, seeking statutory clearances, and clearing slums must be smoothened before starting the project.

2.8.2. PRADHAN MANTRI AWAS YOJANA - GRAMIN (PMAY-G)

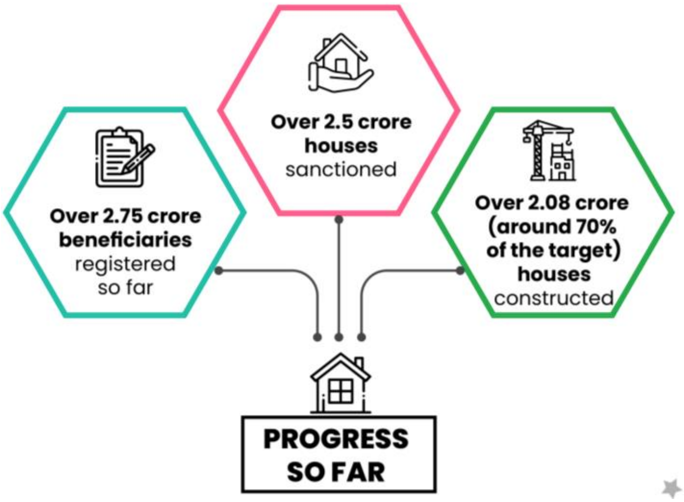
Why in news?

The central government in India has stated that it will withdraw its share of funding for states that fail to properly implement the Pradhan Mantri Awas Yojana Gramin (PMAY-G).



About PMAY-G

- The scheme was launched in **2016** by the **Ministry of Rural Development** as a **centrally sponsored scheme.**
- **Objective: Housing for all by 2022.**
    - To construct 2.95 crore houses with all basic amenities by the year 2022 (**now extended to 2024 after COVID pandemic**) to all rural houseless households and those living in kutcha and dilapidated houses by providing financial subsidy.



Major reforms taken in the recent times

- **Electronic Governance:** The end-to-end execution of the scheme is conducted through workflow enabled transaction-based **MIS – AwaasSoft.**
- **Mobile Governance:** 'AwaasApp' has been launched for inspection of houses.
- **Direct Benefit Transfer (DBT)** to beneficiaries
- **A pan-India training and certification programme of Masons** has been launched in the States/UTs.
- **Real time web link**: Developed with **NREGASoft** to allow creation of a NREGA work against each PMAY-G house sanctioned.
- **Convergence** with other Government Schemes.

Challenges in target completion and successful implementation of scheme

- **Improper execution in a few states** due to delay on part of centre and states in releasing funds. In 2020, nine states had delayed the payments to the beneficiaries.
- **Issues in availing loans**: Most of the beneficiaries are unable to avail loan facility as they belong to economically poor strata of the society.
- **Landless beneficiaries:** More than 50% of landless beneficiaries are yet to be provided with land.
- **Issues in identification of beneficiaries**: Biased approach of the Gram Panchayats and anomalies in the SECC-2011 data.
- **Absence of real time data** regarding benefits provided under various schemes, **poor quality of Housing.**

Way forward

- **Providing Land to the eligible landless beneficiaries** on priority.
- **Enhance the budget** and **ensure timely release of funds** from the Centre and State Government.
- **Easy access to credit** with minimum collateral, administrative costs and lower interest rates.
- **Effective convergence with other schemes** by establishing close coordination with the concerned Ministries and departments.
- **Awareness Generation** for optimum utilization of the Awaas app among the rural populace.

2.9. LAND RECORDS MODERNIZATION IN INDIA

LAND RECORD MODERNIZATION IN INDIA AT A GLANCE

Status of Land record Modernization in India

- **94% of villages** have completed **Computerization of Land Records (Record of Rights i.e., RoR)**
- **70% of Cadastral Maps have been digitized**
- **1.15 ha** was the average farm size in 2010-11
- **<10%** of the land is under non-agricultural uses

Need for land record modernization

- **To adopt the system of Conclusive Titles** instead of present Presumptive Titles (Record of Rights (RoR)).
- **Enhanced transparency in land records maintenance system** will minimize the scope of land disputes.
- **Standardisation of land records** for registration and RoR.
- **Reduced process and time** of document registration.
- **E-linkages to credit facilities** as clear land titling provide easy access to institutional credit.

Schemes/Initiatives

- **Digital India Land Records Modernization Programme (DILRMP).**
  - **Unique Land Parcel Identification Number (ULPIN) or Bhu-Aadhar** (adopted by 26 States/UTs) [Part of DILRMP]
- **National Generic Document Registration System (NGDRS)** (adopted by 28 States/UT)
- **Survey of Villages Abadi and Mapping with Improvised Technology in Village Areas (SVAMITVA) Scheme**
- **BhuNaksha:** A Solution for digital Cadastral Mapping.
- **Best Practices like-**
  - **BHOOMI – KAVERI** programme of Karnataka; **Mee-Seva** of Andhra Pradesh; Proof of Concept of **use of blockchain for land record** management by NITI Aayog etc.

Constraints

- **Digital records have inherited the bad data from old documents,** reflected missing maps and lack of updated surveys with modern tools.
- **Lack of data standardization** among different states.
- **Lack of coordination between various nodal agencies handling land records** like revenue, survey and registration overseeing the land.
- **Digital presence** of property ownership documents can potentially leave personal data vulnerable to **data leaks and threat of cyber-attacks.**
- Any instances of **malicious manipulation** of digital land records can erode **landowners trust in the system.**

Way Forward

- **Providing government employees appropriate skills** through comprehensive training programmes.
- **Adopt and implement security management systems** for safely storing land record data and building trust among landowners.
- **Undertake surveying and mapping of the land** using the new technologies such as blockchain, drones, satellite imagery, GIS etc..
- **Build capacity among states** for by establishing dedicated data centres, high speed processors and fibre optic networks etc. at the state level.
- **Conduct awareness generation programmes** regarding digital processes and applications related to land registration.
- **Build uniform standards** for recording, maintaining and updating land records.

2.9.1. LAND TITLING

Why in News?

Recently, NITI Aayog published **Model Conclusive Land Titling Act.**

About Land Titling

- Land titling is a generic term used to **denote the programmes implemented by the state to enable the individuals and the state to exchange or trade in land or property rights**.
- **India currently follows a system of presumptive land titling.**
  - This means that land records are maintained, with information on possession, which is **determined through details of past transactions.**
  - Ownership, then, is established **on the basis of current possession.**
  - Registration of land is actually a **registration of transactions, such as sale deeds, records of inheritance, mortgage and lease**.
  - Holding registration papers does not actually involve the government or the legal framework guaranteeing the ownership title of the land.
- On the other hand, **under a conclusive land titling system** which is being recently proposed, land records designate actual ownership.
  - **State provides guarantee** on land titles and also include provisions for compensation in case of any dispute.
  - Once a title is granted, any other claimant will **have to settle disputes with the government, not the title holder.**
  - Further, the government may **provide compensation to claimants in case of disputes,** but the title holder is not in any danger of losing ownership.

Key Features of Model Conclusive Land Titling Act

- **Land Authorities** to be set up by each State government, which will appoint a Title Registration Officer (TRO).
  - Having considered and resolved all the disputed claims, the Land Authority will publish a Record of Title.
- **Title Registration Officer (TRO)** need to prepare and publish a draft list of land titles based on existing records and documents.
- **Land Dispute Resolution Officer (LDRO)**: If disputing claims are received, the TRO will verify all the relevant documents and refer the case to a LDRO for resolution.
- **Land Titling Appellate Tribunals:** Over a three-year period, titles and the decisions of the TRO and the LDRO can be challenged before Land Titling Appellate Tribunals.
- **Conclusive proof of ownership** after a three-year period, entries in the Record of Titles will be considered conclusive proof of ownership.
- **Appeal:** After last stage of verification, appeals can only be taken up in High Courts.

Challenges in implementing Conclusive Land Titling

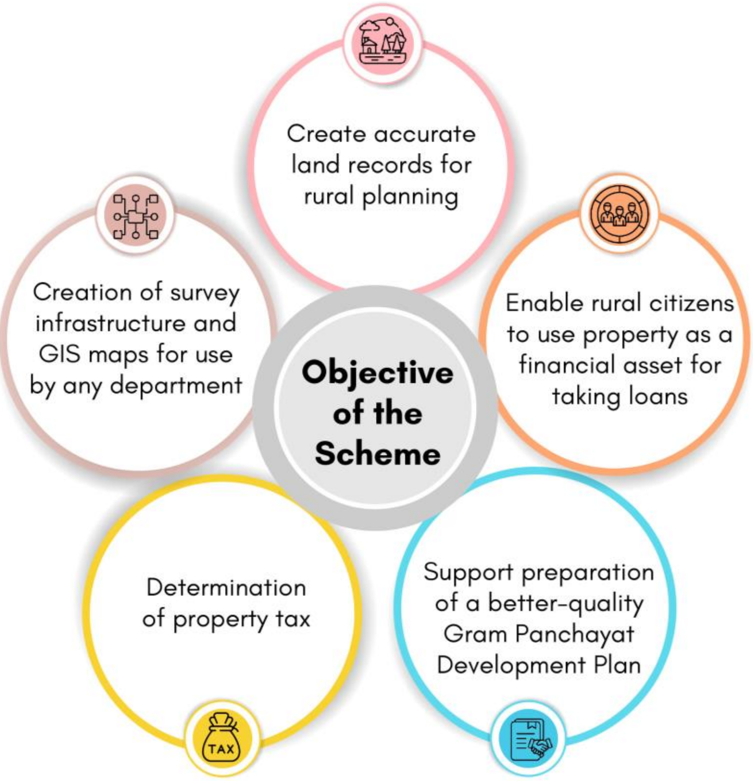
- **Records are in a bad shape:** Many title transfers are unrecorded and changes on the land often go undocumented.
- **Different scripts and languages:** Existing records are fragmented and are maintained in different **scripts** and **languages** in different states making land titling difficult.
- **States have low fiscal capacity** to actually underwrite buyers of land and property in case the title is not clear.
- **Lack of clarity on Registration system:** As it doesn't mention or define what the new title registration system will be. It only lays down that the authority will set it up via a notification.

* **Low accountability of state:** The TRO so appointed can also be a non-state official, i.e., a private person, and this could jeopardize accountability and can lay the entire procedure vulnerable to manipulations by private interests.

2.9.2. SVAMITVA SCHEME

Why in news?

Recently, Report of Expert Committee on SVAMITVA Scheme was released during the National Conference on SVAMITVA Scheme and Rural Planning, by Ministry of Panchayati Raj.



About SVAMITVA Scheme

* **Survey of Villages Abadi and Mapping with Improvised Technology in Village Areas (SVAMITVA)** is a was launched to:
    * Establish **clear ownership of property in rural inhabited** (Abadi) areas,
    * **Provide 'Record of Rights'** to village household owners with issuance of legal ownership cards (Property cards).
* **Scheme involves-**
    * Mapping of land parcels using **drone technology.**
    * Establishment of **Continuous Operating Reference System (CORS):**
        * ✓ It supports **establishing ground control points**. It helps in accurate Geo-referencing, ground truthing and demarcation of lands**.**
        * ✓ CORS has **applications in sectors** like Disaster Management and Emergency Response, Transport, Agriculture, Construction & Planning, asset management, etc.
    * Development of **Spatial Planning Application 'Gram Manchitra'**, leveraging digital spatial data/maps created under drone survey for the creation of spatial analytical tools to support the preparation of GPDP.
        * ✓ 'Gram Manchitra' is a **Unified Geo-Spatial Platform for all Gram Panchayats** providing a decision support system for Panchayat Development Plan.
    * **Awareness generation** to sensitize rural population about surveying methodology and its benefits.

Identified broad areas of Impact of SVAMITVA

Area	Present scenario	How SVAMITVA helps
Creation of land records of the abadi area of villages	• Land records are **maintained across different departments** and these **departments work in silos.**	• **Generate maps** and based on these maps, **record-of rights** are prepared, and **property cards are issued** to the owners.
Use of Abadi Property as Financial Asset for Loans	• There is **no authentic ownership document** and thus land **cannot be used as collateral for banks.**	• SVAMITVA provides a "**Record-of-Rights**" to facilitate availing of loans on the security of such lands.
Management of property tax collection in rural area	• **Lack of accurate property registers** prevent the realization of the full potential of tax collection.	• Creating **digitized property register**, where properties are identified and marked with a unique number. • **Automatic tax assessment** through appropriate software, resulting in less grievances and more tax collection.
Rural planning	• There was **no framework for proper land use planning.**	• SVAMITVA can enable **Spatial Budgeting** by **unlocking the land use** made available

		through **Drone surveys and feature extraction.**
Use of geospatial infrastructure and data of SVAMITVA by other agencies	• Data presently available is mostly in form of **sketches.**	• Data under SVAMITVA is on **Nation Spatial Reference Frame.** Having the **same reference frame will make the data suitable** to be integrated and seamless for other agencies.

Recommendations by the committee

- **Protect the data being created under the SVAMITVA**: MoPR should frame appropriate guidelines to ensure the **security of this data** and protecting privacy.
- **Inclusion in DILRMP**: MoPR should ensure that all villages surveyed under the SVAMITVA scheme are included in the work plan of DILRMP on priority.
- **Unique Identifier:** Property cards under SVAMITVA must have a QR code or any other unique identifier which to verify the authenticity of the property card instantly.
- **States should upgrade their property tax management system** with the integration of the SVAMITVA scheme data.
- **Data should be made available for industries** to make use of geospatial data to develop applications on the ground in near future.

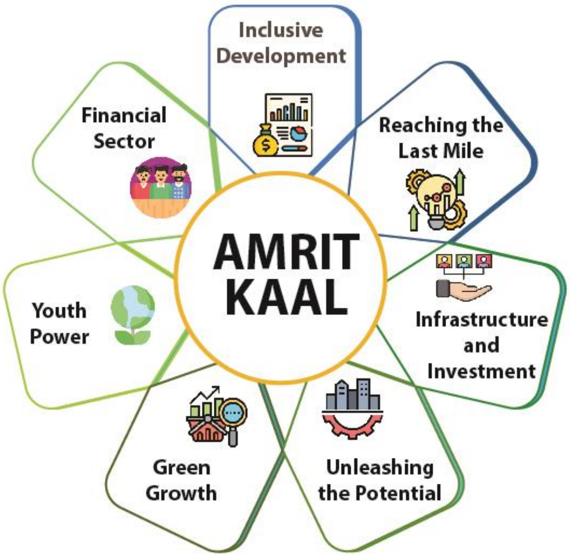
3. FISCAL POLICY

3.1. GOVERNMENT FINANCE

GOVERNMENT FINANCE AT A GLANCE

Status of Government finance in India

- **6.4% of GDP** as fiscal deficit for FY23
- **83.1%** public debt-to-GDP ratio for FY23
- **29.5% combined debt-to-GDP ratio of States** at end-March 2023
- **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.**

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.

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).**
- Management through regulatory changes in **Ways and Means Advances (WMA)** for States and Union by RBI.

Way forward

- **Financing from private investment,** institutions dedicated for infrastructure financing.
- Compliance with the **fiscal deficit and debt levels** as per FRBM Act.
- **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.
- **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.
- Adoption and effective implementation of **Public Financial Management System (PFMS).**

3.1.1. FISCAL DEFICIT

FISCAL DEFICIT AT A GLANCE

Fiscal deficit refers to the **amount by which a government's spending exceeds its revenue** in a given fiscal year.

Gross fiscal deficit = Total expenditure - (Revenue receipts + Non-debt creating capital receipts)

Primary deficit = Fiscal Deficit – Interest Payments

Status and Objectives

- Fiscal Deficit of Union Government reached **9.2% of GDP during pandemic year FY21.**
- Fiscal deficit for FY23 moderated to 6.4% of GDP and is further **targeted at 5.9% in FY24.**
- The Government aims to reach a fiscal deficit **level below 4.5% of GDP by 2025-26.**
- **The Combined Gross Fiscal Deficit (GFD) of states,** which increased to 4.1% of GDP in the pandemic-affected year, was brought down to 2.8% in FY22.

What causes fiscal deficit?

- **Increased Government Spending** when tax revenues do not rise proportionately.
- **Revenue decrease** from declining tax revenues or natural resource income.
- **Economic Downturns** and rise in expenditure during a recession.
- Spending boost to deal with **War or Natural Disasters.**
- **Social Welfare programs** without sufficient revenue generation.
- Huge **interest on government debt.**

Favourable factors for decline in fiscal deficit

- Thrust on **capital expenditure** and **buoyancy in gross tax collections.**
- **Direct tax collection** of Rs. 16.61 lakh crore in FY23.
- **22% increase in Gross GST collection** in FY23.
- **Resilient economy** as activities accelerated following the Covid-led crisis.
- **Lower food and fertilizer subsidy bill** after merging of the Pradhan Mantri Garib Kalyan Anna Yojana with the National Food Security Act.
- **Higher dividend** by central public sector enterprises has offset the shortfall in disinvestment revenue for FY23
- **Higher dividend payout from RBI.**

Fiscal Deficit Management in India

- The **Fiscal Responsibility and Budget Management (FRBM) Act** was passed to address the historic highs of the combined Gross fiscal deficit of the Government.
  - The aim of FRBM is to keep the **deficit at a sustainable level** while ensuring that public debt remains manageable, allowing the government to meet its financial obligations and maintain economic stability in the long term.
- **Gradual decline** in fiscal deficit is in line with the **fiscal glide path** envisioned by the government.
- In Union Budget 2023-24, Union Government has allowed a fiscal deficit of 3.5% of GSDP of which 0.5% will be tied to power sector reforms.
- **Majority of fiscal deficit is financed through internal market borrowings** and external debt is only about 1% of total fiscal deficit.

3.1.2. STATE FINANCES

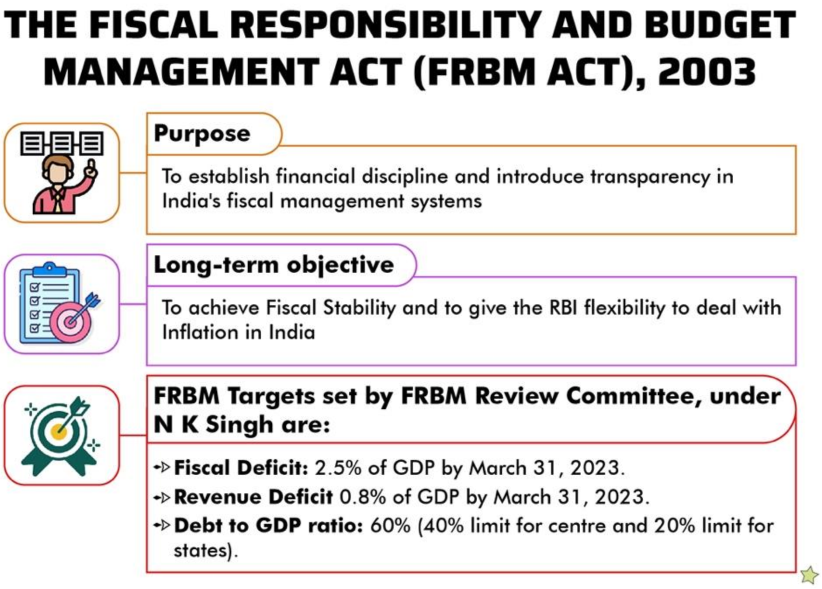
Why in News?

RBI has released its **annual publication** titled "**State Finances: A Study of Budgets of 2022-23**" with the theme "**Capital Formation in India - the Role of States**".

India's Fiscal Federalism and State Finances

The **Constitution of India** follows **Fiscal Federalism**. Based on it, it follows certain principles to ensure stability such as:

- **Fiscal Equivalency**, i.e., separation of jurisdiction for each public service. The **seventh schedule** allocates areas of responsibility under **Union, State** and **Concurrent List**.
    - E.g., **List II - State List** includes areas such as **agriculture, power, health, social welfare** etc. with financing provisions by empowering them with specific resource mobilization (taxation) powers.
- **Principle of Subsidiarity,** i.e., functions and autonomy should be allotted at the lowest possible level of government. It enhances **revenue generation** and **spending efficiency**. E.g.
    - **73rd and 74th amendment** which allocated **specific functions** to **Panchayati Raj Institutions (PRIs)** and **Urban Local Bodies (ULBs)** under **11th** and **12th Schedule.**
- Further, **Part XII** of the Constitution (**Article 268-293**) covers in detail the provisions of **Centre-State Financial Relations** through:
    - **Distribution of tax revenue,**
    - **Grants-in-Aid,** i.e., **Statutory Grants** (**Article 275**) and **Discretionary Grants** (**Article 282**),
    - **Net divisible pool** distribution based on the **Finance Commission** recommendations (**Article 280**) etc., leaving states with different sources of revenue.
- To overcome high borrowings and debt-trap risks, the government introduced the **Fiscal Responsibility and Budget Management (FRBM) Act,** 2003 (refer infographic for more details on FRBM).



Key Findings of Report and Future trends

- **Aggregate Revenue Receipts** of State Governments and UTs was **14.9% of the GDP**, out of which **55% was from own taxes.**
- **Aggregate Expenditure** of State Governments and UTs was **18.5% of the GDP**, out of which **83% was revenue expenditure** and **capital expenditure was 17%.**
- **Improved fiscal health of States** on the back of a **broad-based economic recovery** after a sharp pandemic-induced deterioration in 2020-21.
    - **States' gross fiscal deficit (GFD)** is budgeted to decline from **4.1%** of **GDP** in **2020-21** to **3.4%** in **2022-23** due to **high revenue collections**.
    - **States' debt** is budgeted to **ease to 29.5% of GDP in 2022-23** as against **31.1% in 2020-21**. (Although improved, but it is still higher than **20%** as recommended by FRBM Review Committee.)

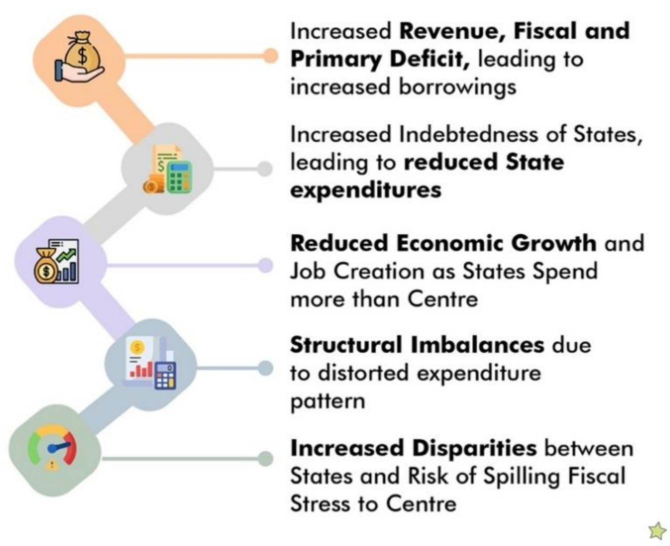
Significance of Strong State Finances

- **Economic Growth:** With 60% of general government expenditure incurred by States, state finances become vital in India's macroeconomic policies.
- **Attract Investments:** Lower fiscal deficit and State debt eases the pressure on interest rates and thereby increases investments.
    - It can also help in improvement of **India's sovereign credit rating** from rating agencies because of better **macroeconomic stability**.
- **Employment Generation:** Strong Finances can improve the **quality of public expenditure,** i.e., increased capital expenditure, helping in additional demand creation and employment.
- **Achieve Sustainable Development Goals (SDGs)**, with a focus on infrastructure, research and development, health, education, and other social services. Many of these key areas comes **under state list**.

Existing Concerns over State Finances

- **Vertical Imbalance**: The **share of untied funds (tax devolution + revenue deficit grants) in central transfers** to states has **declined from 32.4% during 2015-20 to 29.5% of the Centre's gross revenue receipts** for 2021-26 (15th Finance Commission).
- **Horizontal Imbalances**: Variations within states ability in resource mobilization and expenditures due to **region-specific disparities and diverse socioeconomic structure.**
    - **Populist fiscal measures** such as non-levy of certain taxes or State-specific expenditure schemes, also contribute to it.
- **Dominance of Committed Expenditures** in the expenditure patterns of the States such as interest payments, pension, and administrative services.
    - E.g., High **percentage of pension as state's own tax revenue** for some states.
- **Centre's influence** on expenditure policies of States due to **Centrally Sponsored Schemes**.
- **Flattish or modest growth of States own Tax Revenue (SOTR)** due to issues such as inaccurate forecasts, high administrative costs, lack of innovation, economic shocks etc.
- **Lower own non-tax revenues** or returns of Capital Investments due to losses of State PSUs, lack of proper user charges etc.

NEGATIVE IMPACTS OF POOR STATE FINANCES



Way Forward

- **Legislative Reforms:** Overhaul the FRBM Act based on the **recommendations** of the **15th FC** and **FRBM Review Committee** for greater transparency and debt sustainability. The FRBM review committee recommended to:
    - **Replace FRBM** with **Debt Management and Fiscal Responsibility** with **public debt to GDP ratio** as a **medium-term anchor** for fiscal policy in India.
    - **Creation of a Fiscal Council** to prepare multi-year forecasts, recommend changes to the fiscal strategy etc.
    - **Rule-based policy framework** with clear grounds of deviations from the target for transparency and predictability etc.
- **Fiscal Management Reforms:** The states must prioritize debt consolidation as part of **fiscal policies** with proper **standards on reporting of public debt and contingent liabilities**, and their risks.
- **Institutional Reforms:** Timely set up of **State Finance Commissions (SFC)** to decide on the assignment of taxes, fees, and other revenues to local governments.
- **Expenditure Reforms:** Increase public expenditure for **capital formation** and **productive assets**, i.e., expenditure on **R&D, education, health, green energy transition etc.**

Recent Initiatives to Improve State's Fiscal health

- **Scheme for "Special Assistance to states for Capital Investment"**, providing ₹1,00,000 crore interest free loan for 50-years.
- **Reform-linked additional borrowing** space to state government, allowing additional borrowing of 0.5% GSDP for power sector reforms.
- **Inclusion of off-budget borrowings in state debt positions**, i.e., the borrowings from state public sector undertakings or their special purpose vehicles (SPVs).

3.1.3. MUNICIPAL FINANCING

Why in news?

Recently the Reserve Bank of India (RBI) has released a report on municipal financing.

Reasons for the weak financial strength of municipalities

- **Data gap:** Information on the fiscal position of ULBs is **scanty** as-
    - Most municipalities in India **do not have balance sheets in the public domain,**
    - Many of them continue to follow the **cash accounting system,**

- Municipal **laws do not prescribe any uniform accounting standard** to be followed, rendering municipal accounts **largely incomparable** across States and even within a State.

- **Legal hurdles:** MCs in India are required by law to maintain a balanced/surplus budget and hence, they have not been able to tap capital markets sufficiently to supplement their revenues.
- **Inefficient property tax collection:** Property tax collection in India is low due to factors like property undervaluation, incomplete registers, pending litigations, etc.

- **Some tax sources subsumed in GST:** A few of the taxes which were the prerogative of municipal corporations earlier have been subsumed into the Goods and Services Tax (GST).
- **State Finance Commission (SFC):** State governments have not set up SFCs in a regular and timely manner.
- **Bond market at the nascent stage:** The lack of a secondary market for municipal bonds has been a critical constraint in attracting a more extensive investor base for these securities.
  - MCs **mostly rely on borrowings from banks**, financial institutions, and loans from centre/ state governments to finance their resource gaps.

Steps needed to strengthen the financial health of municipalities

- **Tapping capital market:** ULBs can issue municipal bonds through an escrow account or finance through special purpose vehicles (SPVs) and State-pooled finance entities.
- **Credit Rating of ULBs:** In India, the municipal bond market is at a nascent stage and hence, credit rating can play an important role in attracting new investors.
- **Land-based financing** through instruments like:
  - Vacant land tax (VLT).
  - A two-part property tax with a higher rate for land than buildings.
  - Sharing of stamp duty (collected by State governments) with Local governments.
  - Development impact fees (DIF), land monetisation, etc.

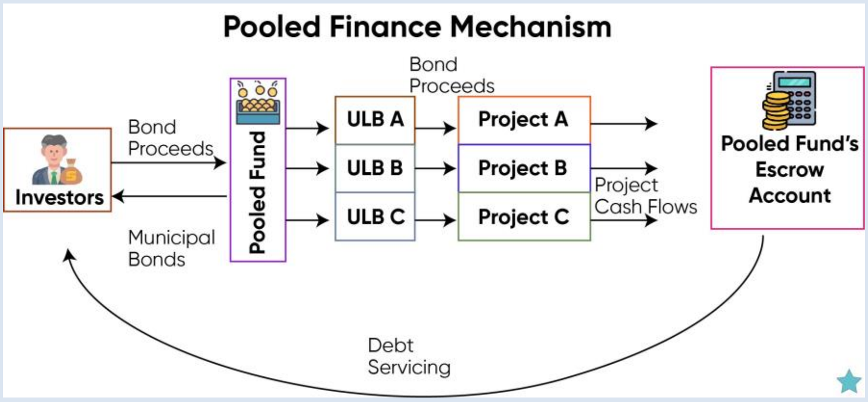
Initiatives for improving financial health of municipalities

- The 15th Finance Commission (FC-XV) recommended **4.36 lakh crore as grants to Local governments for the period 2021-22 to 2025-26.**
- The Department of Economic Affairs (DEA), Ministry of Finance has issued **guidelines on use of municipal bond financing for infrastructure projects**.
- The Central government has included **credit rating of MCs** in the reform agenda of the Smart Cities and **AMRUT programme.**

- **Standardised accounting:** A double entry-based accounting system for municipal bodies would facilitate the **consolidation of Local government data.**
  - The 15th Finance Commission recommended making **audited accounts of municipal corporations available online** as a prerequisite for accessing grants.
- **Exploring mechanisms like pooled financing:** Access to the capital market can be enhanced through pooled financing. Under it, a **common bond is issued by pooling the resources** of several local bodies.

Pooled Financing

- **Pooled financing** essentially involves **creation of a State Pooled Finance Entity (SPFE),** which can be registered either as a trust or a Special Purpose Vehicle (SPV).
- **The Central government also provided a thrust** to pooled financing by launching the **Pooled Finance Development Fund (PFDF) Scheme in 2006** to provide credit enhancement to ULBs through a State-level pooled finance mechanism.



3.1.4. MUNICIPAL BONDS

Why in News?

NSE Indices Ltd., an NSE (National Stock Exchange) arm has introduced the **country's first-ever municipal bond index**.

> **KNOW THE TERM**
>
> - **Municipal bonds:** They are Bonds issued by local government bodies and do not carry any government guarantee.

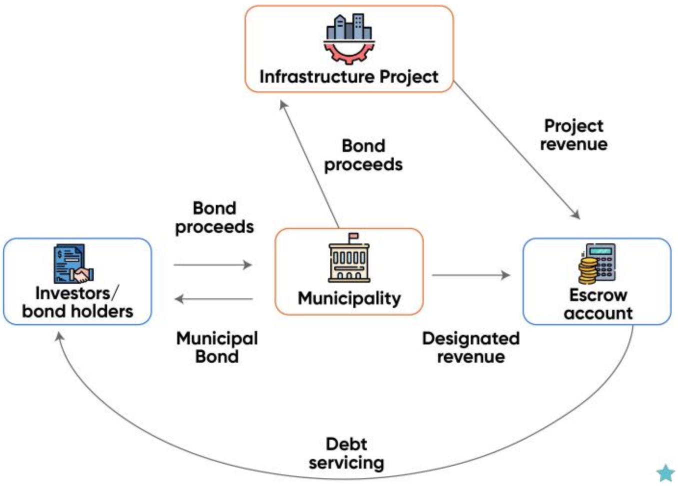
Municipal Bond Market in India

- Municipal Bond Market is **regulated by the Securities and Exchange Board of India (SEBI) in India.**
- **Financial Incentives:** The Government of India has also provided **incentives in the form of a lump-sum grant-in-aid for municipal bond issuances.**
- **Largely investment-grade rating: 59% of municipal bonds** issued received a **rating of investment grade or above**, highlighting the underutilized potential for bond financing by Indian municipalities.
- **Information Database:** SEBI has launched an information database on Municipal Bonds in the form of **statistics and regulations, circulars** etc.

Benefits of Municipal Bonds

- **Financial discipline:** Raising money from capital markets **incentivises municipal corporations** to fund new projects and encourages them to become **financially disciplined**.
- **Filling the urban financing gap:** They can help in **financing the borrowing requirements** of different municipal corporations and contribute to India's urban infrastructure financing gap.
- **Expansion of municipal services:** The proceeds from municipal bonds can be utilised to finance **the expansion of essential municipal services**.
- **Higher return for investors:** The **interest rates** offered by Municipal Corporations are **generally higher than the government bonds of similar maturity**.

How Municipal Bonds Work



Constraints for Municipal Bond Market in India

- **Imposed restrictions:** Municipal laws in India allow Municipal Corporations to borrow**, but with the permission of the respective State government and with added conditions**.
- **Lack of secondary market for municipal bonds:** A critical constraint in attracting a more extensive investor base for these securities. Also, **not all municipal bonds are available to retail investors**.
- **No tax benefits:** Unlike many Western countries, there are **no special tax benefits i.e.,** interest income, and capital gains from Municipal Bonds do not have adequate tax incentives.
- **Inaccessibility due to high face value:** These bonds have high face value – they come in denominations of Rs. 10 lakh – putting them out of reach of retail investors.
- **Risk factor:** These bonds typically come with AA-, AA, or AA+ ratings, and to that extent, **cannot be considered as low-risk as Government of India or state government bonds**, both of which are backed by central government guarantees.

Way Forward

- **Improving the overall policy environment for investment:** This can be done through sound and efficient regulation, greater transparency, and better governance.
  - E.g., **involvement of major credit rating agencies** in the municipal rating space or push from the **Central government in the form of reform-linked financial incentives.**
- **Popularizing the initial successes:** Recent instances have demonstrated that bond financing can be a **viable alternative for raising resources for MCs**. This can be projected to the investors and State Governments.

- **Developing a secondary market** for municipal bonds by generating awareness, engaging primary dealers, and going forward, listing these bonds on stock exchanges as well.
- **Attracting the retail investors:** The denominations of the Bond Market could be brought to the range of the retail investor.

3.2. DIRECT TAXATION

DIRECT TAXATION AT A GLANCE

- **11.7% tax-GDP ratio** in FY 22 (6% for direct taxes and 5.7% for indirect taxes)
- **Record ₹16.61 lakh crore** direct tax collections for FY2022-23, jump of 17% from the previous year
- **Corporate Tax and Personal Income tax** as the **main contributors** to Direct Tax
- **Direct tax buoyancy** at 2.52 was the **highest in the last 15 years**

Key Targets

- The Budget 2023-24 had set a **direct tax revenue target of Rs 18.2 trillion** for FY2023-24.
- The Centre projected **corporate tax** at ₹9.20 lakh crore and **personal income tax** at ₹9 lakh crore for FY2023-24.

Policies/Schemes/Initiatives

- **Taxpayers' Charter** to provide a transparent and taxpayers friendly tax regime.
- **Faceless Assessment Scheme and Faceless Appeals Scheme** for Honoring the Honest.
- 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.**
- **Information sharing** between Government departments.

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
- 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** online 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.
- Participating in international frameworks like **OECD Automatic Exchange of Information (AEOI) to check tax evasion.**

3.2.1. DIGITAL TAX

Why in news?

Recently, India and other developing countries in the **G24 grouping objected to the proposal of making sovereign commitments to not introduce any future digital services tax like equalization levy,** potentially delaying the implementation of the global tax deal.

More on news

- Digital Services Tax (DST) is part of the **OECD's two-pillar plan.** This plan has **been agreed upon by 137 countries (including India) in 2021** to reform international taxation rules and address the tax challenges arising from the digitalization of the economy (Refer box).

OCED's Two Pillar Plan

- **Pillar One** i.e., **Reallocation of taxing rights:** It reallocates part of profits of MNEs to places where they sell products or provide services.
- **Pillar Two i.e., Global anti-base erosion mechanism:** Setting **'Global Minimum Corporation Tax Rate (GMCTR)' of 15% from 2023** to large MNEs.
  - Global Minimum Tax or GMCTR, is part of the **inclusive framework on Base Erosion and Profit Shifting (BEPS)** agreed upon by G20 countries and OECD (Organization for Economic Cooperation and Development).

- **India and other developing countries have objected** to this provision as it will unduly restrict sovereign rights to make laws.

About Digital Tax in India

- Digital Tax refers to the tax levied on digital goods or services or digital business activities. It is a form of **Direct tax.**
- In 2016, India was one of the first countries to introduce a **6% equalization levy i.e., Digital tax on non-resident digital companies** (Google, Facebook) that was **restricted to online advertisement services** (digital advertising taxes or "DATs").
- In 2020, the **Indian Income-tax Act expanded the scope of the Equalization Levy** (commonly referred to as '**Equalization Levy 2.0 or EL 2.0')** as part of the **Finance Act 2020.**
    - The new levy now includes a **2% Digital Service Tax (DST) or EL on trade and services of foreign e-commerce companies** such as Amazon and Walmart-owned Flipkart and others having an annual turnover of ₹2 crores or more.
- DST is aimed at ensuring that non-resident, digital service providers **pay their fair share of tax on revenues generated in the Indian digital market**.

The Rationale of Digital Tax

- **Overcoming lacunas of obsolete laws:** Current tax regulations, both international and domestic, were formulated decades ago using brick-and-mortar economy capabilities as a guideline.
- **International tax law**: The agenda to reform international tax law so that **digital companies are taxed where economic activities are carried out has been globally recognized.**
- **Proliferation of DSTs**: Due to the changing international economic order, countries such as India which provide large markets for digital corporations seek a greater right to tax incomes.
- **Fair competition**: The equalization levy **ensures fair competition, and reasonableness and exercises the ability of governments to tax businesses** that have a close nexus with the Indian market through their digital operations.
- **Level playing field**: To ensure a level-playing field with respect to e-commerce activities undertaken by entities resident in India as well as not residents or without a permanent establishment in India.

Challenges associated with Digital Tax

- **Retaliatory tariffs**: US Trade Representative (USTR) alleges **DST to be discriminatory**, and has **announced retaliatory tariffs**, which could lead to a **digital tax war.**
- **Quantifying Data:** The growth in the sophistication of information technologies has permitted companies in the **digital economy to gather and use information across borders to an unprecedented degree.**
    - This raises the issue of **attributing value created from the generation of data** through digital products and services for taxation purposes.
- **Burden on customers:** Experts suggest that such taxes can be passed on to consumers. While the Indian customer **may not directly pay this as a tax,** but this **could mean higher prices for them.**
- **Lack of consensus:** To address **disputes arising out of tax compliance** on a service or consumer grievance, there is a need for a **dispute resolution process** such as arbitration which is itself a challenge due to a lack of consensus among different countries.

Way forward

- **Global Coordination:** There is a need for **coordination among world countries to develop guidelines** and set up a dispute redressal mechanism for the application of digital tax.
- **New model:** The current basis for taxing in a particular jurisdiction is a notion of a fixed place of business. **Countries suggested that a new basis to tax**, say, the number of users in a country could address the challenge to some extent.
- **Bilateral treaties:** Bilateral and multilateral renegotiation of tax treaties superseding domestic tax laws can help address the issue of double taxation.

Conclusion

As countries calibrate their response to competing demands for sovereignty to tax, DST is an interim alternative outside tax treaties. It possesses the advantage of taxing incomes that currently escape tax and creates space to negotiate a final, overarching solution to this conundrum.

3.2.2. TRANSFER PRICING

Why in news?

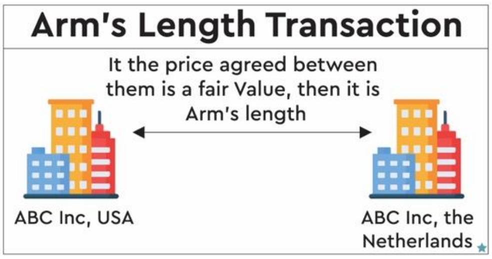
Supreme Court altered the approach to resolving Transfer Pricing (TP) disputes in India.

More in news

- **Supreme Court set aside an earlier Karnataka High Court ruling** which held that in transfer pricing matters, the determination of the arm's length price (ALP) by the Income Tax Appellate Tribunal (ITAT) is final and cannot be subject to judicial scrutiny.
- The apex court **now held that any ALP determined outside the purview of relevant transfer pricing (TP) provisions** in the Income Tax Act **can be considered as 'perverse (unjust)' and in such cases,** the decision of the tribunal is not final.
    - In such cases, both, the **Indian Revenue Authorities (IRA) as well as taxpayers, can approach an HC after a decision by the ITAT.**
- The SC ruling has **restored TP issues to the same pedestal as other tax issues in India.**

Understanding TP to reduce tax burden through an example-

- Let's say that an automobile manufacturer has two divisions: Division A, which manufactures software, and Division B, which manufactures cars.
- **Division A is in a higher tax country than Division B.**
- Division A decides to charge a lower price to Division B instead of using the market price. As a result, Division A's sales or revenues are lower because of the lower pricing resulting in lower taxes.
- On the other hand, Division B's costs of goods sold are lower, increasing the division's profits, resulting in higher taxes. But Division B will be taxed at a lower rate than division A.
- Therefore, the **overall company can save on taxes by making Division A less profitable and Division B more profitable.**



About Transfer Pricing

- Transfer pricing is an **accounting practice that allows for the establishment of prices for the goods and services exchanged between divisions, subsidiaries or affiliates** that are part of the larger enterprise.
- **Usually, Companies use transfer pricing to reduce the overall tax burden** of the parent company.
    - This is done by charging a higher price to subsidiaries in high-tax countries (reducing profit) while charging a lower price (increasing profits) for subsidiaries in low-tax countries.

About Arm's Length Principle (ALP)

- ALP was **agreed upon by all OECD member countries** and adopted as an **objective guideline for use by multinational companies and tax administrations** in international taxation.
- It means that **the price a company pays to purchase goods or services from a related company entity should be the same as if the two entities were unrelated** (known as arm's length price).
    - **There should be no price adjustment or special conditions for the transaction** simply because the parties are related legal entities.
- Its **objective is to avoid the erosion of the tax base or the transfer of profits** to low-tax jurisdictions.

3.3. ASSET MONETISATION

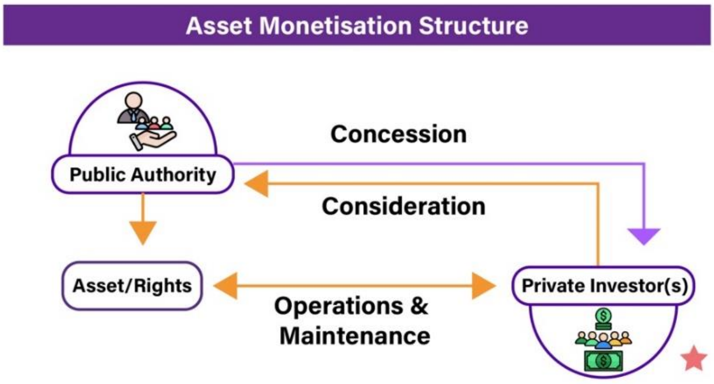
Why in News?

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

About Asset Monetisation

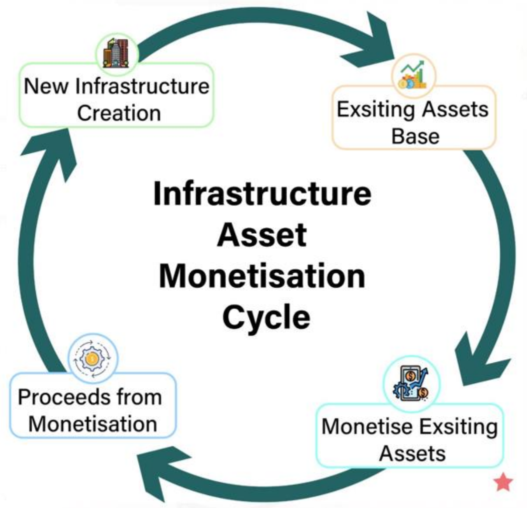
Also known as **an asset or capital recycling,** asset monetisation involves the creation of new sources of revenue by unlocking the value of hitherto unutilized or underutilized public assets.

With projected infrastructure investment of **₹111 lakh crores** during FY 2020 to FY 2025 under the **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**.

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).

3.4. CRYPTOCURRENCY

CRYPTOCURRENCY AT A GLANCE

About Cryptocurrencies

- Cryptocurrencies (Bitcoin, Ethereum etc.) are **digital or virtual currencies in which encryption techniques are used** to regulate generation of units and verify transfer of funds.
- Control of each cryptocurrency **works through distributed ledger technology called blockchain. These** operate independently of a central bank.

Advantages of Cryptocurrencies

- **Eliminating the middleman**, resulting in significantly lowered transaction costs and increased pace of transactions.
- **Enhancing security of the payment systems** by enabling cryptographic encryption.
- **Reduces leakages** by increasing transparency.
- **Being an enabler of financial inclusion** by overcoming the issues related banking infrastructure, access to finance etc.
- **Empowering businesses** by creating tools like Smart Contracts among others.
- **Showcasing high potential for use outside economic discourse** i.e., in social spheres like platform for artists.

Concerns related to Cryptocurrencies

- **Controlling the macroeconomic variables** like money supply, inflation etc. with advent of an alternate currency.
- **Misuse in criminal activities** like money laundering and terrorist financing.
- Most of cryptocurrencies **face high volatility of value and trading volumes.**
- **Tax evasion and avoidance** as there is lack of central oversight.
- **Managing cybersecurity issues** which could be susceptible to hackers and malicious users.
- **Might create a new divide** due to limited financial inclusion and technological access.
- Cryptocurrency mining could become a **major factor in carbon dioxide emissions.**

Present status in India

- India **has introduced a taxation scheme** on virtual digital assets (includes cryptocurrencies, NFT etc), but **there is still no clarity on their regulation.**
- **Also, Cryptocurrency and Regulation of Official Digital Currency Bill, 2021** was listed in winter session (2021).

Way forward

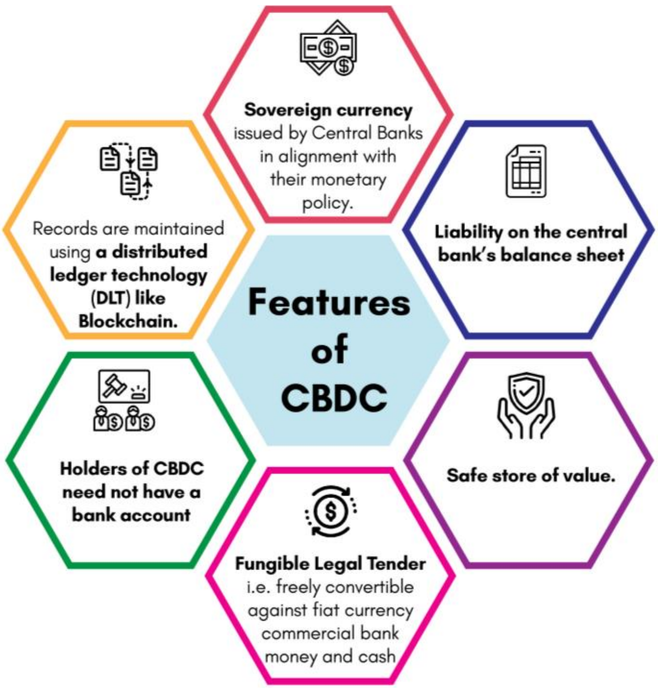
- **Exploring the idea of Central Bank Digital Currency (CBDC)**, as suggested in Budget 2022-2023, to promote financial inclusion and simplify the implementation of monetary and fiscal policy.
- **Mastering the regulatory sandbox** by adopting a regulatory approach which evolves rapidly and fixes problems along the way.
- **Regulators need to boost their investor safeguard measures,** until they regulate them tightly.
- **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.
- **Evolving a monetary policy for the digital age.**
- **Maintaining international collaboration** for financial stability.

3.4.1. CENTRAL BANK DIGITAL CURRENCY (CBDC)

Why in news?

Recently, RBI has recently launched a pilot project on **Central Bank Digital Currency (CBDC)** and issued a Concept Note on CBDC**.**

Digital Rupee as proposed by Concept note



- The concept note called for the **amendment of the Reserve Bank of India (RBI) Act, 1934** to **include Digital Rupee in the definition of the term "bank note".**
- As per the concept note, the **design of the Digital Rupee will be decided based on the circumstances and need** so that it is compatible with the goals of financial and monetary stability.
- **Accordingly,**
  - **Two forms of CBDCs may be introduced:**
    - ✓ **CBDC-Retail:** potentially available for use by all private sector, non-financial consumers and businesses.
    - ✓ **CBDC-Wholesale:** designed for restricted access by financial institutions.
  - **It can be structured as 'token based' or 'account-based'.**
    - ✓ **Token-based CBDC is a bearer instrument like banknotes;** whosoever holds the tokens at a given point in time would be presumed to own them.
    - ✓ **The account-based system would require the maintenance of records of balances and transactions** of all holders of the CBDC.
  - **Principle of Managed Anonymity** may be followed i.e., "anonymity for small value and traceable for high value," akin to anonymity associated with physical cash.
  - **CBDC in India would be based on the Two-tier, Indirect model** (see infographic for details)
  - **CBDC would be non-remunerative** i.e., Non-interest bearing.

About Central Bank Digital Currency (CBDC)

- RBI defines CBDC as the **legal tender issued by a central bank in a digital form.**
- It is pegged to the value of that country's fiat currency and adds a digital form to the existing physical form of the banknote (**Finance Bill 2022**).

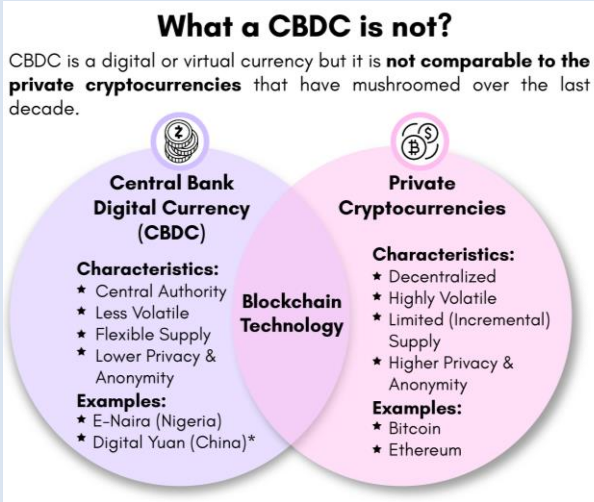
Rationale for introducing CBDC in India

- **Reduction in cost associated with physical cash management:** CBDC **reduces operational costs** (i.e., costs related to printing, storage, transportation etc.)
- **To further the digitisation for a less cash economy:** CBDC shall further the cause of digital payment, given its ease of usage coupled with sovereign guarantee.
- **Supporting competition, efficiency, and innovation in payments:** CBDC could enhance resilience in payments and diversify the range of payment options.
  - For example, CBDCs can facilitate the smooth implementation of smart contracts for direct cash transfer to the farmers in India thereby ensuring transparency.
- **Improvement in cross-border transactions:** CBDCs can make cross-border transactions instantaneous and help overcome key challenges relating to time zone, exchange rate differences etc.
- **Support financial inclusion:** Attributes of a CBDC like offline functionality, universal access devices, compatibility across multiple devices etc., shall make financial services more accessible.

What CBDC is not?

- **CBDC is not Mobile Money:** CBDC is different from all other existing digital payment systems like UPI and other payment wallets, card payments and electronic fund transfers.

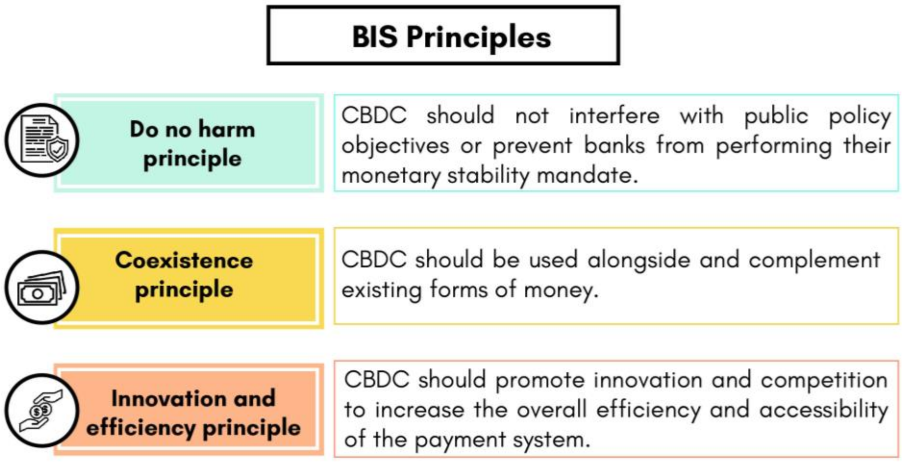
Mobile money	CBDC
• It is **only a type of payment transaction.**	• It is a **new payment instrument.**
• It is the **liability of commercial banks** and other financial institutions.	• It is the **direct liability of the central bank.**
• Mobile wallets are **subject to Know Your Customer (KYC) age limitations.**	• CBDCs are **created to be universally accessible nationally.**
• Mobile money **requires the presence of intermediary** issuing and acquiring banks, financial institutions, or Payment Service Providers (PSPs) to authorize and validate the payments.	• It is a **peer-to-peer payment mechanism** between senders and receivers and eliminates the need for interbank settlement.



Potential Challenges in adopting digital currencies in India

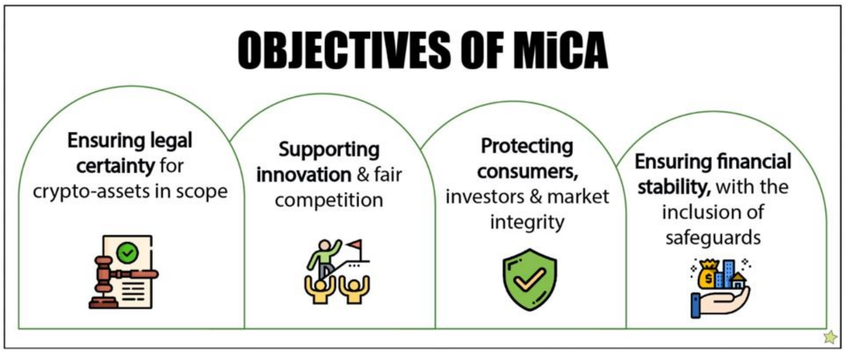
- **Cyber hacks and threats:** CBDC ecosystems may be at similar risk for cyber-attacks and frauds as the current payment systems are exposed to.
- **Threat to privacy**: Anonymity is one of the key traits of cash, and the rise of digital payments threatens the lawful or legitimate preference for anonymity as they leave digital trails.
- **Technology preparedness: Lower level of technology adoption** may limit the reach of CBDCs and add to existing inequalities in terms of accessing financial products and services.
- **Impact on bank credit availability:** With the popularity of CBDCs, people may begin withdrawing money from their bank accounts.
  - With reduced disintermediation of banks, their ability for credit creation gets constrained leading to an **increase in the cost of credit**.
- **Currency Substitution through cross-border transactions:** Without proper international collaboration and a common framework (or standards), the ability of policymakers to track cross-border flows will be limited.

Way ahead



- **Robust Regulatory Framework** before adopting this technology and keeping it flexible to incorporate dynamic learning in design of CBDC.
- **Protecting Financial Markets** by addressing the implications of CBDC and other growing digital assets with focus on consumers, investors, and business interests.
- **Ensuring high standards of cybersecurity** with parallel efforts on **financial literacy** for dealing with CBDC.
- **Ensuring compliance with Anti-Money Laundering/Combating the Financing of Terrorism** (AML and CFT).
- **Assuring privacy:** It will be essential to consider the way privacy is respected, and the data is protected in a CBDC system.
- **Following BIS Principles:** Design choices must be finalised keeping in mind the **foundational principles issued by the Bank for International Settlements (BIS)** to be considered by central banks while issuing a CBDC.

3.4.2. MARKETS IN CRYPTO ASSETS (MICA)



Why in News?

The **European Parliament has recently passed the Markets in Crypto Assets (MiCA) legislation,** which is expected to regulate the Crypto industry.

About Markets in Crypto Assets (MiCA)

- It is considered as the **first set of regulations in the world** establishing a legal framework for **crypto-asset services providers as well as consumer protection.**
- MiCA will apply directly **across the European Union (EU) without any need for national implementation laws.**
- **MiCA distinguishes between different types of cryptoassets** and provides regulatory requirements specific to each category. **Sub-Categorisation of Crypto assets:**
    - **Electronic Money Tokens (EMTs),**
    - **Asset Referenced Tokens (ARTs)**
    - **Utility Tokens (UTs).**

Need for Crypto Asset Regulation

- **Enforce accountability:** Crypto firms are to be held accountable in one form or the other, as they deal with consumers' money.
- **Protect the Consumers:** Regulations will help to **establish a legal framework for crypto-asset services providers** as well as protect the interests of the consumer.
- **Ensures financial stability**: Regulation ensures safeguarding potential risks to financial stability.
- **Supports innovation and fair competition**: The regulations help to promote the development of crypto assets by instituting a safe and proportionate framework between the different players.
- **To address environmental concerns**: Crypto assets can require considerable amounts of electricity usage, which can result in greenhouse gas emissions.

Cues for India

- **Boost investor confidence:** The MiCA's landmark move will likely boost investor confidence in the crypto industry in Europe and other parts of the world.
    - This could potentially **lead to increased investment in the crypto industry in India**, with India planning its own version of MiCA.
- **To regulate the unregulated sector:** The Crypto sector is highly unorganised in the country and the successful implementation of **MiCA will persuade India to regulate the sector on similar lines.**
- **To protect the Indian investors:** By making the Crypto Assets Service Providers (CASPs) accountable and bringing them under the framework of the Central Bank **a possible liquidity crisis like that of FTX Collapse, can be averted in India.**
- **To prevent Money Laundering:** Crypto assets are extensively used to stack black money and use them in abroad**, and by bringing the CASPs under the purview of regulations, money laundering can be avoided to a great extent.**
- **To encourage healthy competition:** While the sector is being dominated by few big players, a **regulation will safeguard the new start-ups in the sector and sets a level playing field**.

Way Ahead for India

- **To alter the definition of Currency:** The term **Currency is currently defined under Section 2(h) of the Foreign Exchange Management Act, 1999 (FEMA)** and Cryptocurrency should be included in the definition through an amendment.
- **To set up a regulatory body:** An **independent regulatory body should be made in charge** of overseeing the Crypto sector in the country.

- **To create penal provisions:** A **separate set of penal provisions are to be created for the theft, fraud and cheating cases with respect to Crypto assets**, to inhibit such actions.
- **To set norms for CASPs:** A **minimal set of standards and requirements are to be set for a company to be licensed as CASP** in the country and should be regulated under the supervisory function of a government regulatory body.

4. BANKING AND PAYMENT SYSTEMS

4.1. BANKING

BANKING AT A GLANCE

Status of Banking in India

- **15.4% Credit Growth** for Scheduled Commercial Banks **(SCBs)** in FY22-23
- **4.5% Gross NPA ratio** and 1.2% Net NPA of **SCBs** at end-December 2022
- **71.6%** was the **Provision Coverage Ratio (PCR) of SCBs** in September 2022
- **Annualised Return on Assets (RoA)** and **Return on Equity (RoE) for PSBs turned positive** in 2020 after 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 the 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.
- **Fraud Registry of RBI to blacklist perpetrators of online frauds.**
- **DAKSH,** an advanced supervisory monitoring system of RBI, **monitors compliance requirements** in Supervised Entities (SEs) like Banks, NBFCs, etc.
- **RBI has classified major banks** like SBI, ICICI Bank, and HDFC Bank as **Domestic Systemically Important Banks (D-SIBs)**

Constraints

- **High proportion of NPAs** especially for Public Sector Banks (PSBs) at 5.5%.
- **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 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.
- Institutionalization of a mechanism facilitating **greater coordination for regulation and supervision of financial conglomerates.**
- Strengthening **creditor rights and corporate governance. Restoration of PSB's net worth** through recapitalization, where needed.
- **Invest in emerging technologies** to deliver a superior experience in a secure manner; helping to withstand competition.

Mains 365 - Economy

4.1.1. BANKING SYSTEM LIQUIDITY

Why in News?

After remaining in **surplus mode** since May 2019, the Indian **banking system liquidity** turned into a **deficit mode** in **September 2022.**

About Banking System Liquidity and its Significance

- **Banking System Liquidity** refers to readily available cash that banks need to meet short-term business and financial needs.
- **Liquidity Adjustment Facility (LAF)** is the **primary instrument** of the RBI's operations to **inject or absorb liquidity** into the banking system.
    - On a given day, if the banking system is a net borrower from the RBI under LAF, the system liquidity can be said to be in deficit and if the banking system is a net lender to the RBI, the system liquidity can be said to be in surplus.
- **Adequate liquidity** boosts growth, and investment and ensures the stability of interest rates and exchange rates.

Major reasons behind the Banking System Liquidity deficit

- **Disparity between credit growth and deposit growth at banks,** i.e., higher growth in bank credit against slower deposit growth in the last few months.
- **Hefty outflow of money** due to advance tax payments by companies.
- **Aggressive RBI measures** to stem the fall in Rupee against the US dollar, swallowing rupee from the banking system.
- **Ballooning government cash balances** (estimated around ₹3 trillion).
- **Rise in balance of payments deficit at capital account as** well as at current account level.
- **Rise in discretionary spending by people** due to the festive season among other reasons.

Impact of Banking Liquidity Deficit

- **Increase in Deposit rates or Special Deposit Schemes** from banks to get money.
- **Increased cost of borrowed funds** due to rise in **Money Market Rates**. E.g., Yields on Treasury bills or T-bills spiked recently due to tighter liquidity conditions.
- **Potential Repo rate change from RBI** which will increase banks' **repo-linked lending rates and the marginal cost of funds-based lending rate (MCLR)**, resulting in higher loan interest rates for consumers.
- **Reduced Demand** can further lead to **contraction of economic activities.**
- **Increased Difficulties for RBI** to maintain borrowing costs for growth as well as to continue with its monetary tightening cycle.

Way Forward

The current liquidity deficit may be attributable to temporary factors like advance tax flow. But if it is long-term in nature, skillful management of system liquidity becomes crucial for sustained growth. Along with RBI's open market operations, reducing the government's cash balance can help in stabilizing yields as well as ensure proper liquidity in the system.

4.2. TRANSITION FROM LONDON INTERBANK OFFERED RATE (LIBOR)

Why in News?

The Reserve Bank of India (RBI) has issued an **advisory to banks and other RBI-regulated entities** asking them to take steps to ensure a complete **transition away from the London Interbank Offered Rate (LIBOR)** from July 1.

LIBOR

- **Benchmark rate:** LIBOR is a **global benchmark interest rate** at which major **global banks lend to one another** in the **international interbank market** for short-term loans.
- **Uses as Benchmark:** It is used as a benchmark to **settle trades in futures, options, swaps and other derivative financial instruments** in over-the-counter markets and on exchanges globally.
    - **Consumer lending products** including mortgages, credit cards and student loans, among others, **too use it as a benchmark rate**.

More on News

- LIBOR and the Mumbai Interbank Forward Outright Rate **(MIFOR)** will be **phased out by June 30.**
  - MIFOR, a domestic interest rate benchmark, is presently published by **Financial Benchmarks India Pvt Ltd (FBIL).**
- **The global transition from LIBOR** was necessitated after British financial authorities decided to **phase it out in 2017** after discovering that some **large banks manipulated the reference rate up or down** by providing false data.

Need for the global transition from LIBOR

- **Reliance on banks:** The central flaw in the mechanism was that it **relied heavily on banks to be honest** with their reporting, disregarding their commercial interests.
- **Manipulation:** In 2012, extensive investigations into the way LIBOR was set uncovered a widespread, long-lasting scheme among multiple banks to **manipulate LIBOR rates for profits**.
- **Role in the 2008 financial crisis:** The **use and abuse of Credit Default Swaps (CDS)** was one of the major drivers of the 2008 financial crisis. Rates for CDS were set using LIBOR.

Additional transition benefits to India

- **Reduction in financing cost:** Potential to reduce the cost of financing in several ways as the **calculation of reference rates going forward** will be more **robust and transparent**.
- **Reduced borrowing cost:** Resultantly, lenders and investors may **require lower interest rates or spreads,** leading to reduced borrowing costs for borrowers.
- **More competition:** The introduction of alternate reference rates may introduce more **competition in the market for reference rates**. This can lead to more transparent and competitive pricing of financial products.

India's Transition Scenario

- **Alternative Reference Rates (ARRs):** The RBI has established a **system of Alternative Reference Rates (ARRs)** that allows banks to choose rates from a basket of currencies rather than the British pound for international financial transactions.
  - RBI has **added MMIFOR to the list of significant benchmarks** administered by FBIL.
- **Fallback Clause:** RBI has pushed for the **insertion of fallback clauses** (revised considerations) in all remaining legacy financial contracts that reference LIBOR or MIFOR.

Challenges in Transition

- **Identifying and adopting suitable ARRs to replace LIBOR:** Different jurisdictions and markets have chosen different rates, such as the SOFR in the US, TIBOR in Japan etc.
- **Investment in transition:** Transitioning from LIBOR requires making significant **adjustments to internal systems, processes, technology upgrades and models**.
- **Liquidity challenge:** The introduction of ARR also poses challenges to **market liquidity** and consequently can lead to **market inefficiencies and impact pricing**.

Way forward

The transition from LIBOR to ARRs involves several steps and **financial institutions** such as non-banking institutions **still face challenges** to assess the impact of the LIBOR transition products.

Going forward, standardized research-based guidelines should be created to **supplement the capacity of these institutions** and enabling them to choose ARRs which create smooth transitions for these institutions and the economy alike.

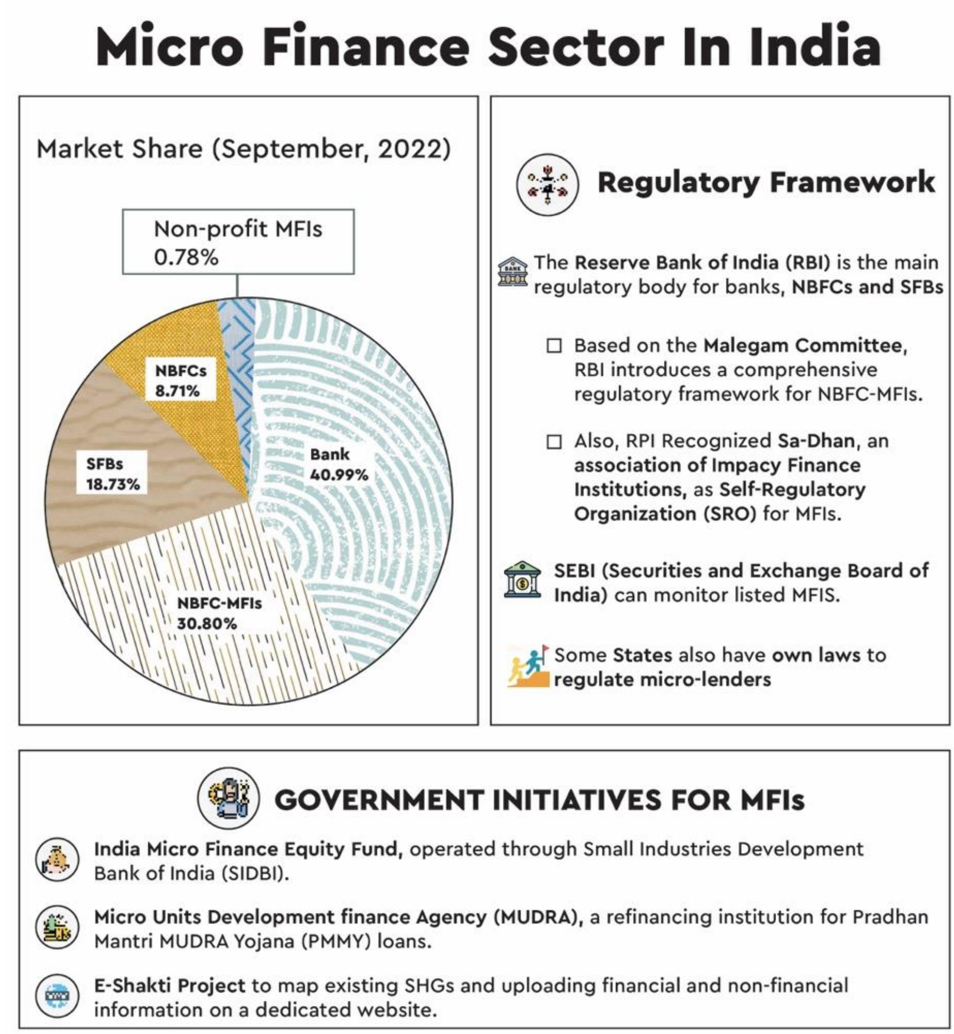
4.3. MICROFINANCE SECTOR

Why in News?

A joint study from Price Waterhouse Coopers (PwC) and the Association of Microfinance Institutions of India has highlighted the leading role of Microfinance Institutions (MFIs) in India's economic growth.

Importance of MFIs

- **Promotes Inclusive Growth** by providing collateral-free credit to **over 6 crore borrowers** at the bottom of the economic pyramid.
- **Poverty alleviation** by supporting income-generating activities through short-tenure loans.
- **Women Empowerment** as a vast majority of users of microfinance facilities are women.
- **Social Equity** as MFIs are actively involved in:
  - **Financing of water-sanitation products and services.**
  - **Awareness on government schemes** such as Ayushman Bharat Programme and PM SVANidhi Scheme for street vendors.

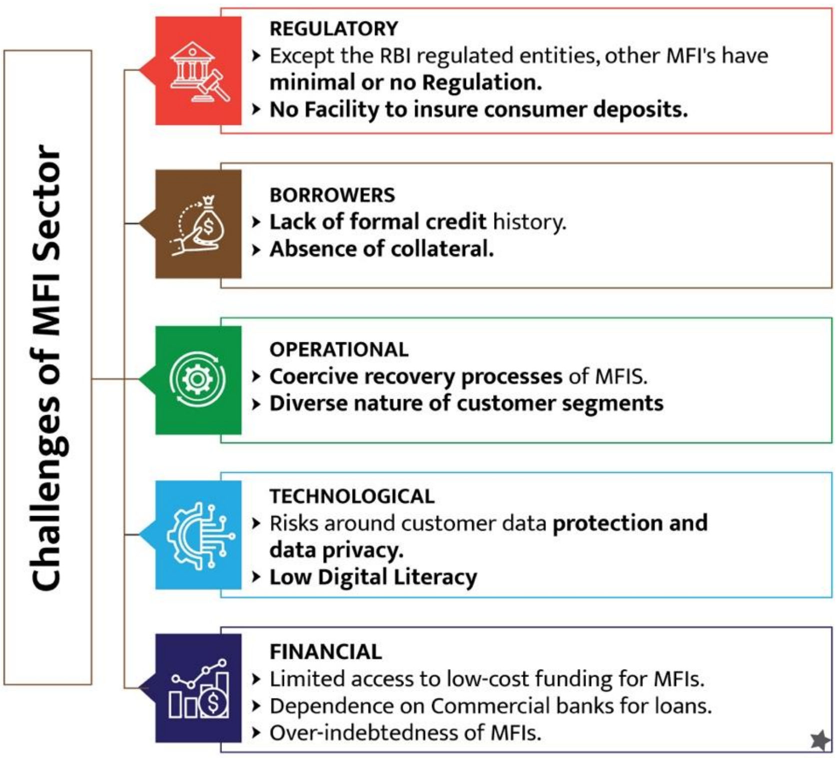


- **Financial Inclusion,** as MFIs offer a number of other financial services as well (e.g., savings, insurance and remittance) along with credit.
- **Promote Entrepreneurship and employment generation** through the extension of **non-financial services** such as counselling, training, and business support.

Way Forward

To achieve sustainable growth, the **government, regulators, industry** etc. should **work upon:**

- **Bridging the inherent regulatory gaps** through a statutory regulatory framework for common definitions and a standardized lending, risk management and control model.
- **Opening new investment channels**, especially for small MFIs who source the majority of their debt funding from other financial institutions, reducing their exposure to external factors.



* **Creation of a Robust Microlending Landscape** through a strong monitoring mechanism, i.e.,
    * **Compulsory registration** of all existing **NGO-MFIs**.
    * **Prudential Accounting norms** on capital adequacy and provisioning.
    * Specifying the **role of Auditors** and **supervision of MFIs**.
    * **Promoting inter-agency coordination**.
    * **Creating councils and committees at the central, state and district levels** to monitor the sector.
* **Leveraging technology** in developing new products by identifying the prospective needs of borrowers. **E.g., Analytics-based** underwriting and collection models can be used.
* **Developing a 'Fair Practices Code'** for transparency and customer protection, i.e.
    * **Transparency** on loan terms and interest charges;
    * **Avoiding** ill practices such as **multiple lending, over-borrowing, and customer harassment through coercive methods of recovery**.
    * Establishment of a **suitable grievance redressal mechanism**.
* **Capacity Building of MFIs** through handholding in the formative stage, transformation loan to scale up and creation of a **risk/development fund** managed by RBI for loans to **underserved regions**, **refinance, or investment to MFIs**.
    * Encouraging MFIs to set up **Local Area Banks (LABs)** or floating of LABs by **commercial banks** can be explored.

4.4. ASSET QUALITY AND RESTRUCTURING

ASSET QUALITY AND RESTRUCTURING AT A GLANCE

A Non-performing 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 **seven-year low** of 5% in **September 2022** and **Net NPAs** reduced to **1.3%**
- The **sectoral share of the NPAs is dominated by the infrastructure sector**
- **Disproportionate share of Public Sector Banks (PSBs)** i.e., about 9/10th of NPAs
- **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 governance 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.

Steps taken to halt the growth of NPAs

- **Recognition:** Post the Asset Quality Review of 2015, NPA recognition steps including Prompt Corrective Action (PCA) Framework.
- **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).**

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.

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 norm.**
- **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.

4.4.1. IMPROVEMENT IN THE NON-PERFORMING ASSETS (NPAS)

Why in News?

RBI's recent **'Report on Trend and Progress of Banking in India 2021-2022'** highlights the banking **Gross NPAs (GNPAs)** declining to **5%** from a **peak** of **9%** in **2017-18.**

Reasons for improvement in the NPA Scenario

- **Improved Asset Quality** due to easing of legacy NPAs, greater transparency in asset recognition, upgradations, write-offs etc. For instance, in the last 5 financial years-
    - Banks have **written off bad loans worth more than ₹10 lakh crore**.
    - Banks have **recovered an aggregate amount of more than ₹6.5 lakh crore**.
- **Enhanced Profitability** to levels observed in 2014-15 on account of acceleration in income and contraction in expenditure.
    - **Banks' credit growth** accelerated to a 10-year high while interest expenditure declined.
- **Lowering Slippages** due to enhanced credit monitoring processes, coupled with diversification of the Bank's investment portfolio.
- **Augmented Capital Buffers** because of higher provisioning, declining Gross NPAs etc.
- **The soundness of other indicators** such as sufficient liquidity, reduced number of banks under RBI's prompt corrective action (PCA) framework etc.

Remaining and Emerging Concerns

- **Inflation is Globalized** due to continuing geopolitical risks, Covid-19, supply chain risks etc. and it **deteriorates** the **global growth** and **trade outlook** with growing concerns over recession.
- **Borrowing Costs are Increasing** because of synchronized monetary policy tightening.
- The **share of unsecured credit** in total credit has been **increasing since 2015**.
- **Risk of Failures and Weaknesses in Corporate Governance** remains.

Way Forward

- **Improving IBC Framework Effectiveness** for timely resolution of stressed assets; helping to prevent asset value depletion as well.
- **Convergence of Corporate Governance Practices** between PSBs and Private Sector Banks.
    - As per the latest report, the GNPAs of PSBs were 6.5% as compared to 3.3% for private banks.
- **Use Technology and Innovation** to supplement supervisory intelligence with big data for containing possible systemic risks.
    - E.g., implementation of the **Centralized Information and Management System (CIMS)** for automatic data reporting by regulated entities (REs).
- **Monitoring Slippages** in restructured assets with overall strong vigilance from RBI and other financial regulators; ensuring timely intervention, whenever necessary.

Related News

Bank mergers have benefited the Banking Sector: Reserve bank of India (RBI)

- **Evaluating bank mergers in India since 1997**, a RBI paper highlighted that:
    - Mergers **benefited both the acquirer and the acquired**.
        - ✓ **Efficiency of acquirers improved** because of factors like **geographical diversification**, **improvement in share of interest income** etc.
        - ✓ **Acquired bank** benefitted because of **addition to shareholder value**.
    - **Combined entity** relatively more **resilient to financial risks.**
    - Most of the **mergers amongst private sector banks were market-driven** and those **between** PSBs (public sector banks) **were government-led mergers.**
- **Mergers and Acquisitions (M&A)** refers to **transactions between two companies to combine in some form** i.e.
    - Merger or combining of two firms to form a new legal entity, and
    - Acquisition or an outright purchase of one company by another.

Benefits of M&A	Dangers of M&A
• Improved **Economies of Scale** • **Increased Market Share** and Distribution Capabilities • **Reduced Manpower costs** and Talent Retention • **Enhanced Financial Resources** • **Fills Business Gaps**, i.e. product, geographical or technology gaps	• **Execution Risk** due to lack of commitment from executives • It can have **negative impact** on **customers perception** • **Reduced Competition** and creation of **too-big-to-fail (TBTF) banks** that may have a **systemic impact**

4.4.2. INSOLVENCY AND BANKRUPTCY CODE (IBC)

Why in News?

To strengthen the functioning of the **Insolvency and Bankruptcy Code (IBC)**, the **Ministry of Corporate Affairs (MCA)** has released proposed changes to **IBC** for public comments.

About IBC and its features

- In force since 2016, IBC is India's comprehensive law for a **time-bound, market mechanism** to address the insolvency of corporate persons, partnership firms and individuals.
- It creates a **single law** for insolvency and bankruptcy; for a robust, modern, and sophisticated insolvency framework.
- IBC is based on **four pillars** of institutional infrastructure:
  - **Insolvency Professionals (IPs)** to carry out the resolution process.
  - **Information Utilities (IUs)** to store details on lenders, lending terms etc. in an electronic database to facilitate insolvency resolution (e.g., **National E-Governance Services Limited**).
  - The **Insolvency and Bankruptcy Board of India (IBBI)** regulates the functioning of IPs and IUs.
  - **Adjudicating Authority {National Company Law Tribunal (NCLT) and Debt Recovery Tribunal (DRT)}.**
    - ✓ **National Company Law Appellate Tribunal** (NCLAT) is the **Appellate Authority** for hearing appeals against the orders passed by NCLT.

With the objective of timely resolution and value maximisation, Insolvency and Bankruptcy Board of India (IBBI) has **amended IBC to:**

- **Allow creditors to sell assets separately** in cases where no resolution plan has been received as a whole.
- Announce a **performance-based pay structure for Resolution Professionals** (RPs), insolvency professionals appointed to conduct resolution process.

Benefits of IBC

- **Overhauling the corporate distress resolution regime** of India through a time-bound process with a creditor-in-control model.
- **Maximize the value of distressed assets** by reducing the time taken and cost of bankruptcy resolution.
  - E.g., the average time taken for resolution has decreased from **4.3 years** in **2017** to **650 days** in **2021-22**.
- **Maintain Healthy Credit flow** by ensuring that credit does not get stuck or turn into bad loans through time-bound resolution.
- **Balance the interests of all the stakeholders** through a profound change in **creditor-debtor relationship** and alteration in the order of priority of payment of Government dues.
  - Also, it has brought behavioural **changes** in debtors who are now resolving distress in the earlier stages, to avoid a gradual decline in distressed assets' value.

Issues in its implementation

- **Adjudicatory Delays**: **Steady Increase** in the **time taken** for **admission of resolution application** as well as the **final resolution** and **liquidation.**
  - E.g., 64% of ongoing CIRPs have crossed the 270 days limit.
- **Declining rates of recovery** with higher haircuts, i.e., the amount of debt that banks forgo. E.g., in FY22, for **100** out of **500 companies** that saw proper resolutions under IBC, the haircuts were **above 90%**.
- **Cross-Border Insolvency:** IBC lacks **standardized cross-border insolvency**, as observed in Videocon and Jet Airways cases.
- **Upholding Home Buyer's Rights**: Though homebuyers are recognized as **financial creditors**, it requires a minimum threshold of **10%** or **100 homebuyers**.
- **Low utilization of IUs:** Despite its vital role in **limiting the Insolvency Resolution time period**, it is the **least utilized** pillar of IBC.

Key Changes Proposed in the IBC Framework and its Benefits

Area	Proposed Changes	Potential Benefits
Technology	• Developing **an e-platform to handle multiple processes under IBC** such as case management, delivery of notices, etc.	• **Transparency** • Reduced Delays • **Better decision-making**

Admission of CIRP Applications	• **Financial Creditors (FCs) to ascertain default or dispute occurrence** at Information Utilities before CIRP application. • **Adjudicating Authority (AA)** to: ○ **Mandatorily admit application and initiate CIRP**, if default is established ○ Empower AA to **impose penalties**	• **Reduce time taken in default verification** and swift initiation of CIRP • **Decriminalize Offences** in business law statutes
Liquidation Process	• **Eliminating duplication** of activities between CIRP and the Liquidation Process • **Committee of Creditors (CoC)** to supervise and support, and take all decisions in liquidation by simple majority etc.	• Increased **efficiency** by **reducing duplication**. • **Better Supervision** of the liquidation process etc.

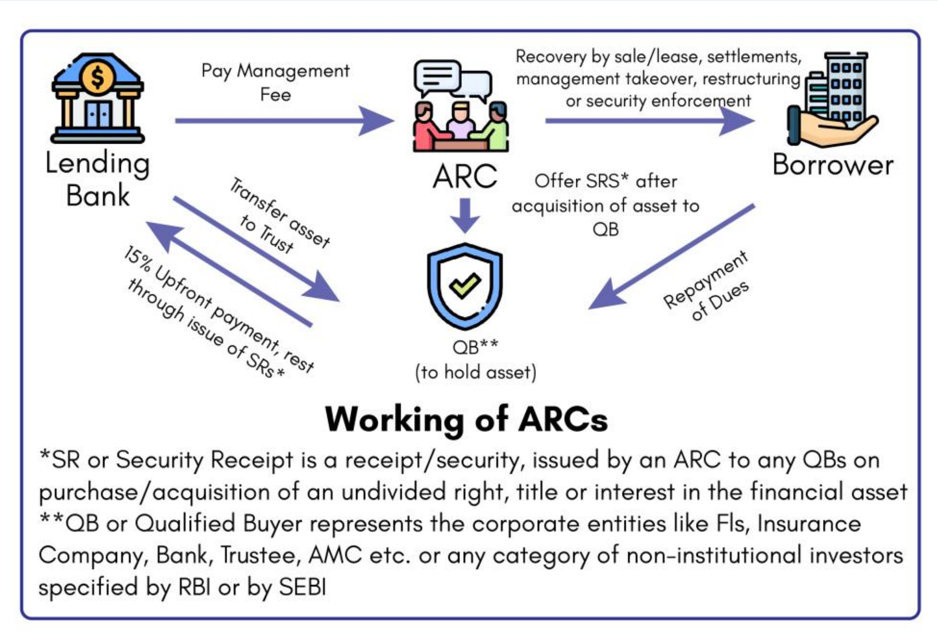
Way Forward to further refine the IBC process

- **Filling up vacancies** and **setting up more Benches** or **Specialized Benches** of NCLT.
- **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 the Indian context.
- **Formulating a professional code** for the CoC, who take over a company in distress.
- **Establishment of a single professional self-regulatory IPAs** like the Institute of Chartered Accountants of India (ICAI) to set standards and regulate the functioning of IPs.

Related News

National Asset Reconstruction Company Ltd (NARCL) acquires first stressed asset

- NARCL, an **Asset Reconstruction Company (ARC)/bad bank,** has acquired its **first stressed asset- Jaypee Infratech**- from lenders.
- NARCL/Bad bank is a **corporate structure that isolates risky assets held by banks in a separate entity.**
  - NARCL is incorporated **under the Companies Act** with **Public Sector Banks holding a majority stake.**
  - It is **registered with RBI as an ARC** under the **Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.**



- **Significance of Bad Bank**
  - **Reduce NPAs of banks,** improving financial system stability and efficiency.
  - **Improve recoveries and promote competition,** as NARCL allows the Swiss Challenge to get the best for banks from stressed assets.
  - **Opportunities for other ARCs at the MSMEs level,** as NARCL reconstruct assets only where banks' total exposure is more than ₹500 crore.

4.4.2.1. SECURITIZATION OF STRESSED ASSETS FRAMEWORK (SSAF)

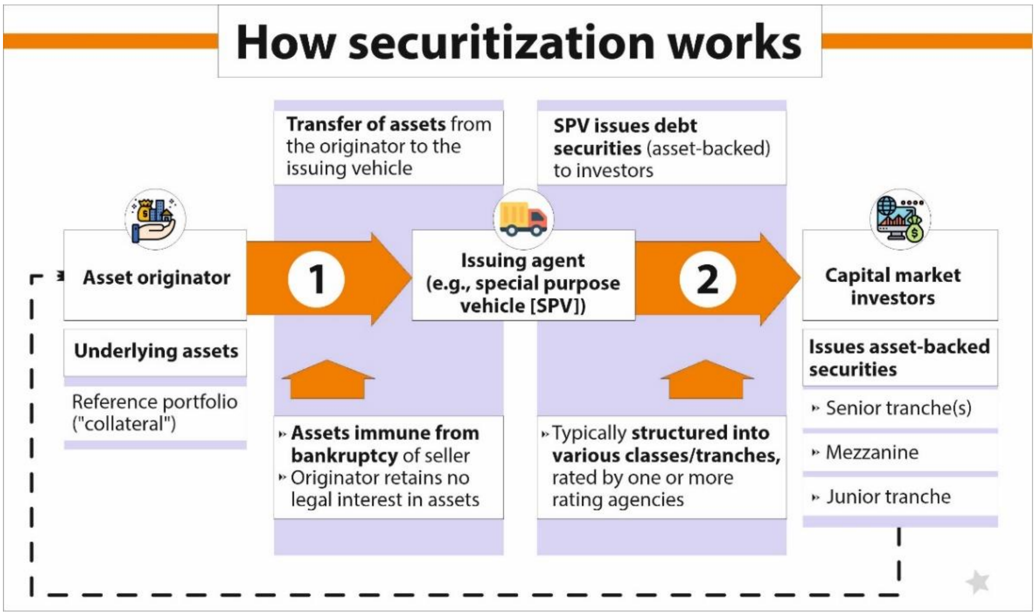
Why in News?

Recently, RBI floated a discussion paper on **Securitization of Stressed Assets Framework (SSAF).**

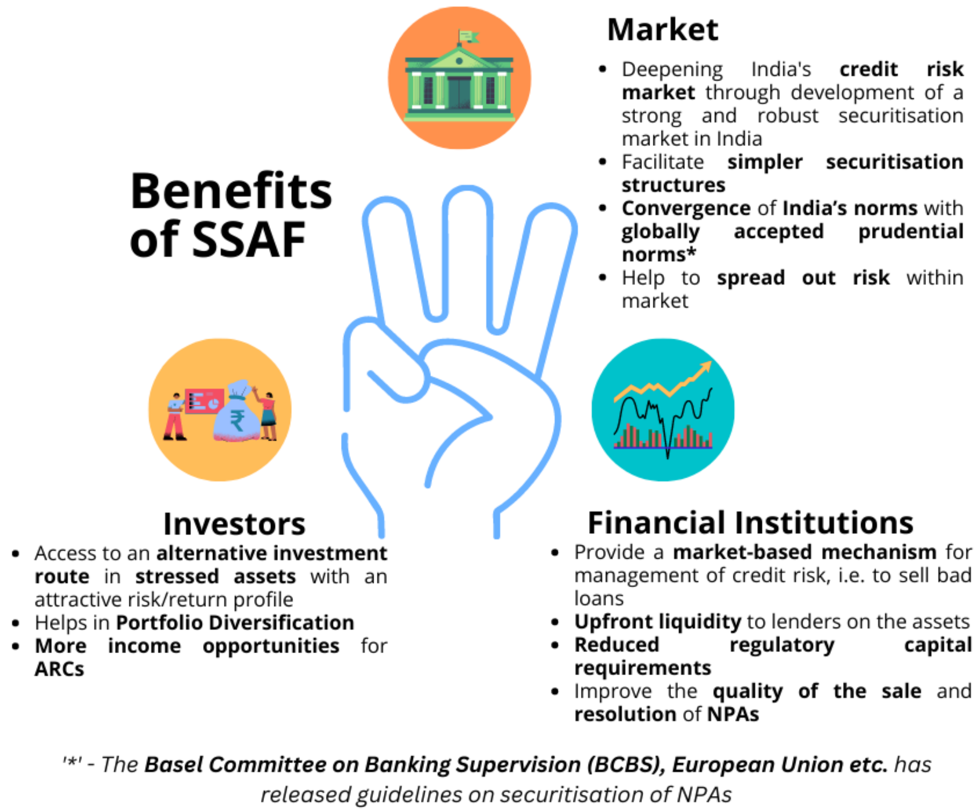
About Securitization and SSAF

- **Securitization** refers to a process that involves **pooling of loans** and then **selling them** to a **Special Purpose Entity (SPE),** which then **issues securities** backed by the **loan pool.**

- Securitization involves transactions which **redistribute credit risk in assets** by repackaging them into **tradable securities** with **different risk profiles** (see image on how securitization works).
    - These assets can be **Standard assets** or **Stressed assets.**



- **SSAF aims to enable securitization of NPAs through the SPE route, on the lines of securitisation of standard assets.**
    - Currently, in India, the **Securitization of Standard Assets is allowed through the SPE route in accordance with Basel guidelines** that came into force from January 1, 2018.



    - The securitization of **Stressed Assets** is done by licensed **Asset Reconstruction Companies (ARCs)** under the **SARFAESI Act.**
- Under SSAF, the **NPAs originator will sell them** to an **SPE** by **issuing securitization notes**.
    - The SPE, in turn, will appoint a **servicing entity** to **manage stressed assets**, typically with a **fee structure** that **incentivizes** them to **maximize recoveries of NPAs.**
- Investors who buy **securitization notes are paid based on recovery from the underlying assets using the waterfall mechanism** depending upon the seniority of the tranches.

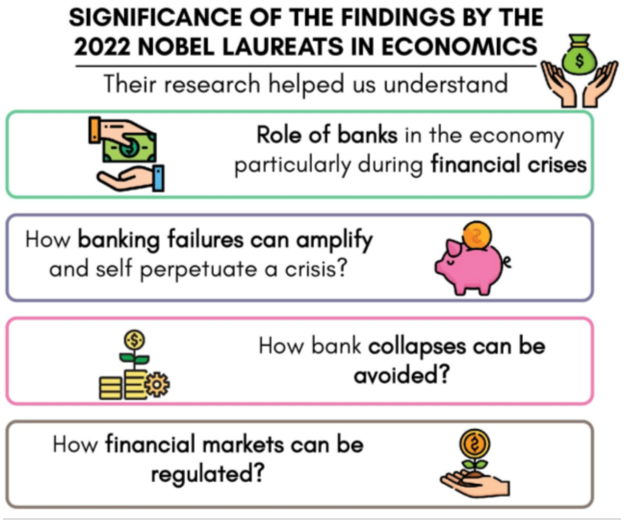
4.5. NOBEL PRIZE FOR ECONOMICS 2022

Why in News?

The Royal Swedish Academy of Sciences has decided to award the **Sveriges Riksbank Prize in Economic Sciences** for **research on banks and financial crises.**

2022 Nobel Prize

- The prize has been awarded to 3 **US-based economists - Ben S Bernanke, Douglas W Diamond** and **Philip H Dybvig.**
- Their work focused on **understanding the role of banks in the economy** (refer to infographics).

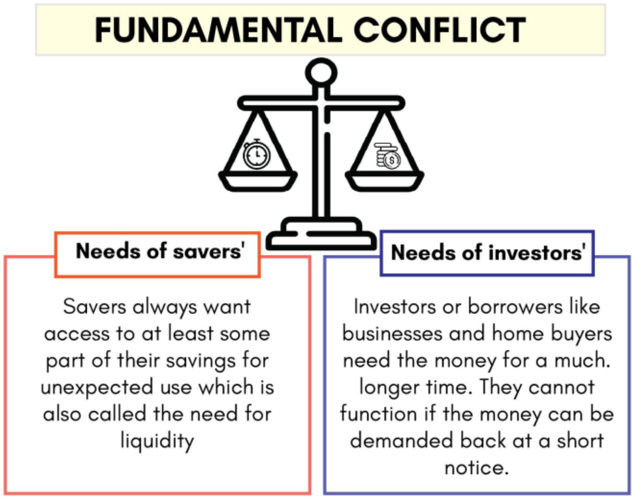


About the Research

Research by Bernanke

- Bernanke **analysed the Great Depression** of the 1930s, the worst economic crisis in modern history.
  - Before his study, bank failures were seen as a "consequence" of the financial crisis.
- However, in 1983, he proved **bank runs led** to bank failures that turned a **relatively ordinary recession into a depression.**
  - When **the banks collapsed**, **valuable information about borrowers was lost** and could not be recreated quickly.
  - Society's **ability to channel savings to productive investments was thus severely diminished.**
- He demonstrated that the **economy did not start to recover until** the state finally implemented **powerful measures to prevent additional bank panics.**

Research by Diamond and Dybvig: They developed theoretical models explaining the following:



- **Conflict of savers and investors:**
  - For the economy to function, **savings must be channelled into investments.** However, there is a conflict here between savers and investors (refer to infographics).
  - In their theory, Diamond and Dybvig show how **banks offer an optimal solution to this problem.**
    - ✓ By acting as intermediaries that accept deposits from many savers, banks can allow depositors to access their money when they wish, while also offering long-term loans to borrowers.
  - However, their analysis also **showed how the combination of these two activities makes banks vulnerable to rumours** about their imminent collapse.
    - ✓ If a large number of savers simultaneously run to the bank to withdraw their money, the **rumour may become a self-fulfilling prophecy** – a bank run occurs and the bank collapses.
  - These dangerous dynamics can be **prevented through the government providing deposit insurance** and acting as a lender of last resort to banks.
- **Role of banks in society:** Diamond demonstrated how banks perform another societally important function.
  - As intermediaries between many savers and borrowers, **banks are better suited to assessing borrowers' creditworthiness** and ensuring that loans are used for good investments.

4.6. PAYMENT SYSTEMS

PAYMENT SYSTEMS AT A GLANCE

Status of Payment System in India

- 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 objectives

- Providing **real-time, secure, accessible 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.
- **Expand interoperability** between different payment mechanisms.

Schemes/Initiatives

- RBI's **Payments Vision 2025 with its five pillars** – Integrity, Inclusion, Innovation, Institutionalization, and Internationalization.
- **Enhancements to UPI system with UPI** Lite, UPI-123Pay, enabling cross-border transactions etc.
- **Payments Infrastructure Development Fund (PIDF)**
- 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.
- RBI's **Mission Har Payment Digital and 75 digital villages programme.**
- Rationalization of **Merchant Discount Rate (MDR).**

Constraints

- Migration of the economy from predominantly cash-based to **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.
- 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 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.

4.6.1. SCHEME FOR FINANCIAL SUPPORT TO DIGITAL PAYMENTS

Why in News?

Recently cabinet approved an **incentive scheme** for the promotion of **RuPay Debit Cards** and **low-value BHIM-UPI transactions** (person-to-merchant or P2M) **for the Financial Year 2022-23.**

Features of Scheme

- **Banks will be provided financial incentives** for promoting Point-of-Sale (PoS) and e-commerce transactions using RuPay Debit Cards and low-value BHIM-UPI transactions (P2M).
- **The scheme will also promote UPI LITE and UPI 123PAY** as economical and user-friendly digital payment solutions and enable penetration of digital payments across all sectors and segments of the population.

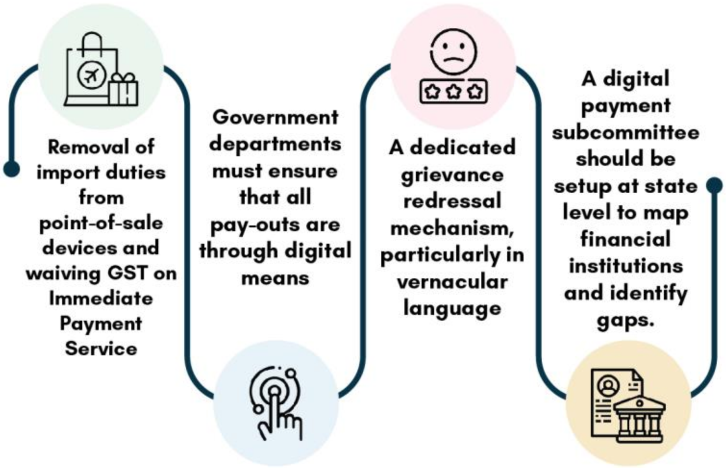
Significance of Digital Payments

- **Enhanced financial inclusion:** Digital payments offer **anytime, anywhere access to accounts**.
- **Increased transparency in the government system:** Benefits are directly transferred to the target beneficiary account reducing **"leakage"** and "**ghost" (fake) recipients**.
- **Instant and convenient mode of payment:** Unlike cash, money can be instantaneously transferred to the beneficiary account using digital modes **like BHIM-UPI and IMPS.**
- **Safe and secure**: Digital payments across India are secure as **multiple levels of authentication** are required for making transactions.
- **Enhanced Credit Access:** Unlike cash payments, digital payments automatically **establish a user's financial footprint**, thereby increasing access to formal financial services, including credit.

Challenges in digital payment systems in India

- **Cash Dependent Economy:** India is **predominantly a cash-based economy** and cash provides anonymity, flexibility, convenience, and swiftness of making the payment; finality of payment, without any default risk; and a high level of liquidity and acceptability.
- **Limited Access to Banks and Cards**: As parts of India still continue to remain unbanked and remain unaware vis-à-vis the financial developments such as the adoption of UPI, mobile banking etc.
- **Lack of Financial Literacy**: According to National Centre for Financial Education, **only 27% of Indians are financially literate.**
- **Risk of Cyber Fraud and Privacy:** Cyber security is the major obstacle that affects digital transactions.
- **Cost and connectivity:** The cost of digital payments is sometimes deterrence for users to adopt digital payments as against cash which is perceived to be free by such users.

DEEPENING OF DIGITAL PAYMENTS COMMITEE RECOMMENDATIONS BY NANDAN NILEKANI



Other suggestions to Improve Digital Payments System include improving **Digital Connectivity,** strengthening **Cybersecurity, Awareness Creation** and encouraging **Digital Literacy.**

4.6.2. TOKENISATION

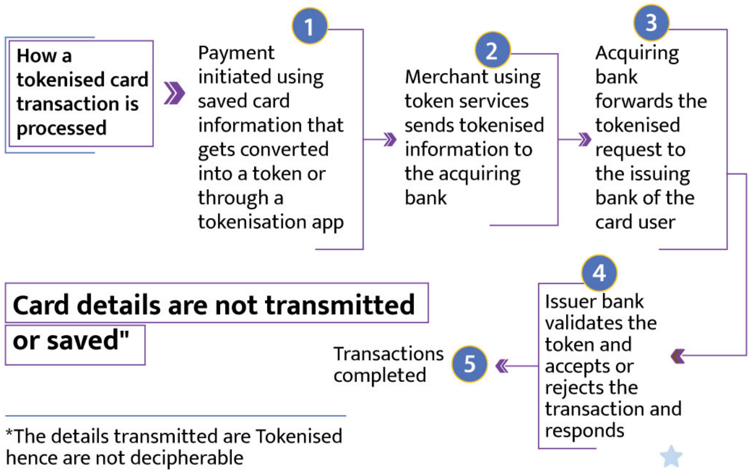
Why in news?

Reserve Bank of India's **card-on-file (CoF) tokenisation norms are effective from 1st October.**

About Card-on-File (CoF) Tokenization

- Tokenization is a **process by which card details in a CoF transaction are replaced by a unique code** or token allowing purchases to go through without exposing sensitive details.

Processing of a Tokenised Transaction



- A **CoF transaction** is one in which a cardholder has authorized a merchant to store his or her Mastercard or Visa payment details and to bill the stored account.
- Under the process of tokenisation, **online players or merchants are not allowed to store card numbers, CVV and expiry dates** for processing online transactions.
  - **Any existing details** that were saved by merchants **will be deleted.**
- Tokenisation and de-tokenisation (conversion of the token back to actual card details) **can be performed only by**
  - the card issuing Bank or
  - Visa / Mastercard / Rupay who are referred as authorized card networks.

Significance of card tokenisation

- **Payment Security:** It restricts the storage of sensitive card data, making the payment ecosystem more robust and secure.
- **Fast and easy payments:** Tokenisation speeds up online payment processing and makes it easier for customers to make online transactions.
- **Eliminates the issue of data breaches** due to server hacking which substantially reduces the chances of cyber-attacks.
- **Decreases merchant liability** as the merchant no longer must stay compliant with various regulations related to card storage.

Challenges in implementation

- **Impact on small merchants:** Small merchants who do not possess the necessary resources and know-how would need to depend on payment aggregators for their integration in the new mandate.
- **Lack of clarity over integration with various backend systems** and network/service providers involved for a seamless transaction experience.
- **Lack of awareness** in customers about the process of tokenisation.
- **Inconvenience to the customer:** If merchants do not adhere to the card tokenisation, they will be forced to obtain the card information from the customer each time they use the merchant portal.

Conclusion

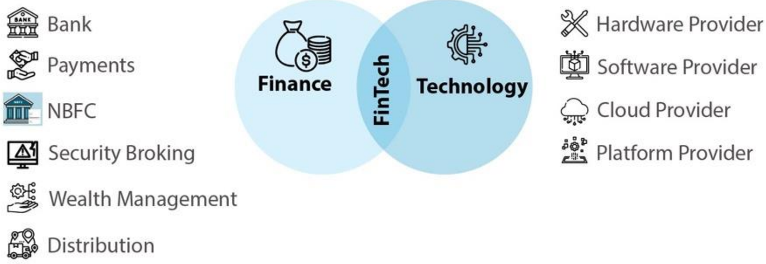
The back-end infrastructure for processing payments using tokens **has to be robust to avoid failures in transactions and enable smooth shifts.**

4.7. FINTECH SECTOR

FINTECH SECTOR AT A GLANCE

- Indian FinTech industry valued at **$50-60 Bn in FY21 and is estimated at around 150 Bn by 2025.**
- India had a **Fintech adoption rate of 87%** in March 2020, compared to a **global average of 64%.**
- **India has the 3rd largest FinTech ecosystem globally.**

Convergence of Financial services and Technology



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 **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 **building** associated **analytics and insights.**

Growth Drivers of FinTech in India

- **Technological innovation** driven by technologies such as AI.
  - **E.g., Inter-Operable Regulatory Sandbox (IORS)** System by RBI.
- **Increasing internet and smartphone penetration** with India having the 2nd highest number of mobile 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.

Way Forward

- **Strengthening foundational infrastructures** such as telecommunications.
- **Conducive Policy framework,** addressing the risks of **market concentration** 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 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

Challenges for India in pursuing Economic Diplomacy

- **Data leaks, platform downtimes, and information theft.**
- **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.
- **Growing role of Big Tech industries in financial system can decrease the overall stability or can lead to monopolistic issues.**

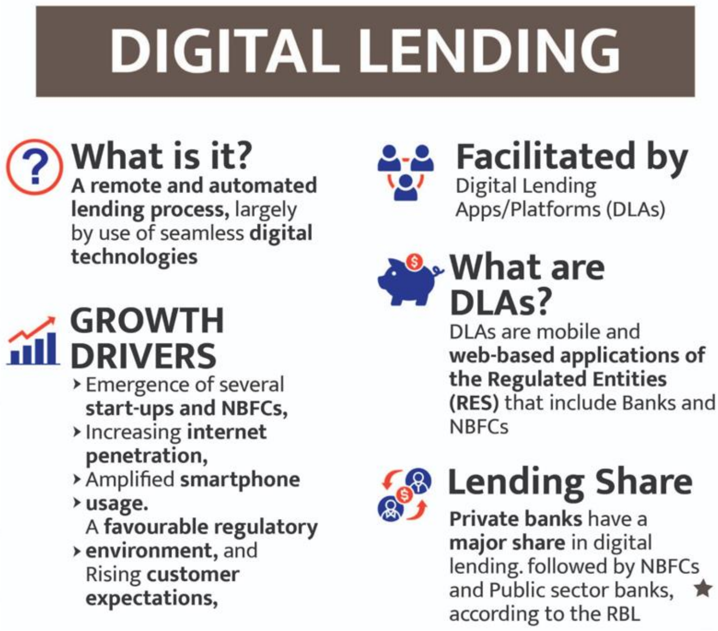
4.7.1. DIGITAL LENDING

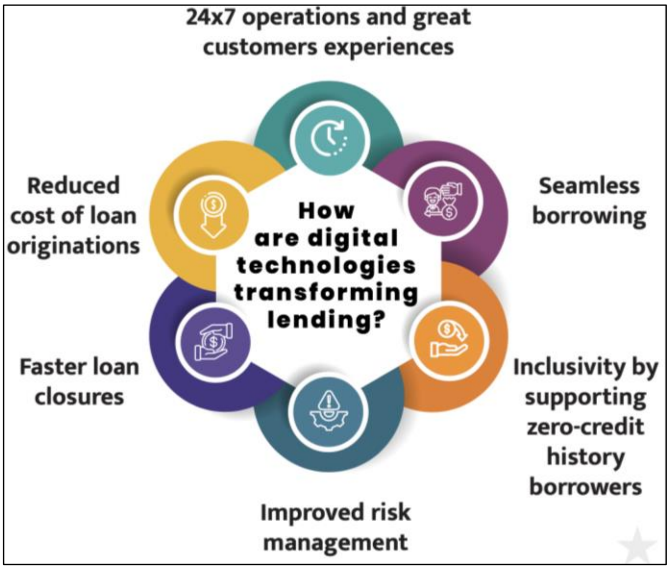
Why in news?

Reserve Bank of India's (RBI's) guideline on digital lending became effective on December 1.

Need for the guidelines

- **Rise in illegal lending apps:** RBI identified over 600 illegal lending apps in 2021, more than half of the total lending apps in India.
- **Concerns with data privacy.**
- **Unregulated entities:** Technology service providers and marketplace aggregators are following the model of platform lending with banks and NBFCs at the backend as manufacturers where the loan is booked.
- **Unreported products:** Development of several new products like 'Buy Now Pay Later (BNPL)' Loans. Such transactions are not reported to the credit bureaus, as they do not fall under the definition of 'credit'.
- **Rise in crypto lending:** Blockchain-based lending platforms—which enable lending and borrowing using crypto assets—pose serious issues in the absence of any regulatory framework.





Guidelines on Digital Lending

- **Applicability:** These guidelines are applicable to digital lending extending to:
    - All Commercial Banks
    - Primary (Urban) Co-operative Banks,
    - State Co-operative Banks,
    - District Central Co-operative Banks; and
    - Non-Banking Financial Companies (including Housing Finance Companies)

Key Provisions:

Parameters	Guidelines
Customer Protection and Conduct requirements	• **Loan Disbursal, Servicing and Repayment** shall be executed by the borrower directly in the regulated entities' (RE's) bank account. • **Credit Limit:** There can be no automatic increase in credit limit. • **Disclosures to borrowers:** REs shall provide a **Key Fact Statement (KFS)** to the borrower before the execution of the contract of all digital products. • **Grievance Redressal:** REs shall ensure that they and the LSPs engaged by them shall have a **nodal grievance redressal officer**.
Technology and Data Requirement	• **Collection, usage and sharing of data with third parties** must be need-based and with the prior and explicit consent of the borrower. • **Storage of data:** REs shall ensure that- o **No biometric data is stored/ collected** in the systems associated with the DLAs. o **All data is stored only in servers located within India.** o The **borrowers must be informed** about the storage of customer data. • **Comprehensive privacy policy** for data privacy and security of the customer. • **Technology standards:** REs shall ensure that they and the LSPs engaged by them comply with various technology standards/ requirements.

Regulatory Framework	• **Reporting of Loans:** REs are required to ensure that any lending has to be reported to Credit Information Companies (CICs), irrespective of its nature or tenor. • **Due diligence and other requirements with respect to LSPs:** REs must conduct enhanced due diligence before entering into a partnership with an LSP for digital lending.

Issues with the guidelines

- **Business impact**: Digital lending norms has led to increased compliance costs, operational intensity, and disruptions, for FinTechs in certain business segments.
- **Lack of clarity on First Loss Default Guarantee (FLDG):** FLDG is a lending model between a fintech and a regulated entity in which a third party guarantees to compensate up to a certain percentage of default in a loan portfolio of the regulated entities (RE).
  - Currently, there is no clarity on what is permissible and what is not permissible as far as these partnerships are concerned.
- **Collaboration between banks and fintechs:** Technologically, banks, NBFCs and fintechs operate on different platforms. The systems of banks and fintech have to be aligned for co-lending.

Way forward

- **Specific guidelines are needed on whether FLDG arrangements** between RE and Non-RE are allowed. This will ensure that fintechs are meeting the credit demand--especially of dependent borrowers while at the same time adhering to regulatory guidelines.
- **Fintechs and NBFCs should invest in robust tech, data, and security infrastructures** to avoid violating the RBI guidelines.
- With the introduction of the Personal Data Protection (PDP) Bill, data regulations and security protocols are expected to tighten further. Therefore, **water-tight compliance is required at the lender's end.**

4.7.2. DIGITAL BANKING UNITS (DBUS)

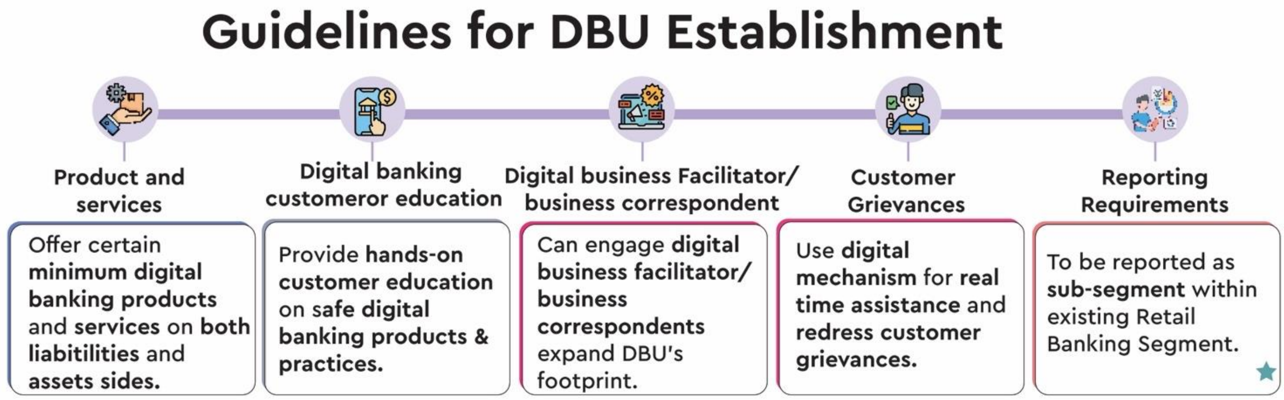
Why in News?

The PM dedicated 75 Digital Banking Units (DBUs) as part of efforts to spread the benefits of digital banking to every nook and corner of India.

Digital Banking Units (DBUs): Setup and Services

Recently, the **Reserve Bank of India (RBI)** also issued guidelines on the '**Establishment of DBUs**'.

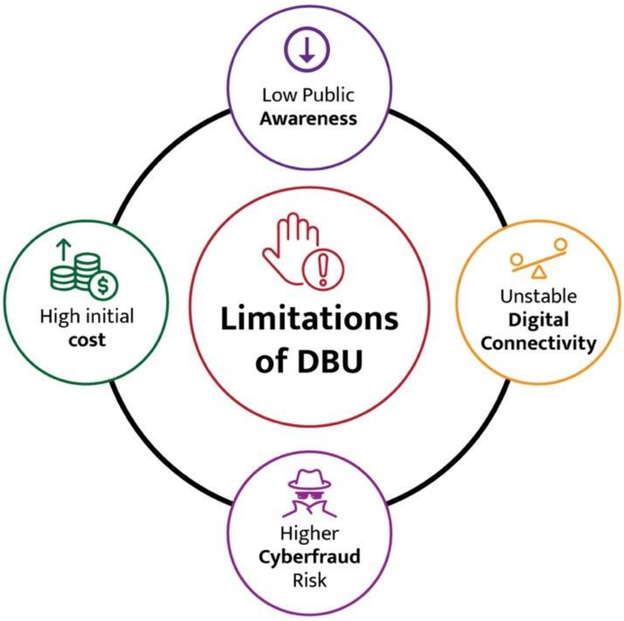
- A DBU refers to '**a specialized fixed-point business** unit/hub housing certain minimum infrastructure for delivering **digital banking products & services** as well as servicing existing financial products & services digitally'.
- These are **brick-and-mortar banking outlets** with digital infrastructure to deliver a variety of banking products and services to people.
- Based on the RBI Guidelines, the 75 DBUs are being set as a **joint initiative** of the **Government**, the **RBI**, the **Indian Banks Association,** and the **participating banks**.



Significance of DBUs

- **Promote Digital financial literacy** by acting as digital financial literacy centres and simplification of banking procedures for increased digital banking adoption.

- **Improve Financial Inclusion** by taking digital banking to areas which lack connectivity or digital accessibility.
- **Build a robust and secure banking system** through its special emphasis on cyber security awareness for customers.
- **Strengthening Digital Economy** by pushing banks to **adopt a digital strategy**, launch **new products and services** and foster innovation by collaborating with fintech companies.
    - It can facilitate end-to-end digital processing of **MSME/retail loans** for increased **credit penetration** in the country.



Way Forward

Digital Banking Units can drastically change the way banks and customers interact with one another. But DBUs cannot operate in isolation. They will have to be accompanied with efforts in the direction of **increasing financial education, improving digital infrastructure** and most importantly, **ensuring that there is trust in the digital banking ecosystem.**

5. EXTERNAL SECTOR

5.1. EXPORT SECTOR

EXPORT SECTOR AT A GLANCE

Status of India's Export Sector

US$ 770.18 billion was India's overall exports (merchandise and services combined) in 2022-23	**1.8%** was **India's share in world's exports** (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 Exports

- **Low Level of India's Participation in Global Value Chains (GVCs).**
- **Limited diversification of India's export basket** with top 10 principal exports accounting for 78% of total merchandise exports.
- **Low competitiveness of Indian Products** due to domestic factors like lacklustre infrastructure, complex land and labour laws etc.
- **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**

Factors responsible for the growth of the capital market in India

- **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.**
- **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.**
- **Service Exports from India Scheme (SEIS).**
- **Advance Authorisation Scheme (AAS)** allowing 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.
- **Restructuring of Department of Commerce** to make India a key global export player.
- **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)**

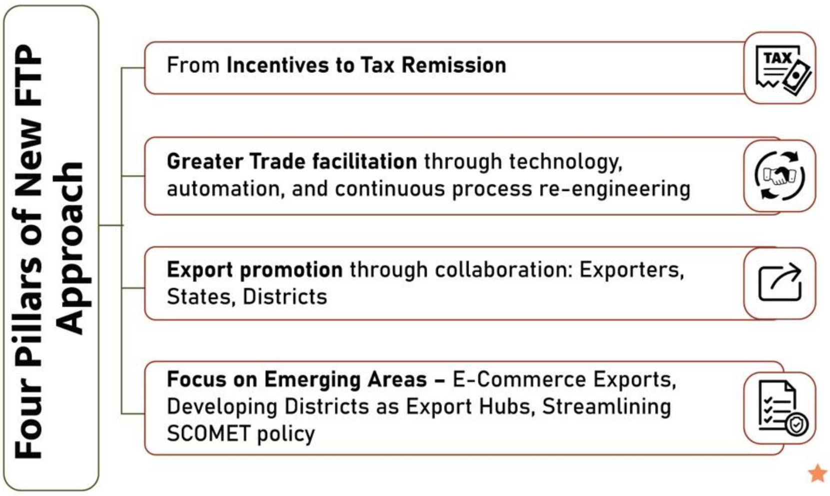
Way ahead for post COVID times

- **Increasing Competitiveness of Made in India Products:**
  - **Promoting Ease of doing Business**
  - **Improving India's manufacturing base**
  - **Trade**
  - **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.
- **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.

5.2. FOREIGN TRADE POLICY 2023

Why in News?

The Union Ministry of Commerce and Industry notified the Foreign Trade Policy 2023.



About FTP

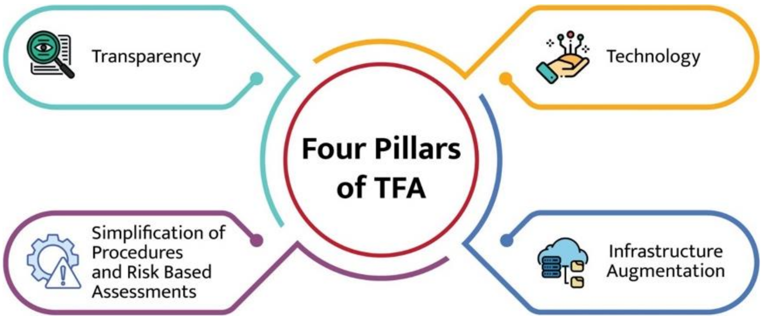
- **FTP 2015-20:** It was **extended** due to the COVID-19 pandemic and volatile geo-political scenario **till March 2023.**
    - India has reached **record high Export Performance** and India's Merchandise and Services exports are expected **to cross record USD 760 Billion in FY 2022-23.**
- **Need for the policy:** A clearly demarcated FTP is required for **promoting exports** through collaboration, ease of doing business, identifying potential areas of trade relations and **beneficial integration into the global economy**.
    - The Policy lays out **clear roles for different stakeholders** and lays out a vision for India's foreign trade.

The initiatives updated/launched as part of Foreign Trade Policy will be discussed in subsequent articles.

5.2.1. TRADE FACILITATION AND EASE OF DOING BUSINESS (EODB)

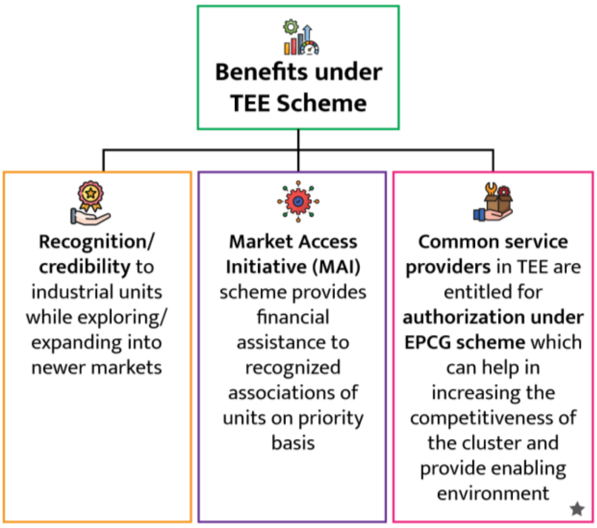
About Trade facilitation and EoDB

Trade facilitation is the simplification, modernization and harmonization of export and import processes. **Ease of Doing Business** acts as a yardstick to measure this simplification and harmonization.



Initiatives taken

- **National Committee on Trade Facilitation (NCTF):** To facilitate coordination and implementation of WTO's Trade Facilitation Agreement (TFA).
- **Initiatives by Directorate General of Foreign Trade (DGFT)**: DGFT acts as facilitator of exports and imports.
    - **Niryat Bandhu:** Being implemented for mentoring new and potential exporters.
    - **Issuance of e-IEC (Electronic–Importer Exporter Code):** IEC is a 10-character alpha-numeric number allotted to an entity and is **mandatory for undertaking any export/import activity.**
    - **e-Certificate of Origin (e-CoO):** Online facility for CoO. e-CoO has a unique number i.e., **UDIN (Unique Document Identification Number) and a QR code** for validation.
    - **Online facility** to file **Quality Control and Trade Disputes (QCTD).**
- **Initiatives for Trade facilitation at customs:**
    - **24x7 Customs clearance** in 20 seaports and 17 Airports
    - **Single window** in customs
    - **E-Sanchit** – enabling paperless clearance environment



- Pan-India Implementation of **Faceless e-Assessment** in Imports
- **TURANT Customs** and **TURANT Suvidha Kendras** for contactless Customs clearance processes

- **Towns of Export Excellence (TEE):** For development and growth of export production centres.
  - Selected towns **producing goods of Rs. 750 Crore or more** may be notified as TEE based on the potential for growth in exports (TEE in Handloom, Handicraft, Agriculture and Fisheries sector, **threshold limit would be Rs.150 Crore**).
- **Rationalization of the criteria of Status Holder Certification:** "Status Holder" certificate is to recognize exporter firms as **business leaders** who have excelled in international trade and have contributed to the country's foreign trade.
  - **Privileges** to status holders include clearances on a self-declaration basis, exemption from various documents, preferential treatment in consignment handling etc.

5.2.2. EXPORT PROMOTION INITIATIVES BY FTP 2023

About Export Promotion

Export Promotion refers to initiatives which enhance the potential of export activities at the company, industry, state, or national level. The following initiatives have been taken to fulfil this objective-

Districts as Export Hubs Initiative

- **Institutional Mechanism: State Export Promotion Committee & District Export Promotion Committee (DEPC)** at the State and District level to strategize exports.
  - Preparation of **District Export Action Plans (DEAPs)** by DEPCs and their online monitoring.
  - **Export promotion outreach programs** in districts to focus on branding, packaging, design and marketing of identified products & services.
  - Districts to focus on the **development of logistics, testing facilities, connectivity for exports** and other export-oriented ecosystems.
  - **Convergence of ongoing schemes** to support these initiatives.

Export Promotion of Capital Goods (EPCG) Scheme

- **Objective:** It allows the **import of capital goods at zero customs duty** for producing quality goods and services and enhance India's manufacturing competitiveness.
- **Export Obligation**: Imports under EPCG are subject to Average Export Obligation (AEO). However, some sectors have been **exempted from AEO requirements**.

Export Promotion Units

- **Eligible units:** Units which **export their entire production of goods and services**, may be set up under the **Export Oriented Unit (EOU) Scheme, Electronics Hardware Technology Park (EHTP) Scheme, Software Technology Park (STP) Scheme or Bio-Technology Park (BTP) Scheme** for the manufacture of goods.

Deemed Exports

- **Definition:** Deemed Exports refer to those transactions in which **goods supplied do not leave the country**, and **payment for such supplies is received either in Indian rupees** or in free foreign exchange.
- **Objective:** To provide a **level-playing field to domestic manufacturers** and to promote Make in India.

5.2.3. OTHER INITIATIVES BY FTP 2023

Quality Complaints and Trade Disputes

- **Committee on Quality Complaints and Trade Disputes (CQCTD):** CQCTD will be constituted in the Regional Authorities (RAs) of DGFT for **enquiring and investigating all Quality related complaints and other trade-related complaints.**

Promoting Cross Border Trade in Digital Economy

- **Promotion of e-commerce exports: Niryat Bandhu Scheme (NBS)** shall have a component for the **promotion of e-Commerce** and other emerging channels of exports.
- **E-Commerce Export Hubs (ECEHs):** To establish designated areas as ECEHs, which would act as a **centre for favourable business infrastructure and facilities** for Cross Border E-Commerce activities.
  - ECEH will function to achieve **agglomeration benefits** for e-commerce exporters through provisions for **storage, packaging, labelling, certification & testing** and other common facilities.
- **Promotion of e-commerce exports through postal route: Dak Ghar Niryat Kendras** shall be operationalised throughout the country to work in a **hub-and-spoke model** with Foreign Post Offices (FPOs) to facilitate cross-border e-Commerce.

Duty Exemption / Remission Schemes

- **Advance Authorisation (AA):** Imports under AA are exempted from payment of Basic Customs Duty, Additional Customs Duty, Education Cess, Anti-dumping Duty, Countervailing Duty, Safeguard Duty, Transition Product Specific Safeguard Duty, wherever applicable.
- **Duty-Free Import Authorization (DFIA):** DFIA shall be **exempted only from payment of Basic Customs Duty (BCD)**.
- **Schemes for Remission of Duties and Taxes on Exported Products (RoDTEP):** Its objective is to **refund, currently unrefunded duties/taxes/levies**, at the Central, State and local level, **borne on the exported product**.

SCOMET: Special Chemicals, Organisms, Materials, Equipment and Technologies

- **Regulation of dual use items:** India has **regulated the exports of dual-use items**, nuclear-related items, including software and technology viz. SCOMET. It is **either prohibited or permitted under an authorization** unless specifically exempted.
- **SCOMET list:** It **is India's National Export Control List** and Imported goods covered under the SCOMET list are **not permitted for export**.

5.3. FOREIGN DIRECT INVESTMENT (FDI)

FOREIGN DIRECT INVESTMENT AT A GLANCE

Status of FDI in India

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.
- **Technology Transfer:** 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:** The gross incoming FDI growth rate fell sharply to **2% in 2021-22,** from **10%** in **2020-21**
- **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:** Around 50% of the total FDI inflow went into just five sectors, i.e., Services, Computer, Trading, Telecommunication and Automobile.
- **Few Pockets of FDI:** 70% of the total inbound FDI was limited to three states.
- **Use of Offshore financial hubs and tax havens** like **Cayman Islands** continue to feature in top FDI sources.
- **Low actual realization of commitments:** The gap between MoUs signed and actual FDIs remains high.
- **Lesser reinvestments:** Foreign investors prefer to take surpluses out of India rather than reinvest.

Way Forward

- **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.
- **Direct tax reforms** to check rerouted investments through tax havens.
- **Gradual liberalization** of non-strategic sectors to diversify the sectors which receive FDI.

5.4. INTERNATIONALIZATION OF RUPEE

Why in News?

Recently, RBI's **Inter-Departmental Group (IDG) on Internationalization of INR (Indian Rupee)** has released its report with various recommendations.

About International Currency and Internationalization of Rupee

- An international currency is supposed to perform **three international functions** (see table).
    - E.g. today, the **US dollar** is the **most widely accepted currency** for international transactions, followed by **Euro**.
    - In the early 1960s, even rupee was accepted as legal tender in **Qatar, UAE, Kuwait**, **Bahrain**, **Oman** and **Malaysia**. But, today, almost **86% of India's imports** as well as **86% of the exports** are invoiced in dollars.

International functions of money

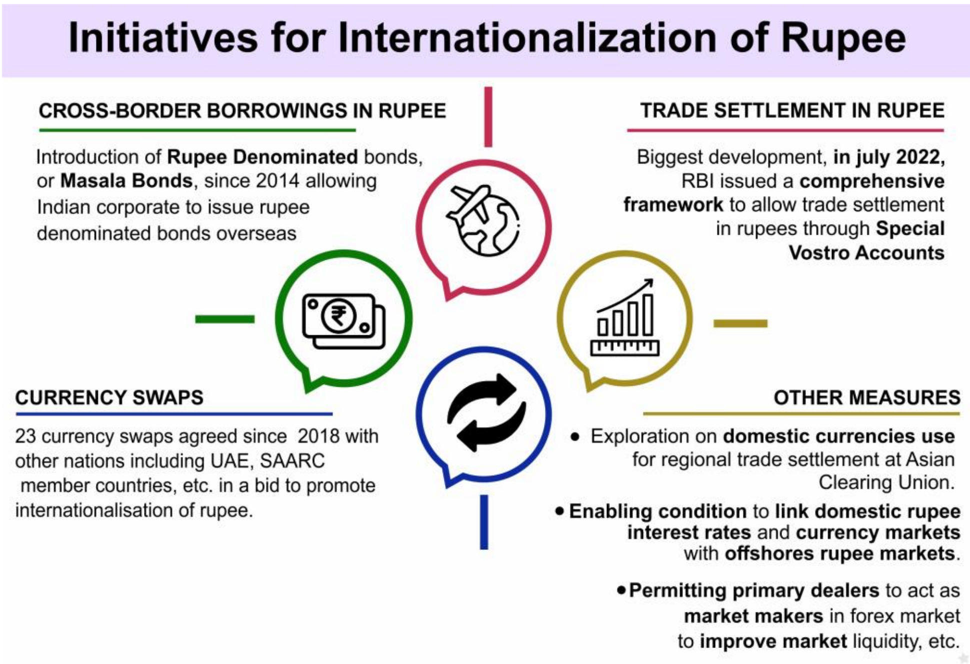
	For Governments	For Private Sectors
Store of Value	International Reserves	Currency Substitution
Medium of Exchange	Vehicle Currency for Foreign Exchange Intervention	Invoicing trade and financial transactions
Unit of Account	Anchor for pegging local currency	Denominating trade and financial transactions

- **Internationalization of a currency** (rupee here) is a process to increase **rupee acceptance** (**credibility**) across the world through activities as given in **image**.

- It can also be referred to **adopting full capital account convertibility**, i.e., freedom to convert local **financial assets** into foreign financial assets and vice versa.
    - Currently, India allows **partial Capital Account Convertibility** and **full current account convertibility**.

Pre-requisites for internationalization of a currency

- **Deep and liquid financial and foreign exchange markets**, which would facilitate the conduct of foreign exchange policies, manage currency risks effectively and support financial asset transactions denominated in the reserve currency.
- **Currency convertibility and a credible commitment to an open capital account** to facilitate financial flows with minimal transactions costs.
- **Wide use in private sector transactions:** A currency with a large share in world gross domestic product (GDP), trade and finance attracts more users and establishes network externalities.



- **Macroeconomic and political stability:** Policymaking institutions with credibility and a track record of maintaining price stability are critical ingredients to sustaining confidence in the currency's long-term purchasing power.

Initiatives toward Internationalization of Rupee

- In India, the broad framework for cross-border transactions is governed by the **Foreign Exchange Management Act (FEMA), 1999**.
- Further, to **strengthen India's role** as an international financial centre, the government and RBI has taken a number of initiatives towards **internationalization of Rupee** (see image).

Benefits of Internationalization of Rupee

- **Reduced Foreign Exchange Reserves requirement** for balance of payment stability due to reduced dependence on foreign currency for trade.
  - It can also reduce the **imposed cost** of forex on the economy by **Interest Rate Differential (IRD)**.
- **Government financing:** Currency internationalisation may allow a country's government to **finance part of its budget deficit by issuing domestic currency debt in international markets** rather than issuing foreign currency instruments.
  - It may allow a government to **finance part of its current account deficit without drawing down its official reserves**.
- **Reduced Vulnerability to External Shocks** because of reduced dependence on foreign currency and **enhances the ability to repay external sovereign debt**.
- **Mitigates Currency Risks** for Indian Enterprises by eliminating foreign exchange fluctuation, reducing the cost of doing business and support global growth of Indian businesses.
- **Enhance India's global stature and respect**, helping Indian Businesses through increased **bargaining power**.
  - E.g., **Post-2008 recession**, Chinese efforts to internationalize Renminbi helped in increasing its global stature.

Challenges in Internationalization of Rupee

- **May complicate Domestic Monetary Policy** by limiting its effectiveness and independence, i.e., RBI's ability to control domestic money supply and influence interest rates as per domestic macroeconomic conditions.
  - It gives rise to the **impossible trinity (Trilemma)** of an open economy, meaning **no country can simultaneously reach the policy goals** of **free capital movement**, **exchange rate stability**, and **independent monetary policy**.
- **Increased Refinancing Risk** by aggravating the pass-through risks of external stimulus to domestic financial markets from non-resident holdings of rupee.
  - For instance, during a phase of global recession, the non-residents can convert their rupee holdings and move out.
- **Heightened Exchange Rate Volatility** (value of rupee) in case inflation rate is higher than the global rate or from uncontrolled flow of capital.
  - It goes against the **prerequisite of price stability** before the internationalization of a currency as **inflation higher than global rate** undermines the use of a currency as an international medium of exchange and a store of value.
- **Increased Responsibility** to maintain international financial and monetary system order, i.e., increased burden to play the role of '**Lender of Last Resort**'.
  - It gives rise to **Triffin dilemma** i.e., obligation of a country to supply its currency to meet the global demand comes in conflict with its domestic monetary policies.
- It **may accentuate an external shock**, given the open channel of the flow of funds into and out of the country and from one currency to another.

Way Forward

The IDG has recommended the following timeline-based measures for achieving internationalization of Rupee:

Short Term Goals: Timeline for implementation: up to 2 years	• Adoption of standardized approach for central bank swaps and **settlement in INR in bilateral and multilateral trade agreements.**

	• Facilitate **Local Currency Settlement (LCS) framework** and operationalising swaps in local currencies. • Encouraging **opening of INR accounts by non-residents.** • Integrating **Indian payment systems with other countries**. • Strengthening financial markets through efforts such as **integration of onshore and offshore forex markets**, launch of **BIS Investment Pools (BISIP) in INR**, inclusion of Indian government bonds in global bond indices etc. • **Recalibrating the Foreign Portfolio Investment (FPI) regime** to facilitate more conducive environment for foreign investments into Indian debt market.
Medium Term Goals: Timeline for implementation: 2 to 5 years	• **Masala bonds framework liberalization** such as waiver of withholding tax. • **Resolving taxation issues in financial markets**, incentivizing non-residents to participate in onshore market. • International use of RTGS and **inclusion of INR in Continuous Linked Settlement (CLS) system.** • Allowing **banking services in INR outside India.**
Long Term Goals: Timeline for implementation: 5 years and above	• Efforts for **inclusion of INR in IMF's SDR basket** to make it a Vehicle Currency.

5.5. DE-DOLLARIZATION

Why in News?

BRICS (Brazil, Russia, India, China, and South Africa) nations are in the process of **creating a new currency** for payments.

> **What is De-dollarization?**
> - It refers to the process wherein **countries tend to reduce** their reliance on the **US dollar (USD)** as a reserve currency, medium of exchange, and also a unit of account.
> - It has also gained momentum to **undermine the dominance of the US.**
>   - The status of the dollar was enhanced by the **Bretton Woods system** (IMF and World Bank), which essentially eliminated other developed market currencies from competing with the USD.
> - Russia, China, Brazil, and India are significant economies that are emphasizing on **de-dollarization.**

Need/Reasons for the De-dollarization

- **New Emerging Economies: Rise of Asia** as an **economic powerhouse** has raised the importance of currencies like the **Indian rupee** and the **Yuan.**
- **Diversification**: Multi-currency foreign currency reserves reduce the pressure on external sectors.
- **Promoting Local Currencies:** Trading in local currencies **allow exporters and importers to balance risks,** have more options to invest, to have more certainty about the revenues and sales.
- **Macro-Economy Effect**: Dominance of the USD allows the U.S. to **manipulate the global financial system** to its **own benefit**, often at the expense of others, especially in terms of **interest rates**.
- **Weaponization of Trade**: Imposition of **sanctions** and the exclusion from **SWIFT (Society for Worldwide Interbank Financial Telecommunication)** creates impediments for countries to carry out trade.
  - For instance**, sanctions were imposed on Russia after the Ukraine war, Iran (after the US withdrew from the Joint Comprehensive Plan of Action)**

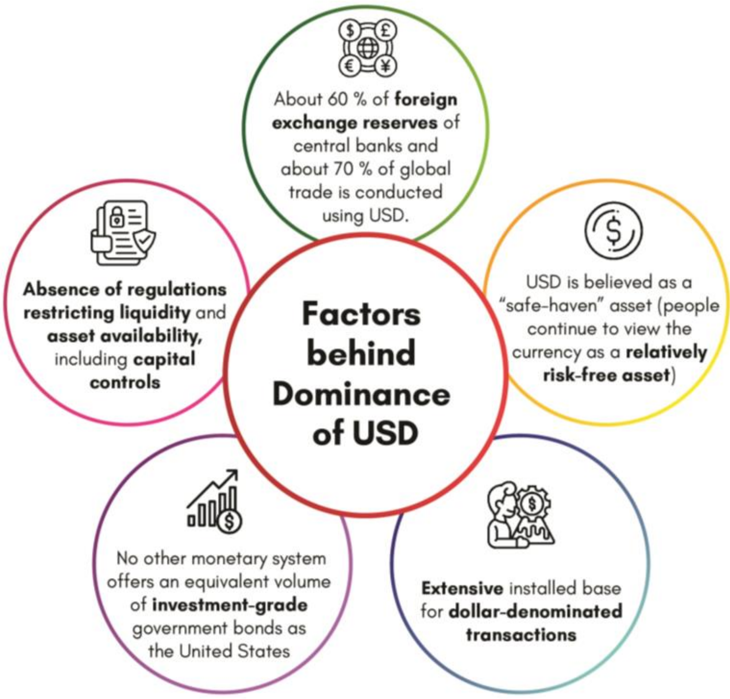
Initiatives for De-dollarization

- **Bilateral Efforts**:
  - Russia **forbade "unfriendly" countries** from settling natural gas contracts in **any currency other than the rubble**.
  - China has established **RMB (Renminbi) trading centres** in Hong Kong, Singapore and Europe.
  - **Russia-China payment system** was set up that bypass SWIFT and combines the Russian **SPFS (System for Transfer of Financial Messages)** with the **Chinese CIPS (Cross-Border Interbank Payment System).**
- **Multilateral Efforts**:
  - In 2021, the **People's Bank of China** submitted a "**Global Sovereign Digital Currency Governance**" **proposal** at the **Bank for International Settlements** to influence global financial rules via its digital currency, the e-Yuan.
  - **African Continental Free Trade Area (AfCFTA)** is promoting **intra-African trade** using **local currencies**.
  - **European Central Bank's TARGET2 System** (2007) enables EU member countries to conduct trade and financial transactions in euros.

- **India's Efforts:** The **demand for the rupee is rising because of the booming commerce and investment** in the domestic market. (Refer article on Internationalization of Rupee)

Challenges in De-dollarization

- **Availability of Alternative Currency**: Currently, no single currency fully meets criteria such as degree of stability, liquidity, and acceptability.
- **Credibility of Other Currencies**: For instance, RMB in China is pegged to the dollar and tightly managed by the government.
  - Also, the **Chinese economy is not as open and has trust deficit** due to tactics like debt trap diplomacy.
- **Implementation Challenges**: Will create **financial instability** in **emerging markets** and countries with **substantial dollar-denominated debt**.
  - Increased **volatility** in **currency exchange rates**, particularly during the initial phases of transition.
  - **Adjustments** in the **composition** of **global reserve assets** may lead to shifts in **capital flows** and changes in **asset prices**.
  - Also, local currencies may also be **prone** to wider **fluctuations** and **depreciation** as the **overseas investor sentiment** will not be as certain.
- **Resistance**: US and Bretton Woods system are aggressively promoting USD. The other currencies are not able to create a niche in front of the dollar.
- **Fear of Financial Crises**: Issuance of foreign debt in the domestic market may pose risk especially when the debtor defaults. For instance, the financial crises of the 1980s, 1990s, and 2008.
- **Limit over Monetary Policy**: It will limit the country's ability to anchor monetary policy to its domestic economic landscapes.



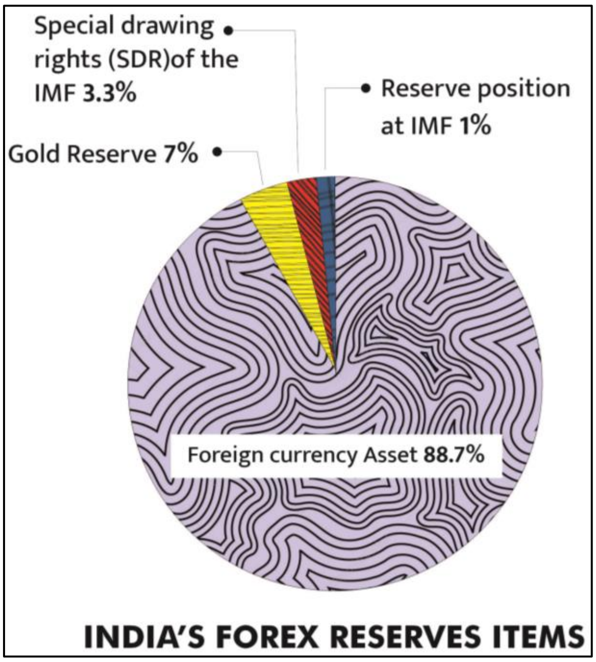
5.6. INDIA'S FOREX DYNAMICS

Why in News?

In the face of continued dollar strength, India's Foreign Exchange Reserves declined to over two-year low of \$532.66 billion.

Foreign Exchange (Forex) Reserves: its Composition and Management

- **Foreign Exchange Reserves** are assets held on reserve by a central bank in foreign currencies.
- Dominated by **Foreign Currency Assets (FCA)**, it can also include **other instruments** like bonds, treasury bills, Gold Reserves, Special Drawing Rights at IMF etc.
  - Some of the common FCAs are **US dollar, Euro, British pound, Japanese Yen** and **Chinese Yuan**.
  - The **US dollar** is most common due to its use in **settlement of all international transactions**.
- The **four components** of India's forex reserves and their share are as given in **image**.



- As the Central Bank of India, India's forex reserves are managed by the **RBI** under **Reserve Bank of India Act, 1934** and **Foreign Exchange Management Act, 1999.**

Need of Forex Reserves and India's Forex Trends

- Vital for **International trade and commerce**, forex reserves help in:
    - **Supporting and maintaining confidence** in the **exchange rate** and **monetary policies** including interventions to support national currency.
    - **Handling external market risks** by absorbing economic shocks from external market crisis.
    - **Gain investors' confidence** to meet external obligations through Forex against any sudden disruption in foreign capital flows (liquidity crisis).
    - **Assist the government** in meeting its foreign exchange needs and external debt obligations.
    - Maintain a **reserve to withstand** domestic financial system shocks or any other national disaster/emergency.
- Before the current decline, India's forex reserves **almost doubled** in the last 7 years.

Reasons behind Forex Reserves Fall

- **Decline in Foreign Currency Assets (FCA):** According to RBI, 67% of the slump in forex reserves is because of decline in relative value of non-dollar to dollar-based assets and US bonds.
- **RBI Forex Interventions:** RBI has intervened in the foreign exchange market to **curb excessive volatility of Indian rupee (INR)**, i.e., sales or purchases of dollars to **smoothen** the INR fall.
- **High Capital Outflow:** Due to a series of rate hikes by Central Banks to curb inflation, especially by the US Federal Reserve, emerging markets like India are facing higher capital flight to safe havens.
- **Weak Global Outlook:** Due to the escalation of geopolitical risks since the Russia-Ukraine war and subsequent commodity price rise, the investors risk appetite has declined.

Potential Impact of Falling Forex Reserves

- **Rupee Depreciation:** Though **capital controls** or RBI's intervention has helped in reducing the trade volatility in INR, still it has depreciated by almost 10% to touch all-time lows against US Dollar.
- **Risk of Rating Downgrade:** The **sustained currency reserves decline** could lead to downward pressure on Sovereign Credit Ratings.
- **Reduced Capital Inflow:** Already low on account of global slowdown, the **investors' confidence** may further **reduce** due to increased external vulnerabilities and reduced ability to withstand them due to **rise in current account deficit (CAD)** and **fall in reserves**.
- **Increased Vulnerability to Economic Risks:** The debt on Indian companies with high exposure to foreign currency loans will increase. The decline in forex reserves limits the ability to face such vulnerabilities.
- **Limits India's ability to help its neighbors:** The reduced forex reserves reduce India's ability to open currency swap lines for others, especially our neighbors facing tough times. E.g., Sri Lanka

Way Forward

With **inflation** expected to **remain high** in the **near-term future**, the **INR** and the **forex reserves** are also likely to remain weak. The rising probability of a global recession and India's Current Account Deficit (CAD) warrants:

- **Increase in resilience** of the Indian economy through **fiscal discipline** in **near-term future**.
- **Building Solid Foundations** through **export competitiveness** for **long-term growth**.
- Maintaining **overall stability** and ensuring a **healthy coffer of forex reserves**.

5.7. UNDERSTANDING GLOBAL ECONOMY

Why in news?

India's External Affairs Minister highlighted that prospects of a **global economic recovery remain dim** amid supply chain disruptions, prolonged debt crisis and pressures on energy, food and fertiliser security.

Reasons for such trends

- **Series of mutually reinforcing shocks**: While the **impacts of pandemic** continue to reverberate worldwide, the **war in Ukraine** unleashed a new crisis, exacerbating **food insecurity and malnutrition** in developing countries.

- **Weakened consumer confidence:** Rising **interest rates and diminishing purchasing power** have weakened consumer confidence and investor sentiment.
- **Factors contributing to Inflation:** Factors include **demand pressures, supply shocks** and disruptions to both **global supply chains** and the **availability of key commodities.**

Trends in Global Economy		
Global growth	Global debt	Global inflation
Plateauing at 2.8% with gradual growth for 2024. • Advanced economies: 1.3%. • Emerging economies: 4.5%.	global **average of debt** ratios (Public debt as a ratio to GDP) **approached 100%.**	**Global inflation** will decrease from 8.7% in 2022 to **7.0% this year.**

- **Polycrisis:** It means challenges faced by the global economy **are deeply interconnected** with all global systems, **global political economy, international security, global health, education, and energy**, among others.
- **Poor Financing conditions:** Financing conditions have tightened sharply amid **high levels of private and public debt**, pushing up debt servicing costs, **constraining fiscal space**, and increasing **sovereign credit risks.**
- **Climate crisis:** Climate crisis is taking a **heavy toll on many countries**, with heat waves, wildfires, floods, and hurricanes inflicting massive humanitarian and economic damage.
- **Other factors** include Geoeconomics confrontation, natural resource crisis, Erosion of social cohesion and societal polarization, widespread cybercrime, and cyber insecurity etc.

Measures to strengthen global economy

- **Improve institutions:** To ensure sustainable economic growth, states need to improve their **legal institutions, administrative capacities, transparency, and business environment.**
- **Create an independent sovereign debt authority:** An **independent sovereign debt authority** that engages with creditor and debtor interests, both institutional and private, **is urgently needed**.
  - o Such an authority should provide **coherent guidelines** for suspending debt payments in disaster situations and ensure SDGs are considered in **debt sustainability assessments**.
- **Establish public debt registry**: A **public debt registry** for developing countries would allow **both lenders and borrowers** to access debt data. This would go a long way in **boosting debt transparency, strengthening debt management etc.**
- **Make finances sustainable**: The world needs a **new financial architecture** to shift investments **towards** research and development, machinery and equipment, infrastructure, human capital, and healthcare.
- **Other measures:**
  - o Capitalize on **dialogue, multi-stakeholder collaboration, and multilateralism**.
  - o Prioritizing **structural reforms** to stimulate investment, promote food security, and foster gender equality.
  - o Reallocation and **reprioritization of public expenditures**, **strengthening social protection** systems etc.

5.7.1. MULTILATERAL FINANCIAL INSTITUTIONS

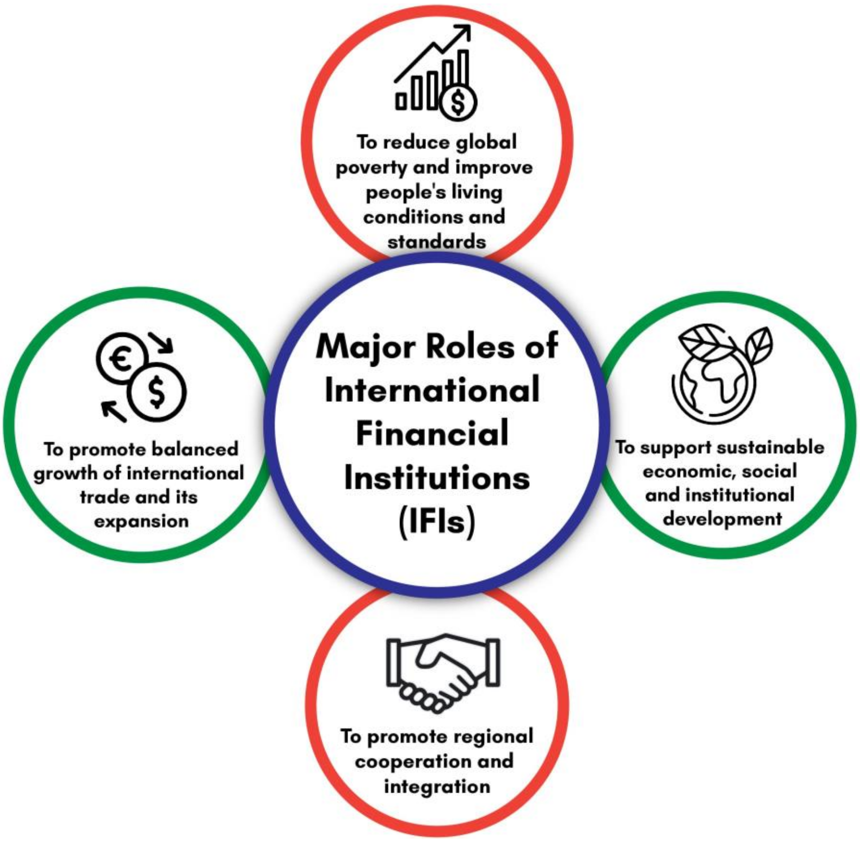
Why in news?

India's Union Finance Minister highlighted that **multilateral financial institutions need to recalibrate** their functioning to remain relevant in the post-pandemic world.

About Multilateral Financial Institutions (MFIs)

- **Multilateral Financial Institutions** also known as **International Financial Institutions** (IFIs) are financial institutions established by two or more countries **to encourage international cooperation in managing the worldwide financial system.**
- Eminent International Financial institutions include **Bretton Woods institutions** such as IMF and World Bank, **Multilateral and Regional Development Banks** such as Asian Development Bank, New Development Bank etc.

Relevance of IFIs for developing countries like India



- **Financing of Development Projects:** IFIs help developing countries to fund capital intensive activities like infrastructure, energy, education, and environmental sustainability.
  - **India is the largest borrower from AIIB.**
- **Source of Technical Assistance:** IFIs provide technical and advisory assistance to their borrowers and conduct extensive research on development issues.
  - **IMF policy-based loans** helped Indian economy to move from the **License-Quota-Permit (LQP) regime** to **Liberalisation-Privatisation-Globalisation (LPG).**
- **Overcome disadvantages suffered due to low credit ratings:** IFIs borrow funds from international capital markets to lend it to developing countries.
- **Responding to challenges:** IFIs provide support to developing countries in coordinating responses to regional and global challenges.
  - For instance, IFIs approved billions of dollars for COVID-19- related support especially among the low- and middle-income countries.
- **Support to Investors: IFIs help the investors and business leaders** in expansion through new, fast-growing markets.

MFIs and Climate Change

- **For developing countries:** Multilateral financial flows can help developing countries undertake low-carbon growth paths.
- **Can lead Climate Finance** as they have capital at their disposal and can raise additional money through international markets.

Despite this potential, MFIs are plagued by a lack of transparently tracked, detailed data and lagging financial commitments.

Concerns related to Multilateral Financial Institutions

- **Skewed nature:** Ownership structure and policy making powers of IFIs are skewed in favour of the Developed Countries due to which their advice is perceived as partial and biased.
- **Imposition of Conditionality:** Some funding agencies have special terms for financing or sourcing of equipment, which infringes sovereignty and are detrimental to interests of domestic industries.
- **Inefficiency in meeting expanded mandates** due to a bureaucratic organisational structure, undercapitalisation, and underperformance in the case of the WBG.
- **Non representative of present realities:** There is a long-pending issue of under-representation of the Emerging Market and Developing Economies (EMDEs) and the dynamic economies in the IMF's quota shareholding.
- **Nonperforming Dispute Settlement mechanisms:** The biggest structural challenge facing the WTO today is the atrophy of the Appellate Body (AB) of the WTO dispute settlement system, due to the United States blocking consensus on appointments to the AB.

Way Forward to retain relevance of IFIs

- **Phasing out of direct and indirect conditionalities** with no one-size fit all approach from by World Bank and IMF.

- **Introduce changes in internal administrative laws** and subject themselves to **external oversight** for better transparency and accountability.
- **Governance Reforms**: Institutions need to increase representation of developing nations for a greater diversity of perspective and a more balanced approach.
- **Strengthening of new financial institutions** like New Development Bank to diversify options and promote South-South cooperation.
- **Post COVID recovery: IFIs should focus on development of local markets**, building self-reliance for developing countries, resulting in a resilient and sustainable recovery from pandemic.

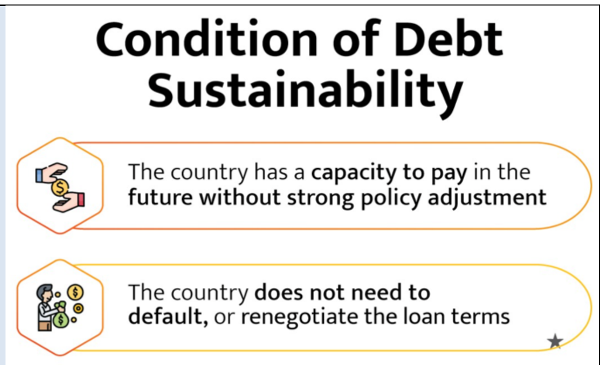
5.7.2. GLOBAL DEBT MANAGEMENT

Why in News?

The **International Monetary Fund (IMF)** has called on the **G20 nations** to understand and manage global debt at **1st G20 Finance Ministers and Central Bank Governors (FMCBG)** meeting under the **G20's Indian Presidency**.

Sovereign Debt Vulnerability and Debt Sustainability

- **Sovereign Debt Vulnerability** refers to 'the risk that a country will violate the solvency and liquidity conditions and enter a crisis'.
  - Each country has its own **debt vulnerability threshold** based on **factors** such as - **current debt, economic policies, governance strength, loan terms** etc.
- A debt is considered **sustainable** if it meets the conditions as given in **image**.
- **Steps taken to address debt distress:**
  - **Global Sovereign Debt Roundtable:** The objective is to build **greater common understanding** among key stakeholders involved in **debt restructurings,** and work together on the **current shortcomings in debt restructuring processes.**
  - **Common Framework for Debt Treatments beyond Debt Service Suspension Initiative (DSSI):** An **agreement of G20 and Paris Club countries** to coordinate and **cooperate on debt treatments** for **up to 73 low-income countries** that are eligible for DSSI.

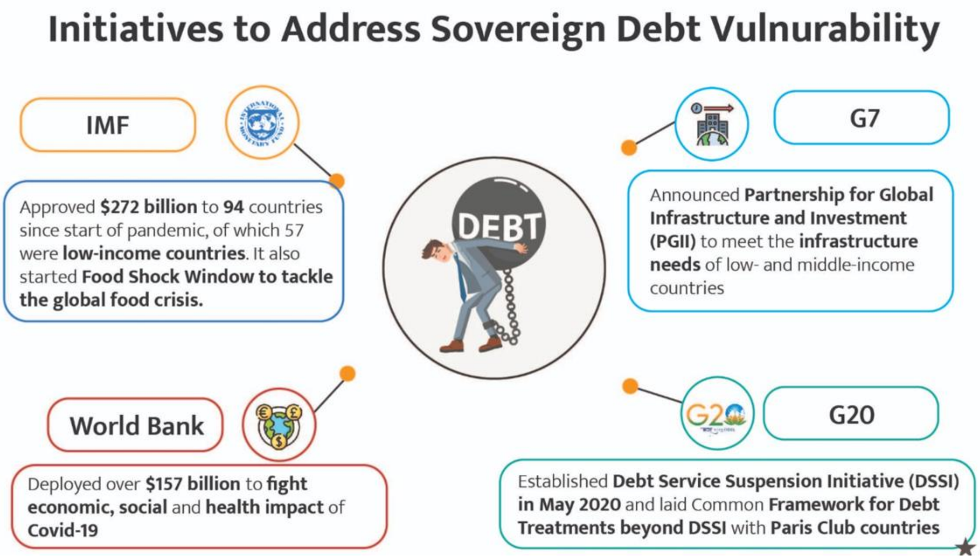


Reasons behind Current Debt Unsustainability and its impact

- **High Debt Exposure of countries,** especially the **low and middle-income countries**, leading to **sovereign debt vulnerability**.
  - As per **IMF World Economic Outlook, January 2023 – 15% low-income countries are in debt distress,** additional 45% at high risk and 25% emerging market economies also at high risk.
- **Slowdown of Global Growth in 2023**- It can leave too many people in too many countries struggling to make ends meet.
- **Resurgence of the Covid-19 pandemic**, especially in China in 2022, dampening **global growth.** Covid-19 is estimated to push over **100 million people** into **extreme poverty**.
- **Elevated Inflation**, especially sharp **increase in food** and **energy prices** since the **Russia-Ukraine war** has resulted into the **Cost-of-Living Crisis**.
- **Rise in Central Bank Rates**, tightening of the financial conditions.
  - The problem is more severe in developing and low-income countries due to their **limited policy space** and **huge development needs.**

Weaknesses in the current Debt Management Architecture

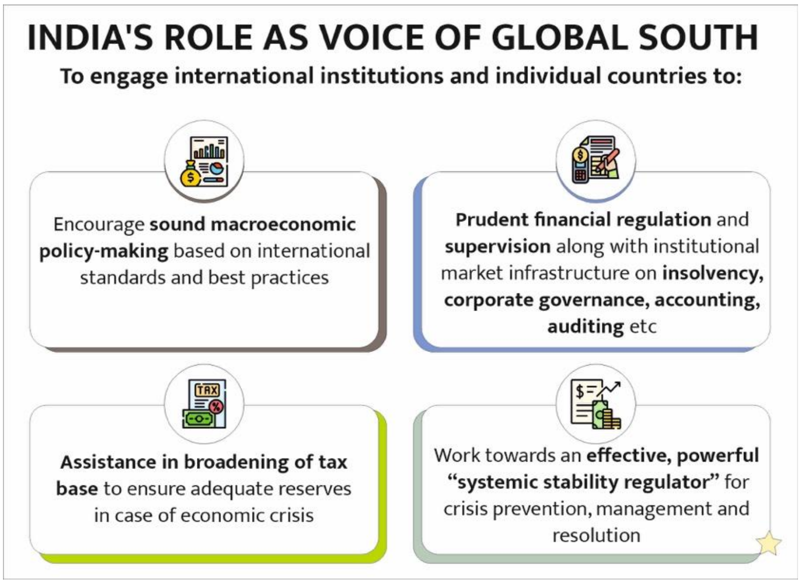
- **Regulatory and Supervisory Deficiencies** which limit the IFA success in ensuring **global monetary** and **financial stability**, i.e., avoiding the repeat of crisis.
- Lack of a **comprehensive** and **reliable early warning system.**
- **Issues in Global Financial Safety Net** or **Debt Architecture** such as –
  - **Delays and inadequacy of Financial Assistance** from **Multilateral Institutions**, especially IMF due to heavy **negotiations** at the **bilateral** and **multilateral levels.** E.g. Sri Lanka and Pakistan yet to get a bailout package from the IMF despite **acute economic stress**.
- **Absence of an Effective Debt Resolution Mechanism** due to absence of an effective mechanism to involve the private lenders in resolving crises. E.g., only one private creditor participated in the DSSI initiative.



* Use of 'one-size fits-all' policy recommendations and the accompanying conditionalities by multilateral lending institutions.

The problem is further aggravated by the **weak institutions and Volatility** in many Emerging Market and Developing Economies (EMDEs).

Way Forward



* **Creating a strong** and **effective Global Financial Safety Net** with a strong, quota-based, and adequately resourced IMF at its Centre.
* **Building long-term resilience** of the IFA, including by **promoting sustainable capital flows** and **developing local currency capital markets.**
* **Expand the Common Framework's eligibility requirements,** to cover more highly indebted and vulnerable lower-middle-income countries.
* **Boost Multilateral Development Banks (MDBs)** lending resources, knowledge support etc. based on their involvement in development financing.
* **Ensure a transparent** and **stable** global financial system to minimize the risks of crisis.
* **Conduct a fair, objective,** and **in-depth analysis** of the reasons for the current crisis.
* **Involve Private Sector** in crisis prevention and resolution mechanism for an equitable burden sharing between the sovereign debtors and the lenders in the event of crises.
* **Strengthen IMF surveillance system** for an **early detection** of financial risks and **proactive management** of distressed loans.

5.8. WORLD TRADE ORGANISATION

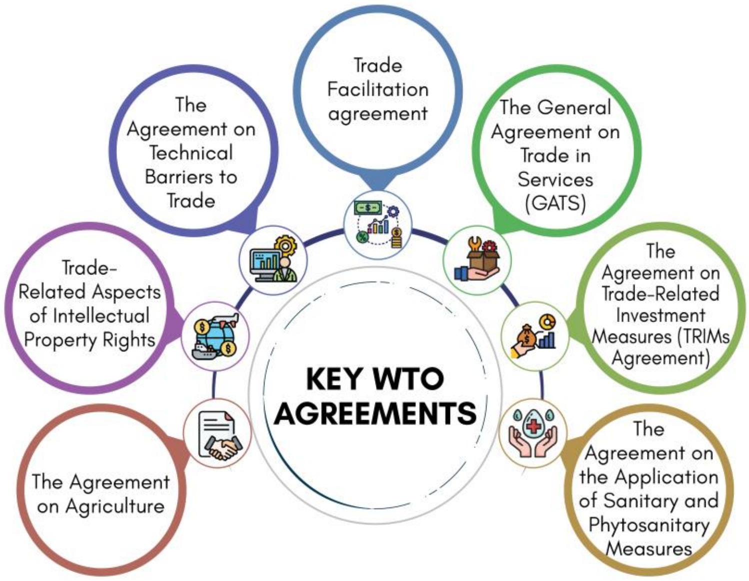
Why in news?

India appealed against a ruling by the dispute settlement body at the **World Trade Organization (WTO)** that India violated its zero-tariff commitment under Information Technology Agreement (ITA).

Importance of WTO in Global Trade

* **Wide coverage:** The WTO is by far the **largest trade body** in the world. It encompasses-
  * **More than 85% of the population** in the world.
  * **95% of the trade** that happens across the world.
* **Transformed international trade**: Binding rules for global trade have facilitated **dramatic growth in cross-border business activity**.
* **Rise of Global Value Chains (GVCs):** The predictable market conditions fostered by the WTO have combined with **improved communications to enable the rise of GVCs.**

- **Non-Discrimination:** The WTO promotes the principles of non-discrimination in trade.
  - **Most-favored-nation (MFN) principle**
  - **The national treatment principle**
- **Special provisions for developing and least developed countries:** The GATT and the General Agreement on Trade in Services (GATS) allow developing countries **some preferential treatment**.
  - The WTO **provides technical assistance and capacity building programs** to help developing and least-developed countries participate effectively in global trade.



- **Global Cooperation**: WTO membership encourages global cooperation among countries. It provides a platform for member countries to engage in discussions and negotiations on various trade-related issues, including agriculture, intellectual property, services, and investment.
- **Dispute resolution:** The WTO's trade dispute mechanism has been used extensively, helping to **avoid unilateral responses** to disputes.

Issues with the WTO

- **Negotiation Deadlocks**: Consensus-based decision-making process has often resulted in negotiation deadlocks, making it difficult to reach meaningful agreements on critical issues, such **as agricultural subsidies, intellectual property rights, and market access.**
- **Developing Country Concerns:** Developing countries argue that developed countries tend to dominate negotiations and have an advantage in shaping the rules to their benefit.
- **Rising Protectionism and Bilateralism**: In recent years, there has been a rise in protectionist measures and a shift towards bilateral or regional trade agreements, which bypass the multilateral framework of the WTO.
- **Emerging issues**: There are concerns that WTO has **not kept pace with 21st-century trade**, which requires **new/updated provisions** in multilateral agreements.
  - Several new issues have emerged since 1995, such as the linkages between trade and **climate change, SDGs, gender issues and human rights**.
- **Members' Development Status**: Concerns have been raised regarding ability of certain members to **self-designate as developing countries** and thereby to benefit from the **special and differential treatment**.
- **Dispute settlement crisis**: The WTO dispute settlement is in crisis as the **US blocked appointments to the Appellate Body**.

Measures to reform WTO

- **Making dispute settlement mechanism work**: Given its unique role in ensuring that **WTO rules are applied consistently** across members, earnest efforts should be made in this regard.
- **Improve transparency to enhance legitimacy**: It requires **refraining from mini-ministerials or green rooms**, which **exclude members** of critical decisions, and **foster suspicion** among members.
- **Institutional reforms**: To improve the WTO's decision-making process, some reform proposals have called for the **creation of an executive committee**.
- **Balancing demands**: The WTO must **balance the demands** of 21st-century trade and **unresolved old trade issues.**
- **Due voice to smaller countries:** As included in the cornerstone principle of consensus, **respect views of all members**, even the smallest ones.
  - This also means that **political and economic pressure should not be applied** to force a country to agree to decisions completely adverse to its fundamental interests.

6. AGRICULTURE AND ALLIED ACTIVITIES

6.1. AGRICULTURAL INPUTS

6.1.1. SOIL

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 Scheme**
- 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**

6.1.2. WATER

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 northeastern region
- Promoting **conservation agriculture**
- Extensive promotion of **organic farming and composting**
- **Crop alignment and diversification** with agro-climatic status

6.1.3. SEEDS

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

Issues with seed certification

- **Unpredictability of demand** of certified seeds.
- **Short shelf life,** certified seeds are only good for one season
- **Lack of effective monitoring** to control seed quality.
- **Lack of access,** to certified seeds due to infrastructural gaps.

Measures taken

- **National Seeds Corporation (NSC)** 1963
- **High Yielding Variety (HYVs)** 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.**
- **SATHI (Seed Traceability, Authentication and Holistic Inventory) Portal**

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**
- Encouraging ideas like **Open-Source Seeds Movement (OSSM)** which states that physical traits of plants cannot/shouldn't be owned by individuals or corporation

6.2. AGRICULTURAL MECHANIZATION

AGRICULTURAL MECHANIZATION AT A GLANCE

Status of India's farm mechanization

Indian farm mechanisation level is at 40–45% compared to that of the United States (95%), Brazil (75%) and China (57%) (NABARD, 2018)	**India's farm equipment market is 7%** of the global market, **with more than 80% of the value contribution coming from tractors**	The **trade surplus in non-tractor farm machinery is very small**	India is reliant on **low grade equipments or imports**

Challenges in Farm Mechanization

- **Small and fragmented** land holdings.
- Practice of **subsistence agriculture** and low awareness.
- **Diverse** soil conditions and cropping patterns.
- **Lack of access to power.**
- Process of acquiring farm equipment is **tedious and cumbersome.**
- **Unaffordable Cost of equipment and reluctance of Banks to lend** to farmers.
- **Inadequate quantity and quality of service centres** for proper maintenance.
- Mismatch **between needs** of Indian farmers and what farm machinery sector is producing.
- **Limited R&D** in non-tractor farm machinery.

Government interventions

- **Sub Mission on Agricultural Mechanization (SMAM):** Major objectives under it include:
    - o Promoting **'Custom Hiring Centres (CHCs) and Hi-tech Hubs** of High-Value Machines'
    - o Ensuring performance testing and certification and creating awareness
- **E-NWRs:** To facilitate finance against e-NWRs (Electronic Negotiable Warehouse Receipt).
- **Farm mechanization key objective in schemes** such as Rashtriya Krishi Vikas Yojana, National Food Security Mission, Mission for Integrated Development of Horticulture etc.
- Other benefits provided under various schemes such as
    - o **Land Conservation Department** offers 90% subsidy to the women establishments for purchasing the machines.
- State governments such as Kerala, Madhya Pradesh are providing **farm machinery at concessional rates.**

Way forward

- **Subsidise farmers on consistent basis** for farm mechanisation and procurement and renting of heavy farm machinery.
- **Simplification of process** for getting loan and **increase in financing options.**
- Process of applying/receiving subsidy should be **streamlined, simplified, and digitised** as done in Odisha.
- Create an **institutionalized framework** for highly unorganized CHCs.
- **Extension programmes** for farmers need to be strengthened.
- Agricultural universities/institutes should be identified and assigned **responsibility for R&D.**
- **Logistics needs to be improved** especially for transporting heavy machinery.
  Level-playing field for Indian manufacturers.
- **Testing, specification standardisation & performance requirements, and regulations** should be developed in line with **global benchmarks.**

6.3. AGRICULTURAL CREDIT

AGRICULTURAL CREDIT AT A GLANCE

Every **1% increase in agricultural credit** produces **0.29% 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 and **skewed credit distribution**
- **Anomalies in the Priority Sector Lending (PSL)** in Agriculture
- **Diversion of agriculture loans** for non-agriculture purposes

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)**
- **Kisan Credit Card scheme** for hassle-free loan to small and marginal farmers
- **Modified Interest Subvention Scheme (MISS)** to provide short term credit to farmers at subsidized interest rates.

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**

6.3.1. PRIMARY AGRICULTURAL CREDIT SOCIETIES

Why in news?

The Cabinet cleared a plan for setting up 2 lakh Primary Agricultural Credit Societies (PACS), dairy, and fisheries cooperatives in the country in the next five years.

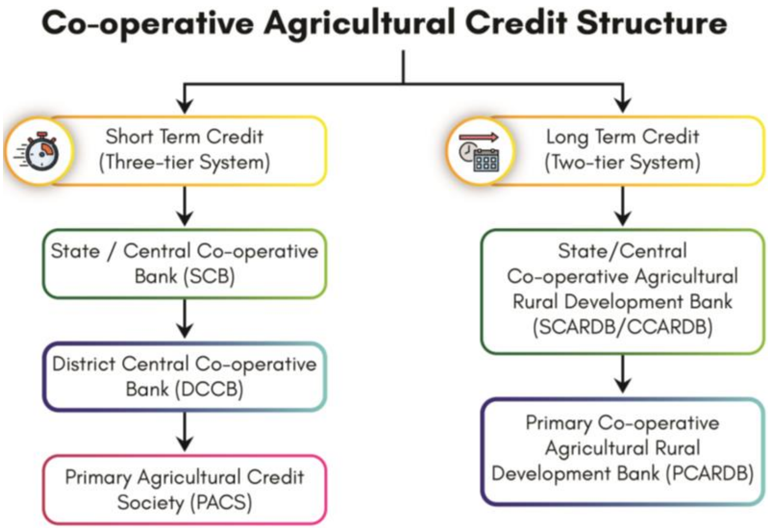
More on news

- The plan is aimed at **strengthening cooperative movement in the country** and deepening its reach up to the grassroots.
- It will **establish** -
  - **PACS and** viable **dairy cooperatives** in each uncovered panchayat/ village and
  - **Viable fishery** cooperatives in each **coastal** panchayat/village as well as panchayat/village having large **water bodies.**
- PACS / dairy / fishery cooperative societies would be **linked with their respective District and State level Federations.**
- By leveraging the **'whole-of-Government' approach,** these societies will be able to set up and modernize **necessary infrastructure for diversifying their activities,** like milk testing laboratories, bulk milk coolers, construction of bio floc ponds, fish kiosks, etc.

Significance of the plan

- The move is significant as there are **still 1.6 lakh panchayats without PACS and** nearly **2 lakh panchayats without any dairy cooperative society**.
- It will provide farmer members with **requisite forward and backward linkages a**nd enhance their income.
- It will also help in **generating employment opportunities in rural areas.**

About PACS



- PACS constitute the **lowest tier of the short-term cooperative credit (STCC) structure** in the country (refer to infographics).
- **Regulation:** They are outside the purview of the Banking Regulation Act, 1949 and are **not regulated by the RBI.**
- **Functions**: Other than short-term credit, they can also provide other **input services,** like seed, fertilizer, pesticide distribution to member farmers.
- **Significance:** They **ensure financial inclusion** of the most vulnerable rural population:
  - PACS account for **41 % of the KCC loans given by all entities in the Country** and 95 % of these KCC loans are to the Small and Marginal farmers.

Key challenges of PACS

- **Technology**: Most of the PACS have **not been able to adapt to efficiency, profitability, technology of other financial institutions.**
- **Credit Share:** Over time, the share of credit cooperatives in rural credit have **declined to 1/3rd from** a share of more than 60% in the 1950s.
- **Resource Dependency**: Traditionally, PACS have **only been in the business of credit dispensation** despite the mandate to provide other services. Thus, they are **dependent on higher financing agencies** for resources.
- **Competition**: PACS have to **compete with Farmer Producer Organization (FPOs)** that are providing critical non-credit services like farm advisory, quality input supply, processing, output marketing, etc.
- **Impaired governance standards:** Lax corporate governance standards combined with political influence and interference is the reason for subpar performance of cooperatives**.**
- **Lack of fair audit mechanism:** Delay, and irregular audits impinge upon the democratic spirit of cooperative movement.
- **Lack of Awareness:** Most of the people are not well informed about the objectives of the cooperative movement, the rules and regulations of cooperative institutions.
- **Regional imbalance in growth:** The cooperatives in northeastern areas and in areas like West Bengal, Bihar, Odisha are not as well developed as the ones in Maharashtra and Gujarat.

Way forward for PACs

- **Resource mobilisation:** PACS should make efforts to mobilize deposits from members in order to become self-sustaining. This would also promote savings habits among members.
- **Diversify business portfolio:** Non-credit business offers higher margin and contributes significantly to the profitability. Therefore, PACS could convert themselves into Multi Service Centres (MSCs).
  - Funding from **Agriculture Infrastructure Fund (AIF**) could be used for creation of various need-based infrastructure facilities.

- **Democratic spirit:** Elections should be held regularly, and Directors and CEOs should be appointed on the basis of professional competence, integrity and merit.
- **Transparency:** Regular audit and full computerisation of all the institutions under the three-tier structure should be achieved quickly.
- **Infrastructure:** Digitisation especially in governance, banking and businesses can ensure a transparent, accountable and efficient system.

6.4. AGRICULTURAL MARKETING

AGRICULTURAL MARKETING AT A GLANCE

Agricultural Marketing can be simply defined as the commercial functions involved in **transferring agricultural products from producer to consumer.**

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 production with forward and backward linkages.

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.

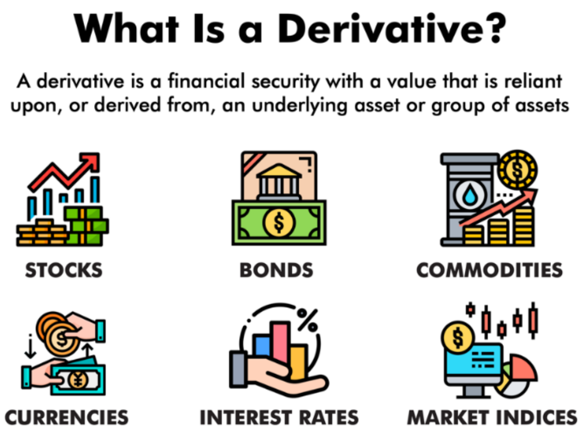
Potential effect agri-reforms on these issues

- **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 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.
- **Implementation of Market Yard of National Importance (MNI)** to promote inter-mandi & inter-State trade as highlighted by the report of Expert Committee.

6.4.1. AGRICULTURAL DERIVATIVES AND AGRICULTURAL PRICES

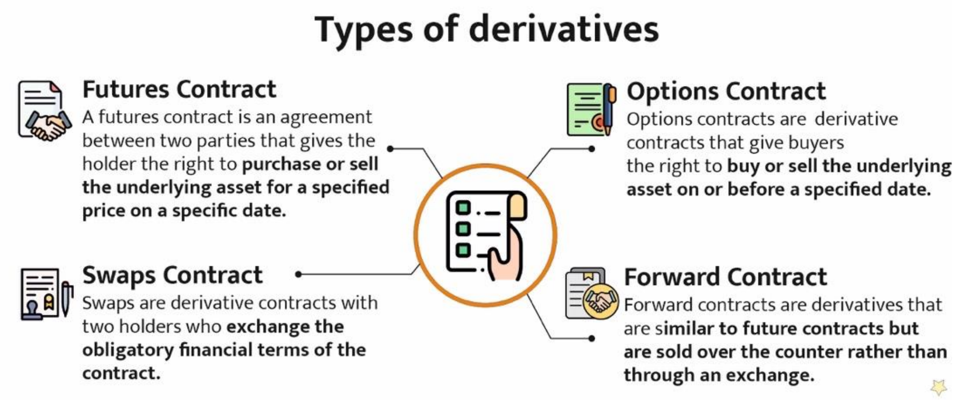


Why in news?

Securities and Exchange Board of India (Sebi) has **extended the suspension on derivatives trading of seven agricultural commodities** for one more year till December 2023.

What are agri derivatives?

- **Agricultural derivatives** mean those commodity derivatives, the financial terms of which are **determined by an underlying agricultural product.**
- This includes-
  - **Primary agricultural products** such as chana, cotton, guar seed, maize, soybean, sugar, etc.
  - **Processed agricultural commodities** like guar gum, palm oil, soybean oil, etc. are also considered as agricultural commodities.



How they influence agri. Prices?

- **Price signals**: A well-functioning derivatives market can **send strong price signals for agricultural commodities** that can abridge the **major information asymmetry on future price uncertainty** faced by farmers.
- **Transfers risk:** The risk is transferred **from the farmer to the market participants** who are willing and capable of taking risks for a premium.
- **Shields users:** The presence of a derivatives market **helps in checking unbridled price** increase by **halting upward movement** of prices. Presence of a derivatives market thus **shields commodity users from price risks**.

Factors that constrain role of agri. derivatives in influencing agri. prices

- **Low trading volume:** Share of agricultural commodity futures in the total volumes declined steadily **from over 60 per cent in 2004-05 to about 8 per cent in 2021-22.**
- **Lack of transparency**: Spot trading in most agri. commodities is done in an **opaque and de-centralized manner** in mandis.
- **Regulatory uncertainty** and ad hoc policy actions tends to impact trading sentiment and volume considerably.
- **Unorganized physical markets:** Challenges associated with the **highly unorganized underlying physical markets** are weighing down trading in domestic agricultural commodity derivatives.

Mains 365 - Economy

Way Forward

- **Restoring confidence among participants:** A **streamlined regulatory framework** will assure that drastic measures like banning futures and options trading will be **limited to exceptional circumstances**.
- **Expedite eNAM:** The **eNAM project** that seeks to create a **single national market** through a pan-India (all the existing APMC mandis) electronic trading portal should **be expedited.**
- **Create adequate infrastructural facilities**: There is a need for **adequate grading and standardization facilities** to ensure that quality of the aggregated produce of commodities is maintained.
- **Unified market to increase participation**: A **unified electronic spot market** for agri. commodities will create a strong base for agri. Derivatives trading.
- **Address information asymmetry**: Create agricultural information system providing **comprehensive information** on all the agricultural commodities accessible to **all market participants**.

6.5. FINANCIAL SUPPORT TO FARMERS

FINANCIAL SUPPORT TO FARMERS AT A GLANCE

Status of Financial Support to farmers

- **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 Maan Dhan Yojana, PM-AASHA, Kisan Suvidha App etc.

Constraints

- **Increasing farmers' 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

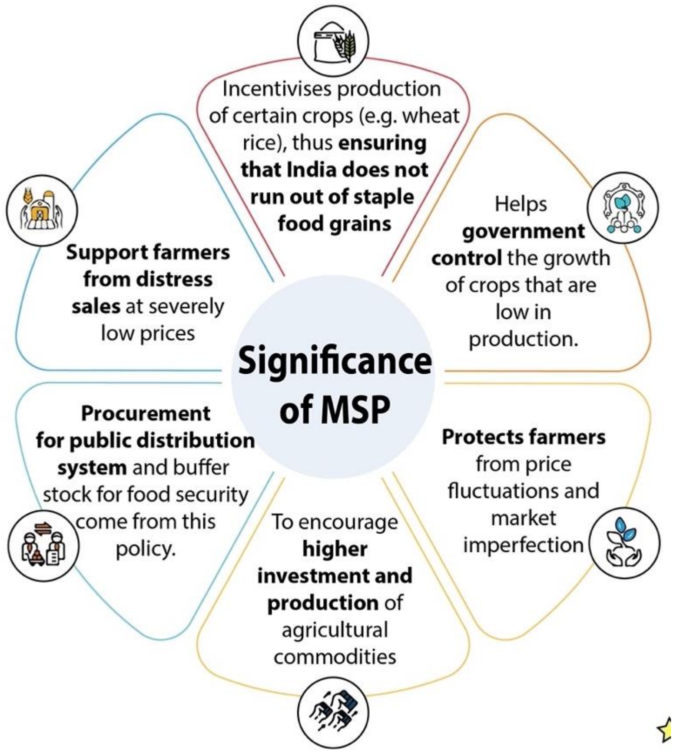
- Strengthen the **institutional and digital infrastructure.** Gradually transitioning all **subsidies to the process of DBT.**
- **Improve irrigation facilities, warehousing and cold storage** to double farmer's income.
- **Support Agricultural R&D** to raise crop production and overcome climate change 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.**
- Other efforts like **Farmer Distress Index (FDI)** to act as an early warning system to identify stress.

6.5.1. MINIMUM SUPPORT PRICE (MSP)

Why in news?

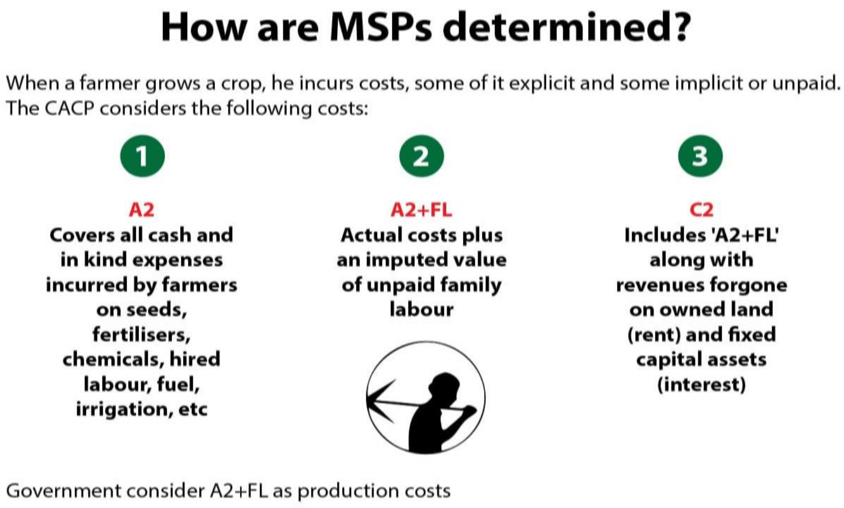
Recently, **Cabinet Committee on Economic Affairs (CCEA)** approved an increase in Minimum Support Price (MSP) for six rabi crops for 2023-24.

- Increase in MSP is in line with **Union Budget 2018-19 announcement of fixing MSP** at a level of at least 1.5 times of All-India weighted average cost of production.



About Minimum Support Price (MSP)

- It is a **price support mechanism** that **acts as a safety net given to farmers** to ensure guaranteed prices and assured markets for their products.
- It is **fixed twice a year on recommendations of the Commission for Agricultural Costs and Prices (CACP-** statutory body) and then approved by CCEA.
- The CACP determines the **MSP based on the expenses incurred by the farmer**.
  - The final **MSP is determined as a function of expenses incurred (A2) and the imputed value of family labour (FL).**
  - There have been **demands for considering a different costing method (C2).**
  - National Commission on Farmers (**Swaminathan Committee**) had also recommended **MSP should be at least 50% more than the weighted average cost of production.**



Issues associated with MSPs

- **Procurement:** Delay in setting up procurement centres and **lack of government machinery for procurement** of other crops except wheat and rice.
- **Disparity among states**: Farmers of states where the grain is procured completely by the government benefit more while those in states that procure less are often affected.
  - In 2021, more than 95% of paddy growers benefit from MSP in Punjab while in Uttar Pradesh, only 3.6% of farmers benefitted.
- **Ecological impact**: **Increased production of wheat and paddy** due to higher MSP has led to **ecological issues such as decreased ground water table**, salinity as seen in Punjab.
- **Fiscal burden**: In 2020-21, food subsidy bill was nearly 30% of net tax revenue of the central government, reflecting huge financial burden on the government.
- **Middlemen**: MSP-based procurement system is **dependent on middlemen, commission agents and APMC officials, who rope in the maximum benefit** leaving farmer with low remuneration for the production.
- **Make India's agri-exports non-competitive**: Mandatory MSPs will render India's agri-exports non-competitive because the government's assured prices are way higher than both domestic and international market prices.

Way forward

- **Increase diversification in procurement interventions:** There is need to revisit the strategy on demand and supply, including PDS system, for balancing the nutritional security of the population.
- **Deficiency price payments (DPP) system:** In this scheme, the government, rather than procuring from farmers, compensates farmers with cash transfers when the market price falls below MSP.
    - Example, Bhavantar Bhugtan Yojana in Madhya Pradesh.
- **Area planning**: The cropping system should be tailored to local consumption patterns rather than for only getting the maximum price, irrespective of the demand for the produce.
- **Income support:** For many of non-staple commodities, MSPs are announced with little or no procurement. Thus, a gradual movement to an income-based support system is needed. E.g., PM-KISAN
- **Center-State Contributory Price Stabilization Fund**: It should be established to insulate farmers from a significant fall in prices, either due to domestic factors or global trade factors.

Demand for Legalizing MSP

- Recently, several farmers bodies **demanded to legalize MSP**.
    - Legalising MSP would **put the government under a legal obligation to buy every grain of the crops** for which MSPs are announced.

Issues with legalizing MSP

- **Fiscal burden:** Some estimates suggest that legalising MSP will cost annually about ₹17-lakh crore.
- **Demand for other crops:** If the MSP is legalised, **there will be a demand to include other crops**.
- **Storage:** Inadequate storage capacity for grains procured by the government at MSP leads to post harvest losses.
- **Selling**: With stocks piling up, FCI will be forced to dump even more, and the price will get further depressed.
    - Such sale of agri-produce, combined with the ban on purchase below the MSP directly from the farmers, will then close all avenues for sale by the farmers.

6.6. INTERNATIONAL YEAR OF MILLETS (IYM) 2023

Why in news?

Food and **Agriculture Organization (FAO) of the United Nations,** organized an opening ceremony for the International Year of Millets – 2023 (IYM2023) in Rome, Italy.

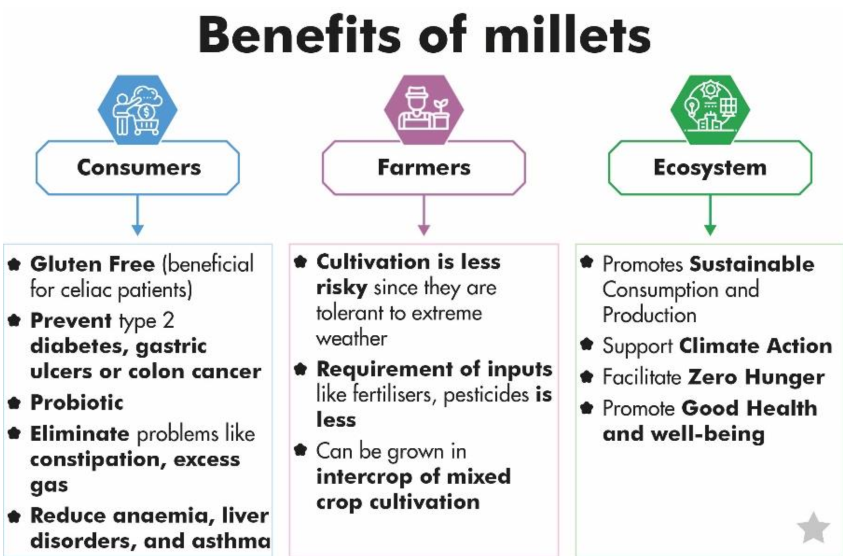
About International Year of Millets (IYM) 2023

- The **United Nations 2021** has adopted **India's proposal** to declare 2023 as the IYM.
- The IYM 2023 will provide an **opportunity to:**
    - **increase** global **production,**
    - **efficient processing** and better use of crop rotation,
    - **promote millets as a major component** of the food basket,
    - promote research and development on millet.

About millets

- Millets are a diverse family of **small-grained cereals** (Poaceae family)**, indigenous to various parts of India**.
- They are popularly known as **Nutri-cereals.**
- They contain **7-12% protein, 2-5% fat, 65-75% carbohydrates and 15-20% dietary fibre.**

Challenges in adoption of millet



- **Demand side constraints**
    - **Lack of public awareness** about nutritional benefit.
    - **Preference for wheat** among farmers and consumers.
    - **Increased demand for ultra-processed and ready-to-eat foods.**
- **Supply side constraints**
    - Inconsistent **supply and demand.**
    - **Sub-optimal reach** due to limited distribution and lack of market knowledge**.**
    - **Shortage of processing industry.**
    - Millet-based **snacks are not yet a strong substitute** for cheaper and seemingly tastier alternatives.

Initiatives taken to promote adoption of millet

- **National year of millets** was observed in 2018.
- **Increase in Minimum Support Price (MSP)** to support millet cultivators.
- Supply of **seeds and** inputs to farmers through farmer producer organizations (FPO'S).
- The **2022-23 Union Budget** provided support for **post-harvest value** addition, enhancing domestic consumption and branding of millets, etc.
- **Saksham Anganwadi and Poshan 2.0** mandates supply of millets at least once a week in midday meal scheme.
- **National Food Security Mission provides incentives to millet cultivators for** Quality seed production/distribution, Field-level demonstrations and trainings etc.
- **Indian missions abroad** tasked with branding and publicising Indian millets.

Way ahead to enhance the millet adoption

- Raise awareness about their **nutritional benefits to consumers**.
- Develop and fabricate machinery to improve the dehulling of millets without causing a loss of the nutritional content.
- Create **diverse seed banks** to ensure the availability of **planting material**.
- **Introducing a MSP for different varieties of millets**, suited to different agro-ecological zones.

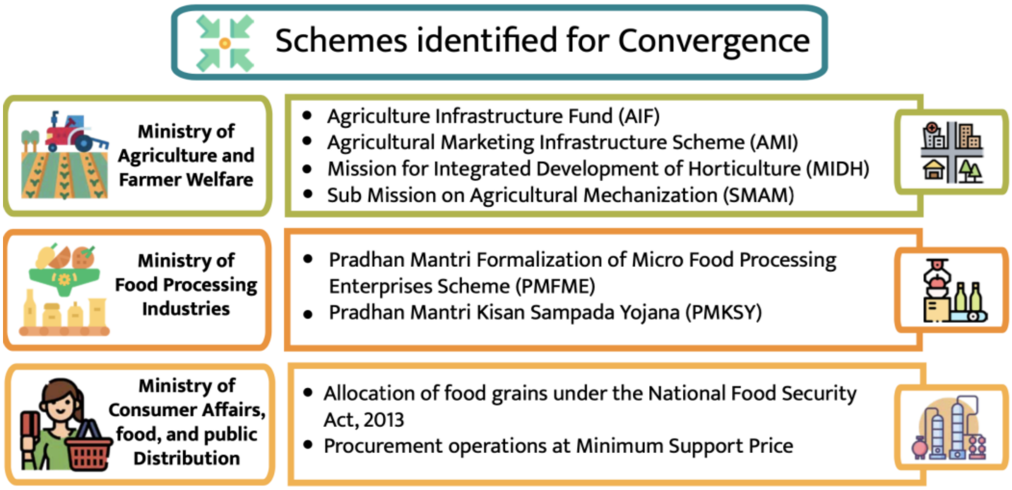
6.7. FOOD STORAGE IN INDIA

Why in news?

The Union Cabinet approved the constitution and empowerment of an Inter-Ministerial Committee (IMC) for the facilitation of the **"World's Largest Grain Storage Plan in the Cooperative Sector"**.

Grain Storage Plan

- **Aim:** The plan focuses on strengthening food security, reducing wastage, and empowering farmers by creating **godowns and agricultural infrastructure at the Primary Agricultural Credit Societies (PACS) level.**
- **Implementation:** An Inter-Ministerial Committee (IMC) will be constituted under the Chairmanship of the Minister of Cooperation.
- **Convergence of Scheme:** Various schemes have been identified for convergence under the plan (refer image).



Food grain management in India

- **Total production:** India produces about 3,100 lakh tonnes of food grains a year.
- **Food grain procurement mechanism**
    - **Centralized Procurement System:** The procurement of foodgrains in the Central Pool is undertaken either by the Food Corporation of India (FCI) directly or by State Government agencies procuring the food grains which hand over the stocks to FCI.
    - **Decentralized Procurement Scheme:** Food grains are procured and distributed by the State Governments themselves.

- **Distribution of foodgrains**
    - The **Central Government**, through FCI, has assumed the responsibility for procurement, storage, transportation, and bulk allocation of food grains to the State Governments.
    - **The operational responsibilities including** allocation within the State, identification of eligible families, issue of Ration Cards, and supervision of the functioning of Fair Price Shops, etc., rest with the **State Governments.**

Need for an effective food grain storage system

- **Developing backward and forward linkages:** It aids farmers as well as forward linkage systems such as the food processing sector.
- **Lack of local storage systems:** Substantial quantities of foodgrains are wasted due to improper storage at the farm level.
- **Improper storage management:** Often the stock stored in the warehouses remains in storage for more than its shelf life and such long storage makes grains prone to rodents, moisture, birds, and pests.
- **Unscientific storage:** About 80% of handling and warehousing facilities are not mechanized and traditional manual methods for loading, unloading, and handling food grains and other commodities are used.
- **Gaps in the number of storage facilities:** The FCI has insufficient grain silos and covered godowns with adequate storage capacities.
    - The country's current godown facilities can store only up to 47% of the produce.
- **Issues with cold storage:** India's cold storage capacity is unorganized and dominated by traditional cold storage facilities.
    - The distribution of cold storage is highly uneven with the majority of the cold storage being limited to Uttar Pradesh, Gujarat, Punjab, and Maharashtra.

Government initiatives for augmentation of grain storage capacity

- **National Policy on Handling and Storage of Food Grains 2000.**
- **Gramin Bhandaran Yojana** for the construction/ renovation of rural godowns to create scientific storage capacity.
- **The Warehousing (Development and Regulation) Act, 2007** made the Warehousing Receipt a negotiable instrument.
- **Private Entrepreneurs Guarantee (PEG) Scheme** to augment the storage capacity of FCI in PPP mode.
- **PM Kisan Sampada Yojana** for Development of cold storage facilities, specialised packaging units, warehousing facilities, etc.

Way forward

- **Reducing loss at farmgate:** Building of aggregation units (i.e., modern pack-houses and pooling points) at the village level with transport links.
- **Decentralisation:** More responsibility can be shared with States which are performing well such as Haryana, Punjab, Andhra Pradesh, Chhattisgarh, Madhya Pradesh etc.
- **Drying, aeration, and temperature control: Moisture and temperature determine how long the grain can remain in storage** without losing its quality. Therefore, altering storage methodologies and management in accordance with these indicators.
- **Strengthening traditional methods:** Traditional means of storage should be strengthened with modern inputs like Bamboo structures and Mud and earthen structures.
- **Removing Covered and Plinth (CAP) storage:** CAP should be gradually phased out with no grain stocks remaining in CAP for more than 3 months. Silo bag technology and conventional storage should be used instead.
- **Promoting private participation:** Government can also provide credit facilities for Farmer Producer Organizations (FPOs) to invest in storage warehouses, cold chain storage, etc.
- **Using emerging technology in food storage:** Adoption of technologies like Internet of Things, Blockchain, and Artificial Intelligence can aid foodgrain management.
    - **Sensors-based data can be used to assess the quality of grains** in real-time and maintain the temperature and moisture control variables accordingly.

6.8. ALLIED SECTOR

ALLIED SECTOR AT A GLANCE

Status of India's allied sector

- **7.9%** CAGR of Livestock sector during 2014-15 to 2020-21, contributing **30.1%** in total agriculture GVA in 2020-21 (at constant prices)
- **24%** 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
- **3rd largest** fish producing country in the world accounting for **8% 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.

Schemes/Initiatives

- **Mission for Integrated Development of Horticulture (MIDH)-** National Horticulture Mission (NHM), National Horticulture Board, Coconut Development Board.
- **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).
- **Pashudhan Jagruti Abhiyaan** to learn latest practices and techniques in animal husbandry.
- **Animal Husbandry Infrastructure Development Fund (AHIDF) National Livestock Mission (NLM)** to focus on entrepreneurship and breeds improvement.
- **National Animal Disease Control Programme (NADCP)** to control Foot & Mouth disease and Brucellosis.

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.

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.

6.8.1. AQUACULTURE SECTOR

Why in News?

The Ministry of Fisheries, Animal Husbandry and Dairying introduced the **Coastal Aquaculture Authority (Amendment) Bill, 2023.**

Features of the Bill

- The bill seeks to **amend** certain provisions of the **Coastal Aquaculture Authority (CAA) Act, 2005**, which **established the Coastal Aquaculture Authority** for regulating coastal aquaculture.
- **Scope:** It expands the scope of the CAA Act **beyond coastal aquaculture 'farms' to cover all the verticals and activities of coastal aquaculture** for its sustainable development.
- **Regulation of allied coastal aquaculture activities:** The Bill prohibits **coastal aquaculture activities** in Ecologically sensitive areas, No-Development Zones (NDZs) and within Coastal Regulation Zones (CRZs).
- **Decriminalization:** The Bill removes the imprisonment provisions of the Act for its contravention and replaces them with suitable monetary and other penalties.

Government Initiatives

- **Fisheries and Aquaculture Infrastructure Development Fund (FIDF)**
- **Pradhan Mantri Matsya Sampada Yojana (PMMSY)**
- **Production Linked Incentive (PLI)** Scheme for Food Processing Industry
- **100% FDI allowed** through automatic route in **Pisciculture and Aquaculture**
- Inclusion of fishers and fish farmers under Kisan Credit Card (KCC) Scheme
- National Policy on Marine Fisheries, 2017

India and Fisheries

Status in India	Significance of Aquaculture
3^{rd} **largest fish producer.** 2^{nd} **largest aquaculture** nation in the world. 4^{th} **largest exporter** of fish and fisheries. **58.5 million people** draw livelihood support from the sector.	**Food and Nutrition Security** to country's large population. **Delivery of ecosystem services** by filtering water and sequestering carbon. **Important source of foreign exchange.**

Issues with Aquaculture

- **Habitat loss** via effluent runoff, siltation of nearby areas, or other knock-on effects.
  - Aquaculture farms create a risk of entanglement for marine wildlife and can pose a barrier to migrations.
- **Water Pollution:** Chemicals and waste products in aquaculture effluent can cause toxic algal blooms, eutrophication, and oxygen-free dead zones in the water.
- **Introduction of non-native species:** in wild populations, compete with or displace native species, or interbreed with wild populations, affecting those populations' survival.
- **Unsustainable practices:** Fishery resources continue to decline due to overfishing, pollution, poor management, and other factors.

Way Forward

A responsible aquaculture policy will include:

- **Blue Transformation:** It proposes a series of actions designed to **support resilience in aquatic food systems and ensure fisheries and aquaculture grow sustainably**.
- **Protecting small-scale farmers:** Do not displace small-scale fishers by privatizing coastal zones or creating other inequities.
- **Global Fisheries Management:** Improving global fisheries management remains crucial to restore ecosystems to a healthy and productive state and protecting the long-term supply of aquatic foods.
- **Technical Innovations:** Focus priority areas for innovative aquaculture practices are aquafeeds and feeding, digitalization, and the promotion of efficient and pro-environment practices.

Related News

Recently, **Switzerland became the first WTO member to formally submit its acceptance of the WTO's new Agreement on Fisheries Subsidies**

- Agreement was adopted during the **12th Ministerial Conference of WTO** in **2022** under **'Geneva Package'.**
- Acceptances from **two-thirds** of WTO members are needed for the Agreement to come into effect.
- **Benefits of New Agreement on Fisheries Subsidies**
    - **Curbing Illegal, Unreported and Unregulated (IUU) Fishing:** By curbing subsidies to IUU fishing, the Agreement creates a powerful new weapon in the **global fight** against such fishing.
    - **Protecting Overfished Stocks:** By prohibiting subsidies to fishing on overfished stocks.
    - **Protecting Unregulated High Seas**: By prohibiting subsidies to fishing on the unregulated high seas, the Agreement also puts important protections in place **where management measures do not exist**.
    - **No Prohibition on Development Subsidies: No prohibition** has been imposed on a WTO Member regarding granting or maintaining subsidy to its vessel or operator **as long as it is not carrying out IUU fishing.**
    - **Subsidies for Rebuilding Overfished Stocks**: The agreement allows subsidies for fishing on overfished stocks as long as they are implemented to rebuild the stock to a biologically sustainable level.

6.9. FOOD PROCESSING SECTOR

FOOD PROCESSING SECTOR AT A GLANCE

Status of Food Processing Sector

- **Sunrise sector** with **8.3%** AAGR (FY17-FY21), 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 **12.2% 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'.

6.10. AGRICULTURAL EXPORTS

AGRICULTURAL EXPORTS AT A GLANCE

Status of India's Agricultural Exports

- India's agriculture exports touched **a historic high of USD 50 billion** during 2021-22
- India has been a **net exporter of** agri-products **since the economic reforms began in 1991**
- **Share of India's agricultural exports in the world agriculture trade in 2021** was **2.4%**
- **Share of agricultural exports in India's total merchandise exports** was **11.9%** **in 2021-22**
- **Major destinations** of exports for India's Agri and Allied commodities were Bangladesh, United States of America, China, Vietnam, and United Arab Emirates

Government initiatives to increase Agricultural Exports

- **Agriculture Export Policy 2018** with a focus on agriculture export-oriented production, export promotion to increase farmers' income, and harness export potential.
- Issuing **online certificates** for exports with increased **testing facilities.**
- **Transport and Marketing Assistance** (TMA) **Scheme** for Specified Agriculture Products to mitigate freight disadvantage.
- A **Farmer Connect Portal** set up for **farmers, FPOs/FPCs, cooperatives** to interact with exporters.
- Assistance to the exporters of agricultural products available under the **Export Promotion Schemes** of APEDA, MPEDA, Tea Board etc.
- **Krishi UDAN 2.0** Scheme to facilitate and incentivize movement of Agri-produce by air transportation.

Constraints

- **Poor and inefficient backward integration,** especially for perishables resulting in quality and longevity issues.
- **Lack of training and skill development** at both the farm level and exporters' level.
- **Inadequate harvest and post-harvest management.**
- **Low value addition** in food products.
- **Non-tariff barriers** such as sanitary and phytosanitary standards in attractive markets such as Europe.
- **Inability to export horticultural produce** due to lack of uniformity in quality and losses across the value chain.

Way Forward

- **Policy alignment** with WTO rules and emerging technologies such as AI, IoT and Blockchain.
- **Addressing non-tariff barriers** through mutual agreements and standardization of food products.
- **Strengthening agri-food supply chain** through improving logistics, embedding technology, infrastructure creation etc.
- Create **state led export plans** with the Centre acting as an enabler.
- **Increase investments in R&D** and technology.

7. INDUSTRY

7.1. INDUSTRIAL POLICY

INDUSTRIAL POLICY AT A GLANCE

17% 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).

9 Indian companies feature in Fortune 500 list of 2022.

Key objectives

- Transform India into a **major partner and player in the global arena.**
- Maintain **a sustained growth in productivity** and enhance gainful employment.
- Promote in a planned manner the adoption of **'Industry 4.0'.**
- Attract **$100 bn inward FDI** annually and support outward FDI to assert Indian presence in world markets.
- **Create Indian premium international brands** and showcase them as an **attractive investment destination.**

Policy/Schemes/Initiatives

- Progressive Liberalization of Industrial Policy since 1991 for a bigger role of private initiatives.
- **Infrastructure Development** through SEZ, Technology parks, National Investment and Manufacturing Zones (NIMZs), National Industrial Corridors Programme (NICP) etc.
- **PM Gati Shakti National Master Plan.**
- **Production-Linked Incentive (PLI)** for various sectors to boost manufacturing and export.
- 29 labour laws amalgamated into **4 labour codes.**
- **Other Laws, Policies and Reforms-** Make in India, Competition Act (2002), MSMEs Act (2006) and National Manufacturing Policy (2011), GST Reforms, IBC Code.

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** and adoption including Data security, reliability of data and stability etc.
- **Lack of quality industrial infrastructure and connectivity** leading to high logistics costs and reduced export competitiveness of Indian goods.
- **Challenges of regulatory uncertainty, restrictive labour laws, IPR issues** and delays, power shortages, absence of firm-level data, supply chain disruptions, rising input costs etc.

Way Forward

- **Revitalising the Manufacturing Economy** through demand generation, augmenting **industrial infrastructure and promotion of MSMEs.**
- Continued Liberalization to encourage FDI and private investment in manufacturing.
- Setting up mega parks and manufacturing clusters in labour-intensive sectors.
- Initiative to push the 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 Agreements.
- **Increase R&D expenditure and robust IPR regime** for holistic and sustainable development of IPRs.

7.2. MAKING INDIA A MANUFACTURING HUB

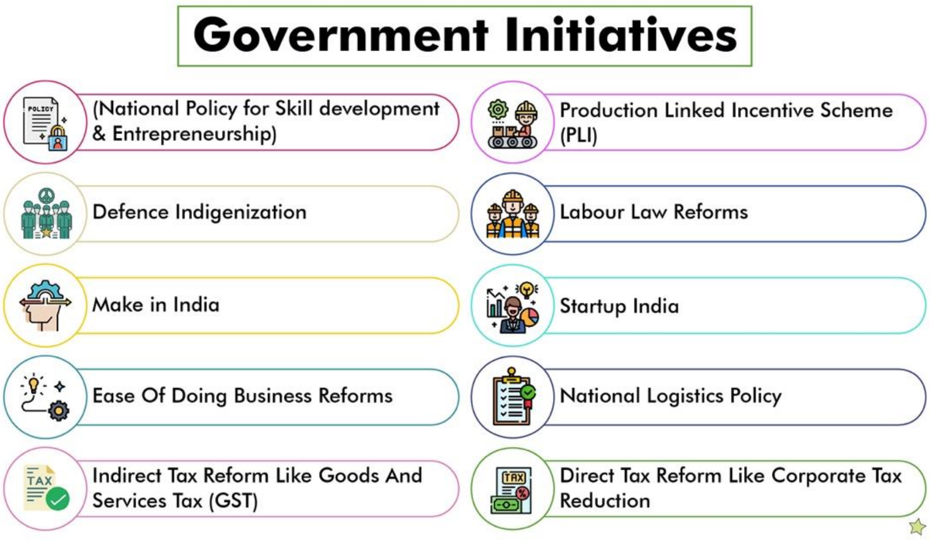
Why in News?

Recently, Prime Minister shared India's aim to become a **manufacturing hub** while participating in the **Shanghai Cooperation Organisation (SCO) Summit, 2022**.

Manufacturing Sector of India

- India is **amongst the top 10 manufacturing nations of the world,** with the 2nd largest mobile phone manufacturer capacity and the **third-largest startup environment.**

- The manufacturing sector employed **6.24 crore** people in **2019-20** (as per the **economic survey reports**) and received **US$ 21.3 billion** of **FDI** in **2021-22**.
- Also, its performance on international benchmarks has improved significantly to attract manufacturers' interest. E.g.
    - **2nd most sought-after** manufacturing destination of the world in the **Global Manufacturing Risk Index** from Cushman & Wakefield's.



Factors Supporting India's Rise as Manufacturing Hub

Internal Situation	• **Industry Confidence:** India's Manufacturing PMI (Purchasing Managers Index) has stayed **above 50** for the **23rd consecutive month since June 2021.** ○ It shows the **good shape of India's manufacturing**, despite global headwinds and rising recession fears elsewhere. • **Large workforce:** India will add **22%** of the **new global workforce** in the next three decades, i.e., between **2020** and **2050** (**UN Population Fund**, 2019). • **High Economic Growth:** Indian economy is the fastest-growing major economy and is expected to become the world's **2nd biggest economy** by 2047. • **Large Domestic Market:** The **rising incomes** and **decreasing rural-urban divide** support domestic demand rise.
External Circumstances	• **Supply chain disruptions** due to the pandemic and other reasons. This has led to **Supply Chain Resilience Initiative (SCRI)**. E.g., SCRI between India, Japan, and Australia. • **US-China Trade War** or change in relationship from '**cooperating rivals**' to '**competing rivals**' adds to supply chain disruptions, forcing companies to diversify their manufacturing sector (also known as the **China+1 approach**). ○ E.g., Apple has moved a significant share of its production to India. • **The situation in China:** The **ageing population** and **rising labour costs** of China have also forced companies to look for more sustainable alternatives.

Constraints in India's rise as Manufacturing Hub

Though India **attracted global interest** to take advantage of low production costs and growing manufacturing competitiveness, its **total share in global manufacturing is still limited.**

Internal Bottlenecks	• **Slow and incomplete Economic Reforms**. E.g., Slow **labour reforms** due to differences between Union and State policies. • **Legal Issues:** It includes legal issues such as **restrictive labour laws**, **lengthy compliance**, **poor Intellectual Property Rights (IPR) protection**, **lengthy litigation of disputes** etc. • **Low Competitiveness:** India's exports suffer in **cost** and **quality** due to **high logistics costs, high fluctuations in raw material prices** due to high inflation, **dominance of informal or MSMEs sector**, **obsolete technology**, no assured power supply etc. • **Poor Capital Access:** Access to formal capital is limited due to the large number of informal enterprises with poor financial records, lack of business plans etc. • **Skilled Manpower:** In **India**, only **4.69% of workers** are formally skilled as compared to **24%** in **China**, **75%** in **Germany**, and **96%** in **South Korea.** • **Lack of entrepreneurial economy** or risk-taking from the private sector due to a little supporting ecosystem for high-end tech manufacturing, etc.
External Risks	• **Cyclical Slowdowns in Global Markets** leading to decline in fresh investments and demand constraints**.** • **Slow Progress on Trade Agreements** with European Union, UK, and others, giving benefits to those with such agreements. E.g., **EU-Vietnam Free Trade Agreement**.

	• **Increasing Spillover Risk** from geopolitical tensions such as ongoing Russia-Ukraine war and Tensions between USA-China. • **Uncertain Currency Markets** due to strengthening of dollar against rupee and most other currencies. • **Increasing Challenges to Globalization** and **WTO's multilateralism** due to shift of focus towards bilateral trade and investment treaties among nations.

Way Forward

- **Policy harmonization between Centre and State government** for effective implementation of government initiatives.
- **Improved coordination between government and private sector** to create a globally competitive manufacturing sector.
- **Capacity Building** through promotion of **innovation, entrepreneurship, and skilling initiatives**.
- **Ensure energy self-sufficiency** and adopt an **integrated approach to the supply chain** to reduce logistics costs with higher speed, flexibility, and resilience. E.g., **National Industrial Corridor Programme** (NICP) for developing the complete ecosystem.
- **Increase India's exports** by reducing trade barriers (e.g., through trade agreements) and revitalization of **WTO multilateralism** to provide global market access to manufacturers.

Progress made under Make in India

- **FDI inflows in India doubled to $83.6 billion**, highest ever in FY2021-22 from US $45.15 billion in 2014-2015.
- **Import of toys** in FY2021-22 have **reduced by 70%**.
- **Production Linked Incentive scheme across 14 key manufacturing sectors** was launched to **strengthen domestic manufacturing**, boosting export potential etc.
- **Incentive scheme** was launched to build a **semiconductor, display, design ecosystem** in India.
- **One District, One Product** initiative to help districts by identifying, promoting, and branding a product.
- **Public Procurement (Preference to Make in India) Order 2017** promote manufacturing and **production of goods and services in local industry** to enhance income and employment.

7.3. PRODUCTION LINKED INCENTIVE (PLI) SCHEME

PRODUCTION-LINKED INCENTIVE (PLI) SCHEME AT A GLANCE

Why PLI Scheme?

- **Stagnant manufacturing** contribution to GDP (15-17% since 1991)
- **Large number of MSME's** with nearly 90% workforce in informal jobs
- **Global Push for alternatives to China** (China+1 strategy)
- **Initiatives like National Manufacturing Policy, Make in India** etc. have had limited success

Potential of PLI Scheme

- **Increase registration of new manufacturing companies.**
- **Add over $500 billion worth of manufacturing** in sunrise and strategic sectors in **next five years**
- Adding nearly **4% to GDP per annum** in terms of incremental revenue, if fully realised.
- **Greater Strategic Autonomy** (e.g. in telecom) and strengthening existing **comparative advantages** (e.g. in pharma) by localising the most critical aspects of the value chain.
- **Achieve $100 bn plus inward FDI** annually and building India's goodwill and **assert Indian presence** in world markets.

Achievements of PLI scheme

- **Significant increase of 76% in FDI** in the Manufacturing sector in FY 2021-22.
- **Exports boosted** by Rs 2.56 Lakh Crore.
- **Employment generation** of around 3,25,000 people.
- Actual **investment** of Rs. **62,500 Crore** has been realized till March 2023.
- **Import substitution of 60%** has been achieved in the **Telecom sector.**

Challenges to the Scheme

- **Lack of Manufacturing Culture** due to structural issues and limited skilled workforce.
- **Muted domestic manufacturing** since demonetisation due to lopsided initial years of GST, pandemic, etc.
- **Policy and Economic constraints** due to issues of restrictive labour laws, clearance delays and necessary funds to build world-class infrastructure for efficient and competitive manufacturing.
- **Availability of Raw Material** with rising commodity prices and supply chain disruptions.
- **Other Challenges like- Tough competition** from Vietnam and China; Implementation issues and availability of technology.
- **Delayed PLI payments** due to funds shortage and other reasons.

Way Forward

- **Augment industrial infrastructure and connectivity** by increasing expenditure on infrastructure creation for improved competitiveness.
- **Enhance overall business environment** to encourage investments through continued Ease of Doing Business reforms such as **"single window" regulatory system** in all states.
- **Revitalising Manufacturing Economy** through revival of domestic demand and optimizing supply-chain to reduce logistics cost with greater resilience.
- **Regular Scheme Review** to keep track of progress and address concerns over raw materials, funds, skilled workforce, payments etc.
- **Increase investments in innovation, research and skill development** to build necessary talent for PLI success.

7.4. TEXTILE SECTOR

TEXTILE SECTOR AT A GLANCE

Status of Textile Sector in India

- It contributes **2.3% to the Indian GDP,** 12% to the export earnings of India and **held 5% of the global trade** in textiles and apparel
- India is one of the **largest producers of cotton & jute in the world, the second-largest** producer of silk in the world the 5th largest producer of Technical Textiles
- **95% of the world's hand-woven fabric** comes from India
- It provides direct employment to over **45 million people (21 % of total employment)**

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 a shortage in the supply of raw materials and an increase in their material costs.
- **Infrastructure bottlenecks:** Poor conditions of roads, highways, etc. creates supply chain constraints and increase lead time, inventory holding cost and inventory carrying cost.
- **Highly competitive export market:** In the global market tariff and non-tariff barriers coupled with a **lack of free/preferential trade agreements** are a major challenge to the Indian textile Industry.

Way Forward

- **Utilizing upcoming opportunities in non-wovens and technical textiles** based on changing consumer trends including increasing emphasis on fitness and hygiene, rising brand consciousness, fast-changing fashion trends, etc.
- **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 the 45th GST Council Meeting.
- **Fast-tracking Free trade agreements (FTA)** negotiation with countries like the EU to enhance the export competitiveness of Indian apparel.
- **Focus on technology up-gradation** by utilizing new and upcoming development in AI and automation.
- **Incentivizing production of sustainable fabrics and apparel** by promoting up-scaling and reuse of existing fabrics and adoption of natural dyes.

7.4.1. TECHNICAL TEXTILES

Why in news?

Recently the **Ministry of Textiles** issued two guidelines under the Flagship Programme of the **National Technical Textile Mission (NTTM).**

About the Guidelines

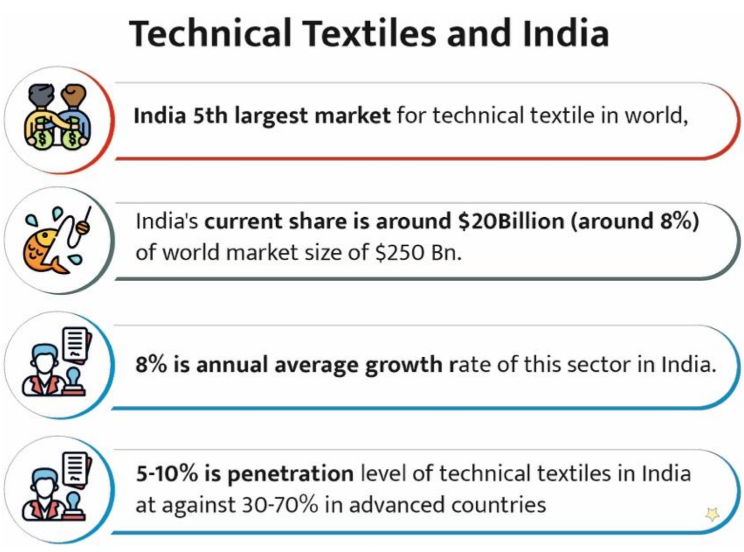
- **Under the Education, Training, and skilling component of NTTM,** the goal is to enhance the level of **education and exposure** to prospective **Indian Engineers/Professionals in Technical Textiles.**
- The **primary aim** is to ensure an adequate volume of talent is developed in this sunrise sector. For this purpose, the following **two guidelines have been issued:**
    - General Guidelines for Enabling of Academic Institutes in Technical Textiles- for Private& Public Institutes.
        - ✓ It will enable the **New Technical Textiles Degree Programme (UG & PG)** and **updating of existing** conventional degree programmes **with new papers on Technical Textiles**
    - General Guidelines for **Grant for Internship Support in Technical Textiles (GIST).**

National Technical Textile Mission (NTTM)

- **Aim:** To make **India as a global leader in Technical Textiles** and increase the use of technical textiles in the domestic market.
- **Target:** Domestic **market size of technical textile to $ 40-50 Billion by 2024** with average growth rate of 15-20% per annum.

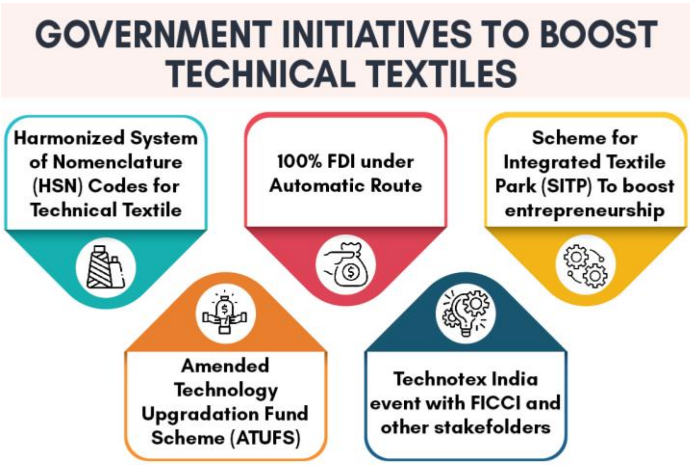
Significance of Technical Textiles

- **Cost-effective and user-friendly:** It serves as a **tough, lightweight alternative to metals and allows for numerous customization options.**
- **Environmentally sustainable: Reduces textile waste** and limiting environmental impact.
- **Production is flexible, continuous, and versatile** and has application in a wide range of industrial, health, and consumer products.
- **Lighter weight while being durable,** used in medical apparel, sportswear is woven fabrics.
- **Other benefits:** Logistical Convenience, High levels of **uniformity,** Consistency in high-temperature applications, Renders the product multifunctional etc.



Challenges in the technical textile sector

- **Lack of Awareness** due to a **lack of marketing and basic knowledge** about these products.
- **Development of Skilled Workforce** which is currently absent in the domestic industry.
- **Lack of Research & Development:** Indian technical textiles industry is facing issue of a **lack of product diversification** (Packtech alone accounts for 41% of the total market share).
- **Imports of technical textiles:** India imports significant amount of technical textiles mainly cheap products from China and US & Europe.
    - This signifies that **Indian technical textiles industry is lacking scale and the capacities** to manufacture high-tech products.
- **Structural issues:** Importing of raw materials for technical textile products is costlier in India as compared to importing finished goods due to the inverted duty structure.



Way ahead

- **Awareness creation:** Government and the industry need to build a solid infrastructure to educate people about technical textiles.
- **Skilled workforce:** There is an immediate need to organize specific forums for interaction between industry and academia so that specific curriculum could be developed for technical textiles.
- **Opportunity for domestic manufacturers**: Indian industry need to develop manufacturing capabilities for raw material of technical textiles while technical textiles manufacturers need to upgrade their machinery.
- **Continuously expand** the HSN Code list of technical textiles to keep pace with the development and emergence of ever newer products in the industry.
- **Continuously identify** and focus on technical textile products and segments to align the support with priorities of **Atmanirbhar Bharat** (Self-reliant India) and expansion of India's exports.

8. SERVICES

8.1. SOFTWARE AS A SERVICE (SAAS)

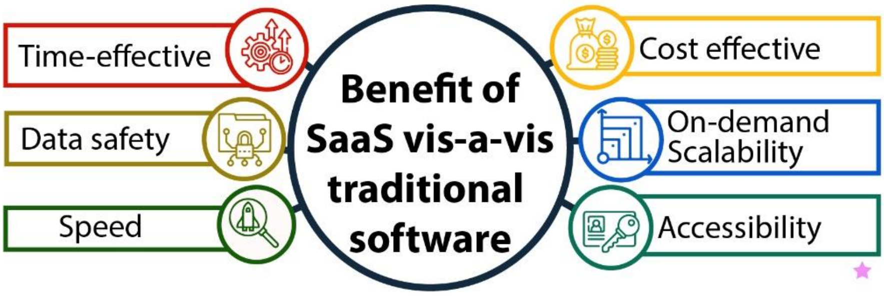
Why in news?

A report titled **"India: The Next Global SaaS Capital"** recently released by the Confederation of Indian Industry (CII) and EY, **highlighted the Indian SaaS industry's unique value and the enormous impact being created by Indian SaaS.**

About Software as a service (SaaS)

- SaaS is a software distribution model in which a **cloud provider hosts applications** and makes them available to end users over the Internet. For example, it includes services provided by Google Workspace, Adobe Creative Cloud, Github etc.
- **Key features of SaaS**:
  - It is **rented from a software vendor** who also provides technical support.
  - It is provided on a **subscription basis**.
  - The software can be **accessed on multiple devices**.
- It is one of three main categories of cloud computing, alongside-
  - **Infrastructure as a Service (IaaS)** where company leases a whole digital infrastructure (servers, network resources, etc.) for organizing business activities, creating applications, data storing, etc.
  - **Platform as a Service (PaaS)** where cloud environment (hardware, software, development tools and infrastructure) is provided for creating apps and their further support.

SaaS sector in India



- **India is the 3rd largest SaaS ecosystem globally**, after the USA and China.
  - India is on the path to **surpass China to become the 2nd largest SaaS nation in the world by 2026.**
- India presently has **21 SaaS unicorns** as compared to one in 2018.
- The **number of SaaS companies in India has more than doubled** in 2021 as compared to 2019.

Reasons behind the growth of the SaaS industry in India

- **Large consumer base in India**, further enlarged by increasing smartphone usage, digitization of financial services and pandemic-induced remote or hybrid work models, large-scale digitization of enterprises and small and medium businesses etc.
- **Global validation of Indian SaaS unicorns** and the emergence of scaled-up and mature SaaS companies.
- **Abundant liquidity with growing interest from International Venture capitalists** in Indian SaaS companies.
- **The vast pool of digitally skilled workforce.**
- **Paradigm shift to an on-demand, subscription-based model** instead of legacy, on-premises products.
- **Supportive start-up policies** helped in rise of ambitious and dynamic Indian entrepreneurs in the SaaS sector.

Pro Start-up policies in India	
Regulatory	• **Tax exemption and simplified compliance** under Start-up India scheme.
Financial	• **Start-up India Seed Fund** with an outlay of INR 945 Crore and Credit Guarantee Scheme.
Technology	• **Fast tracking of Start-up Patent applications** and provision of 80% rebate. • **National Small Industries Corporation Infrastructure Scheme** to provide ready-to-move in office space, computer hardware and software facilities, internet, and business Centre facilities.
Other	• **SAMRIDH (Startup Accelerator of MeitY for Product Innovation, Development and Growth)** Scheme to accelerate start-ups through customer connects, investor connects, and facilitation of international expansion.

Challenges in SaaS sector for India

- **Wide talent and knowledge gap**: There is a shortage of trained workforce with necessary workforce specific technical and managerial skills.
- **Difficulties in complying to norms related to data protection and privacy,** e.g., European Union's General Data Protection Rights (GDPR).
- **Lack of awareness and hesitancy in adoption among Indian businesses,** especially small and medium enterprises, with regards to using SaaS for operations.
- **Challenges faced by Indian start-up enterprises in expansion**: Most early-stage SaaS companies out of India struggle with funding, competition from big players, and go-to-market (GTM) strategies when it comes to scaling globally.
- **Poor internet connectivity in India**, being limited to prominent cities.

Way Forward

- **Focusing on building sustainable talent pipelines** and conducting regular knowledge transfer/skill-sharing workshops for creating a cadre of trained workforce.
- **Raising awareness and handholding Indian businesses** to enhance adoption of SaaS facilities.
- **Assisting start-ups in initial stages by creating mentorship linkages** in the SaaS sector, with the help of initiatives like Start-up India.
- **Facilitating connectivity to faster internet** by launching 5G networks.

8.2. E-COMMERCE

E-COMMERCE SECTOR AT A GLANCE

Status of E-commerce sector in India

- **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$ 350 billion by 2030**
- **I3rd 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 favorable 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. Development of a framework to **check fake reviews on e-commerce platforms.**

8.2.1. E-COMMERCE PROMOTION AND REGULATION

Why in news?

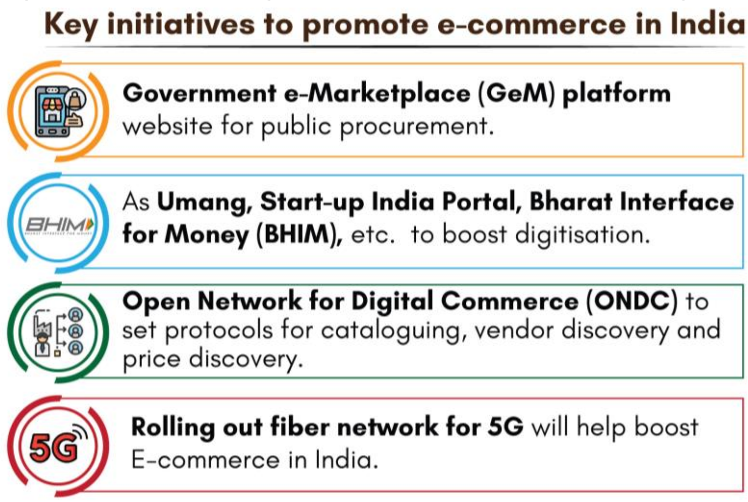
Recently the Parliamentary standing committee on Commerce submitted its report on 'Promotion and regulation of e-commerce in India'.

Laws Governing E-Commerce in India

Consumer Protection (E-Commerce) Rules, 2020	Foreign Direct Investment (FDI) policy, 2020	Other legal mandates
The rules are issued under the Consumer Protection Act, 2019. • **Prohibits** e-commerce entities from **adopting any unfair trade practices, manipulating the price, etc.** • **Rules have extra-territorial application.** • Mandates e-commerce entities to **establish an adequate grievance redressal mechanism.** • To appoint a **nodal person** of contact who is resident in India, **to ensure compliance.**	• FDI-backed e-commerce entities **can engage only in Business to Business (B2B) e-commerce** and not in Business to Consumer (B2C) e-commerce. • **100% FDI** under the automatic route **for a marketplace-based model of e-commerce.** • **FDI is not permitted** in the **inventory-based** model. • An e-commerce entity providing **a marketplace is not allowed to exercise ownership or control over the inventory** purported to be sold.	• **Information Technology Act, 2000** (IT Act): Under it, Information Technology Rules, 2021 (amended 2023) require **intermediaries to publish their rules and regulations, privacy policy and user agreement,** etc. • **Competition Act, 2002**: Provides for **preventing practices** that have an **adverse effect on competition or are related to abuse of dominant position.** • **Legal Metrology Act, 2009:** Any e-commerce entity must comply with and meet the standards relating to **labelling and packaging**.

Key Highlights of report

- Committee proposed to **bring out a new Digital Markets Act to govern business practices**, including data collection and use by digital economy companies, or to **introduce certain guidelines in Competition Act** to address the concerns.
- The committee has proposed **an ex-ante model instead of ex-post model for regulation.**
  - The **ex-ante model of regulation entails a code of conduct** for Big Tech including on data collection and use.
  - It will **entail defining big tech companies acting as 'gatekeepers,'** i.e., business platforms that act as a gateway for small firms to reach out to end consumer. This will help **regulate digital markets better**.



Other issues and recommendations by the report

Specifications	Concerns	Recommendations
Cyberattacks	• Concerns regarding the **safety of online shopping.**	• **National Cybercrime Policy or legislation** that lays down the framework for addressing cybercrime.
FDI Policy	• FDI policy is **limited in addressing anti-competitive practices.** • Obligations under FDI policy are formulated and notified by DPIIT but **enforced by Enforcement Directorate, leading to confusion and dissatisfaction** amongst several trade organisations.	• **Stable FDI policy regime be ensured in the e-commerce sector.** • **Enforcement mechanisms under FDI policy must be strengthened** and proactive actions should be taken against e-commerce giants that are found to defy FDI rules.
Lack of Data	• Critical data regarding e-commerce has **not been collated and maintained.** • E-commerce **companies are not registered with DPIIT.**	• DPIIT should **direct its resource towards maintaining appropriate data.** • It should be mandatory for all **e-commerce companies to be registered with DPIIT.**
Abuse of dominant position	• Delay in **undertaking timely amendments** to the regulatory framework.	• Competition Commission of India (CCI) should **take forward the recommendations of Competition Law Review Committee (CLRC).**

Gaps in regulation	• **Lack of coordination between different Ministries/Departments** concerned.	• **Digital Market Division within CCI can be created as an expert division.**
IPR infringement	• **Unhindered presence of counterfeit products** negatively impacts the revenue of genuine manufacturers.	• **Due diligence measures must be imposed on sellers and platforms** to check infringement of IPRs.

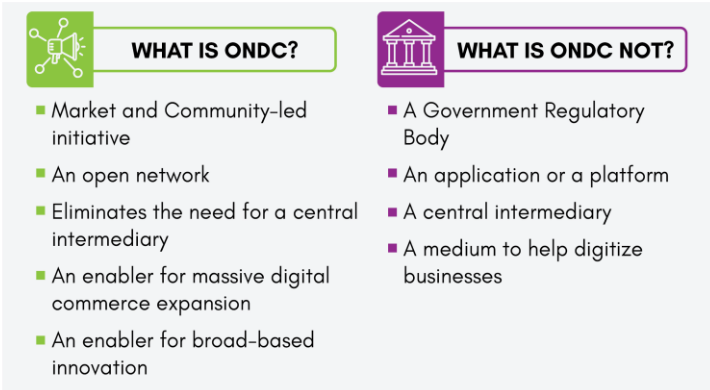
8.2.2. OPEN NETWORK FOR DIGITAL COMMERCE (ONDC)

Why in news?

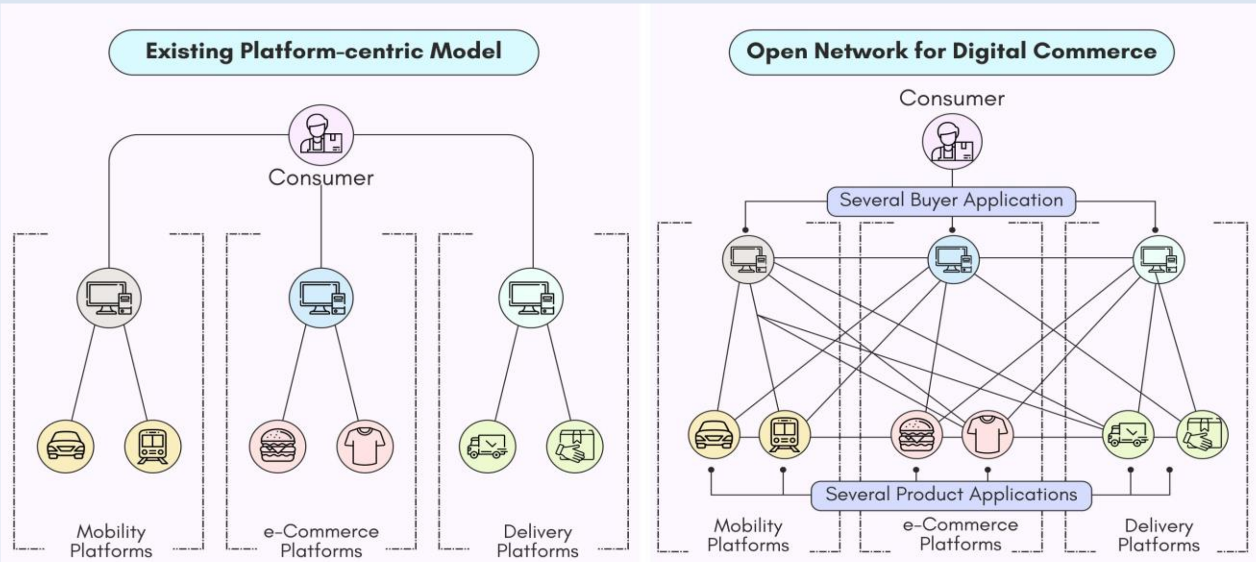
ONDC network recently started beta testing with consumers in Bengaluru.

What is Open Network for Digital Commerce (ONDC)?

- ONDC is an **initiative of the Department of Promotion of Industry and Internal Trade (DPIIT),** Ministry of Commerce.
- It aims at promoting **open networks for all aspects of exchange of goods and services** over digital or electronic networks.

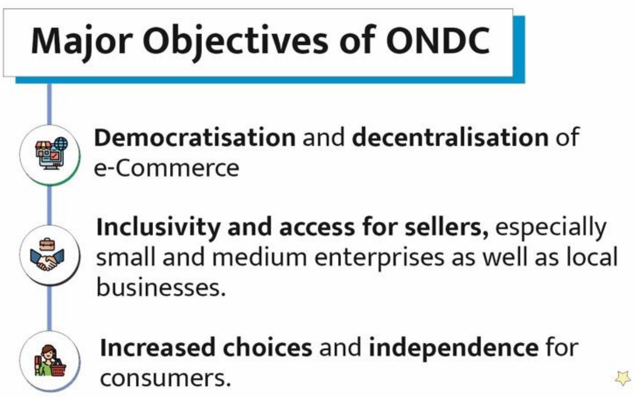


How is ONDC different form traditional e-commerce models?
Unlike traditional paradigm of e-commerce, ONDC is not dependent on any specific platform and technology. It is an open network of platforms/applications which are interoperable, as a result of which operational control is decentralised.



Significance of ONDC in India

- **Ending monopolistic tendencies:** ONDC will lower entry barriers for local businesses and create a level playing field for the e-commerce landscape.
- **Enhancement of value for consumers:** Consumers can potentially discover any seller, product, or service by using any compatible application or platform.
    - It can **bridge the huge disconnect between the scale of online demand and the ability of the local retail ecosystem** to participate.



- **Moving away from an operator-driven platform-centric model:** Consolidating most of the trade of digital commerce in one platform creates concentration risk.

- It can also lead to exclusion and discretionary behaviour, limiting the choice and freedom of the buyers and sellers.
- ONDC resolves these issues by creating a facilitator-driven interoperable decentralised network for e-commerce.

- **Formalizing local businesses:** Around 1.2 crore hyperlocal merchants (Kirana) account for 80% of the retail sector in India, with 90% of them being unorganized, or self-organized.
  - ONDCs can help in their formalization by creating active digital history and enabling easier access to finance options.
- **Growth and Development: ONDC will enable economic development and livelihood creation opportunities** across the digital commerce value chain i.e., logistics, packaging, last-mile delivery, etc.
- **Encouraging widespread participation of small and medium enterprises:** ONDC can help lower entry barriers for Micro, Small and Medium Enterprises (MSMEs) that have the potential to flourish with innovative sales and marketing efforts.

Potential challenges in implementing ONDC

- **Grievance redressal:** Decentralized system can lead to lack of clarity over who shoulders the responsibility for customer service and redressal in case of grievances.
- **Difficulties in ensuring compatibility and interoperability** of the existing platforms/applications of the buyers and seller.
- **Limited technical capability** of local businesses and MSMEs to be onboarded on the digital network.
- **Privacy and security concerns:** Such open network may lead to collection of personal data which may have privacy issues and its open nature may expose it to hackers.
- **Competition from big players**: Local business will find it extremely challenging to compete with the discounts, sales and other lucrative offers, being offered by prominent e-commerce players.

Way Forward

- **Provide technical support** to small and local businesses to use and design a technical tool, compatible with ONDC protocol for their digital onboarding.
- **Minimal personal data collection**: Data exchange protocols should be designed to minimize friction. Also, it must be based on clear rules that protect the consumer interest i.e., the platform should be built on "privacy by design" principles.
- **Leverage the strength of India's Startup ecosystem** to build ONDC based applications.
- **Establishing trust among consumers**: Clear guidelines on grievance redressal need to be established.
  - For the purpose, ONDC is conducting a public consultation on 24 issues pertaining to payments, fulfilment of orders, refunds and cancellations on building trust in the ONDC Network.
- **Encourage niche products and services**: For instance, ONDC can be integrated with One District One Product (ODOP).

E-Commerce Exports

Recently, Global Trade Research Institute released a report on Realising India's E-Commerce Exports Potential.

- **Key highlights**
  - Global B2C e-commerce exports are predicted to increase from $800 billion to **$8 trillion by 2030.**
  - India **must plan to export $350 billion**, or about one-third of its total goods, through E-Commerce **by 2030**.
- **Key recommendations**
  - **Create separate customs codes** for E-Commerce shipments.
  - Focus on **developing market intelligence and organizing training for artisans.**
  - Launch the **India Quality Product (IQP) label** for strict quality control and to prevent counterfeit products.

Provisions for E-Commerce Exports in Foreign Trade Policy, 2023

- **Facilitation for E-Commerce exports**
  - All **FTP benefits are to be extended** to e-Commerce exports.
  - The consignment-wise **cap** on E-Commerce exports through courier has been raised from **₹5 Lakh to ₹10 Lakh**.
- **Dak Ghar Niryat Kendras**
  - It shall be operationalized in a **hub-and-spoke model with Foreign Post Offices (FPOs**) to facilitate cross-border e-Commerce.
  - It will **enable artisans, weavers, craftsmen, and MSMEs** in the hinterland and land-locked regions to reach international markets.
- **E-Commerce Export Hubs**
  - **Designated hubs with warehousing facility** to be notified, to help e-commerce aggregators for easy stocking, customs clearance and returns processing.

Mains 365 - Economy

8.3. TELECOM SECTOR

TELECOM SECTOR AT A GLANCE

Status of Telecom Sector

- 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 one of the **largest sector in terms of FDI inflows,** contributing around 6% 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 and Rural areas**

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 prospectively.
  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**
- **Design led Incentive (DLI) Scheme** (part of the Production Linked Incentive (PLI) Scheme)
- **Amendment to the Indian Telegraph Right of Way (RoW) Rules, 2016** for rapid expansion of the Telecom Network.
- Creation of Telecom **Technology Development Fund (TTDF)**

Way Forward

- Strong **Health and Sanitation protocol** to make tourism COVID resilient.
- **Infrastructure status,** as provided by **the 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.

8.3.1. DRAFT INDIAN TELECOMMUNICATION BILL, 2022

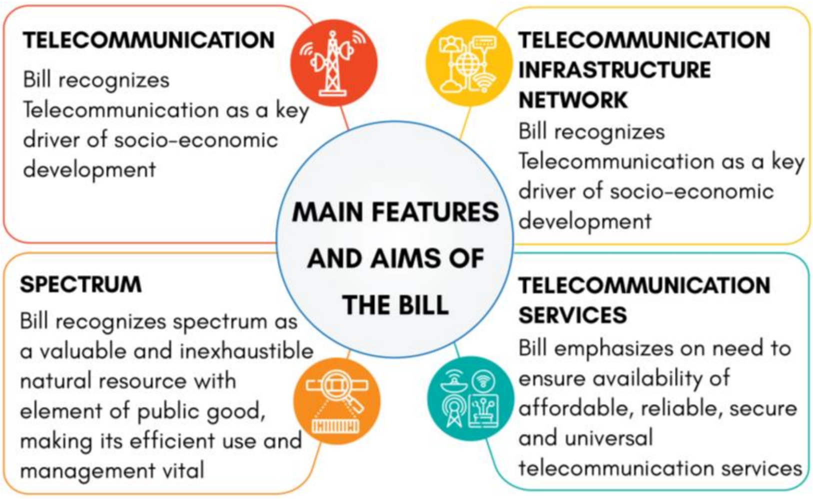
Why in News?

The **Ministry of Communications** has released the **draft Indian Telecommunication Bill, 2022** for public comments.

Purpose of Draft Indian Telecommunication Bill

- **To consolidate and amend the existing laws governing the provision**, development, expansion and operation of telecommunication services, telecom networks and infrastructure, in addition to the assignment of spectrum.
  - The existing regulatory framework includes **Indian Telegraph Act, 1885**, **Wireless Telegraphy Act, 1933** and **Telegraph Wires (Unlawful Possession) Act, 1950**, i.e., even the latest is over 70 years old.
- It also seeks to amend the **Telecom Regulatory Authority of India Act (TRAI Act)** to dilute the sectoral watchdog's function of being a recommendatory body.

Key Provisions of the Bill



- **It replaces outdated concepts with new comprehensive** and **relevant definitions.**
  - E.g., the new definition of telecommunication services includes OTT or Over-the-top communication services etc.
- **It recognizes the exclusive sectoral privilege of the Central Government** and provides structure to exercise its privileges through the grant for **licenses, registrations, authorization.**
  - Also, it empowers the central government to set an **Alternate Dispute Resolution Mechanism** for disputes.
- **Robust Right of Way (RoW) for Telecommunication Infrastructure** within the federal structure, to obtain RoW in a uniform, non-discriminatory manner.
- **Simplifies Restructuring Framework**, i.e., mergers, demergers, acquisitions, or other forms of restructuring, by complying with the **Companies Act, 2013** and **informing** the Department of Telecommunications, as required.

Potential benefits of the Bill

- **Aligns Indian telecommunication standards** with international standards and best practices.
- **Broadens Telecom Service Providers (TSPs) Definition** to provide level playing field with OTT platforms such as **WhatsApp, Telegram, Google Meet** etc.
- **Stops Harassment from Spam Calls and Frauds** by communicating identity (name) of the caller to receiver.
- **Increased Legal Certainty** on spectrum management for its optimum utilization with greater clarity on companies' operation and restructuring.
- **Ease of Doing Business** by easing regulatory regime, decriminalization of certain offences, elimination of obsolete penalties and other measures to boost investments.

Issues associated with the Bill

- **Increased Government control** over internet shutdowns through framework on Internet Shutdown.
  - It raises concerns over availability of an **open and free internet** to its users.
  - Also, it does not clearly outline the availability of **safeguards** like **judicial oversight**, rising privacy concerns etc.
- **Moves Away from International Practice** on **Regulatory Independence** by diluting TRAI powers. It can hurt investors and consumer confidence by increasing interference in regulation of the sector.

8.4. TOURISM SECTOR

TOURISM SECTOR AT A GLANCE

Status of Tourism sector in India

- **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 into 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%.
- **Dharamshala Declaration**:
- Achieve **$250 billion** contribution of Tourism to the **GDP by 2030**.
- Make India a **World leader** with a revenue goal of **$1 trillion by 2047**.
- Focus on **sustainable and responsible** tourism.
- Bring in necessary interventions, including **visa reforms, ease of travel, traveler-friendly immigration facilities at airports and openness to international travel.**

Schemes/Initiatives

- **Loan Guarantee Scheme for COVID Affected Tourism Sector** (LGSCATSS)- up to Rs 10 lakh collateral-free loans.
- **Swadesh Darshan 2.0** - Integrated
- Development of Theme-Based Tourist Circuits focusing on 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

- Luxury tourism is **heavily taxed**.
- **Poor infrastructure, accessibility issues 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 **the 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.

8.4.1. SUSTAINABLE TOURISM

Why in news?

Rapidly growing tourism in hill stations in recent times has started a discussion on their carrying capacity and Sustainable Tourism.

About Sustainable Tourism

- It is the tourism that takes full account of its **current and future economic, social and environmental impacts**, addressing the needs of visitors, the industry, the environment and host communities.
- **Aim of sustainable tourism includes** economic viability of host destination, local prosperity, social equity, Employment quality, community wellbeing, cultural richness, biological diversity and resource efficiency.
  - As per United Nations World Tourism Organization (UNWTO), **Sustainable tourism should follow the three basic principles** (refer to infographic).
- **Steps taken for Sustainable tourism** in India: **National Strategy for Sustainable Tourism** launched by the Ministry of Tourism has identified 7 strategic pillars for the **development of sustainable tourism (see infographic).**

- **Way Forward:**
  - **Strengthening community-based tourism.**
  - **Establishment of regulated tourism practices with promotion of sustainable agendas.**
  - **Levying green tax on tourist vehicles**, proper solid waste management systems, etc.

9. INFRASTRUCTURE

9.1. PUBLIC GOODS

PUBLIC GOODS AT A GLANCE

- Public goods are those that are **available to all** at **zero or negligible marginal cost ("non-excludable")** and that can be **enjoyed over and over again by anyone without diminishing the benefits they deliver to others ("non-rival").**
- **Scope of Public Goods -**
  - **Local** Public Goods such as **local public school, parks** etc.
  - **National** Public Goods such as **national security, law enforcement** etc.
  - **Regional** Public Goods such as **public health, trade regulatory systems** etc.
  - **Global** Public Goods such as environment, culture, technological progress etc.

Significance of Public Goods

- Crucial role in **social, economic, and political progress.**
- **Reduction of poverty and inequality** and achievement of sustainable development goals.
- **Addressing critical common challenges** such as disaster management, droughts, food insecurity etc.
- **Managing unevenly distributed risks** such as climate change, cross-border epidemics, security risks etc.
- Public goods are **excellent investment** as the resultant outcome is huge.

Challenges in providing public goods

- **Lack of incentives and free rider problem** as individual cannot be charged for their use irrespective of their contribution.
- **Late realization of benefit** in the far future while the costs are realized today.
- **Externalities or spillovers** render the benefit for any single individual too small or too large.
- **Weakest link problem** as success achieved can be eroded by a single act of non-compliance.
- **Summation problem** as provisioning of public good for all requires cooperation at every level of governance and citizenry.

Provisioning of public goods in India

- India is becoming a leader in **Digital Public Goods** such as Aadhaar, UPI, land records etc.
- Vision of **universal healthcare** through Ayushman Bharat Yojana, One Health approach, and other schemes.
- Provision of **quality education** to all through reforms such as National Education Policy and vocational education.
- **Environmental conservation** through its Mission LiFE, climate pledges, phasing out of fossil-based energy sources etc.
- **Affordable housing** for all through various schemes such as PM Awas Yojana.
- **Tap water connection** to every household under Har Ghar Jal Yojana.

Way Forward

- Establishment of **strong institutional framework** for assessing the needs and provide public goods.
- Enforcement of various **regulations and taxation measures** to mobilize resources and eliminate free rider problem.
- Focus on **inclusive government formation** with representation of all sections of society.
- Increase the **demand of public goods** through awareness campaigns, ICT, workshops etc.
- **Incentivize private sector and civil society** to increase their involvement in provisioning of public goods.

9.1.1. DIGITAL PUBLIC INFRASTRUCTURE

Why in news?

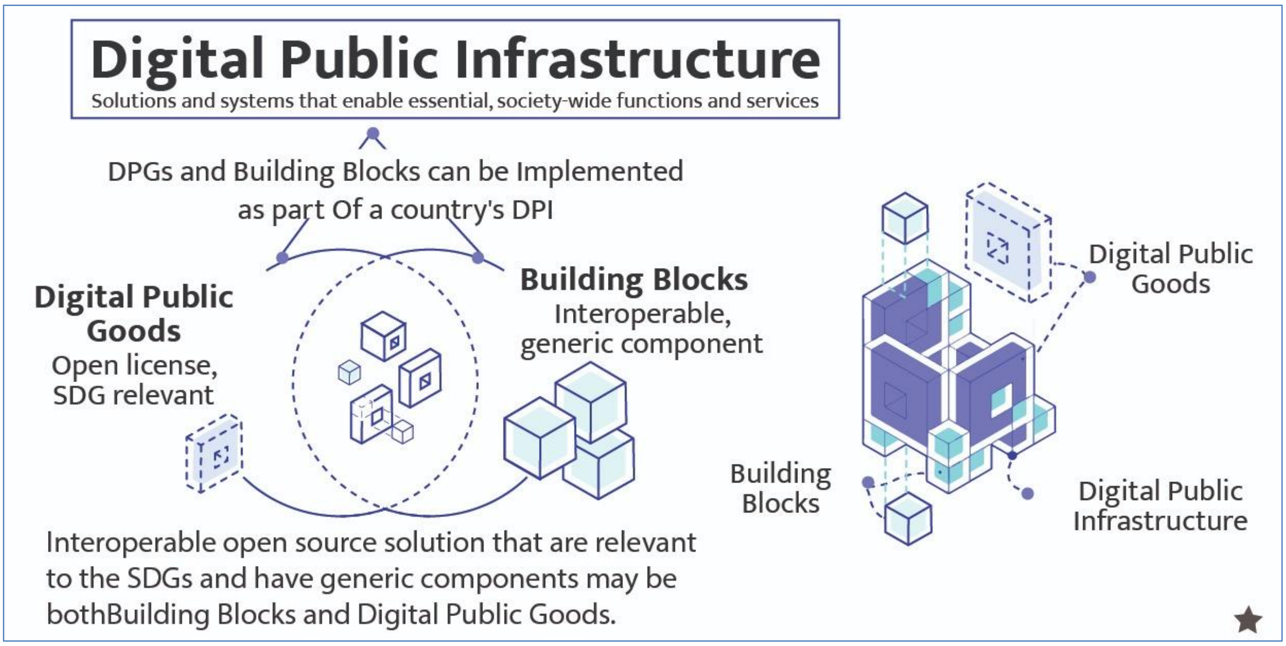
Bank for International Settlements (BIS) endorsed India's **Data Empowerment Protection Architecture (DEPA).**

About DEPA

- DEPA is a **joint public-private effort for an improved data governance** approach. It creates a digital framework that **allows users to share their data on their own terms** through a third-party entity, Consent Managers.
- DEPA's **first application has been in the financial sector,** for greater inclusion and economic growth.
  - It is being tested in the health sector, as well as others.
  - It forms the **final layer** of **India Stack,** a set of APIs that allows governments, businesses, startups, and developers to utilise a unique digital infrastructure aimed at presence-less, paperless, and cashless service delivery.

About Digital Public Infrastructure (DPI)

- Digital Public Infrastructure (DPI) are **solutions and systems that enable the provision of essential society-wide functions and services in public and private sectors.**
  - This includes digital forms of identification and verification, civil registration, payment (digital transactions and money transfers), data exchange, and information systems.
  - DPI was **introduced in India in 2009** when Aadhaar was first launched.
- **Digital public goods (DPGs)** are **types of open-source software, models and standards** that countries can use to operationalise their DPI. **Examples of DPGs** include **India Stack, UPI, Aadhaar** etc.



Developing Public Digital Infrastructure (PDI)

Public Digital Infrastructure	Outcomes
JAM (PM-Jan Dhan, Aadhar, Mobile Phones)	• **Financial Inclusion:** Population covered with bank accounts increased from 53% in 2015-16 to 78% in 2019-21 (as per NFHS).
Digital Public Goods • Digital Verification (e-KYC) • Digital Signature • Digital Repositories (Digilocker) • Digital Payments (UPI) • Open Network for Digital Commerce (ONDC) • Account Aggregator framework	• **Greater financial inclusion and access to credit** • Incentivising **higher consumption and investment,** leading to higher economic growth • Opening avenues for **e-commerce market access.** • **Credit availability for smaller businesses.** • Strengthen the **economic growth in medium term.**

Digital Financial Architecture-
• Digitalised GST system (Goods and Services Network (GSTN) and e-Way Bill)
• Digital identities (Aadhar, eShram portal, SVANidhi, Udayam portal)
• Unified Payment Interface (UPI)
	• **Formalisation of business transactions** through GSTN and e-Way Bill.
	  → Number of **GST taxpayers nearly doubled from 2017 to 2022.**
	• **Greater formalisation** of economy and workforce.
	• Digital identities included **informal groups in formal economic net** such as street vendors through SVANidhi, MSMEs through Udayam, unorganized workers through eshram.
	• Digital identity **simplified and enabled access to formal credit** for these groups.
	  → **More than 32.7 lakh street vendors** have availed of a first loan of ₹10,000 under the PM SVANidhi Scheme.
	• **Formalisation of transactions**, even for smallest of amounts, with UPI.

Unified Digital Interfaces for simplified governance • National Single Window System for business approvals • JanSamarth portal for credit-linked Central Government scheme • UMANG app for access to Central and state government services • PM Gatishakti, GIS based platform bringing together multiple ministries	• **Enhancing the ease of doing business** through the integration of existing systems. • **Reduction in logistics cost** due to integrated planning and coordinated implementation of multimodal infrastructure connectivity projects under PM Gatishakti.

9.2. GATI SHAKTI

PM GATI SHAKTI AT A GLANCE

- Gati Shakti or **National Master Plan for multimodal connectivity** aims to expedite infrastructure project implementation in India.
- It is essentially a **digital platform to bring 16 Ministries** together for integrated planning and coordinated implementation of infrastructure connectivity projects.

Infrastructure Bottlenecks in India

- **Lack of coordination among different government departments** in project planning and implementation resulting in duplication of efforts and wasteful expenditure.
- **Frequent time and cost overruns** in project implementation due to difficulties in land acquisition, coordination issues, bureaucratic hurdles etc.
- **Difficulties in funding** due to long gestation periods.

  Lack of skilled labour, workers, and effective management practices.
- **High logistics costs** and inefficiencies in transport sector.

Significance of Gati Shakti

- **Common Vision and coordination** in project design and implementation, **reducing duplication efforts and bringing higher efficiency.**
- Real time monitoring and review of projects will result in **avoidance of time and cost overruns.**
- Will provide **digital backbone to National Infrastructure Pipeline.**
- Will give boost to **creation of new economic zones/ clusters/ corridors** etc.
- It will result in **improved productivity and competitiveness and will reduce logistics costs**.

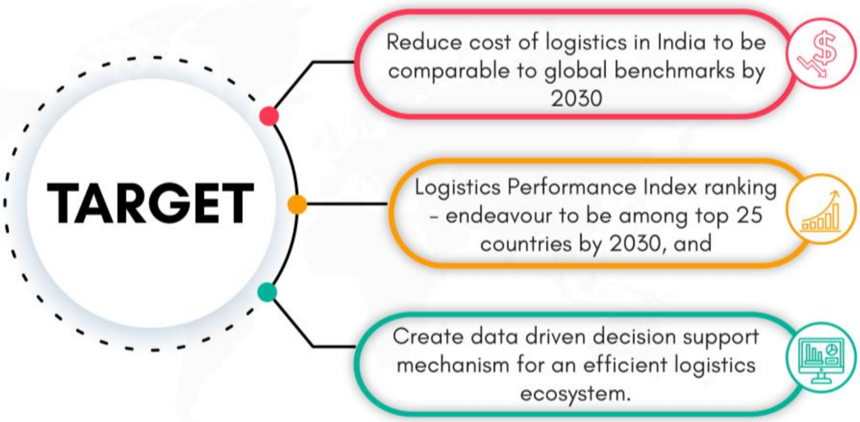
6 Pillars of Gati Shakti

- **Comprehensiveness** – Inclusion of all existing and planned initiatives of various ministries in one portal.
- **Prioritization** of projects through cross-sectoral interactions
- **Optimization** – Selection of most optimum planning for projects after identification of critical gaps.
- **Synchronization** activities of each department and different layers of governance.
- **Analytical** – GIS based spatial planning and analytical tools enabling better implementation visibility.
- **Dynamic** – Visualization, review, and monitoring of progress of projects with regular updates.

9.2.1. NATIONAL LOGISTICS POLICY (NLP)

Why in News?

The PM unveiled the **National Logistics Policy (NLP)** to promote **seamless flow of goods** across the country and **improve Indian goods competitiveness** in domestic as well as global markets.



Logistics Ecosystem in India

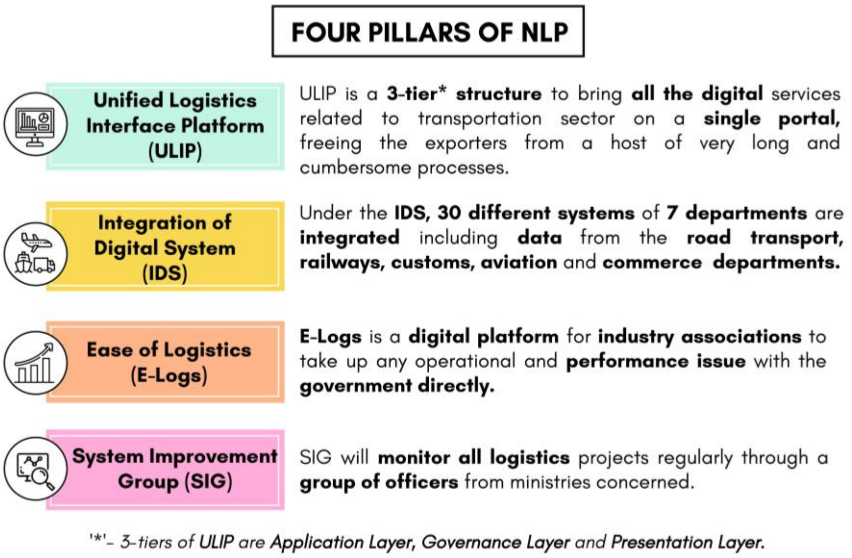
- The Indian Logistics sector is estimated to be over **$250 billion** in **2021** and expected to reach **$380 billion** by **2025**.
- To improve **infrastructure** and **logistics services**, government has taken several initiatives for **systematic infrastructure development for improved efficiency** such as:

- PM Gati Shakti – National Master Plan to build world class infrastructure and fill the missing gaps for a holistic and integrated development. It encompasses ongoing initiatives like **Bharatmala Pariyojana, Sagarmala** etc.
- **National Rail Plan** to create a 'future ready' Railway system by 2030.
- The **Logistics Ease Across Different States (LEADS) Index** to assess logistics performance of States and UTs and further improve their logistics performance.
- **Several other reforms** such as: **paperless EXIM trade process** through **e-sanchit,** faceless assessment for customs**, e-way bills, FASTag, GST** etc.; for increasing efficiency and other benefits.

Need for National Logistics Policy (NLP)

- **High Logistics Cost:** When compared to global benchmarks, the **cost of logistics** in India is **extremely high** - **13-14%** of **GDP** as compared to other major economies with **8-9%** of **GDP**.
  - Within it, transportation accounts for most of India's logistics costs (around 53%), followed by warehousing (12%), and material handling (10%).
- **Poor Logistics Performance Ranking:** India ranked **38th** in **2023 Global Logistics Performance Index** (given by **World Bank**).
- **Low Competitiveness:** Due to high logistics cost, **Indian goods lack competitiveness** both in domestic as well as export markets.
- **Over Dependence on Roads:** Despite nearly **double cost** of road transport in comparison to **railways** and **waterways**, **64.5%** of goods are transported through roads compared to **25%** globally.
- **Low Investments:** High-cost inefficiencies in intra-modal logistics act as a hurdle in attracting large scale investment in India to turn it into a manufacturing powerhouse.
- **Governance Issues:** In India, the logistics sector involves **20 government agencies**, **40 Partner Government Agencies**, **37 Export promotion Councils**, **500 certifications** with **over 10,000 commodities**, reducing Ease of Doing Business.
- **Disintegrated Network:** India has about **200 shipping agencies**, **36 logistics services**, **129 inland Container Depots**, **168 Container Freight Stations**, **50 IT ecosystems, banks and insurance agencies** largely working in silos.

National Logistics Policy (NLP)



- NLP also includes **Comprehensive Logistics Action Plan (CLAP)** to implement the policy with **eight key action** areas:
  - **Integrated Digital Logistics System** to develop a system of unified logistics interface.
  - **Standardization of physical assets and benchmarking service quality standards.**
  - **Logistics Human Resources Development and Capacity Building** to develop an overarching logistics human resource strategy.
  - **State engagement** by supporting development of state/city level logistics plans, set up institutional framework at city/state level, measure, and monitor action by states.
  - **EXIM (Export-import) Logistics** to address infrastructure and procedural gaps in connectivity and create efficient and reliable logistics network.
  - **Service Improvement Framework** for improving regulatory interface to enable seamlessness between sectors.
  - **Sectoral Plan for Efficient Logistics** to be developed for each sector.
  - **Facilitation of Development of Logistics Parks.**

Potential challenges to NLP

- **Cooperation** from all states for timely regulatory approvals falling under States' jurisdiction. E.g., presently, only about half the states have developed their respective logistics policies.
- **Inadequate trained manpower** due to lack of courses and programs on logistics and supply chain management, no proper system for job role identification, competency mapping and curriculum approval.
- **Ensuring Digital connectivity** to compliment the logistics policy.
- **Acceptance of Digital technologies** by transporters due to issues of digital literacy and anti-competitive practices by transport unions.
- **Limited alternatives** to **first & last mile connectivity** provided by roads.

Way Forward

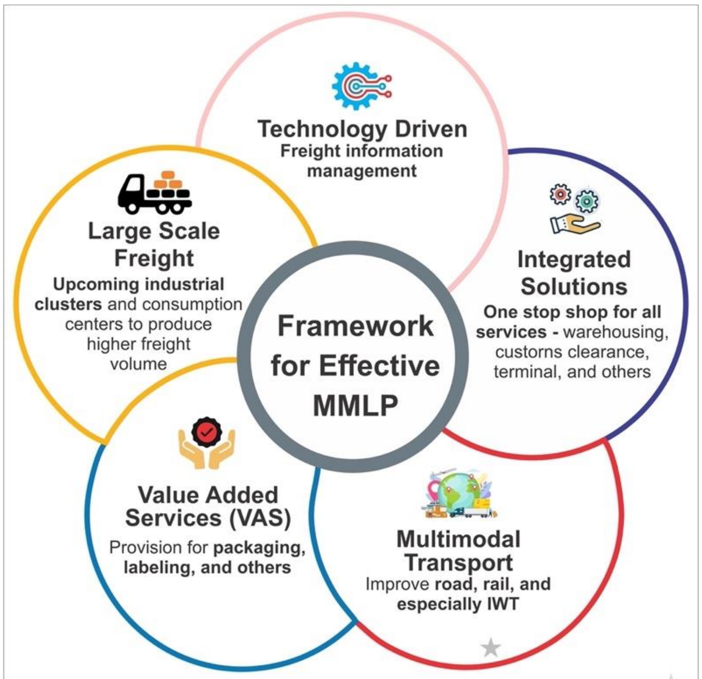
The recent All India Council for Technical Education (AICTE) initiative of forming a task force to focus on developing and implementing technical and skilling courses on logistics and supply chain management with premier institutions across the country is a good step. Further, work could be done on:

- **Aligning States policy** with NLP and ensuring that all states have a logistics policy in practice.
- **Encouraging Private Sector Investment** in warehousing infrastructure. E.g., through initiatives like India Infrastructure Project Development Fund Scheme (IIPDF Scheme).
- **Engaging Transport Unions** to move towards a new work culture.
- **Creating a Support System** (financial, educational, and technological) to **reduce logistics cost**.

9.2.2. MULTI MODAL LOGISTICS PARK

Why in news?

Recently, the Government has awarded the contract of setting up India's first multi-modal logistics park (MMLP) near Chennai to Reliance Industries (RIL).



IWT = Inland Water Transport, MMLP = Multi-Modal Logistic Park.

About Multi-modal logistics park

- A Multi-Modal Logistics Park (MMLP) as an **inter-modal freight-handling establishment comprising warehouses, dedicated cold chain facilities, freight or container terminals and bulk cargo terminals.**
  - It eases and optimizes merchandise movement via road, rail, waterway and air.
- Under the **'PM GatiShakti National Master Plan'**, the Government of India has announced that **contracts will be awarded through PPP model for implementation of MMLPs.**
- Cabinet Committee on Economic Affairs (CCEA) had mandated Ministry of Road Transport & Highways to develop **35 Multi Model Logistics Parks (MMLP) as hub and spoke model** across the country.

Significance of MMLP

- **Reduce Logistics costs:** It aims to **reduce India's logistics costs from the current about 14% of GDP to less than 10% of GDP,** on par with international standards.
- **Warehousing cost reduction:** By shifting warehouses from cities to logistics parks.
- **Inventory planning:** Regional logistics parks can provide end-to-end visibility of inventory, collaboration, agility and optimization.
- **Achieving greater efficiency through technology:** MMLPs with appropriate information technology infrastructure can **help in digitizing the traditional supply chain, supporting big data analytics and disruptive technologies** such as AI.
- **Proper Utilisation of Assets:** Due to lower transit time and early freeing up of the goods vehicles and the other hardware for the other business or purposes.

Mains 365 - Economy

* **Pollution reduction:** Increased freight movement on higher sized trucks and rail will enable in reduction in CO2emissions.

Challenges in setting up MMLP

* **Skewed modal transportation mix:** In India, 60% of freight moves by road, which is significantly larger than in many developed economies.
  * Coastal movement and inland waterways are at a nascent stage.
  * Rail transport is marginal, despite being 45% cheaper per ton–km than road, due to **adverse pricing and rake booking practices and lack of intermodal facilities to enable easy transfer.**
* **Procedural complexities:** Multiplicity of government agencies involved in setting up MMLPs which may hamper ease of business.
* **Land:** Unavailability of land at an affordable rate and the challenges of land acquisition.
* **Underdeveloped material handling infrastructure:** Warehousing landscape is highly unorganized with the presence of many small, private, and unorganized warehouses.
* **Inefficient service model:** Efficiency is compromised as many firms try to compete through the factor advantage of low wages which have led to **hiring poorly skilled personnel** thereby hampering service quality.

Way forward

* **Improve connectivity:** Identify gaps in trunk and multimodal interlinkages and bridge them while developing terminals for efficient multimodal freight transfer.
  * Increasing the share of rail transport
  * Optimizing truck use
  * Promoting use of fuel-efficient vehicles and alternative fuels
* **Facilitate private sector participation:** To encourage greater private participation, the MMLPAI could develop a model PPP framework to define the role and interdependencies between central and state governments and private players.
* **Single window approval:** Centralize MMLP approvals through a single window system.
* **Identifying location:** Optimize the location of park and easy land availability.
* **Adopting digital solution**: Cutting edge information technology for delivery management also plays an important role for MMLPs to work effectively.

9.2.3. SOCIAL INFRASTRUCTURE

Why in news?

14 Social Sector Ministries/ Departments have been onboarded under the Gati Shakti initiative.

More on news

* Ministry of Panchayati Raj, Department of Health and Family Welfare, Department of Post, etc. have been onboarded under the PM Gati Shakti initiative.

About Social Infrastructure

* There is **no universal definition** of social infrastructure.
* Social infrastructure generally refers to those **systems that deliver services upon which the health and well-being of societies depend** (UNEP).
* **Education, sports, art and culture, medical and public health, etc. are included under** social infrastructure.

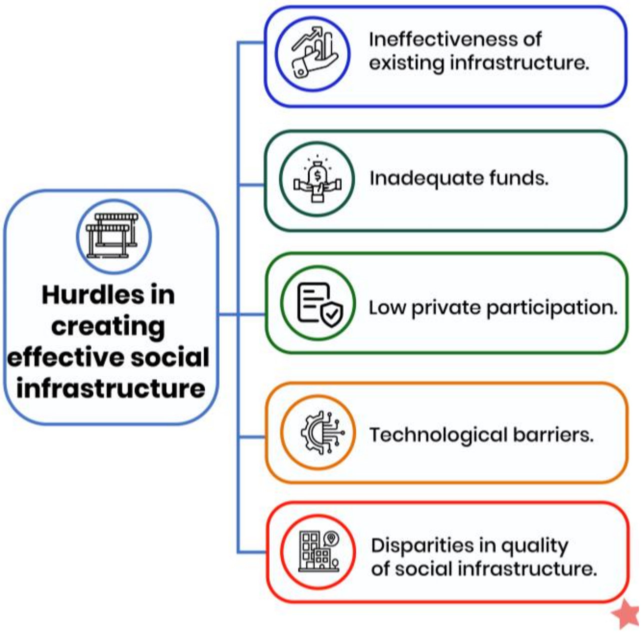
Significance of investing in social infrastructure

* **Inclusive Growth** that improve access to economic opportunities for all.
* **Poverty alleviation** due to improved quality education and good health.
* **Environmental sustainability** due to clean water and sanitation, non-polluting sources of energy, safe disposal of solid waste, etc.
* **Sustainable growth** through challenges created by rapid urbanization and to ensure the sustainable growth of cities.
* **Increase in productivity and innovation** due to improved quality of life and increased labour productivity.
* **Important for survival of economic and political structures as it facilitates** avoiding social unrest.

Key differences between 'Economic' and 'Social' infrastructure

Parameter	Economic Infrastructure	Social Infrastructure
Economic change versus Social change	**Spur economic activity and stimulate demand.** For example, investment in power, transport, and communications act as growth enablers.	Investments in schools, hospitals, water and sanitation, etc., act as **agents of social change.**
Commercial aspect vs. social considerations	**Guided by a "user pay" principle** or demand-based revenue streams to **encourage private sector participation** which is guided by profit motives.	As financial returns from social infrastructure projects are poor, these are **largely supported and funded by the government's budgetary resources.**
Risk allocation	**Shared risk framework** with certain risks being transferred to the private sector.	Risks are **largely borne/retained by the public sector.**
Standard of living vs. quality of life	Focuses on aspects that contribute to providing a **better standard of living.**	Supports the delivery of social services which **improves the quality of life of citizens.**
Economic growth vs. human capital	Helps achieve growth objectives of nations and builds up the material capital.	Focuses on the economic development that encapsulates human resource development. It is vital for human capital formation.

Way Forward



- **Engaging the private sector:** Improve the risk-return framework, and develop innovative financing models to increase private partnership.
- **Social Impact Bonds (SIBs):** A SIB is a financing mechanism in which **governments enter into agreements with social service providers for the delivery of pre-defined social outcomes.**
- **Setting and monitoring standards** to ensure reliability, affordability, and accessibility of services.
- **Better convergence and coordination among ministries** for effective implementation of initiatives.
- **Learning from best practices:**
  - **Pota Cabins** is an **innovative educational initiative** that has helped **reduce the number of out-of-school children** in Left Wing Extremism affected villages of Dantewada district in **Chattisgarh**
  - **Arogyakeralam project in Kerala** emphasises a **community-based approach to palliative healthcare**
- **Bridging the digital divide** through internet access, digital literacy and enhance the efficiency and effectiveness of public service delivery.

9.3. DEVELOPMENT FINANCIAL INSTITUTIONS (DFIS)

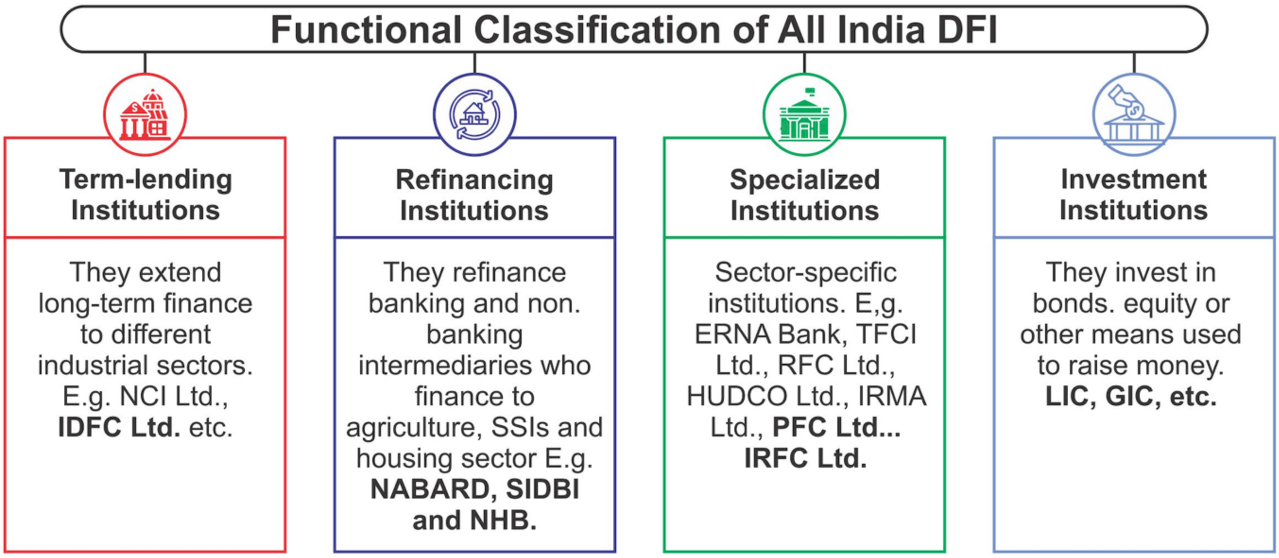
Why in News?

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.

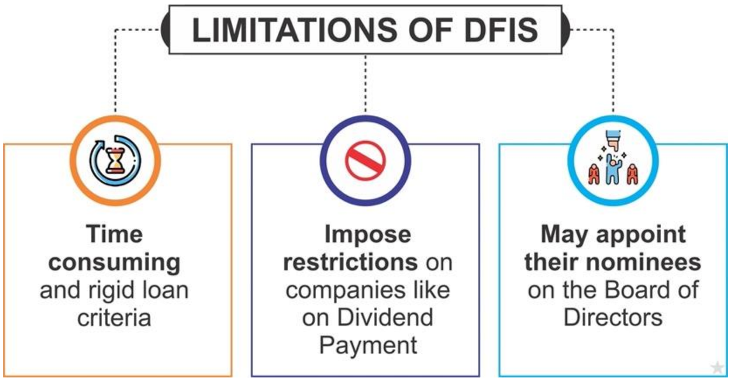
DFIs: Objectives and their Significance

- **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.** 10.6. Shipping Sector.

9.4. PORT SECTOR IN INDIA

PORT SECTOR AT A GLANCE

- **364 million** people are below poverty line in India.
- **More than 16%** of the population in India (2020) is **multidimensionally poor.**
- **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.

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 Major Ports Authorities (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:** MPA Act, 2021. **Cooperation with neighboring countries**
- Creation of **National Centre Of Excellence for Green Port & Shipping (NCOEGPS)**

Way forward

- **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.

9.4.1. GREEN SHIPPING

Why in news?

Centre sets 2030 as target for India to become **global hub for green shipping.**

Initiatives for Green Shipping

- **Green Tug Transition Programme (GTTP):** Programme will start with **'Green Hybrid Tugs',** which will be powered by **Green Hybrid Propulsion systems**, and will subsequently adopt **non-fossil fuel solutions** like (Methanol, Ammonia, Hydrogen).
    - **Target** has been set for **initial Green Tugs** to start working in **all major ports by 2025**. At least, 50% of all Tugs are likely to be converted into **Green Tugs by 2030.**
- **India's first Centre of Excellence in Green Port & Shipping (NCoEGPS):** It aims at empowering 'Make in India' in Port, Coastal and Inland water transport.

Other Initiatives for Green Shipping

- **India** has been selected as first country under **IMO Green Voyage 2050 project**
- **Maritime Vision 2030 provides for sustainable** maritime sector and a blue economy
- Certain Ports to be developed as **Hydrogen Hubs** (capable of handling, storing and generation of green hydrogen by 2030)

'Harit Sagar' the Green Port Guidelines 2023

It **envisages ecosystem dynamics in port development, operation and maintenance** while aligning with 'Working with Nature' concept and minimizing impact on biotic components of harbor ecosystem.

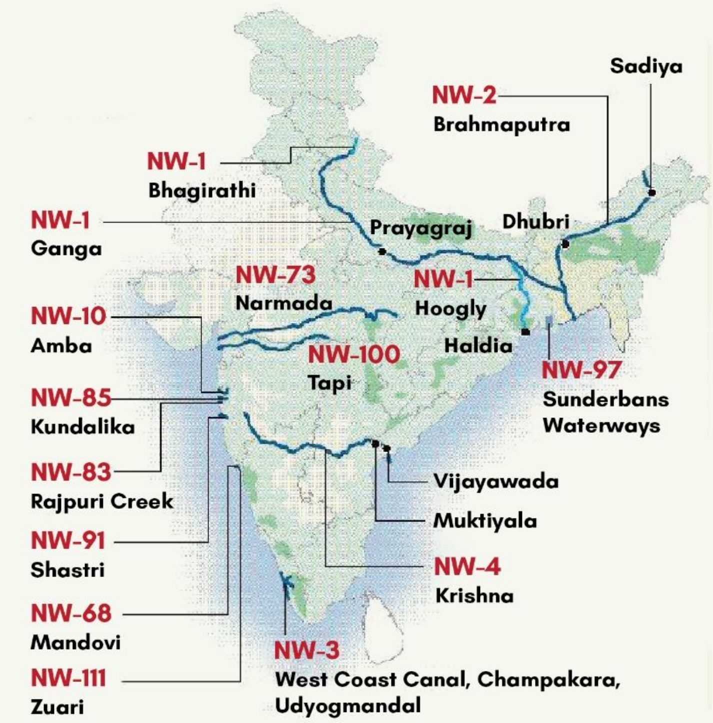
- It lays emphasis on use of **Clean/Green energy in Port operation, developing Port capabilities for storage, handling** and bunkering Greener Fuels viz. Green Hydrogen, Green Ammonia, Green Methanol / Ethanol etc.
- Ports must meet at least **60% of electricity needs via renewables by 2030 and 90% by 2047.**
- Ports Must have at least one **LNG bunkering station by 2030.**
- Setting up **electric vehicle charging stations** in and **around port areas by 2025.**
- Provisions for **adopting global Green Reporting Initiative (GRI) standard.**

9.5. INLAND WATERWAYS IN INDIA

Why in news?

Recently, Prime minister unveiled inland waterways projects worth over Rs 1000 crore to increase transport, trade & tourism in eastern India.

THE 13 NATIONAL WATERWAYS NOW IN OPERATION



THE LINKS AND THE LENGTHS

NW-1	Ganga-Bhagirathi-Hooghly (Haldia-Prayagraj)	1,620 KM
NW-2	Brahmaputra river	891 KM
NW-3	West Coast Canal-Champakara Canal-Udyogmandal Canal	205 KM
NW-4	Krishna (Muktiyala-Vijayawada)	82 KM
NW-10	Amba river	45 KM
NW-83	Rajpuri Creek	31 KM
NW-85	Revadanda Creek-Kundalika river	31 KM
NW-91	Shastri river-Jaigad Creek System	52 KM
NW-68	Mandovi river (Usgaon Bridge- Arabian Sea)	41 KM
NW-111	Zuaririver (Sanvordem Bridge-Marmugao Port)	50 KM
NW-73	Narmada river	226 KM
NW-100	Tapi river	436 KM
NW-97	Sunderbans Waterways	172 KM

Inaugurated Inland Waterways Projects

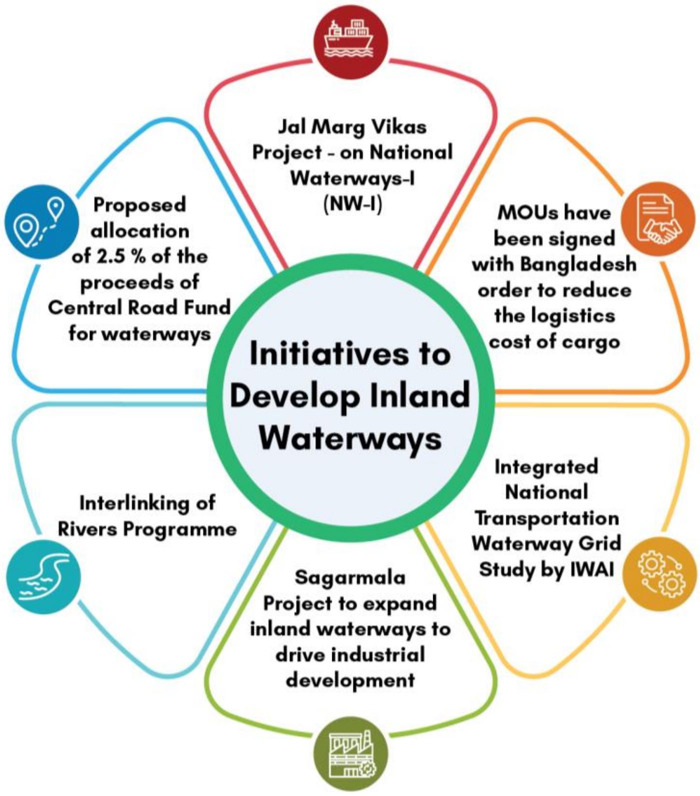
- **Haldia Multi-Modal Terminal** in West Bengal **under Jal Marg Vikas Project** (JMVP)
- **Maritime Skill Development Centre** for the Northeast in **Guwahati**
- More than **60 community jetties being constructed along the river Ganga** to boost economic activities and improve the livelihoods of local communities in the region.

Potential of Inland Water Transport (IWT)

- **National Waterways Act 2016** declares a total of **111 National Waterways.** Out of this, 17,980 km of the river and 2,256 km of canals can be used by mechanized crafts.
- **Inland Water Transport in India forms only 0.5% of total transport**; compared to 42% in Netherlands, USA 8.3% and Europe 7%.
    - **Road has freight movement around 65%** and Rail has around 27%.
- As per Maritime India Vision (MIV) 2030 document, **cargo movement on National Waterways is targeted as 200 MMT by 2030** from current level of 83.61 Million Metric Tonne (MMT) during FY- 2020-21.

Benefits of inland waterways

- **Capital Savings**: The capacity augmentation of navigation on NW-1 through the JMVP estimated to entail a capital expenditure of Rs. 2.53 crore per km only.
    - **Compared to this, road and rail each cost over Rs 5 crore per km.**
- **Savings in transportation costs**: IWT would have positive impact on the overall logistics cost as a greener mode of transport.
- **Environment friendly**: Use of modern inland water vessels, with natural gas (LNG/CNG) as fuel will reduce emission of SOx, NOx (70%), particulate matter (95%) and CO2 (25%). Other factors include-
    - **Least fuel consumption per ton-km.**
    - **LNG/CNG engines have lower noise level** than diesel engines.
    - **Improved river flow** due to improvement/augmentation of navigation facilities.



- **Enhanced regional trade:** IWT give boost to trade between India and Bangladesh, India and Myanmar through **Kaladan project**.
- **Other benefits:**
    - **Increase in economic opportunities** in the form of employment and business opportunities (both in relation to cargo movement and peripheral petty business activities).
    - **Access to local communities** in the form of a mode of transport to conduct activities on both sides of the river.

Challenges in developing National Waterways

- **Very low level of investment**: Lack of convergence between IWT and other modes of transport and more emphasis on development of rail and road networks resulted in low level of expenditure on IWT.
- **High cost of development of Ancillary facilities:** Development of modern-day multimodal terminals, jetties, ferry points and river information systems is highly capital intensive.
- **Perception of IWT investment as high-risk investment:** This was a disincentive for the banks to advance loans to private players. It discouraged private participation also even through PPP mode.

- **Technical Challenges:** Such as development and maintenance of Fairway width of 2.5 m to 3.0 m depth, irregular siltation, Speed Control regulations to avert bank erosion and safety of other users, Safety against cross ferries, etc.

Way Forward

- **Setting up Navigational Infrastructure:** Absence of essential infrastructure such as cargo terminals and jetties has been one of the reasons for the slow development of water transport.
- **Working with Nature:** Water traffic should not impact the **aquatic biodiversity**, measures like ban on dredging in protected habitat areas should be adopted.
    - All vessels should comply with **`zero discharge'** standards to prevent solid or liquid waste .
- **NITI Aayog in its Action Plan recommended** to increase the connectivity and efficiency of inland waterways by -
    - **Streamlining the governance of inland waterways** and bringing an overarching body to oversee Inland Water Transport such as the IWAI to bring more consistency in the rules and strategy of the sector.
    - **Ease restriction on Sea-River movement** by Utilizing a single vessel for both inland and coastal waters, lowers transport costs and minimizes handling.
    - **Develop inland waterways transport** to facilitate movement of goods to neighbouring countries and the Northeast.
    - **Develop measures for year round navigation –** Seasonality of this mode of transport reduces its adoption.
        - ✓ **Efforts should be made to develop deeper stretches of the river,** i.e., at least 2.5 m to 3 m to achieve year-round navigation.
        - ✓ **Adequate maintenance of rivers,** including continuous dredging to maintain adequate water depth for servicing shipping lines should be ensured.

10. MINING AND POWER SECTOR

10.1. MINING SECTOR

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, aluminum** 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.** In terms of **value of mineral production, about 97% comes from 7 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

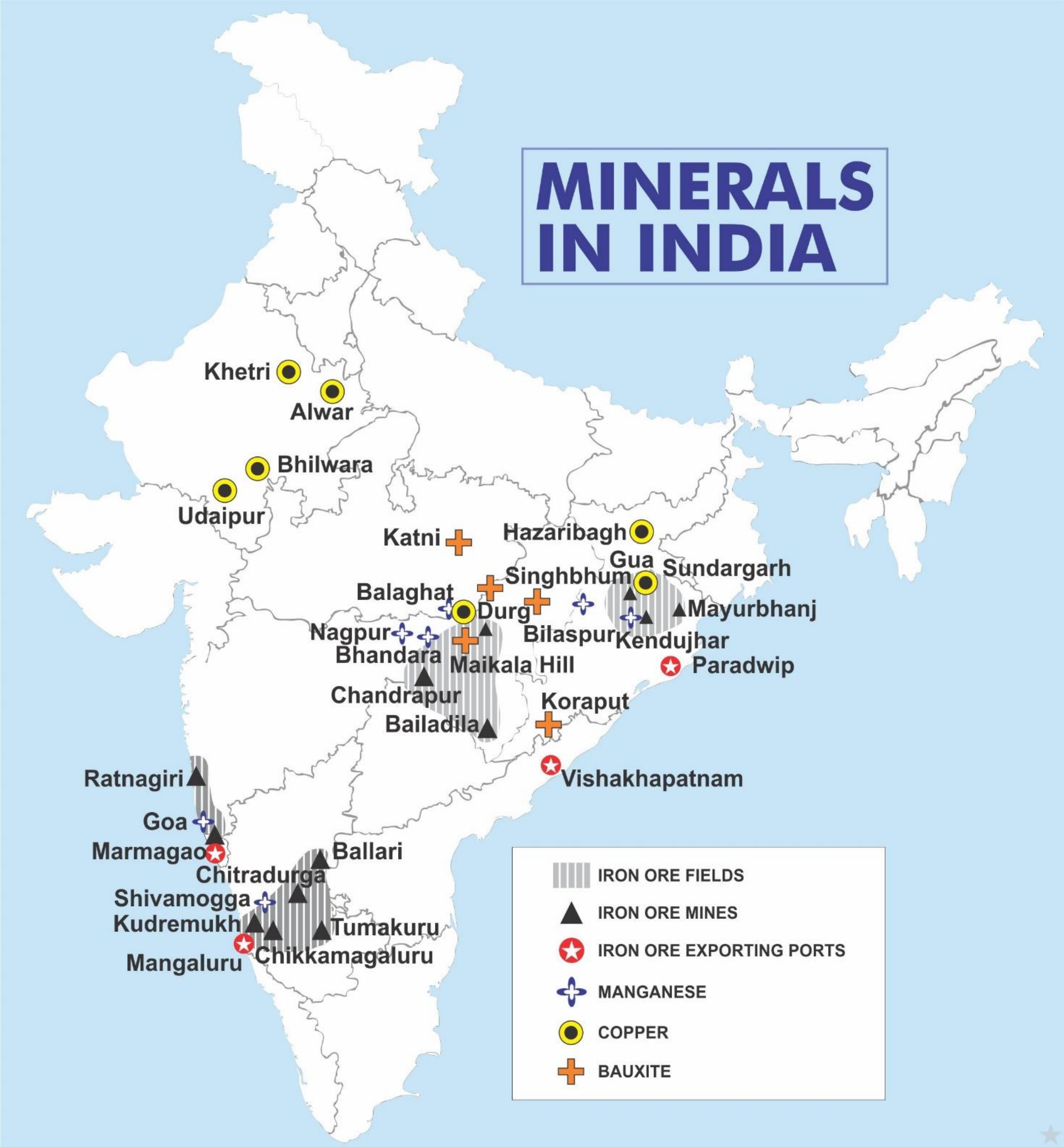
- **Mines & Mineral (Development and Regulation) Act** 1957; and Amendments in 2015 and 2020.
- **Pradhan Mantri Khanij Kshtera Kalyan Yojana (PMKKKY) and District Mineral Foundation (DMF)**
  National Mineral Policy, 2019
- **SHAKTI** (Scheme for Harnessing and Allocating Koyala transparently in India).
- **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.

Challenges

- **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 clear-ance.**
- **Environmental Pollution:**
  - **Air pollution** from Surface Mines, coal mines and smelting operations.
  - **Water pollution** due to leaching of heavy metals and toxic elements.
  - **Land pollution** due to activities like blasting and surface mining.
- **Health and safety challenges** as mining opera-tions can be extremely hazardous.
- **Illegal rat hole mining** in some states like **Meghalaya.**

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.



10.1.1. GOLD MINING IN INDIA

Why in news?

The **Centre is planning out a detailed roadmap to identify potential gold-bearing regions to be developed by 2030** and boost gold production in the country with private participation.

Overview of Gold industry in India

- India is the **world's second biggest consumer** of gold, after China.
- **India's gold mine production** has the potential to reach **20 tonne per year**, up from 1.6 tonne in 2020.
- **Gold reserves and resources**: As per National Mineral Inventory data, total gold ore reserves in the country have been estimated at **501.83 million tonnes**.
    - **Karnataka accounts for 88%** of the total reserves, with the **Dharwar craton** being most significant geological formation for gold mineralisation.

- Over **50% of gold mineral resources** (gold deposits that are potentially economically viable) **are located in Karnataka**, 33% in Rajasthan, 6% in Bihar and 5% in Andhra Pradesh, and remaining 6 % across other eight states.

- **India's gold imports rose 33.41%** to $46.16 billion during 2021-22 from $34.6 billion in the previous year. Thus, it is crucial for India **to move along the path of self-reliance in gold industry.**

Significance of enhancing domestic gold production

- **Meet high domestic demand:** India accounts for **around 25% of the world's gold demand.**
- **Decrease dependence on imports**: Imports account for ~ 89 % of gold supply in India, resulting in price volatility and an adverse impact on the Current Account Deficit.
- **sBoost national GDP and increase state-level and national taxes and royalties.**
- **Increase employment opportunities,** especially in remote areas.
- **Attract foreign direct investment.**
- **Initiate and support associated service industries** like jewellery fabrication, refining etc., especially in small and medium enterprises.

Constraints in enhancing domestic gold production

- **High risk of the business activity**: The pre-production stage of gold mining is quite long and involves huge capital investment for development and expedition, while the profits are subject to the commodity and exchange rates.
- **Poorly developed infrastructure in gold mining areas** with inadequate road and rail links.
- **Complex regulatory processes for securing approval for a mining licence**: It is usually lengthy, involves multiple agencies and often subject to substantial delays, leading to lengthy and costly hold-ups in project development.
- **Shortage of skilled man power** in exploration and mining industry.
- **Technological upgradation** required in the mining and refining space to create efficiencies in the operations and meet global standards.
- **Poor quality of geological database** with little or no information on the deep-seated miner, where most of the gold is found globally.
- **Environmental concerns related to gold mining** like ravaged landscapes, contaminated water supplies, and destruction of vital forest ecosystems.

Way Forward

Measures taken in India to encourage gold mining

- **Amendments in Mines and Minerals (Development and Regulation) Act (MMDR Act) 1957:**
  - **2015:** Introduced in a new **regime of granting mineral concessions.**
  - **2020:** Allowed State Governments to take **advance action for auction of mineral blocks.**
  - **2021:** Enabled transparent auction of 500 mining blocks of various minerals, including gold.
- **National Minerals Exploration Policy (NMEP), 2016** aims to stimulate non-fuel and non-coal mining exploration by allowing private companies to enter into a transparent bidding process, conducted via e-auction.
- **National Mineral Policy, 2019** provided more streamlined permit award method with simple, transparent, and accountable processes.
- **Minerals (Evidence of Mineral Contents) Rules, 2015** amended in 2021 to allow auction of composite licence for deep seated minerals including Gold.
- **100% FDI is permitted** under the automatic route.

- **Promote domestic manufacturing of mining equipment** using Make in India.
- **Enhance connectivity of gold mining regions,** by utilising inland waterways and multimodal linkages.
- **Make gold mining viable and attractive to investors** by promoting ease of doing business with single window clearances.
- **Consider making available the risk capital** for the long-term capital-intensive mining projects to attract investments.
- **Improve quality and availability of digital data, covering geological database.**
- **Draw comprehensive taxation policy** to align India's taxation framework with the strategic needs of the gold mining sector.
- **Promote sustainable mining practices.**

10.1.2. LITHIUM DEPOSITS IN INDIA

Why in News?

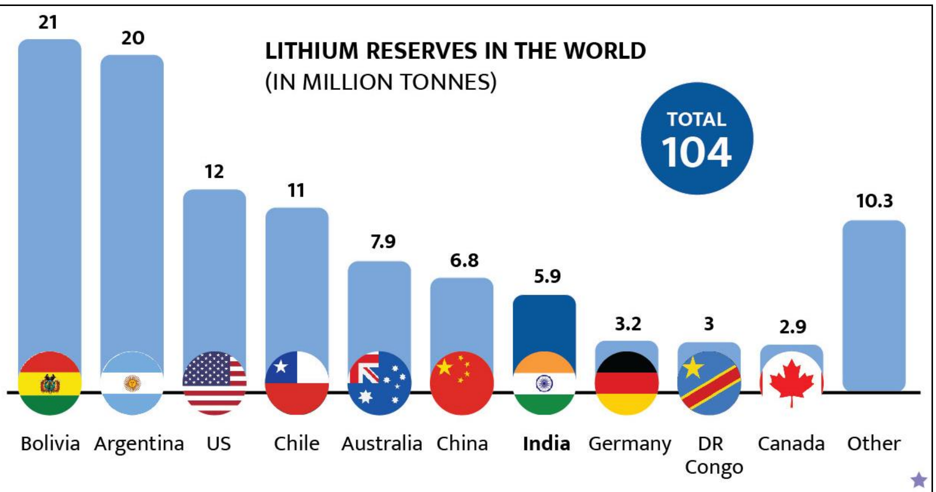
Geological Survey of India has for the first-time established **Lithium inferred resources (G3) of 5.9 million tonnes** in Salal-Haimana area of Reasi District of Jammu & Kashmir.

More on News

- This may be the **seventh largest deposit of the rare element**, accounting for **roughly 5.7% of all the reserves** in the world.
- Previously, in India, lithium reserves have been **reported from Karnataka's Mandya district**.

Global Distribution of Lithium

- Though found on each of the six inhabited continents, **Chile, Argentina, and Bolivia** — together referred to as the **"Lithium Triangle"— hold more than 75%** of the world's supply.



Significance of Lithium finding

- **Reduce import dependency:** Currently, India does **not have its own lithium resources** and is dependent on imports.
  - In FY2022, India imported lithium and lithium ion worth almost **₹14,000 crore**, which is likely to increase going forward.
  - India presently **imports lithium from Hong Kong, China, USA, Australia and Argentina.**
- **Boost to manufacturing and exports**: Manufacturing of rechargeable Lithium based batteries for multiple purposes and self-reliance.

- A World Bank study suggests that the **demand for critical metals** such as lithium (Li) and cobalt is **expected to rise by nearly 500%** by 2050.

- **Transformation of Mobility:** It will strengthen India's **National Mission on Transformative Mobility and Battery Storage** for transitioning towards Electric Vehicles and green mobility**.**
- **Fulfilment of Net Zero Emission Goal by 2070:** Lithium is a key component of lithium-ion batteries used in EVs, harnessing solar power, wind energy etc.
- **Strengthening of critical mineral supply chain for emerging technologies:** Lithium reserves and processing is highly concentrated and India's find will significantly strengthen its supply chain.
    - Although, **China does not hold a lot of lithium reserve,** it **controls over half the global lithium processing** and almost 75% of cell components and battery cell production in the world.

Risks from lithium mining in the region

- **High risk in ecologically sensitive Himalayas:** Recent Joshimath subsidence shows fragility of the region and long-term issues with activities like mining.
- **Environmental pollution:** Open-pit-mining, refining, and waste disposal from Lithium extraction processes **substantially degrades the environment**, including depletion and contamination of waterways and groundwater, biodiversity, and considerable air pollution.
- **Stress on Water Resources:** Extracting lithium from its ore is **highly water-intensive**, taking about 2.2 million litres of water for one tonne of lithium.
- **CO_2 Emissions:** The lithium production process involves **heating the ore at a high temperature** that can only be **cost-effective by burning fossil fuels**. It could mean emission of 15 tonnes of CO_2 for every tonne of lithium.

Way ahead

- **Regulation of Lithium Mining:** Lithium mining and extraction can be pursued in a regulated manner to ensure **sustainable mining**.
- **Diversification of supply chain:** Till India utilizes its reserves, strategic agreements with international partners are critical for ensuring unrestricted supply of lithium.
- **Increasing efforts to expedite mineral exploration in India:** New push and investment is needed to further push the mineral exploration with involvement of private sector players.
- **Assessment of socio-ecological impact:** Socio-ecological impact of lithium extraction needs to be assessed for ensuring sustainable and inclusive development of the region.

Related News

Hyderabad-based **National Geophysical Research Institute** has found **large deposits of 15 Rare Earth Elements** (REE) **in Andhra Pradesh's Anantapur district.**

About Rare Earth Elements (REE)

- REEs (a.k.a. **rare earth oxides)** are a group of **17 silvery-white soft heavy metals** that occur together in periodic table.
    - Group consists of **yttrium and 15 lanthanide elements** (lanthanum, cerium, praseodymium, neodymium, promethium, samarium, europium, gadolinium, terbium, dysprosium, holmium, erbium, thulium, ytterbium, and lutetium).
    - REEs are **all metals having many similar properties**, and that often causes them to be **found together in geologic deposits**.
- REEs are used in **high end technology, defence applications, electronic devices** like cellphones, computers, electric vehicle etc. because of their luminescent and catalytic properties.

10.2. COAL AND OIL SECTOR

COAL AND OIL SECTOR AT A GLANCE

Status of Coal and Oil Sector in India

50% of India's overall energy mix comes from Coal	**28%** of India's overall energy mix comes from Oil	**893 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% 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%** to **15% 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
- **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.**
- **Obligatory purchase mechanism** for gas-based Power Plants, along the lines of the **Renewable Purchase Obligation (RPO).**

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**

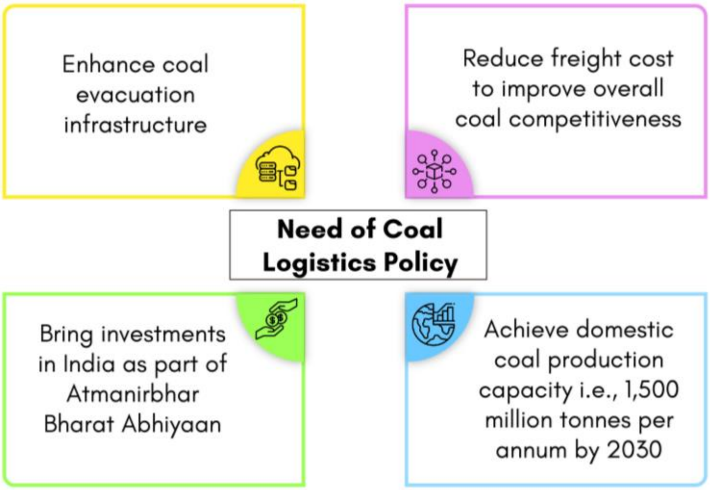
Way forward

- **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 s**hared 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).

10.2.1. DRAFT COAL LOGISTIC POLICY 2022

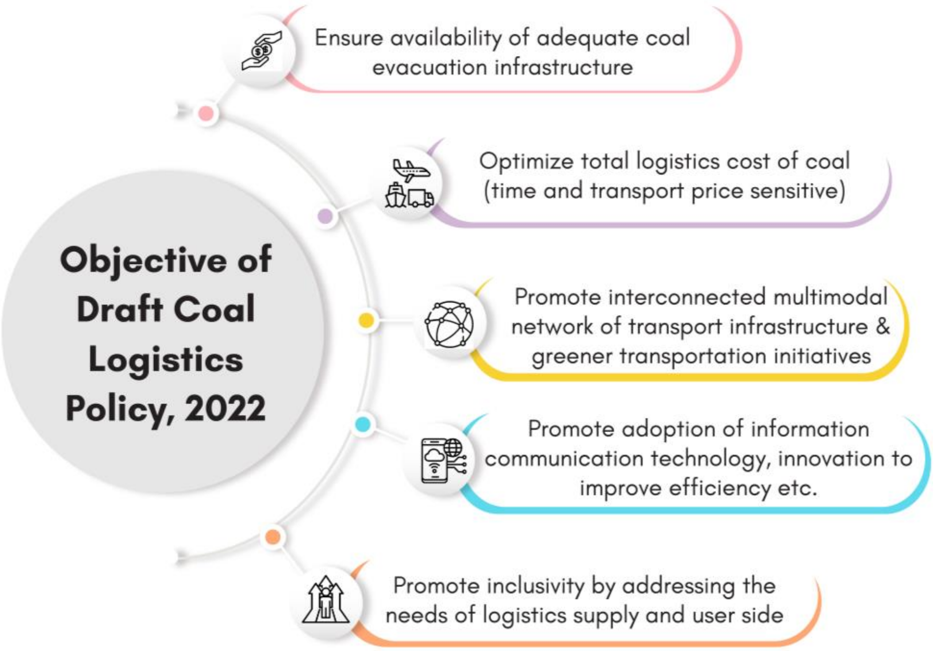
Why in news?

Recently, the **Ministry of Coal** has sought feedback on Draft Coal Logistic Policy, 2022.



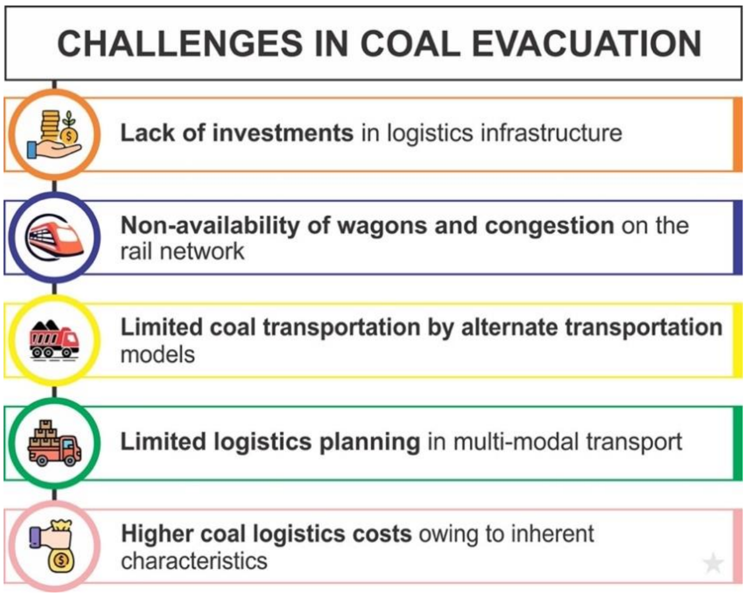
About Draft Coal Logistic Policy, 2022

- Policy aims to **identify, evaluate & eliminate gaps in existing coal evacuation infrastructure & environment-friendly transportation of coal** from mine to the end-use plant.
- Vision of Draft policy is to develop a **technologically enabled, integrated, cost-efficient, resilient, sustainable, and trusted logistics ecosystem** for accelerated and inclusive growth.



Policy Strategies to be taken to improve coal logistics sector

- **Smart Coal Logistics Corridors:** It needs to be established for ensuring complete oversight on every tonne of coal from the mine to the consumption point.
- **Multimodal network of transport:** The Policy proposes to formulate a Multi-modal Integrated National Coal Evacuation Plan.
- **Rights of Way (RoW):** RoW of rail and roads and **first-mile evacuation are planned as part of the mine allocation process.**
- **Green transportation initiatives:** There is need to focus on modal shift to conveyors, railways and waterways from road transportation of coal.
- **Development of Data-driven systems:** For monitoring the logistics ecosystem to **enable higher logistics efficiency**.
- **Rationalise railway tariff:** Railway tariff rationalization for first- and last-mile connectivity to and from ports can enhance the viability of RSR (Rail - Sea - Rail route) for coal.



Way Forward

- **Focus on coal gasification:** This shall significantly reduce logistics cost and improve the overall profitability and viability of the project.

- **Improve transport and infrastructure**: Infrastructure developments driven by PPP, **restructuring of railway networks** to connect with coal bearing areas, **enhancing port capacities and evacuation efficiency**, augmenting existing capacities from existing ports etc.
- **Research and exploration**: Promote research and exploration activities and **modern underground mass production technologies** to deal with land acquisition related issues.
- **Engaging stakeholders**: Indian Railways, port authority and industry need to **work in close collaboration to plan development of infrastructural facilities** as per requirements.
- **Dedicated private lines:** Logistics availability and co-ordination in offtake arrangements for coal through railways needs dedicated private lines to be built in areas where future mining capacity will come up.

Initiatives taken to improve coal logistics

- **Freight Operations Information System (FOIS):** It helps to monitor movement of freight trains which also calculates freight and other charges.
- **PM Gati Shakti:** The Plan will holistically look at the interventions required to be taken for reduction of logistics cost for coal evacuation and thus lead to efficiency gains in coal sector.

11. BUSINESS AND INNOVATION

11.1. BUSINESS POLICY

BUSINESS POLICY AT A GLANCE

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.

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.**
- **PPP Model** in Railways, Highways, Airports and Health Infrastructure.
- **Invest India Platform:** One-stop solution for foreign investments.
- Creation of a **$4 billion fund to aid corporate debt market.**
- Creation of **Centre for Processing Accelerated Corporate Exit (C-PACE)**
- **Plan to centralize decision-making on all regulatory forms** (currently being undertaken by Registrar of Companies (RoCs)).

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.

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.

11.1.1. LEGAL REFORMS AND EASE OF DOING BUSINESS (EODB)

Why in news?

Recently, **Ministry of Commerce and Industry** has introduced the **Jan Vishwas (Amendment of Provisions) Bill, 2022** in Lok Sabha.

More on news

- Bill **amends 42 Acts** administered by **19 ministries** to **reduce the compliance burden on individuals and businesses** and **ensure ease of doing business.**

- Some Acts that are amended by the bill include Indian Post Office Act, 1898, Environment (Protection) Act, 1986, Public Liability Insurance Act, 1991, Information Technology Act, 2000 etc.

- It will help in **settlement of a large number of issues by adjudication and administrative mechanism**, without involving courts.
- **Key Provisions of Bill**

Specifications	Detail
Decriminalizing certain offences	• Several offences with an imprisonment term (in certain Acts) have been **decriminalized by imposing only a monetary penalty**.
Revision of fines and penalties	• **Increases fines and penalties for various offences** in specified Acts by 10% of minimum amount every three years.
Appointing adjudicating officers	• Central government may **appoint one or more adjudicating officers** for purpose of determining penalties.
Appellate mechanisms	• It specifies **appellate mechanisms for any person aggrieved by order passed by an adjudicating officer.** For instance, in Environment (Protection) Act, 1986, appeals may be filed with National Green Tribunal within 60 days from order.

About Ease of Doing Business

Ease of Doing Business (EODB), an **index published by World Bank (discontinued in 2021), ranked 190 economies.** In 2020, **India was ranked at 63rd in EODB**.

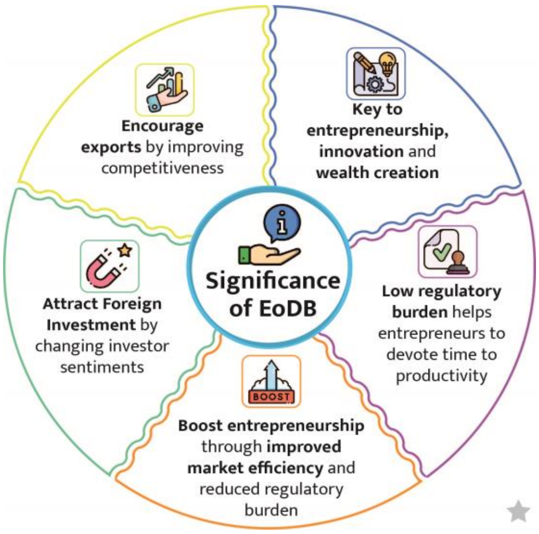
Legal hurdles in Ease of Doing business

- **Legal variance from State to State:** It imposes hurdles to effective business in India due to different legal structures in different states.
  - For example, sale of Alcohol is allowed in Maharashtra, but it is illegal in Gujarat.
- **Complex legal processes:** Need of numerous compliances from multiple departments to be fulfilled before starting any business.
- **Import/Export hurdles:** Such as custom duty varying from zero percent to 150% and various that **discourage investment and setting up of business.**
- **Land acquisition issues:** Consent clause, fair compensation and social impact assessment brought under Land acquisition, Rehabilitation, and Resettlement Act, 2013 have added to investor woes.
- **Adjudication issues:** Several businesses have to resort to courts for resolution of even minor issues. Also, delays in adjudication of commercial disputes aggravates financial costs for businesses.

Other Initiatives taken for improving EoDB

- **Labor laws:** Government has notified **4 Labor Codes** by rationalizing relevant provisions of 29 Central Labour Laws.
- **Dedicated Commercial Courts (DCC):** For speedy resolution of commercial cases, Commercial Courts Act, 2015 with dedicated infrastructure and exclusive judicial human power.
- **Insolvency and Bankruptcy Code (IBC), 2016:** It aims to resolve claims involving insolvent companies to **tackle the bad loan problems.**
- **SPICE+ (Simplified Performa for Incorporating Company Electronically):** To provide speedy incorporation in line with international best practices.
- **Shram Suvidha Portal (SSP):** One-stop-shop for Labour Laws compliance to facilitate reporting of Inspections, and submission of Returns.

Way forward



- **Ease compliance:** A systematic exercise across Centre and States should be undertaken to eliminate or reduce compliances having an adverse impact on time and cost of businesses.
- **Dispute resolution: Fast-track courts and alternate dispute resolution mechanisms** should be institutionalized and made independent of judiciary to fast-track dispute resolution process.
- **Land acquisition: Fast-track digitization of land records** to ensure clearer land titles; avoid litigation and land pooling to further ease the land acquisition process for businesses.
- **Creating Awareness:** Awareness needs to be generated regarding Startup India Initiative.
- **Tax Holidays:** Tax holding of three consecutive years under Income Tax Act, 1961 provided to startups incorporated between 2016-2022 needs to be extended.

11.1.2. CORPORATE SOCIAL RESPONSIBILITY (CSR)

CORPORATE SOCIAL RESPONSIBILITY AT A GLANCE

Corporate Social Responsibility (CSR) requires certain companies to mandatorily **spend at least 2% of their average net profit of immediately preceding three financial years** on CSR activities under Section 135 of Companies Act, 2013. A company (both domestic and foreign) having-

a net worth of Rupees 500 crore or more	**a turnover of Rupees 1000 crore or more**	**a net profit of Rupees 5 crore or more**

Key Objectives

- **Enhanced access** to capital and markets.
- **Minimised environmental impact.**
- **Bolstered brand image** and increased customer loyalty.
- **Better income and employment opportunity** to local communities.
- **Promotion of indigenous culture** and empowerment of vulnerable sections such as minorities, women, differently abled.
- **Enhanced public welfare** and trust.
- **Free up existing resources and harness new resources through partnerships.**

Issues associated with CSR

- **Geographical Bias:** Firms favor funding projects closer to their base. **33% of total CSR spent** is spent in 5 developed states.
- **Lack of reporting** the exact amount of expenditure spent by firm on CSR activities.
- **Spending skewed towards some sectors:** Around **60% of total** CSR **funds spent during 2014-15 to 2020-21** were in areas of **education, healthcare, and rural development-related activities.**
- **Lack of Community Participation** in CSR Activities.
- **Lack of Transparency** on the part of local implementing agencies.
- **Narrow Perception possessed by NGOs** and Government agencies towards CSR Initiatives.

Way forward

- **Companies should embrace a participatory approach with communities and NGOs** as partners across program design and implementation.
- **Prioritize marginalized populations** within their existing programs by explicitly taking efforts for communities such as SC/ST, women, or PwDs.
- **Hire professional CSR team** that can bridge corporate and social sectors.
- **Involving beneficiaries in CSR spending** so that awareness is generated among stakeholders.
- **Dedicated department** of CSR in at Ministry level in Centre and States.
- **Using technology driven solutions** for redressal of socio-economic issues.

11.2. COMPETITION (AMENDMENT) ACT 2023

Why in News?

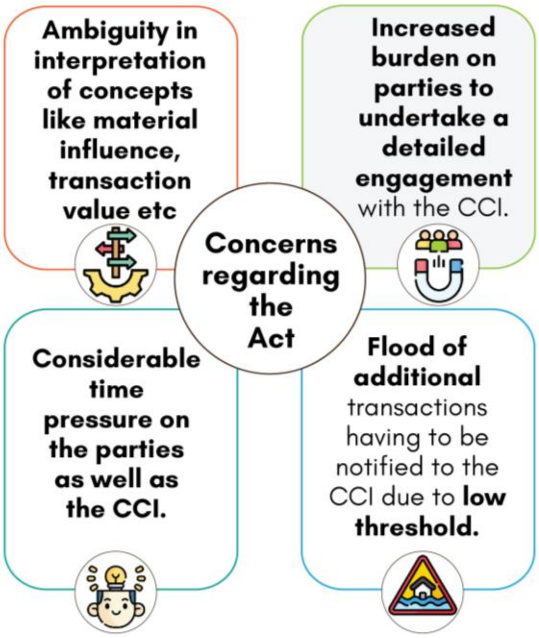
The Centre **notified several provisions** of the Competition (Amendment) Act (CAA) 2023, which **amended the Competition Act (CA), 2002.**

Amended definitions in the Act

- **Definition of Combination:** The CAA **expands the definition of combinations** (mergers, acquisitions, or amalgamation of enterprises) to include **transactions with a value above Rs 2,000 crore.**
- **Reduction in the time limit for approval of combinations:** From 210 days to **150 days.**
- **Definition of control for classification of combinations:** CAA modifies the definition of control as the **ability to exercise material influence** over management, affairs, or strategic commercial decisions.
- **Expansion of Scope of Cartels to Include "Hub and Spoke Arrangements":** Companies which are not engaged in identical or similar business activities can also be held **liable for an anti-competitive horizontal agreement (cartelization)**, where they participate or intend to participate in facilitating such an agreement.

Grievance Redressal and Penalty provisions

- **Limitation Period for Filing Information**: A complaint against anti-competitive conduct needs to be filed before the Competition Commission of India (CCI) **within 3 years** from the date on which the cause of action arose. The CCI is **empowered to condone delays.**
- **Increased Penalty:** For **false statements/ omission of material information** from ₹ 1 crore to ₹ 5 crore.
- **Penalty based on global turnover:** The penalties for anti-competitive agreements and abuse of dominant position would be **imposed based on the global turnover** derived from all products and services by such person or an enterprise.
- **Leniency Regime:** Where a party implicated in a cartel investigation makes a **true and vital disclosure** of an alleged violation or another undisclosed cartel, CCI is empowered to also grant an **additional lesser penalty** for the cartel already being investigated.
- **Decriminalisation of certain offences:** The CAA changes the nature of punishment for certain offences **from the imposition of fines to penalties.**



Other provisions of the CAA

- **Settlement and commitment mechanism:** Under the CAA, CCI may initiate proceedings against enterprises on grounds of entering into anti-competitive agreements. CAA permits CCI to close inquiry proceedings if the enterprise offers settlement (may involve payment), or commitments (may be structural or behavioural).
- **Appointment of Director General (DG):** As per the CAA, the DG shall now be **appointed by the CCI with prior approval of the Central Government** as against the erstwhile power being vested with the Central Government.

Significance of the Amendments

- **Speedy Approvals:** The reduction in the maximum time limit for the approval of combinations would provide **more speedy approvals.**
- **Fair competition:** By requiring CCI's approval for transactions that exceed Rs 2000 crore threshold, the Act seeks to ensure that large-scale mergers and acquisition transactions **do not result in anti-competitive practices and promote fair competition** in the market.
- **Higher Penalties:** The computation of penalties based on global turnover will result in **higher penalties for global multi-product companies.** Thus, increasing deterrence.

- **Increase in jurisdiction: Increase in the number of transactions** to be caught under **merger control jurisdiction** of the CCI, through the introduction of the deal value threshold and dilution of the threshold for control.
- **Faster resolution:** Facilitating **faster resolution of enforcement proceedings** through settlements and commitments.

Conclusion

The amendments are forward-looking and capable of handling competition law issues of the future. The next phase of reforms aims towards clearing any possible ambiguity and creating processes to ensure easy and effective compliance with the provisions.

11.2.1. COMPETITION LAW AND BIG TECHNOLOGY COMPANIES

Why in News?

Recently, the Parliamentary Standing Committee on Finance gave a report titled '**Anti-competitive practices by Big Tech companies**' and urged for a **Digital Competition Act** and **code of conduct** for tech companies.

Significance of Competition

- In an economy, competition is viewed as an **important process** as it:
  - **Incentivizes companies to innovate** and **specialize** in order to withstand competition.
  - **Protect consumer's interest** by offering greater choices and quality at reduced costs.
  - **Leads to higher payments** and **better working conditions** from organizations to attract and retain workers.
  - **Sign of a healthy** and **profitable marketplace**, attracting others to invest as well.
- **Without competition, dominant firms** can use their **market power** to **charge higher prices**, **lower quality of products/ services** or/and **block potential competitors' entry** into the market.

Committee Findings

The underlying economic drivers of digital markets have inevitably led to the rise of relatively few leading players, collectively referred to as **Big Tech Companies**. The committee has identified **10 types of anti-competitive practices** which are practiced by Big Tech companies as:

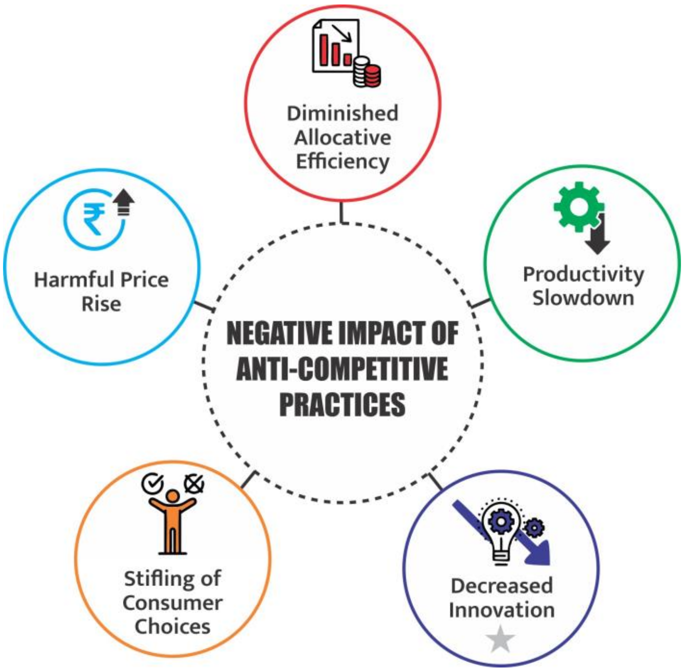
Anti-Competitive Practice	
• **Anti-Steering Provisions** i.e., prevent users from moving out of the platform. E.g., App stores	• **Pricing/ Deep Discounting** to force smaller players out of the market.
• **Platform Neutrality/ Self-Preferencing**. E.g., Google Play on Play store.	• **Exclusive Tie-ups** negatively affecting other platforms.
• **Adjacency/ Building and Tying** i.e., forcing people to buy related services.	• **Search and Ranking Preferencing.** E.g., Preferential listing by Amazon and Flipkart.
• **Data Usage (use of non-public data)**. E.g., Use of past purchase data without consent.	• **Restricting Third-Party Applications.**
• **Mergers and Acquisitions** to discourage competition.	• **Self-preferencing** in **advertisement.**

These Anti-competitive practices **hurt the digital markets negatively** (refer **image**) which ultimately led to **reduced Market Dynamism, increased Wage Inequality** and **Wealth Concentration**.

Legislative Framework in India and its issues

- To **promote** and **sustain fair competition**, i.e., to **prevent practices** having **adverse effect on competition**, the government of India enacted the '**Competition Act, 2002**.'
- The act provides for the establishment of **Competition Commission of India** or **CCI** (established in 2009) for the **administration, implementation,** and **enforcement** of the Act.
  - CCI also **protects** the **interests of consumers** and **ensures freedom of trade** carried on by other participants in markets in India.
- The **National Company Law Appellate Tribunal (NCLAT)**, constituted under the **Companies Act of 2013**, is the **Appellate Tribunal** to hear and dispose appeals against CCI directions, orders, or findings.
  - But it is an **ex-post approach**, i.e., law designed to penalize anti-competitive behavior only after its occurrence.

- o In comparison, digital markets move at high pace due to the **Increasing Return of Size Economies** – making ex post effects **too delayed** to prevent irreparable harm to affected parties from **Big Techs**.
    - ✓ It leads to **limited fair competition** quickly, with 1 or 2 winners taking all, in comparison to traditional markets which tend to be **fair** and **contestable.**
    - ✓ It also leads to **Network Effect**, i.e., increased utility of platforms with increased users, making the larger platforms **more efficient.**
    - ✓ **Cornering of valuable market inputs** (e.g., talented workforce) and quick **unlocking** of **increasing return effects in adjacent markets** are other harms.

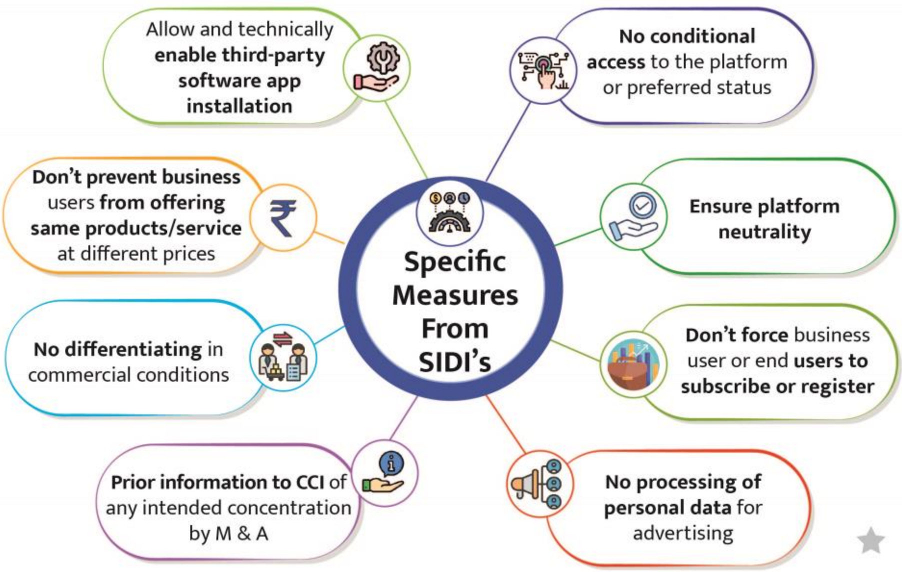


Way Forward: Committee Recommendations and Other Measures

To ensure a **fair, transparent,** and **contestable digital ecosystem**, India needs a **Digital Competition Act** based on the unique needs of digital markets. On lines of global **ex-ante approaches,** this Digital Competition Act should:

> **Regulation of digital markets** will be done by MeitY and **Regulation of Big Tech firms** will be done by Ministry of Corporate Affairs (MCA).
> - **MeitY** is slated to come up with the **Digital India Bill** which would supersede the **Information Technology Act 2000.**
> - A **Digital Competition Law** -- a separate law will be created by **MCA** for tackling **Big Tech firms' anti-competitive practices.**

- **Define and identify** a small number of **Systemically Important Digital Intermediaries (SIDIs)/Digital Gatekeepers** that can negatively influence competition.
- Impose **ex-ante competitive restraints on SIDIs** in India to regulate competition in digital markets.
- **Global Harmonization of digital regulations** to reduce the regulatory burden for companies and help Indian companies compete globally.
- **Harmonize competition law** with **Consumer Protection Act 2020** and the **e-commerce rules** under it.
- **Mechanism** to **ensure fair compensation** to the consumers.
- **Revamping CCI and strengthening it** to take new responsibilities. E.g., Setting up **specialized digital Markets** within the commission with skilled experts, academics, and attorneys.
    - o Also, it should **closely monitor the SIDIs** and make **recommendations** on **designating of SIDIs, compliance** and **adjudicate.**
- Prescribe a **code of conduct** with **specific measures for SIDIs** to prevent them from **abusing their market power** to **stifle competition** (refer **image**).



APPENDIX: KEY DATA AND FACTS

APPENDIX: KEY DATA AND FACTS

EMPLOYMENT, SOCIAL SECURITY AND SKILL DEVELOPMENT

Employment

- **41.3%** was the Labour Force Participation Rate. (PLFS 2021-22)
- **4.1%** 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**.

Insurance

- **4.2%** is India's overall **insurance penetration** in FY21.
- **$91** is India's overall **insurance density** in FY21.
- **12% is the average annual growth rate** of insurance sector in India.
- **India** is the **10th largest insurance market** in the world.

Skill Development

- **In India, only around 5% of the workforce is formally skilled** against **52%** in the **US** and **96%** in **South Korea**
- India has entered its **37 years long demographic dividend period**, lasting from 2018 to 2055.
- Only **50.3% of India's educated people are employable**, as per India Skills Report, 2023.
- **Quality of jobs is on decline**, highlighted by **Periodic Labour Force Survey (PLFS).**

POVERTY AND INCLUSIVE GROWTH

Poverty Alleviation

- **More than 350 million** people are below poverty line in India.
- **More than 16%** of the population in India (2020) is **multidimensionally poor.**
- **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.**

Financial Inclusion

- **14.7 bank branches** per 100,000 adults in **2020**, higher than **Germany, China and South Africa**.
- **49 Crore+ PMJDY** accounts with over 55% accounts held by women.
- **16.31 crore** enrolment, till May 2023, under **PM Jeeven Jyoti Bima Yojana (PMJJBY)**, including **4.52 crore** female beneficiaries till April 2022.
- **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)**

Housing

- **3 crore and 1.2 crore** houses required in rural and urban areas respectively.
- Over **1 crore houses grounded** under **PMAY (U)** and over **75 lakh houses completed**.
- Over **2 crore houses grounded** under **PMAY (R)** and over **2.29 crore houses completed**.
- **Six Light House Projects** completed under **GHTC-India**.

Land record modernization

- **94% of villages** have completed **Computerization of Land Records (Record of Rights i.e., RoR).**
- **70% of Cadastral Maps have been digitized.**
- **1.15 ha** was the average farm size in 2010-11.
- **<10%** of the land is under non-agricultural uses.

FISCAL POLICY

Government Finance

- **6.4% of GDP** as fiscal deficit for FY23.
- **83.1%** public debt-to-GDP ratio for FY23.
- **29.5% combined debt-to-GDP ratio of States** at end-March 2023.
- **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.

Direct Taxation

- 11.7% tax-GDP ratio in FY 22 (6% for direct taxes and 5.7% for indirect taxes);
- **Record ₹16.61 lakh crore** direct tax collections for FY2022-23, jump of 17% from the previous year.
- Corporate Tax and Personal Income tax as the main contributors to Direct Tax.
- **Direct tax buoyancy** at 2.52 was the **highest in the last 15 years.**

BANKING AND PAYMENT SYSTEMS

Banking

- **15.4%** Credit Growth for Scheduled Commercial Banks (SCBs) in FY22-23.
- **4.5%** Gross NPA ratio and 1.2% Net NPA of SCBs at end-December 2022.
- **71.6%** was the Provision Coverage Ratio (PCR) of SCBs in September 2022.
- **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

- The **Gross Non-Performing Assets (GNPAs)** of **Scheduled Commercial Banks (SCBs)** fell to a **seven-year low** of **5%** in **September 2022** and **Net NPAs** reduced to **1.3%.**
- The **sectoral share of the NPAs is dominated by the infrastructure sector.**
- **Disproportionate share of Public Sector Banks (PSBs)** i.e., about 9/10th of NPAs.
- **India has been one of the worst affected economies** from the Global Financial Crisis of 2008.

Payment systems

- 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).

FinTech Sector

- Indian FinTech industry valued at **$50-60 Bn in FY21 and is estimated at around 150 Bn by 2025**.
- India had a Fintech **adoption rate of 87%** in March 2020, compared to a **global average of 64%.**
- **India has the 3rd largest FinTech ecosystem globally.**

EXTERNAL SECTOR

Export Sector

- **US$ 770.18 billion** was India's overall exports (merchandise and services combined) in 2022-23.
- **1.8%** was **India's share in world's exports** (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.**

Foreign Direct Investment (FDI)

- **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**.

AGRICULTURE AND ALLIED ACTIVITIES

Agricultural Mechanization

- **Indian farm mechanisation level is at 40–45%** compared to that of the United States (95%), Brazil (75%) and China (57%) (NABARD, 2018).
- **India's farm equipment market is 7**% of the global market, **with more than 80% of the value contribution coming from tractors.**
- The **trade surplus in non-tractor farm machinery is very small.**
- India is reliant on **low grade equipment or imports**.

Financial Support to farmers

- **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.

Allied Sector

- **7.9%** CAGR of Livestock sector during 2014-15 to 2020-21, contributing **30.1%** in total agriculture GVA in 2020-21 (at constant prices).
- **24%** 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.
- 3rd **largest** fish producing country in the world accounting for **8% of global production.**

Food Processing Sector

- **Sunrise sector** with **8.3%** AAGR (FY17-FY21), 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 **12.2% 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

- India's agriculture exports touched a **historic high of USD 50 billion** during 2021-22.
- India has been a **net exporter** of agri-products **since the economic reforms began in 1991**.
- **Share of India's agricultural exports** in the **world agriculture trade** in 2021 was **2.4%.**
- **Share of agricultural exports** in **India's total merchandise exports** was **11.9% in 2021-22.**
- **Major destinations** of exports for India's Agri and Allied commodities were Bangladesh, United States of America, China, Vietnam, and United Arab Emirates.

INDUSTRY

Industrial Policy

- **17%** 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).
- **9 Indian companies** feature in Fortune 500 list of 2022.

Textile Sector

- It contributes **2.3% to the 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.
- India is one of the **largest producers of cotton & jute in the world**, the second-largest producer of silk in the world the 5th largest producer of Technical Textiles.
- **95% of the world's hand-woven fabric** comes from India.
- It provides direct employment to over **45 million people (21 % of total employment)**.

SERVICES

E-commerce sector

- **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.

Telecom Sector

- 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 one of the **largest sector in terms of FDI inflows**, contributing around 6% of total FDI inflow.
- The sector contributes **directly to 2.2 Mn employments and indirectly to 1.8 Mn jobs**.

Tourism Sector

- **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.

MINING AND POWER SECTOR

Mines and Minerals

- India continues to be **largely self-sufficient** in minerals which constitute **primary raw materials** supplied to industries such as **iron & steel, aluminum** 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.**
- In terms of **value of mineral production**, about **97% comes from 7 states.**
- **Only 10% of the obvious geological potential (OGP)** area of India has been **explored**.

Coal and Oil Sector

- **50%** of India's overall energy mix comes from Coal.
- **28%** of India's overall energy mix comes from Oil.
- **893 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**.

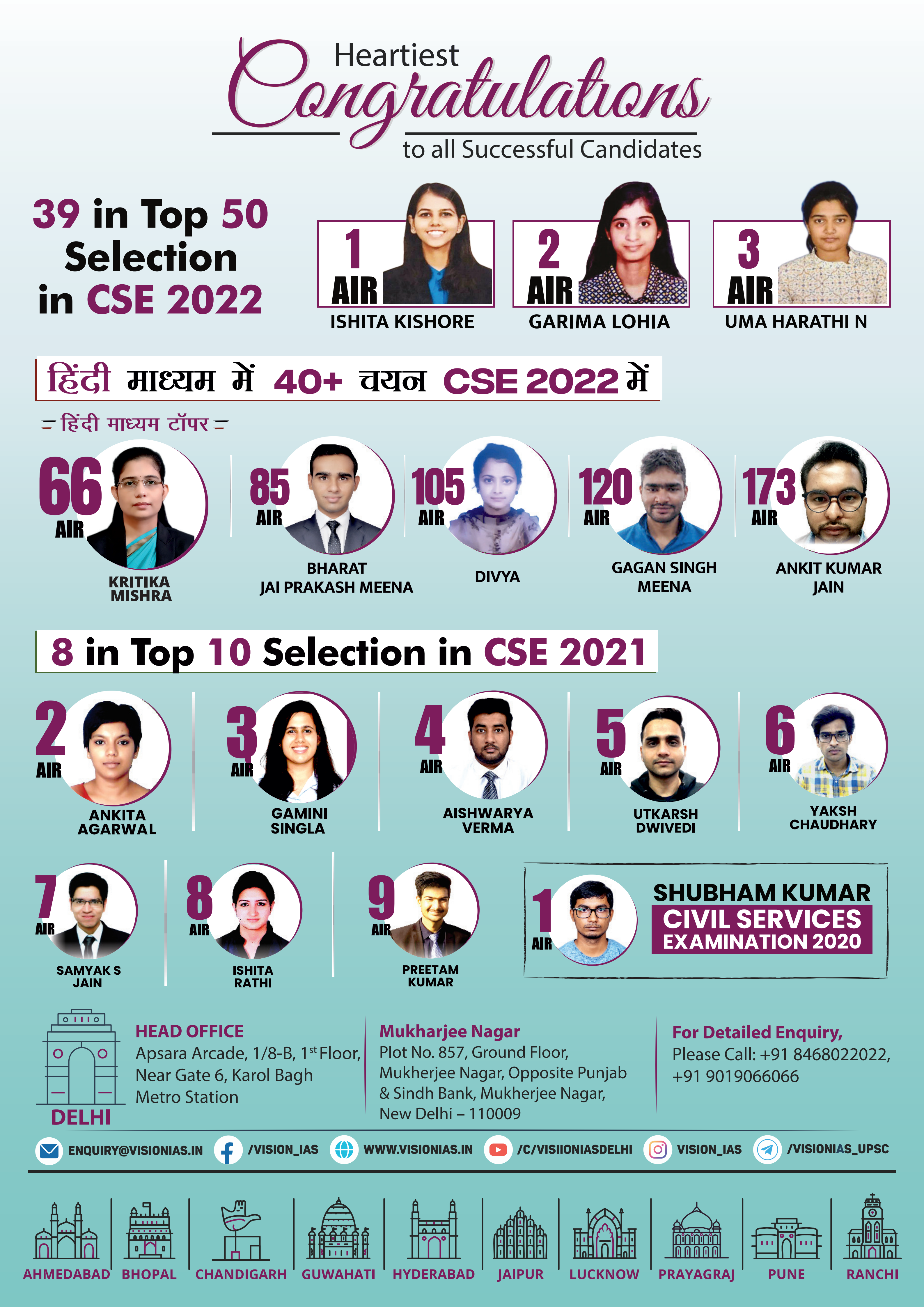
BUSINESS AND INNOVATION

Business Policy

- **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** ($447 billion) and **services** ($322 billion) exports in FY2022-23.
- **Highest-ever FDI inflow** at $83 billion in FY22.

WEEKLY FOCUS- ECONOMY

S.No.	Topic	Learn More
1.	Oil Prices: Its Determinants And Effects	
2.	Infrastructure Financing and Business Models	
3.	Informal Economy in India and COVID-19	
4.	Reform and Codification of India's Labour Laws	
5.	Agricultural Marketing in India	
6.	India and FTAs	
7.	India and World Trade Organization	
8.	Infrastructure Development in the North Eastern Region	
9.	Post Pandemic Economy: New destination, New path	
10.	Non-Performing Assets (NPA): From 'a Crisis' to 'a Catalyst'	
11.	Changing Nature of Work	
12.	Port connectivity: India's conduit to the world	
13.	30 years of 1991 Economic Reforms: From one revolution to another	
14.	Urban Planning in India: Building Future Cities of India	
15.	Agriculture Overview: From Production-centric to Farmer-centric	
16.	Agricultural Inputs - Part I Soil and Water: Elemental Agricultural Inputs	
17.	Agricultural Inputs- Part II Seeds and Pesticides: Essential Consumable Inputs	
18.	Agricultural Inputs- Part III Agricultural Mechanisation and Credit: Growth driving capital inputs	
19.	Micro, Small, and Medium Enterprises (MSMEs): Backbone of the Indian Economy	
20.	India 75 and Beyond	
21.	Rural Industrialisation: Stepping Stone for an Atmanirbhar Bharat	
22.	Fintech Sector: Navigating the technological revolution in Financial Sector	
23.	Capital market in India: Channelling Finance for Growth	
24.	Global Value Chains (GVCs): Prospects and Challenges for India	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Congratulations
to all Successful Candidates
39 in Top 50 Selection in CSE 2022
1 AIR ISHITA KISHORE
2 AIR GARIMA LOHIA
3 AIR UMA HARATHI N
हिंदी माध्यम में 40+ चयन CSE 2022 में
हिंदी माध्यम टॉपर
66 AIR KRITIKA MISHRA
85 AIR BHARAT JAI PRAKASH MEENA
105 AIR DIVYA
120 AIR GAGAN SINGH MEENA
173 AIR ANKIT KUMAR JAIN
8 in Top 10 Selection in CSE 2021
2 AIR ANKITA AGARWAL
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
1 AIR SHUBHAM KUMAR
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