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Since 1953

# INDIAN ECONOMY

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# Preface Indian Economy

Dear Student,

Indian Economy is unarguably the most important topic of the prelims exam and UPSC, on an average, asks 25% of the question in the paper from this topic only. We would like to add that most of the students find Economy as one of the toughest subject to master. They get intimidated by the loads of data, reports and indexes etc. and their understanding get lost in the plethora of information.

We, at Rau's IAS, believe that economy section is not as difficult as the students normally perceive. Actually, they need right guidance about what to study, where to focus facts or figures or on trends, clarity about basic concepts and then application of these concepts on what is happening around us in terms of government schemes and their impact on our live.

Prelims Compass of Rau's IAS is going to be a one stop solution for your Indian economy subject related needs. We have ensured comprehensive coverage of all relevant themes in the last 16-18 months to ensure that you do not miss anything important. We have also released a separate booklet for Economic Survey (2020-2021) and Budget (2021-2022) and it is strongly advised that both these books should be studied with the Quality Improvement Program (QIP) conducted by Rau's IAS to sail through this topic in the civil services exam.

All the best!!!

**Rau's IAS Study Circle**

# Tm Themes asked in Prelims Exam in the last Three Years

| INDIAN ECONOMY | | |
|---|---|---|
| **PRELIMS 2020 - TOPICS** | **PRELIMS 2019 TOPICS** | **PRELIMS 2018 TOPICS** |
| 1. Global Financial crisis - Policies by India | 1. Inter creditor Agreement | 1. Solar Power production |
| 2. Money Supply | 2. Banks Board Bureau | 2. NSSO 70th Round "Situation Assessment Survey of Agriculture Household" |
| 3. Gold Tranche | 3. Petroleum and Natural Gas Regulatory Board (PNGRB) | 3. Merchant Discount Rate |
| 4. Statements under FRBM act | 4. Ease of doing business - index | 4. Equalization levy |
| 5. Major and Minor Minerals | 5. MSP - FCI - cost | 5. FRBM act |
| 6. Chemical fertilizers | 6. Lead Bank Scheme - Service area approach | 6. Import of edible oils - trend |
| 7. National Policy on Biofuels | 7. Minor Minerals | 7. NPCI |
| 8. Public Investment in Agriculture | 8. External debt | 8. Legal tender |
| 9. Interest Coverage ratio | 9. Assets of Commercial Banks in India | 9. Freebies - Economics |
| 10. Price of Rice | 10. Risk of currency crisis. | 10. Per capita real GNP - Economic development |
| 11. External Trade (Sri Lanka, Nepal trend) | 11. FPI | 11. Human Capital Formation |
| 12. Kisan Credit card | 12. Five year Plan - Broad understanding | 12. Capital Formation |
| 13. CPI vs WPI | 13. Purchasing Power parity - concept + current | 13. Treasury Bills |
| 14. MSP - vis a vis Market price comparison | 14. Kharif cultivation trend | 14. Pradhan Mantri Kaushal Vikas Yojana |
| 15. Money market Instruments | 15 Agricultural Commodities - Import - Highest value | 15. Capital Adequacy Ratio (CAR) |
| 16. FDI - Economic Characteristic | 16. Currency depreciation | 16. Geographical Indications of Goods (Registration and Protection) Act, 1999 |
| 17. International Trade | 17. 'Storage of Payment System Data' - data diktat | 17. Mining - Licensing regime |

| | | |
|---|---|---|
| 18.West Texas intermediate | 18. Money multiplier | 18. BHIM app |
| 19.Non Financial debt | 19. Indian patents act - Plant varieties | 19. MSP - Crops covered |
| 20. Trade-Related Investment Measures (TRIMS) | 20. Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018 | 20. Governance of 'public sector banking in India |
| 21.Expansionist Monetary Policy | 21.Land reforms | 21.Exempt under GST (Goods and Services Tax) |
| 22.1991 Economic liberalisation - impact on income and employment | 22.Global Competitiveness Report | 22.Organic farming - NPOP |
| 23.District Cooperative banks | 23.Poverty Line | 23. "Digital India" Plan |
| 24.Cyber insurance | 24. ATAL innovation mission - ministry | |
| | 25. Coal Sector | |
| | 26. largest exporter of rice in the world | |

# SECTION 1

# NATIONAL INCOME AND RELATED CONCEPTS

## ►BASICS TO UNDERSTAND CALCULATION OF NATIONAL INCOME

**Economic Territory:** Geographical territory administered by a government within which persons, goods and capital circulate freely. Includes:

- Political frontiers including territorial waters and air space.
- Embassies, consulates, military bases, etc located abroad. (Excluding those located within the political frontiers)
- Ships, aircrafts etc, operated by the residents between two or more countries

### SCOPE OF PEOPLE COVERED

- **Resident:** Economic concept; Person or an institution whose centre of economic interest lies in the economic territory of the country in which he lives.
- **Citizens:** Legal Concept
- **GDP calculation:** All the Residents (Includes foreign Residents within India and excludes Indian Citizens outside India
- **GNP Calculation:** All the citizens (Includes all Indian Citizens both inside as well as outside India)

### SCOPE OF GOODS COVERED

- Covers all the Final Goods; does not cover the Intermediate Goods since it leads to double accounting.
- Does not include the sale of secondhand Goods; but services offered on such sales considered.
- Includes even those Goods that are not marketed but produced for self-consumption.
- Includes even those Goods that remain unsold; considered as addition to Inventories/ Investment.

### SCOPE OF SERVICES COVERED

- Covers all the Services which are produced within the Country.
- Does not include non-marketable services such as household chores, care for the elderly etc.
- Exception: Imputed rent of the building that is owned and occupied by owners themselves.

### TRANSFER PAYMENTS

- National Income should consider only the factor incomes i.e., income earned through the provision of factors of production. Hence, transfer payments i.e., old age pensions, education grants, unemployment benefits, gifts not included in the GDP Calculation.
- Similarly, remittances also not accounted.

**PRODUCTION Vs PRODUCT TAXES**

- Production Taxes: Taxes paid on land, labour, assets such as Land revenue, stamp duty, Registration fee, Professional tax. Not taxed on per unit of product.
- Product Taxes: Taxes paid on per unit of product such as GST, Excise Duty, Customs duty etc.

**PRODUCTION Vs PRODUCT SUBSIDIES**

- Production Subsidies: Subsidies to the entire enterprise and not specific to product. Examples include Subsidies to Railways, Farmers, Small scale Industries etc.
- Product Subsidies: Product specific subsidies such as Food, LPG, Kerosene, Fertilisers etc.



## ►GDP CALCULATION: FACTOR COST VS BASIC PRICE VS MARKET PRICE

The GDP is calculated by taking into account three different prices:

**Factor Cost:** Cost of factors of Production such as land, Labour and Capital

**Basic Price (Price expected to be received by Producer):** Factor Cost + Production Taxes- Production Subsidies

**Market Price (Price expected to be paid by consumer):** Basic Price+ Product Taxes- Product Subsidies

Hence,

***GDP at Market price= GDP at Basic price + Product Taxes- Product Subsidies***

***or***

***GDP at Market Price= GDP at Factor Cost + Production Taxes+ Product Taxes – (Production Subsidies + Product Subsidies)***

***Or***

***GDP at Market price = GDP at Factor Cost + Indirect Taxes – Subsidies***

## ►3 METHODS FOR CALCULATION OF GDP

**EXPENDITURE METHOD: GDP = PFCE+ GFCE + GCF + (X-M)**

**Private Final Consumption Expenditure (PFCE)**

- Expenditure incurred by the households on Goods and Services (only Marketable services).
- What it includes?
- Expenditure incurred by Residents within India (Includes both Domestic and Imported Goods)
- Expenditure incurred by Residents outside India (Say, Tourism, Education, Health etc. accounted as Imports) *(Deducted later as Imports)*
- Expenditure incurred by non-residents within the Economic territory of India considered as Exports

**Government Final Consumption Expenditure (GFCE)**

- Compensation of employees (wages and salaries + pensions) + Net purchase of goods and services + Consumption of fixed capital (CFC). **Note:** Excludes the transfer payment.

**Gross Capital Formation (GCF):**

Calculated as Gross Fixed Capital Formation (GFCF) + Changes in Stocks + Net acquisition of valuables.

Gross Fixed Capital Formation (GFCF) comprises of

- Construction and Maintenance of fixed assets such Infrastructure such as Dwellings, Roads, Railways etc.
- Machinery and Equipment (3) Intellectual Property Rights such as R&D, Software etc.
- Cultivated biological resources - Increment in Livestock and Plantation.

**Exports (X) and Imports (M):** Imports need to be subtracted since National Income should take into account Goods and services produced within the Economic territory.

**Note:** The PFCE, accounting for around 60% of India's GDP is the major driver. The Net Exports (Exports-Imports) accounting for around (-3%) of India's GDP has the lowest share.

**GDP BY INCOME METHOD**

**Compensation of employees (CE):** Total remuneration in cash or in-kind payable by employers to employees for the work done. Direct social transfers such as payments for sickness, educational grants and pensions are also imputed to compensation of employees.

**Operating Surplus (OS):** Operating surplus for Organised sector: Retained Earnings + Dividend + Interest on Capital

**Mixed Income (MI):** Mixed Income for the Unorganised/ Household sector: Difficult to differentiate between Employment income (Wages) and Profits (Operating Surplus)

**Consumption of Fixed Assets:** Rent on land, Buildings and other structures

***GVA at Basic Prices = (CE+ OS/MI+ CFA) + Production Taxes – Production Subsidies***

***GDP = GVA at Basic Prices + Product Taxes – Product Subsidies***

**GDP BY PRODUCTION METHOD**

Gross Value Added (GVA) = Value of Output- Value of Intermediate Consumption.

GDP at Market Price = GDP at basic Price + Product Taxes – Product Subsidies

## ►NOMINAL GDP VS REAL GDP

The Gross Domestic Product (GDP) refers to the market value of all final goods and services produced within an economy. It can be calculated into two ways:

**Nominal GDP**: It refers to the GDP at the current market prices i.e., the GDP is calculated as per the market prices for the year for which the GDP is calculated.

**Real GDP**: It refers to the GDP at base year prices i.e., the GDP is calculated as per the market prices in the base year. Thus, the Real GDP negates the inflation in goods and services.

***In case of high rate of inflation, the nominal GDP would be quite higher than the real GDP. However, in case of deflation, the real GDP would be higher than the nominal GDP.***

## ►GDP VS GNP

GNP = GDP + Income earned by Indians outside India – Income earned by Foreigners within India

GNP = GDP + Net Factor Income from abroad (NFIA).

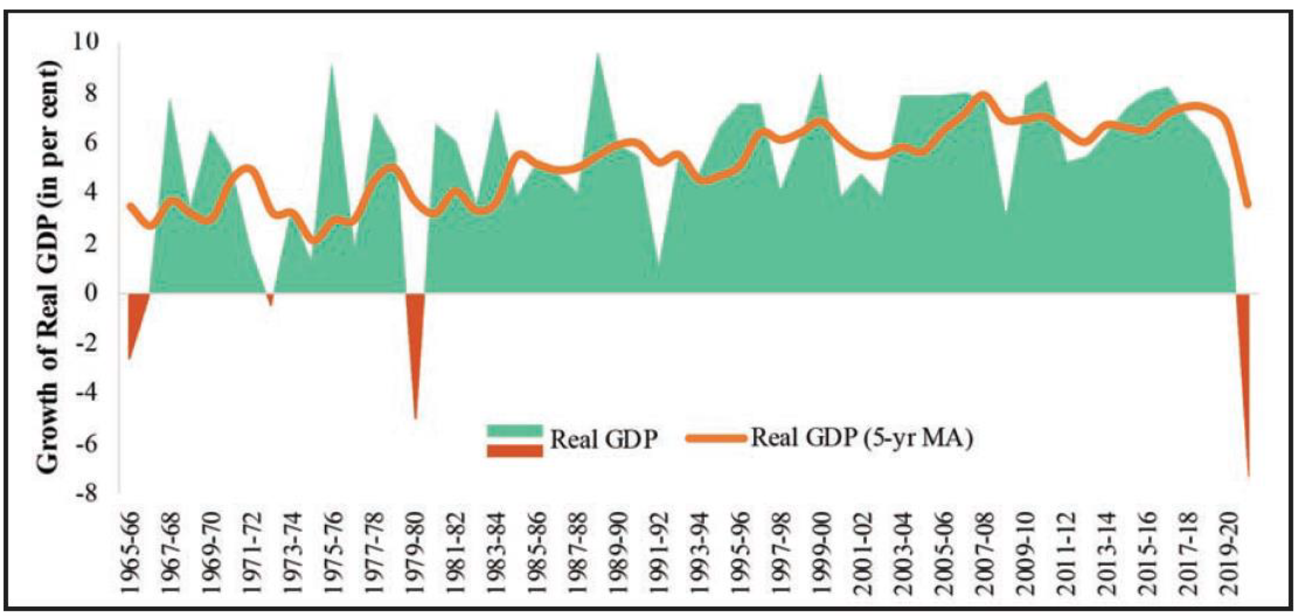
## ►CHANGES IN THE GDP ESTIMATION (2015)

- Change in the base year from 2004-05 to 2011-12. Usually, the base years are revised at a frequency of 7-10 years by taking into account the changing economic landscape of the country.
- Change in the GDP estimation from the GDP at Factor Cost to GDP at Market Prices
- Change in the database for capturing economic activity from RBI's database to the MCA-21 database of the Ministry of Corporate Affairs. This database is basically used for 2 purposes:
  - Estimate the production of goods and services in the organized sector based upon the tax returns
  - Extrapolate the production of goods and services in the unorganized sector based upon the organized sector activity.



## ►TRENDS IN GDP GROWTH RATES

**FIGURE: TREND IN INDIA'S REAL GDP GROWTH**

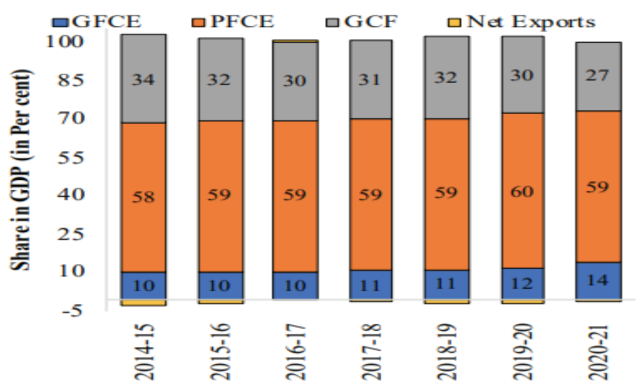



Source: NSO

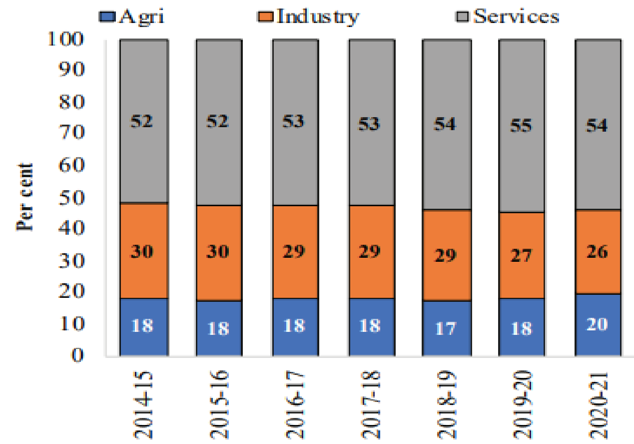
## ►ECONOMIC RECESSION IN INDIA

- India has recently faced economic recession for the first time in the last 41 years since 1979-80
- Recession is defined as a fall in the overall economic activity for two consecutive quarters (six months) accompanied by a decline in income, sales and employment.
- In independent India's history, 5 such years of negative GDP growth were registered. They saw contraction of -1.2% (FY58), -3.66% (FY66), -0.32% (FY73), -5.2% (FY80) and present financial year (2020-21).

## ►TRENDS IN SHARE OF DIFFERENT COMPONENTS OF GDP




## ►TRENDS IN CONTRIBUTION OF DIFFERENT SECTORS




## ►TRENDS IN GROSS SAVINGS

The Gross savings is contributed by mainly 3 sectors- Public, Private Corporate and Household sector. As shown below, the Household sector accounts for the highest share of Gross Savings followed by private corporate sector. The financial savings of the households majorly includes the deposits of the households with the Banks and financial Institutions. The Physical savings include savings in the form of land, buildings, home etc.

**Table: Gross Savings as percentage of GDP**

| | 2011-12 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|---|---|
| **Gross Savings** | 34.6 | 32.2 | 31.1 | 30.3 | 30.5 |
| **Public** | 1.5 | 1.0 | 12 | 1.7 | 1.7 |
| **Private corporates** | 9.5 | 11.7 | 11.9 | 11.5 | 11.6 |
| **Household sector** | 23.6 | 19.6 | 18.0 | 17.1 | 17.2 |
| **Net financial savings** | 7.4 | 7.1 | 8.1 | 6.3 | 6.6 |
| **Physical savings** | 16.3 | 12.5 | 9.9 | 10.8 | 10.6 |

There has been consistent decline in Gross Savings from 34.6% in 2011-12 to 30.5% in 2017-18. The decline in the Gross Savings is basically on account of decline in Gross savings of household sector.

## ► PURCHASING POWER PARITY (PPP)

The Economic size of the countries across the world can be compared either in terms of Nominal GDP or Purchasing Power Parity (PPP).

**Comparison using Nominal GDP:** The Countries across the world measure their GDP size in terms of their own currencies. This makes cross country comparison difficult. Hence, in order to compare the GDP size of the countries, we need a common currency. Hence, the GDP size of the countries are converted into dollars using the average exchange rates as shown below.

| TOP 5 COUNTRIES IN TERMS OF NOMINAL GDP | | | | |
|---|---|---|---|---|
| **Rank** | **Country** | **Size of GDP in terms of own Currency (Approximate values)** | **Exchange Rate** | **Size of GDP in terms of Dollars (Approximate values)** |
| 1 | USA | $21 trillion | N/A | $21 trillion |
| 2 | China | 92 trillion Yuan | $ 1 = 7 Yuan | $ 13 trillion |
| 3 | Japan | 553 trillion Yen | $ 1 = 107 Yen | $ 5 trillion |
| 4 | Germany | 3.5 trillion Euros | $ 1 = 0.90 Euro | $ 4 trillion |
| 5 | India | 204 lakh crores | $ 1 = 70 Rs | $2.9 trillion |

**Comparison using PPP:**

| TOP 5 COUNTRIES IN TERMS OF GDP PPP | | | | |
|---|---|---|---|---|
| **Rank** | **Country** | **Size of GDP in terms of own Currency (Approximate values)** | **Purchasing Power Parity Rates (As Published by World Bank in 2018)** | **GDP Size in terms of PPP <US$) (Approximate values)** |
| 1 | China | 92 trillion Yuan | $ 1 = 4.23 Yuan | $21.74 trillion |
| 2 | USA | $21 trillion | *N/A* | $21 trillion |
| 3 | India | 204 lakh crores | $ 1 = Rs 21 | $9.7 trillion |

**Note:** the PPP rates in the table above are as per World Bank's data in 2018.

## ►GROSS DOMESTIC KNOWLEDGE PRODUCT (GDKP)

Takes a different approach to measuring a nation's growth by including factors that involve the creation and accumulation of knowledge.

The GDKP concept identifies four components of knowledge-based economy, namely, R&D and technology, computer infrastructure, information infrastructure and education and training. These Components are highlighted as below:

- **Knowledge items (Ki):** production of newspapers, schools, patents, teaching, and a wide range of digital items
- **Country's Knowledge Producing Matrix (CKPM)**: Comparison of knowledge produced by government, private institutions, and households.
- **Country's Knowledge User Matrix (CKUM)**: value of knowledge acquired and transmitted
- **Cost of Individual Learning**: Investment in the Education.

SECTION 2

# CONCEPTS RELATED TO MONEY SUPPLY

## ►MONEY

Money is any object that is generally accepted as payment for goods and services and repayment of debts.

## ►FUNCTIONS OF MONEY

- A medium of exchange: an object that is generally accepted as a form of payment.
- A unit of account: a means of keeping track of how much something is worth.
- A store of value: it can be held and exchanged later for goods and services at an approximate value.

## ►FORMS OF MONEY

1. **Commodity Money**: Naturally scarce precious metals, conch shells, barley beads etc. Derives its value from the intrinsic value of the commodity.
2. **Fiduciary Money**: Money which gets accepted due to mutual trust between the parties. Examples- Demand drafts and Cheques.
3. **Fiat Money**: Money which does not has any intrinsic value of its own ( Currency and Coins). Generally declared as Legal tender for the all transactions within a country.

## ►LEGAL TENDER

- Cannot be refused by any citizen of the country for settlement of any kind of transaction.
- Legal tender can be either limited or unlimited. In India, while the coins are limited legal tender, the currency notes are unlimited legal tender.
- Under Coinage Act, 2011, 50 paise coins can be used as the legal tender for dues up to Rs 10. Coins of Rs 1 and above can be used as legal tender for dues up to Rs 1000. While anyone cannot be forced to accept coins beyond the limits mentioned, voluntarily accepting coins for amounts exceeding the limits mentioned above is not prohibited.

## ►SOURCES OF MONEY SUPPLY

**RBI**

- Sole authority to print Currency Notes under RBI Act, 1934. Can print notes of different denominations from Rs 2 to up to Rs 10,000. All the Bank notes are legal tenders. All banknotes issued by RBI are backed by assets such as gold, Government Securities and Foreign Currency Assets, as defined in Section 33 of RBI Act, 1934.
- Bank notes are printed at four currency presses, two of which are owned by the Government of India through Security Printing and Minting Corporation of India Ltd. (SPMCIL) and two are owned by the RBI's

subsidiary Bharatiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL). The currency presses of SPMCIL are at Nasik and Dewas. The two presses of BRBNMPL are at Mysuru and Salboni.

**Government:** Issue One-Rupee Notes and Coins. Coins can be issued up to the denomination of Rs 1000 under The Coinage Act, 2011. Government decides on the quantity of coins to be minted on the basis of indent received from the Reserve Bank on yearly basis.

**Banks:** The Banks accept deposits and lend loans and hence in a way are also the sources of Money supply.

## ►COMPONENTS OF MONEY SUPPLY

The total stock of money in circulation among the public at a particular point of time is called money supply

| PUBLIC | BANKS | RESERVE BANK OF INDIA |
|---|---|---|
| Currency with the Public | • Demand Deposits: Current Account And Savings Account<br>• Time Deposits: Fixed And Recurring Deposits | • Bank's Deposits With RBI<br>• Other Deposits With RBI |

- **M1** = Currency with the public+ Demand deposits with the banking system+ Other deposits with RBI
- **M2** = M1+ Saving deposits of Post Offices
- **M3** = M1+Time deposits with the banking system
- **M4** = M3+All deposits with Post Offices (excluding National Saving Certificates)

**Decreasing order of Liquidity**

**M1 and M2** are known as narrow money. **M3 and M4** are known as broad money. These gradations are in decreasing order of liquidity. M1 is most liquid and easiest for transactions whereas M4 is least liquid of all. M3 is the most commonly used measure of money supply

## ►HIGH POWERED MONEY

The total liability of the RBI is called the monetary base or high powered money. Also known as Reserve Money or M0.

Currency (notes and coins in circulation with the public and vault cash of commercial banks) + deposits held by the Government of India and commercial banks with RBI.

Note: As per the RBI Act, 1934, the RBI needs to maintain minimum reserves of Rs 200 crores (115 Crores- Gold, 85 crores- Foreign Currency Assets) in order to print the currency notes. Based upon maintenance of minimum reserves, the RBI can print unlimited currency notes. So, as such there is no statutory limit on the printing of currency notes by the RBI.

## ►MONEY MULTIPLIER

After keeping aside the reserve requirements, banks lend the money received out of deposits. A part of this money is further deposited in the banking system after changing multiple hands in the economy. A part of this deposit is further used for lending.

This cycle of lending and depositing creates additional money in the economy. The additional money created is calculated by a term called money multiplier.

Thus money multiplier tells us by how many times an initial loan will be "multiplied" as it is spent in the economy and then re-deposited in other banks. Money multiplier = 1/r (where r = reserve ratio). Also calculated as (M3/ M0)

## ►VELOCITY OF MONEY

- Refers to the number of times money changes hand during a unit period of time, say, a month. Calculated as (Nominal GDP/ Money Supply).
- Higher Velocity of Money→ More number of transactions→ Increase in the Nominal GDP growth rate.

## ►CURRENCY DEPOSIT RATIO (CDR)

- Ratio of money held by the public in currency to that they hold in bank deposits. It reflects people's preference for liquidity. For example, CDR increases during the festive season as people convert deposits to cash balance for meeting extra expenditure during such periods.

- If the currency-deposit ratio increases, that means the public is holding more of its money out of Banks rather than depositing it. Hence, money multiplier will go down.

## ►RESERVE DEPOSIT RATIO

Reserve deposit ratio (rdr) is the proportion of the total deposits commercial banks keep as reserves. Reserve money consists of two things – vault cash in banks and deposits of commercial banks with RBI. It includes the SLR and CRR.

## ►LIQUIDITY TRAP

- Occurs when a country is trying to recover from a recession (lower/negative rate of inflation) and the government aims to boost the investment in the nation by reducing interest rates to facilitate borrowing. In a standard economy, such a reduction in interest rates encourages both borrowing and spending levels on part of both producers and consumers.
- However, in case of Liquidity trap, an expansionary monetary policy becomes ineffective. Due to prevailing depressed demand and production levels, individuals prefer storing their money in the advent of weakening economic conditions.

## ►PARADOX OF THRIFT

Popularized by the renowned economist John Keynes. It states that as individuals try to save more, it leads to a fall in aggregate demand and hence fall in economic growth. However, this theory has been criticized on the ground that an increase in savings allows banks to lend more leading to increase in Investment and GDP growth.

## ►CENTRAL BANK DIGITAL CURRENCY (CBDC)

- Digital currency backed by the Central bank of a country. Just like currency notes issued by the Central Bank, the CDBC is a legal tender and accepted for the payment of various transactions within a country.
- Secondly, unlike the cryptocurrencies, the CBDC is backed by the Central Bank and hence enjoy more amount of stability and less volatility.
- Thirdly, it is considered as "programmable money". The Central Bank can enable the usage of CBDC for certain selected users - either the people or only the Financial Institutions. Further, it can be programmed only for certain selected transactions or they may be enabled in certain specific regions of the country only.
- Lastly, just like cryptocurrencies, the CBDC works on Blockchain technology and hence details of every transaction- amount, accounts involved, purpose etc. is recorded.

**Note:**

1. The Chinese Central Bank has recently decided to test its CDBC named as "Digital Currency Electronic Payment (DCEP)" in four Chinese cities. CBDC in other countries- Tunisia (e-DINAR); Ecuador (Sistema); Venezuela (Petro); Sweden (e-krona)
2. Subhash Chandra Garg Committee (2019) has recommended a ban on private cryptocurrencies on account of concerns such as volatility, instability, security risk and risk of funding illegal activities. However, the committee favored issuance of CBDC.

## ►LIBRA

Facebook is set to launch its own digital currency, named LIBRA. Bitcoin- No Intrinsic value; LIBRA- Backed by reserves such as Govt Securities.

## ►ABER

Pilot digital currency of Saudi Arabia and UAE based on block-chain and distributed ledger technologies.

## ►TOMAN

The Iranian Parliament has recently passed a bill to introduce new currency "Toman" in order to replace its existing currency Rial. The Value of the new currency "Toman" has also been recalibrated wherein 1 Toman would be equal to 10,000 Rials. The rial will remain legal tender alongside the toman during a two-year transition period.

# SECTION 3

# RESERVE BANK OF INDIA (RBI)

## ►INTRODUCTION ABOUT RBI

Set up based upon recommendations of Hilton-Young Commission. Statutory Body under Reserve Bank of India Act 1934. Initially set up as Private shareholders' bank with a paid-up capital of Rs 5 crores on April 1, 1935. Later, Nationalised on 1st Jan 1949.

**MAIN FUNCTIONS OF RBI**

| ROLE | DESCRIPTION |
| --- | --- |
| **Monetary Authority** | • Formulates, implements and monitors the monetary policy.<br>• **Objective:** Maintaining price stability while keeping in mind the objective of growth. |
| **Regulator and supervisor of the financial system** | • Prescribes broad parameters of banking operations within which the country's banking and financial system functions.<br>• **Functions**<br>○ Regulation and supervision of banks under Banking Regulation Act 1949.<br>○ Regulation and supervision of non-banking financial companies.<br>○ Protecting depositors' interest |
| **Manager of Foreign Exchanges** | • Manages the Foreign Exchange Management Act, 1999.<br>• **Functions:**<br>○ facilitate external trade and payment<br>○ promote development and maintenance of foreign exchange market in India. |
| **Issuer of currency** | • RBI has the sole right to issue currency notes in India.<br>• Besides exchanges and destroys currency and coins not fit for circulation. |

| | |
|---|---|
| | • **Objective:** to give the public adequate quantity of supplies of currency notes and coins and in good quality. |
| **Developmental role** | • Financial literacy and financial inclusion |
| **Oversight of Payment and Settlement System** | • The Payment and Settlement Systems Act, 2007 and the Payment and Settlement Systems Regulations, 2008 entrust the responsibility of oversight of payment and settlement system to RBI.<br>• The Board for Regulation and Supervision of Payment and Settlement Systems, a sub-committee of the Central Board of the Reserve Bank of India is the highest policy making body on payment systems in India. |
| **Other functions** | • **Banker to the Government** performs merchant banking function for the central and the state governments; also manages public debt under Government Securities Act, 2006.<br>• **Banker to banks** maintains banking accounts of all scheduled banks. |

## ►ABOUT CENTRAL BOARD OF RBI

Highest decision-making body inside the RBI. It consists of a maximum of 21 members who are appointed/ nominated for a period of four years.

**Composition:** 1 Governor + 4 Deputy Governors + 4 Directors to be nominated by the Central Government, one from each of the four Local Boards + 10 Directors to be nominated by the Central Government + 2 Government officials to be nominated by Central Government.

### ABOUT RBI GOVERNOR AND DY. GOVERNORS

**Appointment:** Appointed by the Appointments Committee of the Cabinet based upon the recommendations of Financial Sector Regulatory Appointments Search Committee (FSRASC), headed by the Cabinet Secretary.

**Term:** Governor and Deputy Governors shall hold office for such term not exceeding five years. They are eligible for re-appointment.

**Qualifications**: No specific qualification laid down.

**Removal**: Removed by the central government.

## ►RBI'S BANKING OMBUDSMAN SCHEME

- Introduced under the Banking Regulation Act in 1995.
- Quasi-judicial authority created to resolve customer complaints against banks.
- Covers all types of banks ( Including Deposit taking and Non-Deposit taking NBFCs with Assets of more than Rs 100 Crores)
- The Ombudsman is a senior official appointed by RBI.

### NEW GUIDELINES: INTERNAL OMBUDSMAN

RBI has tightened the banking ombudsman scheme with the objective to strengthen the grievance redressal mechanism for customers.

**Internal Ombudsman**: Commercial banks having 10 or more banking outlets should have an independent internal ombudsman (IO).

**Fixed Term:** 3-5 years.

**Removal:** The IO can be removed only with prior approval from RBI.

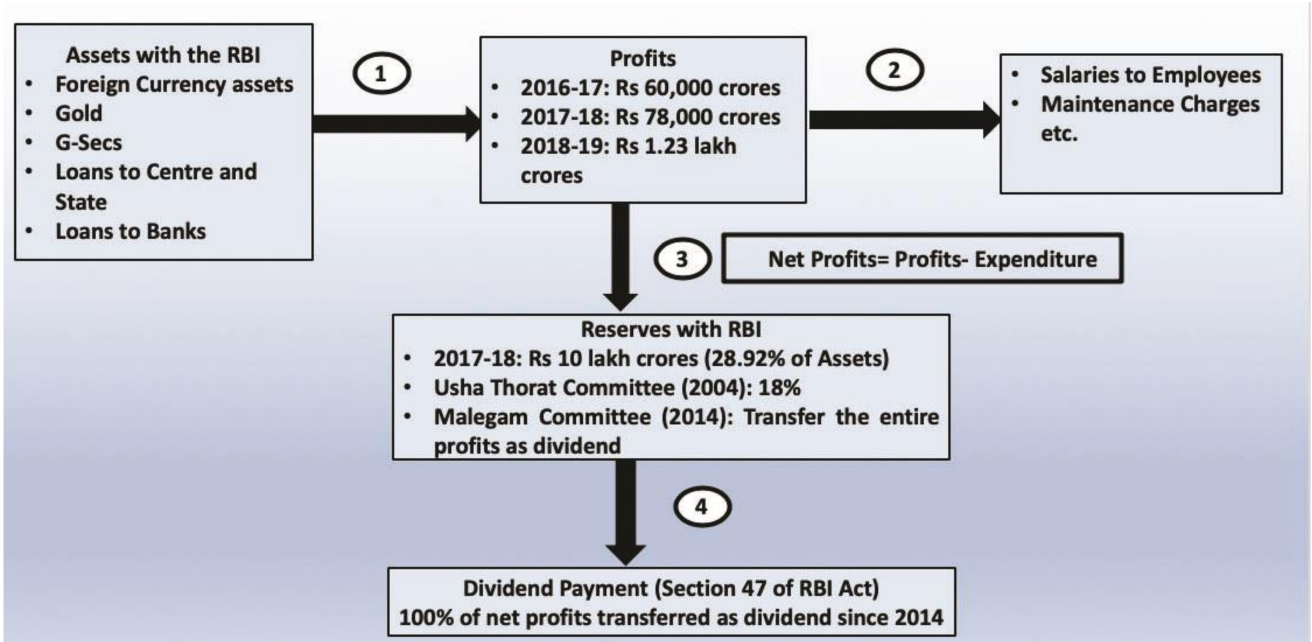
**Compensation limit:** The Banking Ombudsman can impose a maximum penalty of Rs 20 lakh if the bank fails to address the complaints of the customers. Additionally, **maximum** compensation of Rs 1 lakh for loss of time and money, harassment and mental anguish suffered by the complainant.

# CURRENT ISSUES RELATED TO RBI

## ►TRANSFER OF FUNDS BY RBI TO CENTRAL GOVERNMENT

### WHY DOES THE RBI PAY THE DIVIDEND?

Section 47 of the RBI Act states that profits made by the RBI from its operations has to be given to the Centre in the form of Dividend.




## SOURCES OF INCOME AND EXPENDITURE OF RBI

| INCOME | EXPENDITURE |
|---|---|
| Returns from foreign currency assets | Printing of currency |
| Interest on rupee-denominated government bonds | Staff expenditure |
| Interest on overnight lending to commercial banks | Commission given to commercial banks |
| Management commission on handling the borrowings of central and state governments | Commission to primary dealers |

## RECENT TUSSLE BETWEEN RBI AND GOVERNMENT OVER TRANSFER OF SURPLUS RESERVES

**Background:** It is argued that RBI has become the most capitalized central bank in the world and has been stocking surplus capital over what is actually required to face contingency situations. While the central banks across the world have a surplus capital to the tune of 10-14% of their total assets, RBI 26.8% of its total assets as reserves.

**Usha Thorat Committee: (2004)**: RBI should maintain 18% of its total assets as reserves.

**Malegam Committee (2014):** Should transfer all entire net profits annually to RBI. Accordingly, since 2013-14, the RBI has been transferring the entire profits to the Centre without adding any profits to its Reserves.

## RECOMMENDATIONS OF BIMAL JALAN COMMITTEE (2019)

**Economic Capital:** Capital that the RBI requires to hold as a counter against unforeseen risks or events or losses in the future is called as the Economic Capital and is defined under **Economic Capital Framework.**

| ECONOMIC CAPITAL FRAMEWORK | | |
|---|---|---|
| | **Realized Equity** | **Revaluation Reserves** |
| **Nature** | Realized Profits | Unrealized profits/ Notional Profits |
| **Sources of Profits** | * Interest on loans given to Banks<br>* Interest on G-Secs<br>* Interest on loans to State Governments etc. | * Appreciation in foreign Currency with the RBI<br>* Appreciation in Gold etc. |
| **Transferable to Govt.** | Yes | No |
| **How much Reserves to be maintained?** | 5.5%- 6.5% of the total Assets | 15.3%-18.9% of total Assets |

**Transfer Policy:** The Committee has stated that the surplus distribution policy must take into the account the total realized equity. Only if realized equity is above its requirement (6.5 per cent to 5.5 per cent), the entire net income should be transferable to the Government. If it is below the lower bound of requirement, risk provisioning will be made to the extent necessary and only the residual net income should be transferred to the Government.

**Note:** The RBI has recently decided to transfer Rs 57,000 crores as dividend to the Government for the accounting year 2019-20. Prior to this, last year, the RBI had transferred Rs 1.76 lakh crore based upon the recommendations of Bimal Jalan Committee on Economic Capital Framework.

## ►SECTION 7 OF RBI ACT, 1935

Section 7 of the RBI Act 1934 empowers the central government to supersede the RBI Board and issue directions to the RBI, after consulting the governor, if they are considered to be "necessary in public interest".

## ►SECTION 45 OF RBI ACT, 1935

Under Section 45 of Banking Regulation Act, 1949, the RBI can apply to the Central Government for suspension of Business by a Bank and to prepare a scheme for its revival. Based upon the recommendations of RBI, the Central Government then can issue notification. Hence, the Government issues a notification to place a Bank under Moratorium based upon recommendations of RBI.

## ►RBI CHANGES ITS ACCOUNTING YEAR

- Presently, the RBI follows July-June as the financial year as opposed to April- March Financial year followed by the Government. The RBI has now decided to align its financial year with the Government and hence adopt April- March Financial year in order to ensure effective management of finances.
- The next accounting year will be a nine-month period from July 2020 to March 31, 2021 and thereafter, all financial years will start from April, as it happens with the central and state governments.

## ►RBI CONSUMER CONFIDENCE SURVEY

- Consumer Confidence survey is conducted by the RBI to measure consumer perception (current and future) on five economic variables - economic situation, employment, the price level, income and spending.
- Components: Current situation index and Future expectations index. The current situation index measures the change in consumer perception over an economic issue in the last one year while the future expectations index measures what consumer thinks about the same variables, one year ahead.
- A consumer confidence Index above 100 gives optimistic perception of the consumers while reading below 100 denotes pessimistic perception.

## ►CONSOLIDATED SINKING FUND

- Fund maintained by the States with the RBI for the redemption of loans raised by them. The state governments could contribute 1 to 3 per cent of the outstanding market loans each year to the Fund.
- The money deposited by the States in the Consolidated Sinking Fund (CSF) is in turn invested by the RBI in various dated securities issued by Central Government. So, even the Interest earned on such investments can be used for repaying the debt obligations of the state Governments.
- The 12th finance Commission had recommended that all the states should have to set up Consolidated Sinking Fund. However, as of now, it is not mandatory for the State Governments to set up the Fund.

**RECENT GUIDELINES**

The RBI has decided to relax the rules regarding the withdrawal of money by the States from the CSF. This measure will enable the states to meet about 45 per cent of the redemptions of their market borrowings, due in 2020-21.

## ►UTKARSH 2022

The RBI Board has finalised a three- year roadmap known as Utkarsh 2022 in order to improve the regulation and supervision of the Banks. The roadmap is in line with the global central banks' plan to strengthen the regulatory and supervisory mechanism. The idea is that the central bank should play a proactive role and takes pre-emptive action to avoid any crisis.

## ►DIRECT MONETISATION OF GOVT'S DEFICIT

- Presently, the Government borrows money from Market by issuing various Financial instruments such as T-Bills and Dated Securities. Similarly, in recent times, the RBI has been carrying out the Open Market Operations (OMOs) in order to indirectly lend money to the Government. However, in case of Direct Monetization, the Government borrows money directly from the RBI by using T-Bills and Dated Securities.

**RESTRICTION ON DIRECT MONETIZATION OF GOVERNMENT'S DEFICIT UNDER FRBM ACT**

1. The Government can borrow money from RBI for meeting its immediate and temporary cash requirements through the Ways and Means Advances (WMA).
2. The Government cannot borrow money from RBI for meeting its deficit. It can do so only under exceptional circumstances.
3. Exceptional circumstances - National security, Act of war, National calamity, collapse of agriculture, Structural reforms, decline in real output growth of a quarter by at least three per cent. points below its average of the previous four quarters.

## ►DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

Deposit Insurance and Credit Guarantee Corporation (DICGC), established under the DICGC Act 1961, is one of the wholly owned subsidiaries of the RBI.

**Deposit Insurance Cover:** Rs 5 Lakh.

**Banks Covered:** Commercial banks, Regional rural banks, Local area banks (LABs) and Cooperative banks

**Deposits Covered**: All deposits such as savings, fixed, current, recurring, etc.

**Deposits not Covered:**

- Deposits of foreign Governments.
- Deposits of Central/State Governments.
- Inter-bank deposits.
- Deposits of the State Land Development Banks with the State co-operative bank.

## ►MOBILE AIDED NOTE IDENTIFIER (MANI) FOR THE VISUALLY IMPAIRED

The Reserve Bank has launched MANI (Mobile Aided Note Identifier), a mobile application for aiding visually impaired persons to identify the denomination of Indian banknotes.

## ►PAYMENTS INFRASTRUCTURE DEVELOPMENT FUND (PIDF)

- The RBI has recently announced creation of PIDF in order to give fillip to cashless payments within India. It aims to encourage acquirers to deploy Points of Sale (PoS) infrastructure (both physical and digital modes).
- The RBI will make an initial contribution of Rs 250 crores to the PIDF covering half the fund and remaining contribution will be from card issuing banks and card networks operating in the country.

## ►DIGITAL PAYMENTS INDEX (DPI)

The RBI has recently unveiled composite Digital Payments Index (DPI) to capture the extent of digitisation of payments across the country.

**Details:** The Index comprises of 5 broad parameters that enable measurement of penetration of digital payments in the country over different time periods. These parameters are – Payment Enablers (weight 25%); Payment Infrastructure – Demand-side factors (10%); Payment Infrastructure – Supply-side factors (15%); Payment Performance (45%) and Consumer Centricity (5%).

SECTION 4

# MONETARY POLICY IN INDIA- BASICS AND RECENT DEVELOPMENTS

## ►MONETARY POLICY COMMITTEE (MPC)

Monetary Policy Committee was constituted in 2016 as a statutory body under the RBI Act in order to formulate monetary ppolicy in India

**COMPOSITION (6 MEMBERS)**

The members include

- RBI Governor - ex-officio chairperson
- RBI Deputy Governor
- One more member from RBI to be nominated by the Central Board of Directors.
- 3 other members are be appointed by the Central Government.

**Term:** Members of MPC hold office for a period of four years and are not eligible for re-appointment.

**Meetings**: The MPC is required to meet at least four times in a year.

**Quorum**: 4 members.

**Decision**: The MPC takes decision based on majority vote (by those who are present and voting. In case of a tie, the RBI governor will have the second or casting vote. The decision of the committee would be binding on the RBI.

## ►MONETARY POLICY COMMITTEE FRAMEWORK AGREEMENT (MFPA)

**About:** Currently the monetary policy in India is undertaken in accordance with the Monetary Policy Framework Agreement signed between GoI and the RBI in 2015. ( *Based upon recommendations of Urjit Patel Committee*)

**Statutory status**: In 2016, the RBI Act, 1934 was amended to give a statutory backing to Monetary Policy Framework and to set up Monetary Policy Committee.

**Inflation targeting:** The Monetary Policy Framework provides for inflation targeting to be set by GoI every 5 years. GoI uses CPI for the purpose of inflation targeting in India.

**Flexible Inflation Targeting**: The inflation target is Consumer Price Index (CPI) inflation of 4% (+/- 2%) for the period from August 5, 2016 to March 31, 2021.

# QUANTITATIVE TOOLS

## ►LIQUIDITY ADJUSTMENT FACILITY – REPO AND REVERSE REPO

Repo and reverse repo rates are a part of RBI's "Liquidity Adjustment Facility (LAF)".

## ►REPO RATE AND ITS TYPES

Repo rate refers to the interest rate at which the RBI provides short-term liquidity to banks against the collateral of government securities.

*Increase in repo rate → borrowing from RBI expensive → banks will borrow less from RBI → less credit will be provided by banks to households → money supply will decrease.*

*Decrease in Repo Rate→ Borrowing from RBI is cheaper→ Banks will borrow more→ More credit is available→ Money supply will increase*

Depending upon the maturity period of the loans, there are different types of Repos in India. These are:

**Overnight Repo Auctions:** The banks can borrow money for one day from RBI at interest rate equal to repo rate by pledging the government security that the banks have over and above the SLR (Statutory Liquidity Ratio) requirement. If the banks do not possess government securities beyond the SLR requirement, it cannot borrow money under the LAF window.

**Variable Repo Auctions:**Banks can borrow money at variable repo rates decided through auctions. This instrument can be overnight or for a term. If variable rate repo auction is undertaken for one day it is called overnight repo auction.

If it is undertaken for a term it is called term repo.

**Term Repos**: There are different types of term repos depending upon the maturity period. Some of the term repos include 7-day, 14-day, 21 day, 28-day, 56-day.

Interest rate on the Term repos is determined through auction and hence is usually higher than the Repo rate.

## ►REVERSE REPO RATE

- Reverse repo rate is the rate at which the RBI borrows money from commercial banks against collateral of eligible government securities.
- *An increase in reverse repo rate means that commercial banks will get more incentives to park their funds with the RBI, thereby decreasing the supply of money in the market.*
- *A decrease in reverse repo rate means that commercial banks will get less incentive to park their funds with RBI and thus more money is available in the market increasing the money supply.*

## ►MARGINAL STANDING FACILITY (MSF)

- Liquidity management window under which banks can borrow additional overnight liquidity over and above LAF window.
- Under Repo, banks can borrow overnight liquidity only by pledging securities over and above the securities held under SLR requirement.
- Under MSF, banks can pledge securities held for SLR purposes. However the rate of interest is higher than the repo rate. (penal rate)
- Earlier, the Banks can borrow only up to 2% of their deposits. But, the limit was enhanced to 3% in March 2020. This enhanced borrowing limit would now be applicable up to March 31, 2021.

## ►BANK RATE

Rate at which RBI provides long-term borrowings to its clients. Its clients include GoI, state governments, banks, financial institutions, cooperative banks etc. An increase in bank rate will make *borrowing from RBI expensive→ money supply will tend to decrease*.

**Note:** Bank Rate has become dormant as an instrument of monetary management. It is now aligned to MSF rate and used for calculating penalty on default in the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR).

## ►CASH RESERVE RATIO (CRR)

CRR refers to the percentage of total deposits of a bank to be kept with RBI in the form of cash.

*An increase in CRR→ higher proportion of* deposits *to be kept with RBI by banks→ less funds are available to be provided as credit to the economy→ money supply will decrease.*

## ►STATUTORY LIQUIDITY RATIO (SLR)

SLR refers to the percentage of total deposits of a bank to be kept with itself in the form of liquid assets such as cash, gold, government securities such as T-Bills, Dated Securities, State Development loans (SDLs) and other eligible securities such as Oil Bonds.

*An* increase *in SLR→ higher proportion of funds to be kept aside by banks in liquid form→ less funds available to be provided as credit to the economy→ money supply will decrease.*

## ►OPEN MARKET OPERATIONS (OMO)

OMO refers to sale and purchase of government securities by RBI in the open market with the aim of influencing liquidity in the economy in the medium term.

*Open market purchase by* RBI*→RBI will release liquidity in the economy→ money supply will increase.*

**Recent Developments:** The RBI has decided to carry out OMOs in the State Development Loans (SDLs) as well.

## ►QUALITATIVE TOOLS

- **Margin requirements:** Margin refers to the difference between the Loan and Collateral value. The RBI may lay down different margin requirements for different categories of loans (Vehicle, Home, Business etc) to control credit to different sectors.
- **Consumer Credit Regulation:** RBI can issue rules to set the minimum/maximum level of down-payments and periods of payments for purchase of certain goods.
- **Rationing of credit**: Rationing of credit is a method by which the RBI seeks to limit the maximum amount of loans and advances and, also in certain cases, fix ceiling for specific categories of loans and advances.
- **Moral Suasion**: Is a milder form of credit control in which the RBI can persuade the commercial banks to co-operate with the general monetary policy. Since it involves no administrative compulsion or threats of punitive action it is a psychological and informal means of selective credit control.
- **Direct Action**: This step is taken by the RBI against banks that don't fulfil conditions and requirements.

## ►MONETARY POLICY STANCES

| DIFFERENT MONETARY POLICY STANCES OF THE RBI | | |
|---|---|---|
| **Accommodative Stance** | **Neutral Stance** | **Calibrated Tightening** |
| Accommodative stance means RBI may reduce the policy rates to increase the money supply in the economy. | Neutral stance means the RBI would have the flexibility to either increase or decrease the policy rates by taking into account the macroeconomic conditions. | Calibrated Tightening stance means the RBI would either keep the rates constant or increase the rates. |
| Under this stance, policy rates normally decrease. | Under this stance, key policy rates would move in either direction. | Under this stance, key policy rates either remain unchanged or increase. Decrease in policy rates is ruled out. |
| Usually, this policy is adopted when there is **slowdown** in the economy. | Usually, this policy is adopted when the inflation rate is stable. | Usually, this policy is adopted when there are **concerns of higher rate of inflation.** |

## ► UNCONVENTIONAL MONETARY POLICY TOOLS

**Zero Interest Rate Policy (ZIRP):** This policy was followed in USA from 2008 in the wake of financial crisis in order to inject money into the economy to promote economic growth. Under this policy, the US Fed Bank provided loans to the banks at almost 0.25% rate of interest. The idea was to transmit lower rate of interest to the corporates and borrowers in order to spur demand. This was also known as **Quantitative Easing**. *(The Opposite of Quantitative Easing is Fed Tapering)*

**Negative Interest Rate Policy (NIRP):** This policy was followed in developed economies such as Japan, Denmark, Sweden, Switzerland etc. Usually, the banks park their surplus reserves with the Central Bank and earn interest. However, under the NIRP, the banks would be required to pay interest to the central bank if they park their surplus reserves.

The idea here is that the banks should provide loans to the borrowers at cheaper rates instead of parking their surplus reserves with the Central Bank.

**Helicopter Money:** It is a hypothetical concept put forward by the economist, Milton Friedman. This involves the central bank of the country printing currency notes and distributing it to the people free of cost. The idea here is to promote demand in the economy during recession.

It is different form ZIRP and NIRP, as under these two, the people get loans at cheaper rate which increases the debt liability. But in helicopter money since people receive money free of cost, it does not lead to increase in debt liability.

# RECENT DEVELOPMENTS IN MONETARY POLICY

## ►TARGETED LONG TERM REPO OPERATIONS (TLTROS)

New policy tool used by the RBI to inject more liquidity into the Economy. Similar to the term repos, but with a longer maturity period of 1 year and 3 years.

**Total Funds to be injected**: Up to Rs 1 Lakh crores.

**Interest Rate**: Repo Rate.

**Why is it called On-Tap?** This facility can be availed by any bank as and when the need for liquidity arises.

**Duration**: Applicable up to March 31, 2021

**Conditions**: Liquidity availed by banks has to be deployed in corporate bonds, commercial papers, and non-convertible debentures issued by entities in specific sectors. Liquidity availed can also be used to extend bank loans to these sectors.

**Method of Operations:** Carried out through e-Kuber. e-Kuber is the Core Banking Solution of the RBI which enables each bank to connect their single current account across the country.

**RATIONALE:**

- Reduce rate of Interest on the long-term loans.
- The reduction in the long-term rate of interest would force the banks to reduce the rate of interest on short term loans. (The rate of interest on long term loans is usually higher than that on short term loans)
- Incentivize the Banks to reduce their overall lending rates and improve the monetary policy transmission.

## ►STANDING DEPOSIT FACILITY (SDF)

The SDF works similar to Reverse Repo. However, SDF is different from Reverse Repo in the following ways:

1. Under the SDF route, the RBI would not be required to provide G-Secs as collateral to the Banks. Hence, it would enable RBI to absorb huge amount of liquidity from the economy without G-Secs acting as collateral.
2. The SDF would be lower than Reverse Repo.
3. Reverse Repo exercise is carried out at the discretion of the RBI depending upon market conditions. However, the SDF would enable the Banks to keep their surplus funds with the RBI at their own discretion.

**Note:** The Finance Act (2018) has amended the RBI Act, 1934 to enable the RBI to use the new tool of SDF. Subsequently, the liquidity management framework adopted by the RBI in Feb 2020 has decided to use SDF in India. However, the RBI has so far not notified the operational details.

## ►FOREIGN EXCHANGE SELL/BUY SWAP

The swap is in the nature of a simple sell/buy foreign exchange swap from the RBI side. Under the swap, RBI sells dollars to the banks and simultaneously agrees to buy the same amount of US dollars at the end of the swap period. This particular mechanism shall involve mainly 2 steps:

- In the first leg of the transaction, the bank buys US Dollars from the Reserve Bank at prevailing exchange rate.
- In the second leg of transaction, the Bank would be required to sell the same amount of dollars in order to get back the Rupee.

Hence, this mechanism essentially works as a swap mechanism wherein the dollars with the RBI would be swapped with Indian rupees with the Banks for a specified duration.

**When is it carried out?** To Check Rupee Depreciation and to Inject Dollars.

**WHAT WOULD BE THE LIKELY IMPACT?**

- Increase in the dollar supply and consequently increase in value of Rupee (Rupee Appreciation)
- Check Exchange rate volatility
- Decrease in the forex reserves of RBI.

## ►FOREIGN EXCHANGE BUY/SELL SWAP

The swap is in the nature of a simple Buy/Sell foreign exchange swap from the RBI side. Under the swap, RBI buys dollars from the banks and simultaneously agrees to sell the same amount of US dollars at the end of the swap period. This particular mechanism shall involve mainly 2 steps:

- In the first leg of the transaction, the bank sells US Dollars to the RBI at prevailing exchange rate.
- In the second leg of transaction, the Bank would be required to buy the same amount of dollars.

Hence, this mechanism essentially works as a swap mechanism wherein the dollars with the Banks would be swapped with Indian rupees with the RBI for a specified duration.

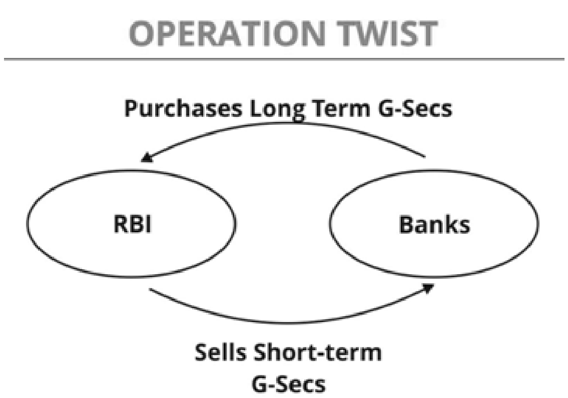
**When is it carried out?** To Check Rupee Appreciation and to suck out excess dollars

**WHAT WOULD BE THE LIKELY IMPACT?**

- Decrease in the dollar supply and consequently decrease in value of Rupee (Rupee Depreciation)
- Check Exchange rate volatility
- Increase in the forex reserves of RBI.

## ►OPERATION TWIST

The Operation Twist is the special Open Market Operations (OMOs) carried out by the RBI. Typically, the RBI carries out OMO sales to suck out excess liquidity and OMO purchases to inject liquidity.




However, under Operation Twist, the RBI carries out simultaneous sale and purchase of G-Secs to influence the yield rates on the G-Secs.

The RBI sells short-term G-Secs to the Banks and financial institutions and collect money. The same money would then be used by the RBI to buy long term G-Secs.

**IMPACT OF OPERATION TWIST**

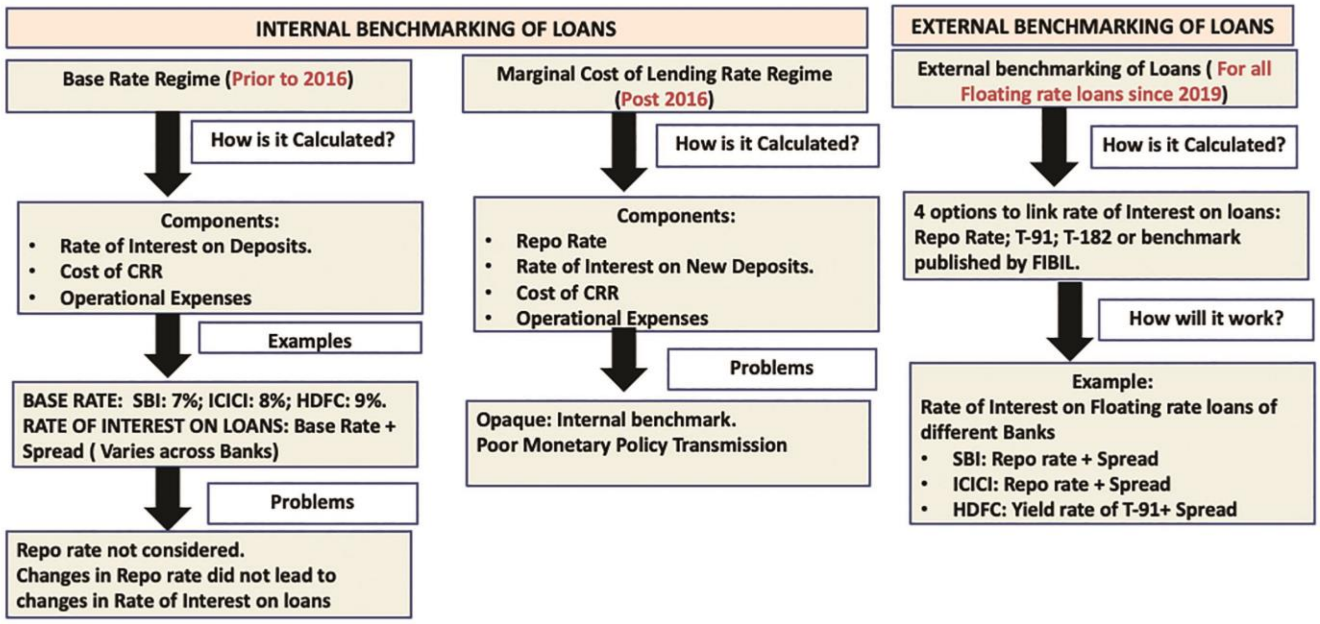
- *RBI purchases long-term G-Secs--> Decrease in supply of long-term G-Secs--> Higher Demand--> Increase in Bond Prices--> Decrease in Yields on Long-term G-Secs.*
- *RBI sells short-term G-Secs--> Increase in supply of Short-term G-Secs--> Lower Demand--> Decrease in Bond Prices--> Increase in Yields on Short-term G-Secs*

## ►EXTERNAL BENCHMARKING OF LOANS- MONETARY POLICY TRANSMISSION

Monetary policy transmission refers to the process through which changes in the policy rates (such as Repo) by the RBI leads to commensurate changes in the rates of Interest of the Banks. As the Repo rate increases, the rate of Interest on the deposits and loans also increases. Similarly, as the repo rate decreases, the rate of interest decreases.

**REASONS FOR POOR MONETARY POLICY TRANSMISSION**

- **Over-dependence on Deposits**: The Banks rely more on Public deposits rather than on RBI for raising money to give loans. Had the Banks been more dependent on the RBI for the raising money, then changes in the Repo rate would have been easily transmitted into changes in the rate of Interest on loans.
- **Deposits with higher maturity period:** Deposits with maturity of one year and above constitute more than 50% of total deposits. Most of these deposits are fixed-Interest rate deposits (and not floating rate) and hence it becomes difficult for the banks to reduce the rate of Interest on the loans without undertaking losses.
- **Small savings Schemes**: The Government is operating a number of small savings schemes such as PPF, National Savings Certificate (NSC), Kisan Vikas Patra etc. Usually, the interest rates on these savings schemes tend to be higher as compared to rate of Interest on Banks' deposits.
- **Higher NPAs:** The higher NPAs of the Banks accompanied by higher provisioning requirements would reduce the ability of the Banks to offer loans at lower rates of Interest and thus hinders monetary policy transmission.
- **Opaqueness in calculation of Marginal Cost of Lending rate (MCLR):** The MCLR is the minimum rate of interest below which the Banks are not allowed to give loans. The MCLR, which replaced the earlier Base rate regime was introduced in 2016.




The Base rate regime did not consider the Repo rate for the calculation of the minimum rate of interest on the loans offered by the Banks. Hence, changes in the Repo rate did not have much impact on the rate of interest on loans.

This was rectified by the introduction of MCLR, which apart from other parameters also takes into account the changes in the Repo rate.

However, it is considered to be flawed on account of two reasons- Opaqueness and not being solely dependent on Repo rate. Firstly, in spite of reduction in the repo rate, the Banks can claim increase in the operational expenses and continue to maintain higher interest rates on loans and hence opaque. Secondly, the rate of interest on loans also depend on parameters such as rate of interest on new deposits. Hence, in spite of reduction in repo rate, the interest rates on deposit may continue to be higher leading to higher interest rates on loans.

In order to address these problems, the RBI has asked the Banks to link all the floating rate loans to any of the 4 External benchmarks.

**BENEFITS**

- Unlike MCLR, External benchmark is influenced solely by the policy rates leading to higher efficiency.
- Greater transparency.
- Borrowers know the profit margin fixed by various banks and hence can choose accordingly.

## ►FINANCIAL REPRESSION

- It is a term that describes measures by which government channel funds from the private sector to themselves as a form of debt reduction. It results in government being able to borrow at extremely low interest rates, obtaining low-cost funding for government expenditures.
- This action also results in savers earning rates less than the rate of inflation and is therefore repressive.

**FEATURES OF FINANCIAL REPRESSION**

- Caps on ceiling on interest rates
- Government ownership and control of domestic banks and financial institutions
- Creation or maintenance of a captive domestic market for government debt
- Restrictions on entry to financial industry
- Directing credit to certain industries

# SECTION 5

# TERMS RELATED TO BANKING AND RECENT DEVELOPMENTS

## ►NON-PERFORMING ASSET (NPA)

A loan is categorized as NPA if it is due for a period of more than 90 days. Depending upon the due period, the NPAs are categorized as under:

- **Sub-Standard Assets**: > 90 days and less than 1 year
- **Doubtful Assets**: greater than 1 year
- **Lost Assets**: loss has been identified by the bank or RBI, but the amount has not been written off wholly.

→ **Stressed assets = NPAs + restructured loans + written off assets**

→ **Restructured loans:** those assets which got an extended repayment period, reduced interest rate, converting a part of the loan into equity, providing additional financing, or some combination of these measures.

→ **Written off assets:** When the lender does not count that money, borrower owes to him, then the asset is called written off assets. However, it does not mean that the borrower is pardoned or exempted.

**Note:** In case of agricultural loans, the loan is classified as NPA if it satisfies the below criteria:

- Instalment of principal or interest remains overdue for two crop seasons for short duration crops,
- Instalment of principal or interest remains overdue for one crop season for long duration crops.

**Note:** Long duration crops are the crops with crop season longer than one year and short duration crops are the crops with crop season shorter than one year.

## ►SPECIAL MENTION ACCOUNTS (SMA)

Special Mention Account (SMA) Category has been introduced by the RBI in order to identify the incipient stress in the assets of the banks and NBFCs. These are the accounts that have not-yet turned NPAs (default on the loan for more than 90 days), but rather these accounts can potentially become NPAs in future if no suitable action is action.

- SMA-0: Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
- SMA-1: Principal or interest payment overdue between 31-60 days
- SMA-2: Principal or interest payment overdue between 61-90 days

**Note:** If the Principal or interest payment is overdue for more than 90 days, then the loan is categorized as NPA.

## ►PROVISIONING COVERAGE RATIO (PCR)

Under the RBI's provisioning norms, the banks are required to set aside certain percentage of their profits in order to cover risk arising from NPAs. It is referred to as "Provisioning Coverage ratio" (PCR). It is defined in terms of percentage of loan amount and depends upon the asset quality. As the asset quality deteriorates, the PCR increases. The PCR for different categories of assets is as shown below:

- Standard Assets (No Default): 0.40%
- Sub-standard Assets (> 90 days and less than 1 year): 15%
- Doubtful Assets (greater than 1 year): 25%-40%
- Loss Assets (Identified by Bank or RBI): 100%

## ►GROSS AND NET NPA

Gross NPA refers to the total NPAs of the banks. The Net NPA is calculated as Gross NPA -Provisioning Amount.

## ►CAPITAL ADEQUACY RATIO (CAR)

The CAR has been laid down by the BASEL committee on banking supervision under Bank of International Settlement located in Basel, Switzerland. It has been laid down to ensure financial stability and to prevent failure of banks. So far, 3 BASEL Norms have been laid down: Basel I (1998), Basel II (2004), Basel III (2009).

**CAR** is the **ratio** of a bank's **capital** to its risk. It is also known as the **Capital** to Risk (Weighted) Assets **Ratio** (CRAR)

CAR= (Tier-1 Capital + Tier-2 Capital)/ RWAs * 100.

The Banks in India are required to maintain CAR of 9% (Tier-1 capital: 7% + Tier-2 Capital: 2%) along with Capital Conservation buffer (CCB) of 2.5%.

Hence, unlike the BASEL III norms, which stipulate capital adequacy of 10.5% (8%-CAR + 2.5% CCB) , the RBI has mandated to maintain capital adequacy of 11.5% (9%-CAR + 2.5%-CCB)

## ►LIQUIDITY COVERAGE RATIO (LCR)

It is the minimum required **high-quality liquid assets** (HQLA) that the banks must hold to allow them to survive a liquidity stress for 30 days. It was introduced under Basel III to improve a bank's short-term resilience to liquidity shocks.

$$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

HQLA are assets that can be converted into cash quickly with no significant loss of value. Thus HQLAs include

- Cash outside the Cash Reserve Ratio requirement
- Gold
- G-sec outside SLR requirement
- Assets under SLR.
- High-rated corporate bonds

## ►FACILITY TO AVAIL LIQUIDITY COVERAGE RATIO (FALLCR)

Facility to Avail Liquidity for LCR. Earlier, 17% of the SLR could have been considered as HQLA for the computation of LCR. Recently, in April 2020, the RBI has declared that the entire SLR-eligible assets held by the Banks can be considered as HQLAs for meeting LCR requirements.

## ►LEVERAGE RATIO (LR)

- The Basel Committee on Banking Supervision (BCBS) introduced Leverage ratio (LR) in the 2010 Basel III package of reforms. The Formula for the Leverage Ratio is (Tier 1 Capital/ Total Consolidated Assets) ×100 where Tier 1 capital represents a bank's equity.
- It is to be noted that the Tier 1 capital adequacy ratio (CAR) is the ratio of a bank's core tier 1 capital to its total risk-weighted assets. On the other hand, leverage ratio is a measure of the bank's core capital to its total assets.
- Thus, the Leverage ratio uses tier 1 capital to judge how leveraged a bank is in relation to its consolidated assets whereas the tier 1 capital adequacy ratio measures the bank's core capital against its risk-weighted assets.

## ►BANKING STABILITY INDEX (BSI)

- It is a measure of the level of interdependence of financial institutions mainly banks. It is "the expected number of banks that could become distressed given that at least one bank has become distressed".
- If more banks are expected to become distressed if one bank in the system is distressed, then the BSI is higher
- **Parameters:** Efficiency of the Banks, Profitability, Soundness, Liquidity, Asset Quality.

## ►DOMESTIC-SYSTEMICALLY IMPORTANT BANKS (D-SIBS)

- SIBs are banks that are perceived as 'Too Big To Fail'.
- The Basel Committee on Banking Supervision came out with a framework in 2011 for identifying the Global Systemically Important Banks (G-SIBs).
- Similarly, the RBI has been mandated to identify the Domestic systemically Important banks (D-SIBs).
- This is primarily done in order to stronger regulatory requirements to prevent their failure.
- **Criteria:**
  - Banks whose size is equal to or more than 2% of GDP
  - Lack of readily available substitutes
  - Interconnectedness and
  - Complexity
- RBI has classified ***SBI, ICICI Bank, and HDFC*** as D-SIBs
- **Higher Capital Requirements**: The D-SIBs are placed under different buckets (categories) depending upon their importance. According to the bucket in which they are placed, the bank would be required to maintain higher Tier-I capital under the BASEL Norms.

## ►EASE REFORMS INDEX

Enhance Access & Service Excellence (EASE) reforms index. It measures the performance of Public Sector Banks on 140 objective metrics across 6 themes. It is published by Indian Banks' Association.

## ►LIBOR AND SOFR

London Interbank Offered Rate (LIBOR) is a benchmark interest rate at which the global banks lend to each other. LIBOR is also linked to interest rates at which Indian corporate sector borrows money under external commercial borrowings. The rate is calculated and published each day by the Intercontinental exchange (ICX).

In the aftermath of LIBOR scandal of 2011, some countries have decided to adopt alternatives to LIBOR by the end of 2021.

**Some of the alternatives to LIBOR are:**

- UK: Sterling Overnight Index Average (SONIA)
- USA: Secured Overnight Financing Rate (SOFR)
- Switzerland: Swiss Average Rate Overnight (SARON)
- Japan: Tokyo Overnight Average Rate (TONAR)
- European Union: Euro Short-Term Rate (ESTER)

**Note:** Mumbai Interbank Offered Rate (MIBOR) is India's domestic reference rate for inter-bank lending. The MIBOR is calculated every day by National Stock Exchange of India (NSEIL).

## ►SWIFT

The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a secure financial message carrier that transports messages from one bank to its intended bank recipient to facilitate cross-border payments. It does not facilitate funds transfer: rather, it sends only payment orders. Headquartered in Brussels, Belgium.

## ►AT-1 BONDS

**UNDERSTANDING BASEL-III GUIDELINES**

According to the RBI's guidelines, the regulatory capital to be maintained by the Indian banks under BASEL III is as under:

- Tier-1 Capital: 7% (Core Equity capital consisting of Minimum Common Equity Tier 1 of 5.5% and Additional Tier 1 capital of 1.5%)
- Tier-2 Capital: 2% (Basically comprising of Debt)
- Capital Conservation Buffer: 2.5%
- Total Regulatory Capital: 11.5% of Risk-weighted Assets

**WHAT ARE ADDITIONAL TIER-1 BONDS?**

The AT-1 Bonds are the unsecured and perpetual bonds which are issued by the Banks to meet regulatory capital requirements of 1.5% of Additional Tier 1 Capital under the BASEL III norms. However, they are quite different from the normal bonds in a number of ways:

**Hybrid Instruments:** The AT-1 Bonds are considered to be hybrid of shares and bonds. Just like shares, there is no obligation to return the money or pay the dividend. Just like bonds, the bank pay interest on such AT-1 bonds.

**Perpetual Bonds:** These Bonds do not have maturity period. Instead, these bonds carry call options i.e. the banks have an option redeem them after five or 10 years. But banks are not obliged to use this call option and they can opt to pay only interest on these bonds for perpetuity. That is why they are called as Perpetual Bonds.

**No Put Option**: Investors do not have put option i.e. the investors cannot return back the AT-1 bonds to the banks. However, the investors can sell these bonds in the secondary market.

**Skip Interest Payments**: The Banks issuing the AT-1 bonds can skip payment of interest for a particular year. They can also reduce the face value of the bond. However, the banks can do so only when their regulatory capital ratio falls below certain threshold levels. These threshold levels are clearly specified when Banks issue AT-1 bonds.

**Writing down of AT-1 Bonds:** If the RBI feels that any bank is under a financial crunch, it can waive off the liability of the banks to redeem the AT-1 bonds and completely write it off. The RBI has used this option in the case of Yes Bank.

## ►PROMPT CORRECTIVE ACTION (PCA)

Framework under which banks with weak financial metrics are put under watch by the RBI.

Under PCA RBI can place certain restrictions on banks such as a cap on lending limit, halting branch expansion etc. The RBI can even supersede the Board of Directors of the Bank.

**WHEN IS PCA INVOKED?**

RBI invokes PCA on those banks when three risk thresholds are breached. These are based on:

- Asset quality (NNPA – net non-performing assets to advances ratio),
- Capital (CRAR – regulatory capital to risk weighted assets ratio and leverage ratio) and
- Profitability (ROA – return on assets).

  The PCA framework is applicable only to commercial banks.

## ►PUBLIC CREDIT REGISTRY (PCR)

In the year 2019, the RBI has proposed to set up Public Credit registry based on recommendations of High Level Task Force headed by Yeshwant M Deosthalee.

**What is PCR?** : An extensive database of credit information that will capture information pertaining to borrowers (individuals and corporate) including data about willful defaulters and pending legal suits against them.

**Need for PCR**: At present, credit information is spread over multiple agencies. Current Existing Credit registries in India is highly fragmented.

1. **Credit Information Companies:** Regulated by RBI under the Credit Information Companies (Regulation) Act, 2005

   Eg: Trans Union CIBIL, Equifax, Experian, CRIF High Mark Credit Information Services
2. **Central Repository of Information on Large Credits (CRILC):** Database on all borrowers' entities with aggregate exposure of Rs 5 crore and above. Set up by RBI in 2014-15.
3. **Information Utility:** Stores financial information that helps to establish defaults as well as verify claims. National e-Governance Services limited is India's first Information Utility.

**Benefits:** Help banks distinguish between a bad and a good borrower; Improve Credit creation.

## ►HAIRCUTS

It refers to the difference between the loan amount and actual amount recovered by the Bank from their defaulting customer. Various steel, power, infrastructure, aviation companies etc have defaulted on their loan repayment leading to increase in the NPAs of banking Sector.

Under such circumstances, the Banks usually arrive at a compromise formula where the borrower offers to pay part of loan amount as a one-time settlement. The 'haircut' here is the loss made by Bank since the amount paid by the defaulting customer is lower than the actual loan amount.

## ►CO-ORIGINATION OF LOANS

The Co-origination framework seeks to bring the strengths of two sectors i.e.," banks and micro-finance institutions (MFIs)/non-banking finance companies (NBFCs) together.

Under this framework, both bank and NBFC can come together to provide loans to various sectors wherein they decide to share the loan amount and associated risks in a predetermined manner. It is expected that such a blending would not only increase flow of credit to priority sectors but also bring down the cost of credit for the sector substantially.

**Recent Announcement:** The Government would expedite the process of co-origination of loans by the Banks and NBFCs.

## ►SANDBOX POLICY

- A regulatory sandbox (RS) generally refers to live testing of new products or services in a controlled/test regulatory environment for which regulators may extend certain regulatory relaxations for the limited purpose of the testing.
- RBI's sandbox policy to develop testing platform to test innovation by the Fintech companies.
- As part of this policy, the regulator provides the appropriate regulatory support by relaxing specific legal and regulatory requirements for specified time duration.
- The idea behind the Sandbox policy is to enable them to test their new products without any regulatory hassles.

## ►PROMOTER PLEDGING

It refers to pledging of shares by promoters of a company in order to avail loans from the Banks. RBI has set a cap on the maximum loan amount that can be availed at 50% of the value of pledged shares.

## ►INVERTED YIELD CURVE

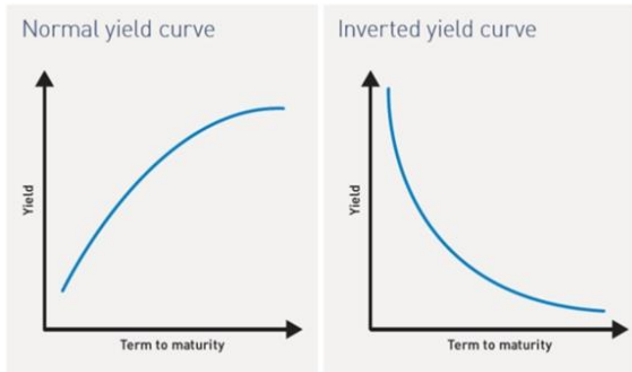
A yield curve is a graph that depicts yields on bonds ranging from short-term debt such as one month to longer-term debt such as 30 years.

**TYPES OF YIELD CURVE AND THEIR INTERPRETATION**

The yield on the bonds depends upon the risk involved. Higher the risks, higher would be the yields.

**NORMAL YIELD CURVE**

Normally, the yield on short term maturity bonds is lower than that of long-term maturity bonds. This can be attributed to increased risk in the longer term (say 30 years). A normal yield curve indicates yields on longer-term bonds may continue to rise, responding to periods of economic expansion.




**INVERTED YIELD CURVE**

When there are signs of slowdown in an economy, it would mean that the economy faces risk in the short term. However, in the long term, the economy may come back to normalcy. Hence, due to this, the yield on the short-term bonds becomes higher than the yields of long-term bonds. (Inverted Yield Curve). Hence, an inverted yield curve points towards a probable economic recession.

## ►WILFUL DEFAULTER

**THE RBI DEFINES A WILFUL DEFAULTER AS**

- The unit which has defaulted even when it has the capacity to repay.
- The unit which has defaulted and has not utilised the loans for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- The unit which has defaulted and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed and the funds are not available with the unit in the form of other assets.
- The unit which has defaulted and has also sold off the collateral used for availing loans

## ►FUGITIVE ECONOMIC OFFENDER

The Fugitive Economic Offenders Act, 2018 defines "fugitive economic offender" means any individual against whom a warrant for arrest in relation to a

Scheduled Offence has been issued by any Court in India, who— (i) has left India so as to avoid criminal prosecution; or (ii) being abroad, refuses to return to India to face criminal prosecution.

Some of the Offences listed in the act are Counterfeiting government stamps or currency, Cheque dishonour, Money laundering, Transactions defrauding creditors.

## ►REGULATORY FORBEARANCE

The term Regulatory Forbearance means giving certain exemptions from complying with the regulatory requirements. In case of Banking sector, the RBI provides certain leeway to the Banks to comply with its regulations. It is normally provided to enable the Banks to tide over the tough economic conditions such as Global Financial Crisis (GFC) 2007-08.

For example, post GFC in 2007-08, the RBI enabled the Banks to undertake the debt restructuring of Stressed assets. These assets continued to be categorised as Standard Assets. This in turn reduced the provisioning requirements of the Banks, enabled the Banks to provide enhanced credit to kickstart the Indian Economy.

## ►INTEREST COVERAGE RATIO (ICR) AND ZOMBIE FIRMS

The interest coverage ratio is used to measure how well a firm can pay the interest due on outstanding debt. The interest coverage ratio is calculated as ratio of a firm's profit after tax to its total Interest expenses. Firms with Interest Coverage ratio (ICR) lower than 1 would be unable to meet their interest obligations from their income and hence called as "Zombie Firms".

## ► SARFAESI ACT

The SARFAESI Act empowers banks to directly auction residential or commercial properties that have been pledged with them to recover loans from borrowers. If a borrower defaults on a loan, the Banks can give a notice period of 60 days to the borrower to repay the loans. If the borrower fails to repay within 60 days, the Banks can take the following actions:

1. Take possession of the pledged assets and then lease or sell it off to recover the loan amount.
2. Take over the management of the business of the borrower.
3. Appoint a person to manage the assets.

**Note**:

1. If the total money recovered through the sale of pledged assets is lower than the loan amount, then the Bank can approach the Debt Recovery Tribunals.
2. One of the biggest drawbacks of SARFASEI Act is that it is not applicable to unsecured loans. Further, it does enable the Banks to carry out restructuring of loans (reducing interest rate, extending the duration of loan, reducing the principal amount etc). Hence, in order to solve these problems, Insolvency and Bankruptcy (IBC) has been introduced.

## ►INSOLVENCY AND BANKRUPTCY CODE

**Rationale**: The IBC Code was introduced to consolidate all the existing laws related to Insolvency and Bankruptcy in India and to simplify the process of insolvency resolution. Deals with all aspects of insolvency and bankruptcy of all kinds of companies, LLPs, Partnerships and Individuals; however it does not deal with insolvency of banks.

**INSTITUTIONAL MECHANISM:**

**Insolvency Professionals** to administer the resolution process, manage the assets of the debtor, and provide information for creditors to assist them in decision making.

**Insolvency Professional Agencies** to conduct examinations to certify the insolvency professionals.

**Information Utilities** to report financial information of the debt owed to them by the debtor.

**Adjudicating authorities**: National Companies Law Tribunal (NCLT) for companies; and the Debt Recovery Tribunal (DRT) for individuals.

**Committee of Creditors (CoC)** may either decide to restructure the debtor's debt by preparing a resolution plan or liquidate the debtor's assets. However, such a decision has to be approved by at least 66% of the votes. (Earlier threshold- 75%).

**Insolvency and Bankruptcy Board** to regulate insolvency professionals, insolvency professional agencies and information utilities set up under the Code.

**PROCEDURE**

- **Insolvency Resolution Process (IRP)**: When a default occurs, the resolution process may be initiated either by the debtor or creditor before the adjudicating authority. The NCLT appoints an insolvency professional to administer the IRP. The Resolution Professional identifies the financial creditors and constitutes a Committee of Creditors

(CoC). The CoC would prepare the resolution plan for the restructuring the loans of the defaulted borrower. However, such a resolution plan has to be approved by at least 66% of the votes in the committee of creditors.

- **Liquidation (Sale of Assets)** would take place if the Committee of Creditors fail to come up with a resolution plan within the time limit of 330 days.
- **Recent Announcement:** The Government has decided to increase the threshold for invoking IBC for the Corporates from Rs 1 lakh to Rs 1 crores. ( For individuals, the threshold is Rs 1000).

## ►INDRADHANUSH ROADMAP

Under Indradhanush roadmap announced in 2015, the government had announced to infuse Rs70,000 crore in state-run banks over four years to clean up their balance sheets and ensure they fully comply with Basel-III capital adequacy norms.

**The seven pronged strategy under Indradhanush is as follows:**

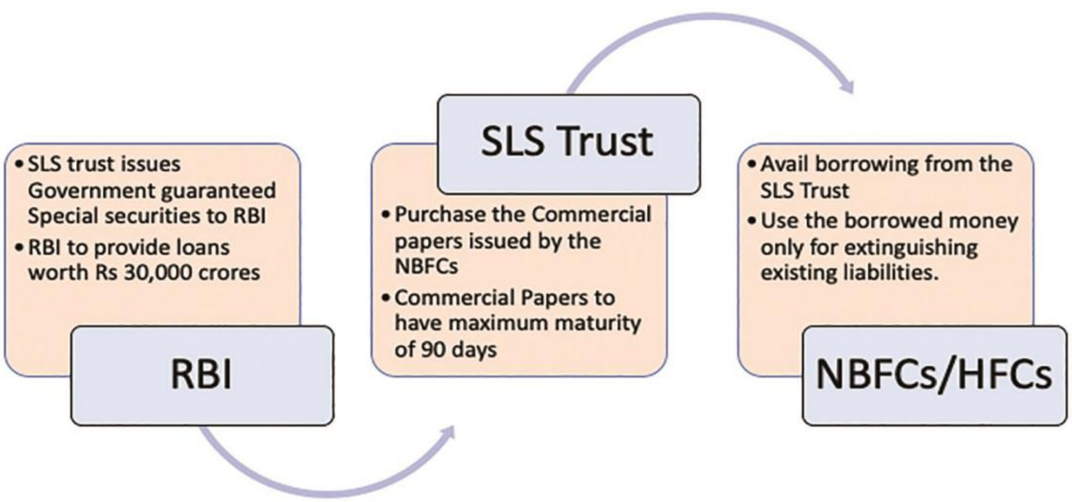
- Appointment - A new approach to top-level appointments (allowing entry of talent from outside)
- Bank Board Bureau- Constitution of BBB for appointment of whole-time Directors as well as non-Executive Chairman of PSBs.
- Capitalization- Providing additional capital to 12 PSBs including State Bank of India to keep a safe buffer over and above the minimum norms of Basel III.
- De-stressing PSBs - Effective management of NPAs
- Empowerment -More flexibility in hiring staff
- Framework of accountability -ESOPs and higher performance bonus
- Governance reforms - Focused efforts in the areas of optimizing capital, digitizing processes, strengthening risk management, improving managerial performance and financial inclusion.

## ► RECAPITALISATION OF PSBs

Refers to injection of capital mainly through equity investment by the government in order to financially strengthen the PSBs.

- **Government's Plan:** Infuse capital through Recap Bonds + Budget Support + Equity Capital from Market.
- **Rationale:** Improve Balance Sheets + Meet Capital requirements under PCA + promote GDP growth.
- **Recap Bonds**: The government issues recapitalisation bonds which would then be bought by the banks. This money raised by the government is then used to buy the shares of the public sector banks leading to increase in Bank's Capital. The money raised by the Government through the issuance of Recap Bonds is not accounted for calculation of Fiscal Deficit. However, it is considered for the calculation of Internal Debt of Government.
- **Trends in Recapitalisation**: Over Rs 2.5 lakh crores has been infused into Public Sector Banks (PSBs) through recapitalization bonds over the past three years - Rs 80,000 crores in 2017-18, Rs 1 lakh crores in 2018-19 and Rs 65,000 crore in 2019-20.
- **Recent Developments:** The Government has issued Zero Coupon Recap Bonds for the first time in 2020. The Zero-Coupon Recapitalization Bonds will have non-SLR status and will be non-tradable.

## ►SPECIAL LIQUIDITY WINDOW FOR NBFCs/HFCs



# SECTION 6

# STRUCTURE OF BANKING IN INDIA AND RECENT DEVELOPMENTS

## ►EVOLUTION IN BANKING POLICY

- **Phase of Nationalisation (1969-1991):** India's public sector banks (PSBs) were initially set up as Private Banks and later on Nationalised in two waves in 1969 and 1980.
- **Entry of New Private Banks (NPBs) post 1991 Reforms:** Based upon the recommendations of Narasimhan committee, the RBI issued the policy guidelines to facilitate the entry of new private Banks (NPBs) on a large scale.
- **Guidelines for Licensing of Universal Banks in the Private Sector:** The minimum initial paid-up capital for setting up new private Bank was set at Rs 500 crores. Resident individuals and professionals having 10 years of experience in banking and finance were also eligible to promote universal banks. However, Large corporate/industrial houses were not allowed to set up Banks but were permitted to invest in the banks up to 10 per cent
- **Consolidation of Public Sector Banks (PSBs):** Based upon the recommendations of Narasimhan Committee (1991) and P.J. Nayak Committee (2014), the Government has focussed on the consolidation/merger of the PSBs. The Associate Banks of SBI and Bharatiya Mahila Bank got merged into State of Bank of India. It was followed by the merger of Vijaya Bank, Dena Bank and Bank of Baroda in 2018. In the year 2019, 10 Public sector Banks were merged into 4 large banks. After the mergers, there are 12 public sector banks, including the SBI.
- **Present Phase: Shift towards greater role of Private Sector in the Banking.**

- **Public Sector Banks:** The Government has proposed new Public Sector Enterprise Policy wherein sectors would be categorized into - Strategic and Non-Strategic. The Government has designated Banking as Strategic sector, which would mean there would be maximum 4 PSBs and the remaining PSBs would be merged into larger PSBs or privatized.
- **Proposal to issue Licenses for Large Corporate Houses:** The Internal Working Group (IWG) has proposed to allow large corporate/Industrial houses to open private sector Banks. A large corporate/industrial/business house is defined as a group having total assets of Rs 5000 crore or more wherein the non-financial business of the group accounts for more than 40 per cent in terms of total assets or gross income.

## ►DEFINITION OF SCHEDULED BANKS

According to the RBI act, 1934, a scheduled Bank is one which is

- Included in the second schedule of the RBI Act
- Has a paid-up capital of not less than 5 lakhs.
- Satisfies that its affairs are not being conducted in a manner which is detrimental to the interests of the depositors.

It includes different categories such as *Scheduled commercial Banks, Public Sector Banks, Cooperative Banks, Regional Rural Banks etc.*

**Note:** The RBI has stipulated the minimum capital requirement of Rs 500 crores for the issuance of new banking licenses. Further, to be eligible to get a Banking license, an entity should have successful track record of running its business for at least 10 years. These requirements are in addition to the requirements mentioned in the RBI Act, 1934.

## ►CATEGORIES OF SCHEDULED BANKS

Categorized into the five groups based on their ownership and their nature of operations.

- **Public Sector Banks:** Majority stake is held by the Government of India.
- **Private Sector Banks:** Majority of share capital of the bank is held by private individuals.
- **Foreign Banks:** Banks, registered and headquartered in a foreign country, and operate their branches in India. Eg: HSBC, Citibank, Standard Chartered Bank.
- **Regional Rural Banks:** Established under RRB Act, 1976 to ensure institutional credit for agriculture and other rural sectors.
  - The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State. Jointly owned by Central government (50%) , the respective state government (15%) and sponsor bank (35%).
  - Follow CRR and SLR norms as mandated by RBI. Priority sector lending (PSL) norms: 75% of the loans to the priority sectors.
- **Cooperative Banks:** Financial institutions are owned and run by their customers. Operate on the principle of *one person one vote*.

## ►STRUCTURE AND REGULATION OF COOPERATIVE BANKS

### STRUCTURE OF COOPERATIVE BANKS

- **Rural Areas**
  - **Short -term:** Primary Agricultural Credit Societies (PACS) at the village level, Central Cooperative Banks (CCBs) at the district level and State Cooperative Banks (StCBs) at the State level.
  - **Long-term:** State Co-operative Agriculture and Rural Development Banks (SCARDBs); Primary Co-operative Agriculture and Rural Development Banks (PCARDBs)
- **Urban Areas:** Urban Cooperative Banks (UCBs)

### REGULATION OF COOPERATIVE BANKS

- The ***PACS and long-term credit co-operatives*** are outside the purview of the Banking Regulation Act, 1949 and are hence not regulated by the Reserve Bank.
- The ***StCBs/DCCBs*** are under the dual regulation by the RBI and Registrar of Cooperative Societies. The Banking related functions are regulated by RBI, while the Management related functions are regulated by Registrar of Cooperative Societies. Here, the RBI has delegated its powers to NABARD under Sec 35A of the Banking Regulation Act to conduct inspection of state and central co-operative banks.
- Even the ***Urban Cooperative Banks (UBCs)*** are under the dual regulation of RBI and Registrar of Cooperative Societies of concerned state/ Central Registrar of Cooperative Societies (Depending upon

whether the Urban Cooperative Bank is registered under State Cooperative Societies Act of the State concerned or the Multi State Cooperative Societies Act, 2002).

**Note: The Banking Regulation (Amendment) 2020 seeks to strengthen the RBI's regulation over the UCBs.** However, it does not put a complete end to the dual regulation of the Urban Cooperative Banks. The powers of Registrar of Cooperative Societies have been substantially curtailed and the regulatory powers of the RBI has been substantially enhanced.

## ►NON-BANKING FINANCIAL COMPANY (NBFC)

Financial institutions engaged in non-banking activities like leasing, microfinance, chit fund, gold loan etc.

**DIFFERENCE BETWEEN BANKS AND NBFCs**

| CHARACTERISTIC | BANK | NBFC |
|---|---|---|
| **Deposits** | Accepts all types of deposits | Cannot accept demand deposits |
| **Deposit insurance of DICGC** | Applicable (up to Rs.5 lakh) | Non-Applicable |
| **Payment and Settlement system of the RBI** | Supports RTGS, NEFT etc., | Not supported. Cannot issue their own cheque books. |
| **Foreign investment** | Up to 74% | Up to 100% |
| **Cash Reserve Requirement** | Applicable | Not Applicable |
| **Capital Adequacy Norms** | Applicable | Applicable only to Deposit-taking NBFCs and Systematically Important NBFCs (CRAR - 15%) |
| **SLR** | Applicable | Applicable only to Deposit-taking NBFCs (SLR - 15%) |
| **Incorporated under** | Banking Regulation Act, 1949 | Incorporated under Companies Act and regulated by various bodies depending on category. |

**TYPES OF NBFCs**

**On the basis of Asset-Liability Structures**: Deposit-taking NBFCs (NBFCs-D) and non-deposit taking NBFCs (NBFCs-ND).

**On the basis of Systemic Importance:** Among non-deposit taking NBFCs, those with asset size of Rs 500 crore or more are classified as non-deposit taking systemically important NBFCs (NBFCs-ND-SI).

**ON THE BASIS OF ACTIVITIES**

**NBFCs regulated by RBI**

- **Investment and Credit Company (ICC):** Lending and Investment.
- **NBFC-Infrastructure Finance Company (NBFC-IFC):** Provision of infrastructure loans.
- **NBFC-Systemically Important Core Investment Company (CIC-ND-SI):** Investment in equity shares, preference shares, debt or loans in group companies.
- **NBFC-Infrastructure Debt Fund (NBFC-IDF):** Facilitation of flow of long-term debt into infrastructure projects.
- **NBFC-Micro Finance Institution (NBFC-MFI):** Credit to economically dis-advantaged groups.
- **NBFC-Factor:** extending loans against the security interest of the receivables at a discount
- **NBFC-Non-Operative Financial Holding Company (NBFC-NOFHC):** Facilitation of promoters/ promoter groups in setting up new banks.
- **Mortgage Guarantee Company (MGC):** Undertaking of mortgage guarantee business.
- **NBFC-Account Aggregator (NBFC-AA) :** Collecting and providing information about a customer's financial assets in a consolidated, organised and retrievable manner to the customer.
- **NBFC–Peer to Peer Lending Platform (NBFC-P2P):** online platform to bring lenders and borrowers together to help mobilise funds.
- **Housing Finance Companies (HFC):** Financing for housing (*Earlier, the Housing Finance Companies (HFCs) were regulated by NHB*)

**Note:** In 2018-19, three categories of NBFCs namely, asset finance companies (AFCs), loan companies (LCs) and investment companies (ICs) were merged into a new category called investment and credit companies (ICCs). In 2019-20, the p

#### OTHER CATEGORIES OF NBFCs

- Venture Capital Fund/Merchant Banking companies/Stock broking companies are registered with SEBI.
- The Insurance Companies are regulated by IRDA
- Chit Fund Companies are regulated by the respective State Governments
- Nidhi Companies are regulated by Ministry of Corporate Affairs, Government of India

## ►DIFFERENTIATED BANKS

Banking institutions licensed by the RBI to provide specific banking services and products. A differentiated license will allow a bank to offer products only in select areas. Main aim is to promote financial inclusion and payments. Differentiated banks licensing was launched in 2015. The differentiated banks are of two types namely payment banks and small finance banks.

| Criteria | Payment Banks | Small Finance Banks |
|---|---|---|
| **Registration and Licensing** | Registered under Companies Act, 2013<br>Licensed under Banking Regulation Act, 1949 | Registered under Companies Act, 2013<br>Licensed under Banking Regulation Act, 1949 |
| **Eligibility** | Pre-paid Payment Instrument (PPI) Providers, Resident individuals; NBFCs; Telecom Companies, super-market chains, public sector entities etc. | Resident Indians, Private Companies, Societies, NBFCs, MFIs, Local Area Banks |
| **Min. Capital Requirements** | Rs 100 crores | Rs 100 crores. (To be increased to Rs 200 crores within 5 years) |
| **FDI allowed?** | Yes. Up to 74% | Yes. Up to 74% |
| **Accept Deposits** | Only Demand Deposits. No Fixed Deposits and NRI Deposits | Yes. |
| **Restrictions on Deposits** | Up to Rs 1 Lakhs | No Restrictions |
| **Deposit Insurance Available?** | Yes | Yes |
| **Can Lend Loans** | No | Yes. At least 50 per cent of its loan portfolio should constitute loans and advances of up to Rs 25 lakh |
| **Issue Debit/Credit Card** | Only Debit Card. No Credit Card | Both can be issued |
| **Set up based upon recommendations of** | Nachiket Mor Committee | Nachiket Mor Committee |
| **Committee to evaluate applications for License** | Nachiket Mor Committee | Usha Thorat Committee |
| **SLR and CRR applicable** | CRR Applicable; SLR: 75% of Deposits. | CRR and SLR Applicable |
| **BASEL Norms applicable** | Yes. 15% of RWAs | Yes. 15% of RWAs |
| **PSL Norms applicable** | No. Can't lend Loans | Yes. Target: 75%. |
| **Examples** | Airtel, India Posts Payment Bank, Paytm, FINO etc. | Ujjivan, Utkarsh, Jana, Au etc. |

## ►ON-TAP LICENSING OF SMALL FINANCE BANKS (SFBs)

An 'on-tap' facility would mean the RBI would accept applications and grant license for Small Finance Banks (SFBs) throughout the year. The policy allows aspirants to apply for small finance bank license at any time, subject to the fulfilment of the conditions laid down by the RBI.

## ►INDIA POST PAYMENTS BANK (IPPB)

- Public sector company under the department of posts, Ministry of communication with 100% equity of the government of India, and regulated by the Reserve Bank of India (RBI). Instead of Debit cards, IPPB issues Quick Response (QR) cards.
- It provides a unique, secure and convenient way to access one's account without the need to remember PIN/Password.
- A transaction can be initiated by scanning the QR code followed by OTP authentication and verification by an OVD (Officially Valid Document).

## ►WHOLESALE BANKS

Nachiket More committee had recommended setting up of the Wholesale banks in India. Based upon this recommendations, the RBI had proposed setting up of Wholesale and Long term (WLTF) Banks in 2017.

Proposals:

- Would accept only Current and Term Deposits of more than Rs 10 crores.
- Minimum Paid-up Capital : Rs 1000 crores.
- Cater to the funding needs of certain sectors of the economy with long gestation period such as infrastructure and core industries.

## ►DEVELOPMENT BANKS IN INDIA

Financial institutions that provide medium term and long-term credit at low interest rates. Aimed at promoting long-term investments with social benefits such as infrastructure, irrigation, mining, heavy industry, agriculture etc.

Examples- Industrial Finance Corporation of India (first development Bank); NABARD; NHB, SIDBI and MUDRA, EXIM etc.

(Even ICICI and IDBI were initially set up as Development banks and later converted into Universal banks)

### DIFFERENCE BETWEEN COMMERCIAL BANKS AND DEVELOPMENT BANKS

- **Source of Funds**: Commercial banks- Deposits; Development Banks- Govt's funding
- **Nature of Loans**: Commercial banks- Short-term; Development Banks- Long-term.
- **Nature of Assistance**: Commercial banks- Extend Loans; Development Banks- Loans + Managerial Assistance + Credit Guarantee Enhancement.
- **Recent development:** In the Union Budget 2021-22, the Finance Minister has proposed to set up National Bank for Financing Infrastructure and Development (NaBFID). This Bank would act as a provider, enabler and catalyst for infrastructure financing and thus give a boost to the National Infrastructure pipeline.

## ►NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

NABARD is an apex development bank which provides help for agricultural and rural development.

### FUNCTIONS

- Centre of the rural credit system
- Provider of supplemental funding to rural credit institutions
- Provides refinance facilities to SLDBs, SCBs, RRBs and commercial banks for developmental purposes
- Arranges investment credit to small industries, village and cottage industries, handicrafts, and other rural crafts, artisans, and farmers.

RBI has divested its share in NABARD in two phases, one in 2010 and one recently in April 2019. With this the central government now holds 100% stake in NABARD.

## ►NATIONAL HOUSING BANK

Established under National Housing Policy, 1987. Previously, it was a wholly owned subsidiary of RBI. In 2019, RBI divested its stake in NHB and thus currently central government holds 100% stake in NHB.

It aims at extending financial assistance to housing sector by way of both refinance and direct finance.

**Note:** The NBH publishes the RESIDEX to track the movement in the housing Prices.

## ►LAND DEVELOPMENT BANKS

Meant to provide long term agriculture needs of agriculturists for a period ranging from 5 to 25 years, for the following purposes:

- to make improvements on the land;
- to repay old debts;
- to free the mortaged land; and
- to buy new land.

## ►MICRO UNITS DEVELOPMENT AND REFINANCE AGENCY (MUDRA)

- Set up as a refinance agency for developing and refinancing all micro-enterprises engaged in manufacturing, trading and service activities.
- Aims to provide financial support to those banks and micro finance institutions which are engaged in lending to the micro-enterprises.
- It has been set up as a subsidiary of SIDBI.
- Gives loans up to Rs 10 lakh while loans of higher amount is given by SIDBI.
- Mudra Loans are available for non-agricultural activities upto Rs. 10 lakh and activities allied to agriculture such as Dairy, Poultry, Bee Keeping etc, are also covered.
- Mudra issues a Mudra Card which permits access to Working Capital through ATMs and Card Machines.

**There are three types of loans under PM Mudra Yojana:**

- Shishu (up to Rs.50,000)
- Kishore (from Rs.50,001 to Rs.5 lakh)
- Tarun (from Rs.500,001 to Rs.10,00,000)

## ►MICROFINANCE INSTITUTIONS (MFIS)

MFIs are those institutions which have microfinance as their main operation. The MFIs are regulated by RBI in India.

As per the RBI's guidelines, MFI is defined as a non-deposit taking NBFC that fulfils the following conditions:

- Minimum Net Owned Funds of Rs.5 crore. (For NBFC-MFIs registered in the North Eastern Region of the country, the minimum NOF requirement shall stand at Rs. 2 crore).
- Not less than 85% of its loans are in the nature of "qualifying assets."

"Qualifying asset" shall mean a loan which satisfies the following criteria: -

- Loan disbursed by an NBFC-MFI to a borrower with a rural household annual income less than Rs. 1.25 lakh or urban and semi-urban household income less than Rs. Rs lakhs.
- Loan amount does not exceed Rs. 1.25 lakh per borrower.
- Loan extended without collateral.
- The aggregate amount of loans, given for income generation should be at least 50 per cent of the total loans given by the MFIs.
- The loan is repayable on weekly, fortnightly or monthly instalments as per the choice of the borrower.

## ►PEER-TO-PEER LENDING

Mechanism which enables the people to borrow and lend money without the need for financial institutions such as banks.

P2P lending platform brings together the people who are willing to lend money and the money who wants to borrow money and enables such participants to lend and borrow money through an online platform. Examples: Faircent, OMLP2P, Lendenclub, Finzy, i2ifunding, Cashkumar, Rupeecircle, Lendbox, etc.

### REGULATION OF P2P LENDING PLATFORMS

These platforms are categorised as NBFC-P2P and are accordingly regulated by the RBI. These Platforms should not be involved in any direct financial activity of lending money. The interest rate may be set by the platform or through mutual agreement between borrowers and lenders.

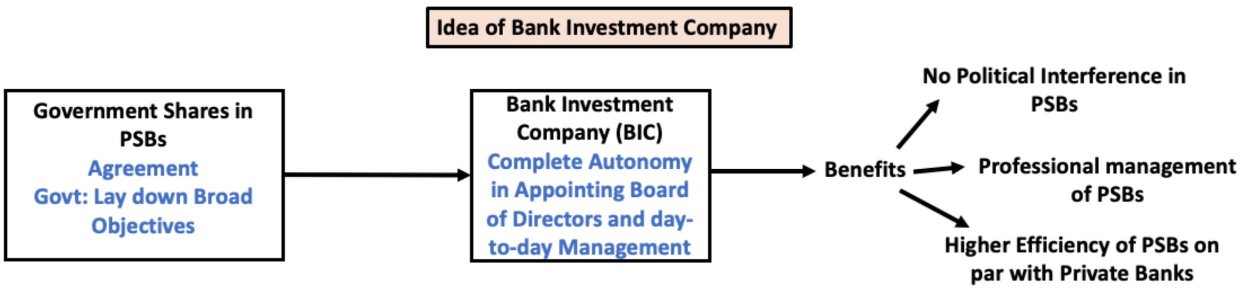
## ►ABOUT BANKS BOARD BUREAU (BBB)

**Mandate:** Recommend for selection of heads of Public Sector Banks and Financial Institutions. The appointment is finally approved by the Cabinet Committee on Appointments.

**Composition**: 7 Members (All the Members including the Chairman are part time members)

- Chairperson
- 3 Ex-officio persons: Secretary, Department Financial Services + Secretary, Department of Public Enterprises + Deputy Governor, Reserve Bank of India
- 3 Expert Members

## ►BANK INVESTMENT COMPANY




- Proposed by P.J. Nayak Committee.
- Bank Investment company (BIC) should be set up as holding company to hold the Government's shares in PSBs. The Government should set up BIC as a company under the Companies Act. The Government's shares in PSBs should be transferred to BIC. This transfer of shares should be accompanied by an agreement under which the role of the Government would only be to lay down the broad targets to be met by BIC.
- On the other hand, the BIC would have complete autonomy in the management of PSBs, including making appointments to the Board of Directors. It will be professionally managed by experts and would be responsible to meet the targets set by the Government.

# SECTION 7

# FINANCIAL INCLUSION AND PAYMENT SYSTEMS

## ►PAYMENT AND SETTLEMENT SYSTEM

System that facilitates transfer of money from a payer to the beneficiary. It includes both paper-based payments such as cheques, drafts as well as electronic payments such as Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), Immediate payment Service (IMPS), UPI etc.

**Payment systems under RBI:** Real Time Gross Settlement (RTGS) and National Electronics Fund Transfer (NEFT). The RTGS system is used for high-value transactions wherein minimum transaction amount should be Rs 2 lakhs and above.

(In December 2019, the NEFT system was made available on a 24x7x365 basis. Recently, RBI has been decided to make available even the RTGS system round the clock on all days.)

**Payment systems under National Payments Corporation of India (NPCI):** Umbrella organization for operating retail payments and settlement systems. It is an initiative of RBI and Indian Banks' Association (IBA).

- **RuPay Contactless**
- **Unified Payments Interface**: Real-time interbank payment system for sending or receiving money.
- **BHIM App**: BHIM is a mobile app for Unified Payments Interface. The BHIM apps has 3 levels of authentication.
- **Bharat BillPay**: One-stop ecosystem for payment of all bills
- **Immediate Payment Service**: Real time interbank payment system
- **National Financial Switch:** Network of ATMs in India.
- **BharatQR:** A common QR code built for ease of payments

**Card Networks operated by Non-Banks**: Visa, MasterCard, American Express etc.

## ►UPI 2.0

NPCI has upgraded the UPI with enhanced features.

- Linking of overdraft account – Apart from the savings and current accounts, the UPI users can now link their overdraft account to it.
- One-time Mandate (account blocking) – It allows customers or merchants to pre-authorize a transaction and pay at a later date.
- Security Layer in QR – The app allows the users to scan the QR code and check the authenticity of the merchants through notification to the user to ascertain the information.

## ►AADHAR - ENABLED PAYMENT SYSTEM (AePS)

Developed by NPCI. Enables various transactions to be carried on PoS (Micro ATM) by using the Aadhaar authentication. The only inputs required for a customer to do a transaction under this scenario are:-

- IIN (Identifying the Bank to which the customer is associated)
- Aadhaar Number
- Fingerprint captured during their enrollment

People do not have to mention their bank account details to carry out these transactions. With the help of this payment system, people can send funds from one bank account to another simply through their Aadhaar numbers.

**HOW DOES IT WORK?**

The AEPS machine works like a Point of Sale (POS) machine. Instead of a debit/credit card pin, the customer will have to enter his Aadhaar number and authenticate the transaction using his fingerprint.

## ►MERCHANT DISCOUNT RATE (MDR)

MDR is a fee charged paid by the merchants to the bank for accepting payments from customers through credit/debit cards/QR Code in their establishments. Expressed in percentage of transaction value. This charge is in turn distributed among three stakeholders—***customer's bank, merchant's bank and payment system operator (Visa, Mastercard, NPCI- RuPay or BharatQR).***

**PRESENT MDR CHARGES**

| Sr. No | Merchant Category | Merchant Discount Rate (MDR) for debit card transactions (as a % of transaction value) | |
|---|---|---|---|
| | | Physical POS infrastructure | Digital POS |
| 1. | Small merchants | Not exceeding 0.40% | Not exceeding 0.30% |
| 2. | Special category of merchants | Not exceeding 0.40% | Not exceeding 0.30% |
| 3. | All other category of merchants (other than Government) | Not exceeding 0.95% | Not exceeding 0.85% |
| 4. | Government Transactions | • Flat fee of INR 5 for transaction value INR 1 to INR1000<br>• Flat fee of INR 10 for transaction value INR 1001 to INR 2000<br>• MDR not exceeding 0.50% for transaction value above INR 2001 with cap of INR 250 per transaction | |

**Government's Initiative:** In December 2019, the Government decided to waive off MDR charges on transactions done through RuPay and BHIM-UPI payments in order to push digital payments.

## ►TYPES OF ATMS IN INDIA

| BANK OWNED ATMS | BROWN LABEL ATMS | WHITE LABEL ATMS |
|---|---|---|
| • Set up and owned by the bank itself.<br>• Bank is responsible for their overall operation and maintenance.<br>• Banks are given responsibility of Cash Management, Network Connectivity, Security etc. | • Work on cost-sharing between Bank and non-Bank service provider<br>• The Bank needs to take care of cash management and network connectivity while a service provider (Non-Banking Entity) provides for the ATM machine. | • ATMs set up and managed by Non-Banking entity.<br>• The entire gamut of operations including ATM hardware, Cash Management, Network Connectivity, Security etc. is looked after by the non-banking entity. |

## ►INTERCHANGE FEE

**"**Interchange Fee" is the charge that Bank "A" pays to another bank 'B" when the customer of Bank "A" uses the ATM/PoS Machine of the Bank "B". This charge is recovered by the Bank "A" from the customers if the number of transactions exceed five free transactions. The WLA operators have been demanding an increase in the Interchange fee in order to compensate their higher operating costs.

## ►PRADHAN MANTRI JAN DHAN YOJANA (PMJDY)

Envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension. It comes under the Department of Financial Services, Ministry of Finance.

**Benefits under PMJDY:** Basic Savings bank Account (BSBA) without any minimum balance requirement + RuPay Card+ Accident Insurance Cover of Rs 1 Lakh + Life Insurance Cover of Rs 30,000 (applicable to only those who opened accounts between 15th Aug 2014 and 31st Jan 2015) + Overdraft Facility

The Government has decided to extend PMJDY program from "every household" to "every adult", with following modification:

- Existing Overdraft (OD) limit of Rs. 5,000 revised to Rs. 10,000.
- Age limit for availing OD facility revised from 18-60 years to 18-65 years.
- The accidental insurance cover raised from existing Rs.1 lakh to Rs. 2 lakhs to new PMJDY accounts opened after 2018

## ►BASIC SAVINGS BANK DEPOSIT ACCOUNT (BSBDA)

The BSBD Account is designed as a savings account which would offer certain minimum facilities, free of charge, to the holders of such accounts. The BSBD can be opened by any individual and is not restricted to only poor and weaker sections.

An individual is eligible to have only one Basic Savings Bank Deposit Account in one bank. Further, following conditions are applicable to BSBD Small Accounts, which are opened on the basis of simplified KYC norms:

- Total credits in such accounts should not exceed one lakh rupees in a year.
- Maximum balance in the account should not exceed fifty thousand rupees at any time
- The total debits by cash withdrawals and transfers in a month cannot exceed Rs 10,000.

**NEW CHANGES/ MODIFICATIONS**

In the interest of better customer service, it has been decided to make the following changes:

- No limit on number and value of deposits that can be made in a month
- Minimum of four withdrawals in a month, including ATM withdrawals
- ATM Card or ATM-cum-Debit Card.
- Banks are free to provide additional value-added services, including issue of cheque book, beyond the above minimum facilities, which may/may not be prized.

**Are PMJDY accounts same as BSBD account?** PMJDY accounts are BSBD accounts in nature with additional facility of RuPay Debit card with accident insurance coverage and overdraft facility.

## ►NATIONAL PENSION SYSTEM

Pension cum investment scheme to provide old age security to Citizens of India. Regulated by Pension Fund Regulatory and Development Authority (PFRDA)

**Who can Join?** Any individual citizen of India (both resident and Non-resident) in the age group of 18-65 years

**DIFFERENT SECTORS:**

**A. Government Sector**

- **Central Government:** Introduced from Jan 1, 2004 for all Central Govt. employees (Except for Armed Forces)
- **State Government:** Even State Governments have adopted this architecture.

**B. Private Sector (Non-Government Sector):** Corporates and All Indian Citizens

## ►PRADHAN MANTRI SHRAM YOGI MAAN-DHAN

Voluntary and contributory pension scheme--> 50:50 contribution by subscriber and central Government.

**Eligibility:** Unorganised Workers--> Less than Rs 15,000 monthly salary and in age group 18-40 years.

**Minimum Assured Pension**: Rs 3000/- per month after attaining the age of 60 years.

**Family Pension**: Death of Subscriber --> 50% of the pension to the spouse

**Contribution by Subscriber**: Depends upon age of entry.

**Ministry**: Labour and Employment

## ►ATAL PENSION YOJANA

Guaranteed pension of Rs.1000 to Rs.5000 (depending upon contribution) receivable at the age of 60 years.

**Eligibility**: Primarily focussed on Unorganised workers ( But any Indian Citizen in the age-group 18 to 40 years can join through their savings bank account or post office savings bank account)

**Government Contribution**: 50% of total prescribed contribution up to Rs 1000 per annum. 2 Conditions:

1. Available only for a period of 5 years.
2. Subscribers should not be Income tax payers

**Ministry:** Ministry of Finance

## ►PRADHAN MANTRI SURAKSHA BIMA YOJANA (PMSBY) - ACCIDENTAL DEATH INSURANCE

- **Eligibility**: Available to people in age group 18 to 70 years with bank account.
- **Premium**: Rs.12 per annum.
- **Payment Mode**: The premium is auto debited by the bank from the subscriber's account.
- **Risk Coverage**: For accidental death and full disability - Rs.2 Lakh and for partial disability – Rs.1 Lakh.
- **Who implements this Scheme?** The scheme is offered by all Public Sector General Insurance Companies and all other insurers who are willing to join the scheme and tie-up with banks for this purpose.
- **Ministry:** Ministry of Finance

## ►PRADHAN MANTRI JEEVAN JYOTI BHIMA YOJANA (PMJJBY)- LIFE INSURANCE COVER

- **Eligibility**: Available to people in the age group of 18 to 50 and having a bank account.
- **Premium**: Rs.330 per annum.
- **Payment Mode**: The payment of premium will be directly auto debited by the bank from the subscriber's account.
- **Risk Coverage**: Rs.2 Lakh in case of death for any reason.
- **Who implements this Scheme**? The scheme is offered by Life Insurance Corporation and all other life insurers who are willing to join the scheme and tie-up with banks for this purpose.
- **Ministry:** Ministry of Finance

## ►STANDUP INDIA SCHEME

Facilitates bank loans between Rs.10 lakh and Rs.1 crore to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one Woman borrower per bank branch for setting up greenfield enterprises. This enterprise may be in manufacturing, services or the trading sector. The scheme is being implemented through all Scheduled Commercial Banks.

## ►PRIORITY SECTOR LENDING (PSL) NORMS

| Priority Sector | Min.% of Loans |
|---|---|
| **Agriculture** | **18% (Out of 18%, 10% should be earmarked for Small and Marginal farmers)** |
| **Micro Enterprises** | **7.5%** |
| **Advances to Weaker Sections** | **12%** |
| **Export Credit**<br>**Education**<br>**Housing**<br>**Social Infrastructure (Schools, Health Care Facilities etc.)**<br>**Renewable Energy** | **Remaining** |
| **Total** | **40%** |

**PRIORITY SECTOR APPLICABILITY**

- Scheduled commercial banks (excluding Regional Rural Banks): 40%
- Foreign Banks with less than 20 branches: 40% (32% can be in the form of lending to Exports and at least 8% can be to any other priority sector)
- Regional Rural banks and Small Finance Banks: 75% of total loans
- Urban Cooperative Banks: 40% of total loans.

**Non-achievement of Priority Sector targets:** Buy PSLCs or Transfer shortfall amount to Rural Infrastructure development Fund (NABARD) or Transfer shortfall amount to Small Enterprises Development Fund (SIDBI). Interest rates on such contributions by the Banks is fixed by the RBI.

**Priority Sector Lending Certificates (PSLCs):** Enables Bank 'A' which has failed to meet PSL target to meet the target by purchasing PSL certificate from another Bank 'B', which has exceeded the target. There is no transfer of loans under PSLC mechanism. **Types:** PSLC General, PSLC Small and Marginal Farmer, PSLC Agriculture & PSLC Micro Enterprises.

**NEW CHANGES INTRODUCED BY THE RBI IN PSL**

**Address Regional Disparities in flow of PSL Credit:** A higher weight (125%) would be assigned to priority sector credit in the identified districts where the credit flow is comparatively lower, and a lower weight (90%) would be assigned for incremental priority sector credit in the identified districts where the credit flow is comparatively higher.

**Boost to Start-Up Ecosystem**: Loans of up to Rs 5 crores to the Start-ups would be considered as Priority sector lending.

## ►SMALL SAVINGS SCHEMES

The Small savings instruments can be classified under three heads. These are:

- Postal deposits
- Savings certificates [(National Small Savings Certificate VIII (NSC) and Kisan Vikas Patra (KVP)]; and
- Social security schemes [(public provident fund (PPF) and Senior Citizens 'Savings Scheme (SCSS)].
- All small savings collections are credited to this National Small Savings Fund (NSSF) in the Public Account of India. The interest rates are reset every quarter based on the G-Sec yields of the previous three months.
- A certain amount of NSSF is invested in the Central and State Government securities. The fund is administered by Department of Economic Affairs, Ministry of Affairs.

## ►KISAN CREDIT CARD (KCC)

- **Objectives**: Short-term Credit requirements to purchase inputs + Post-harvest expenses + marketing + consumption requirement of farmers + Investment requirement for allied and non-farm activities.
- **Categories of Farmers**: Small and Marginal farmers + share croppers + oral lessee and tenant farmers + SHGs and Joint Liability Groups (JLGs) of farmers
- **Implemented by**: Commercial Banks, RRBs, Small Finance Banks and Cooperatives.
- **Recent developments:** Extension of KCC to the fisheries and Animal Husbandry.

## ►NATIONAL STRATEGY FOR FINANCIAL INCLUSION

This strategy has been released by RBI. Strategic Pillars of National Strategy for Financial Inclusion:

1) Universal Access to Financial Services

2) Providing Basic Bouquet of Financial Services

3) Access to Livelihood and Skill Development

4) Financial Literacy and Education

5) Customer Protection and Grievance Redressal

6) Effective Co-ordination

## ►FINANCIAL INCLUSION INDEX

It was launched by the Minister of Finance. Indicators used. (i) access to financial services; (ii) usage of financial services; and (iii) the quality of the products and the service delivery.

**Note:** CRISIL publishes Inclusix to measure Financial Inclusion in India.

## ►EMV CARDS

Debit card security standard that includes a small microchip in the debit card. The microprocessor chip embedded in the card prevent card skimming or cloning that is possible in magnetic stripe cards

**ADVANTAGE OVER MAGNETIC STRIPE CARDS**

- The magnetic stripe credit and debit cards store the data on the magnetic stripe found on the reverse side of the card. Fraudsters place a skimmer device inside the card swipe slot in ATMs or PoS terminals to read the customer data stored in the magnetic stripe.
- EMV chip cards prevent such skimming because they do not reveal the user data to the terminal at the time of swiping the card.

## ►BETTER THAN CASH ALLIANCE

- India and Better Than Cash Alliance recently organized a joint Peer learning exchange on fintech solutions for promoting responsible digital payments.
- The UN-based BTCA is a new global alliance that brings together private sector companies, governments, and development organizations - all dedicated to promoting the transition away from cash to electronic payments. The United Nations Capital Development Fund serves as the secretariat. BTCA is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard etc. India became a member of the Better Than Cash Alliance in 2015.

## ►UMBRELLA ENTITY FOR RETAIL PAYMENTS (NEW UMBRELLA ENTITY (NUE))

RBI has released 'Guidelines for authorisation of pan-India Umbrella Entity for Retail Payments'.

- They will be focusing on retail payment systems. Such an entity can be for profit entity or non-profit company.
- Umbrella entity shall be authorised by RBI under Payments and Settlements Systems Act, 2007 and shall be governed by provisions of the PSS Act, 2007.
- Minimum paid up capital of Rs 500 crores.
- All entities eligible to apply as promoter of umbrella entity shall be owned and controlled by resident Indian citizens with 3 years of experience in payments ecosystem. The shareholding shall be diversified with promoter having more than 25% stake. FDI and FII can participate in Umbrella entity.

**SCOPE OF ACTIVITIES OF UMBRELLA**

- Set up, manage and operate new payment systems in retail space comprising of but not limited ATMs, White Label POS, Aadhar based payments and remittance services, newer payment methods, standards and technologies, developmental activities like enhancement of awareness about payment systems.
- Operate clearing and settlement systems for participating banks and non-banks, manage risks, monitor retail payment systems developments
- Fulfil its policy objectives and ensure that principles of fairness, equity and competitive neutrality are applied in determining participation in the system
- Carry on any other business as suitable to further strengthen the retail payments ecosystem in the country. Umbrella entity is expected to offer innovative payment systems to include excluded cross-sections of society.
- Interact and be interoperable, to the extent, possible with systems operated by NPCI.
- Umbrella entity may be permitted to participate in RBI's payment and settlement systems, including having a current account with RBI, if required.

# SECTION 8

# INFLATION

## ►BASIC TERMS RELATED TO INFLATION

Inflation refers to a sustained rise in general level of prices over a period of time in the economy. This results in fall in the value of money i.e., purchasing power of money over a period of time.

**Deflation:** Refers to a fall in the general level of prices over a period of time. (negative rate of inflation)

**Disinflation**: slowing down of rate of inflation

**Skewflation**: General price rise over a sustained period of time is skewed to one or a small group of commodities

**Galloping inflation**: Very high inflation running in the range of double-digit or triple–digit (20%, 200% per year). It is also known as hopping inflation, jumping inflation, and running or runaway inflation.

**Hyperinflation**: Hyperinflation is large and accelerating inflation, when prices rise by more than 50% a month. It is very rare. Examples of hyperinflation include Germany in the 1920s, Zimbabwe in the 2000s, and Venezuela in the 2010s.

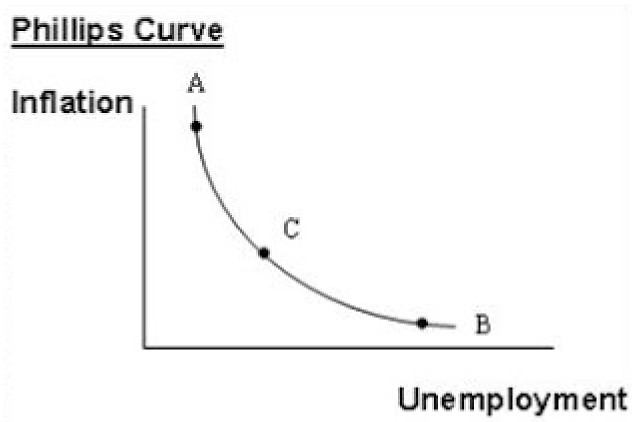
**Creeping Inflation**: Also called mild inflation, it refers to gradual rise in price levels along time. (good for the economy)

**Bottleneck Inflation**: Also called as structural inflation, it occurs when supply falls drastically and the demand remains at the same level.

**Inflation Tax**: It refers to the penalty for holding cash at a time of high inflation due to erosion of value of money.

**Philips Curve**

Establishes the inverse relation between inflation and unemployment. Accordingly as levels of unemployment decrease, inflation increases




**Stagflation:** It is a situation characterised by slow economic growth and high unemployment (stagnation) accompanied by inflation.

## ►TYPES OF INFLATION

Based on its origin, inflation is categorised into demand-pull and cost-push inflation.

**Cost-push Inflation:** Caused by rise in prices of factors of production such as increased cost of raw materials, electricity, rent, labour etc.

**Demand-pull Inflation:** It occurs in a situation where demand increases due to excess money supply with people without increase in supply level. In other words it occurs when too much money chasing too few goods.

## ►MEASURES OF INFLATION

The rate of inflation is measured on the basis of price indices. Price index measures the average level of prices and not that of a single good. The Inflation is measured on a point-to-point basis i.e., prices in the current month are compared with the prices in the corresponding month of the previous year.

## ►WHOLESALE PRICE INDEX (WPI) AND CONSUMER PRICE INDEX (CPI)

| Criteria | WPI | CPI |
|---|---|---|
| Level | Measures Inflation at Wholesale level | Measures Inflation at Retail Level |
| Who Calculates? | Office of Economic Advisor, Ministry of Commerce and Industry | National Statistical Office, Ministry of Statistics and programme Implementation |
| Base year | 2011-12 | 2012 |
| Categories | Primary Articles<br>Manufactured products<br>Fuel and Power | Food and beverages<br>Pan, Tobacco and Intoxicants<br>Clothing and Footwear<br>Housing<br>Fuel and Light<br>Miscellaneous-Education, Healthcare, Transportation etc. |
| Highest Weightage | Manufactured products | Food and Beverages |
| Impact of increase in Food items | Less impact on WPI as compared to CPI since WPI provides higher weightage to manufactured products and lower weightage to Food items. | Larger impact on CPI as compared to WPI since it gives more weightage to food products. |
| Services included | No | Yes |
| Indirect Taxes Included? | No | Yes |
| Targeted by RBI? | No | Yes. The RBI is required to maintain CPI rate of inflation of 4% with a deviation of 2%. |

## ►WPI FOOD INDEX

Sub-index of WPI; It is combination of the food articles from the Primary Articles basket, and the food products from the Manufactured Products basket.

## ►CONSUMER FOOD PRICE INDEX (CFPI)

- The base year and methodology of calculation of CFPI is similar to CPI. However, in order to calculate CFPI, we take into account only the category of Food and Beverages. Within this category, there are 12 sub-groups such as cereals, Meat, fish, Fruits etc.
- Out of these 12 sub-groups, CFPI is based on ten sub-groups, excluding 'Non-alcoholic beverages' and 'Prepared meals, snacks, sweets etc.'.

## ►OTHER VARIANTS OF CPI

Different indices used to measure price level at multiple consumer levels include

1. CPI for industrial workers (CPI-IW) – Base year has been revised from 2001 to 2016.
2. CPI for agricultural labourers (CPI-AL) – Base year 1986-87.
3. CPI for rural labourers (CPI-RL) – Base year 1986-87.

**Note:** CPI-IL, AL and RL are published by Labour Bureau, Ministry of Labour and Employment. The MGNREGA wages are presently linked to CPI-AL and the government's proposal is to link it to CPI-RL. CPI-IW is used for calculation of Dearness Allowance.

## ►SERVICES PRICE INDEX (SPI)

Published by the Office of Economic Advisor under Ministry for Commerce and Industry. Measures separately inflation in services such as Railways, Postal, Banking, Aviation, Insurance, Telecom etc.

## ►PRODUCER PRICE INDEX

Measures price changes that a producer faces on primary, Intermediate and finished goods and services. upon selling goods and services. Hence, it measures the average change in the price of goods and services either as they leave the place of production or as they enter the production process.

The primary difference between the WPI and the PPI is, in addition to the coverage, that the WPI reflects changes in the average cost of production including mark-ups and taxes, while the PPI measures price changes of transacted goods at the gate excluding taxes.

## ►RESIDEX

Measures the price changes in residential real estate. Developed by National Housing Bank (NHB). two housing price indices i.e., HPI@ Assessment Prices and HPI@ Market Prices.

## ►FOOD PRICE INDEX

Published by FAO**.** FFPI tracks the *international prices* of the most commonly traded food commodities.

**Commodity Groups Covered:** 5 commodity groups which include Meat, Dairy, Cereals, Vegetable oil and Sugar.

**Weightage Assigned**: Each of the Commodity groups is assigned a weightage in proportion to its share in the global trade in agricultural commodities.

**Base Year**: A three-year period is chosen to minimize the impact of variation in both internationally traded prices and quantities. Earlier, the Base year was 2002-04, but now it has been changed to 2014-16.

## ►BALTIC DRY INDEX

- Published by London- based Baltic Exchange. The index provides an assessment of the price of moving the major raw materials by sea. The Baltic Dry Index takes into account the freight rates for bulk commodities such as coal, iron ore and grain.
- **Importance of Baltic Dry Index:** If the Index increases, it means that the freight rates have increased which indicate higher demand for raw materials such as Coal, Iron-ore etc. and hence higher economic growth. Similarly, if the index decreased, it would point to decreased economic activity and hence lower economic growth in future.
- **Other Indices for tracking Freight rates:** The Baltic Dirty Tanker Index tracks freight rates for crude oil and the Baltic Clean Tanker Index tracks freight rates for petroleum products.

## ►GDP DEFLATOR

Measure of inflation calculated as the ratio of GDP at current prices to GDP at constant prices.

| Criteria | CPI | GDP Deflator |
|---|---|---|
| **Commodities Covered** | Fixed basket of Goods and Services consumed by people | All the Goods and Services produced within India. |
| **Imported Goods Covered** | Yes. | No. |
| **Basket of Goods** | Remains Same | Changes. |
| **Weightage of different Goods** | Explicitly defined | Market value of Goods and Services |
| **Frequency** | Monthly | Quarterly. |

## ►HEADLINE v/s CORE INFLATION

The headline inflation simply refers to the inflation in the CPI (or WPI) covering all the categories of goods and services. On the other hand, the core inflation excludes the volatile categories such as food and fuel in order to measure the increase in the prices of goods and services. Hence, a drastic fall in the food and fuel prices can bring down the headline inflation by a to a large extent. However, the core inflation may remain unaffected.

Presently, the RBI is targeting the CPI headline rate of inflation (and not Core Inflation)

## ►BASE EFFECT

The base effect refers to the impact of the rise in price level (i.e. last year's inflation) in the previous year over the corresponding rise in price levels in the current year (i.e., current inflation).

## ►COBWEB PHENOMENON

Explains large scale fluctuations in the prices of Pulses in Indian Market. If prices were higher in the previous year, more number of farmers would sow pulses in the current year leading to its over-production and subsequent decline in the prices. The lower prices in the current year disincentivise the farmers from growing crop in the next cropping season leading to under-production and subsequent increase in the prices.

## ►EFFECTS OF INFLATION

- **Creditors and debtors:** Inflation represents degradation of value of money. Thus it adversely impacts those who lend money (creditors) and benefits those who borrow money (debtors)
- **Rate of interest:** Real rate of interest (nominal rate of interest minus inflation) decreases due to rise in inflation.
- E.g.: Suppose bank A gives loan at 10% interest. Now, inflation in the economy is 5%. The actual rate of interest to be paid by borrowers will be only 5% (10%-5%).
- **Investment:** Moderate rate of Inflation (4%) indicates higher demand and thus leads to an increase in investment in the economy. However, very high rate of Inflation could lead to macro-economic instability and thus lead to lower investments.
- **Savings:** An increase in inflation would mean that holding money as savings is not a good option.
- **Tax Liability:** Increase in inflation increases the direct tax liability of the individuals. Indirect tax liability also increases due to inflation.
- **Exchange rate:** Inflation leads to depreciation of rupee.

## ►PRICE STABILIZATION FUND

Procurement of Onion, Pulses and Tomato from farmers and made available at a more reasonable price to the consumers. Implemented by Ministry of Consumer Affairs, Food & Public Distribution.

## ►OPERATION GREENS (TOP TO TOTAL)

Protect the growers of fruits and vegetables from making distress sale. Recently, the ambit of scheme was extended from Tomato, Onion and Potato (TOP) to all fruits and Vegetables (TOTAL). Implemented by Ministry of Ministry of Food Processing Industries (MoFPI).

## ►REVISION IN INFLATION INDEX LINKED TO MGNREGA

Government has planned to link the MGNREGA Wages to an updated inflation Index based on the recommendation of Mahendra Dev Verman Committee. Currently, MGNREGA wages are linked to CPI-AL. Now the Government is planning to link the MGNREGA wages either to CPI-AL or CPI-Rural, whichever is higher in a particular state

## ►IMPORTANT COMMITTEES RELATED TO INFLATION

| Committee | Recommendation |
|---|---|
| B N Goldar Committee | Developing PPI for India |
| Ramesh Chand Committee (Niti Aayog) | Roadmap for switch over from WPI to PPI |
| Urjit Patel Committee | Recommended Monetary Policy Committee |
| Mahendra Dev Verman Committee | Linking MGNERGA to CPI-RL |

## ►TRENDS IN INFLATION INDICES

**Table: General inflation based on different price indices (in per cent)**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21* |
|---|---|---|---|---|---|---|---|---|
| WPI | 5.2 | 1.2 | -3.7 | 1.7 | 3.0 | 4.3 | 1.7 | -0.1 (P) |
| CPI-C | 9.4 | 5.9 | 4.9 | 4.5 | 3.6 | 3.4 | 4.8 | 6.6 (P)^ |
| CPI-IW | 9.8 | 6.4 | 5.6 | 4.2 | 2.9 | 5.6 | 7.3 | 5.5 |
| CPI-AL | 11.6 | 6.6 | 4.4 | 4.2 | 2.2 | 2.1 | 8.0 | 7.0 |
| CP1-RL | 11.5 | 6.9 | 4.6 | 4.2 | 2.3 | 2.2 | 7.7 | 6.8 |

# SECTION 9

# FINANCIAL MARKET

The Financial Market comprises of Money Market and Capital Market.

## ►MONEY MARKET AND ITS INSTRUMENTS

- Financial market that fills the demand-supply gap in short-term funds with maturity period less than 1 year.
- **Commercial Paper**: Unsecured debt Instrument that enables Corporates to raise short-term borrowings for a period less than 1 year.
- **Certificate of Deposit:** Issued by Banks and Financial Institutions to raise short-term capital. Similar to Fixed Deposit, but of shorter maturity period. Further, the minimum value of Certificate of Deposit is Rs 1 lakh.
- **Call/Notice Money:** Instruments used for Inter-bank borrowing and Lending. Under call money market, funds are transacted on an overnight basis and under notice money market, funds are transacted for a period between 2 days and 14 days.
- **Treasury Bills:** Instruments that government use to raise short-term money from the financial market. (for long-term: government bonds); Maturity period: 91-days, 182-day, 364-day. T-bills are 'zero-coupon securities' i.e. no interest. Instead they are issued at a discount rate and redeemed at the face value on maturity. T-bills are issued only by Central government.
- **Cash management bills:** Short-term instruments similar to T-bills. Issued by the government to meet temporary cash flow mismatches. Maturity period: less than 90 days. (more than 90 days – T-Bills). Issued at a discount and redeemed at face value on maturity. *Eligible under SLR requirements.*
- **Repo:** Used by the Banks to borrow short term loans from the RBI.
- **Ways and Means Advances (WMA):** Borrowing by the Government from the RBI to meet temporary cash flow mismatches.
- Maturity period: 90 days. Interest rate: Repo rate.

## ►CAPITAL MARKET AND IMPORTANT TERMS

- Financial market that fills the demand-supply gap in medium and long-term funds with maturity period more than 1 year
- **Initial Public Offers (IPOs):** Process by which a company issues shares for the first time to raise money. The subsequent issuance of shares by the company is referred to as Follow-on Public Offer (FPO).
- **Offer for Sale (OFS)**: Enables promoters of a company to sell their shares; No new issuance of shares.
- **Rights Issue:** Only the existing shareholders of the company would have the right to buy the shares.

- **Private Placement:** Raise capital from certain selected investors only.
- **Blue-Chip Companies:** Large and well-recognised companies with a long history of sound financial performance.
- **Bullish and Bearish Market: "**Bullish Market" refers to a condition which denotes the healthy performance of the share market in which the shareholders are able to make profits. On the other hand, the poor performance of capital market is known as "Bearish Market".
- **Circuit Breaker**: A circuit breaker is a measure to stem the steep fall or a sharp rise in the price of a security / stock or the index as a whole. For instance, if the Index (SENSEX or NIFTY) increases or decreases by 10% in a single day, the trading is halted for 45 minutes. Similarly, if the Index increases or decreases by 15%, the trading is halted for 1 hour 45 minutes. The SEBI has laid down detailed guidelines related to implementation.
- **VIX Index:** NSE measures the degree of volatility in the Nifty over the next 30 days through VIX Index. VIX Index has a strong negative correlation with Nifty. Every time VIX Index falls, Nifty rises and when VIX Index rises, Nifty is bound to fall.

## ►COMPONENTS OF CAPITAL MARKET

- **Primary Market:** Issuance of New shares. Investors directly buy securities from the issuing company through IPOs.
- **Secondary Market:** Financial market where securities issued in the primary market are traded. Includes Stock Exchanges.

## ►FINANCIAL INSTRUMENTS

- **EQUITY:** Represents ownership of a company. In addition a shareholder get a share in distributed profit also called dividend.
- **BOND:** Debt capital raised by Company.
- **DEBENTURE:** Similar to Bonds. Unlike Bonds, debenture is unsecured debt.
- **DATED SECURITIES:** Issued by the Government to raise long-term loans.
- **STATE DEVELOPMENT LOANS**: Issued by the State Governments to raise long-term loans.

## ►DERIVATIVES MARKET

Derivatives are financial instruments whose value is based upon the value of an underlying asset like equities, currency or other financial assets or commodities. In case of Equity Derivatives Contract, the underlying asset is the share of a company. In case of commodity derivative contract, the underlying asset is a commodity.

### TYPES OF CONTRACTS IN DERIVATIVE MARKET

- **Forward Contract**: Contract for supply of goods between two parties at a specific future date at a predetermined price. Forward contracts are transacted over the counter and are not traded on a Stock Exchange.
- **Futures Contract:** Similar to Forward contracts but are traded on the stock exchange.
- **Options:** Options are similar to futures but provide an additional option to either the buyer or the seller on executing the transaction at a future date.
- **Call option** gives the right to the buyer to purchase, however there is no obligation on the buyer to purchase. Similarly, **Put option** gives the seller the right, however, there is no obligation on the seller.

## ►COMMODITY MARKET

Facilitates trading in commodity futures. It may be a spot or a derivatives market. In spot market, commodities are bought and sold for immediate delivery, whereas in derivatives market, various financial instruments based on commodities are traded. The SEBI regulates the commodity derivatives market. The Spot Commodity market is regulated by respective state Governments.

## ►PARTICIPATORY NOTES

Instruments used by foreign investors not registered as FPIs to invest in Indian stock market.

They are not issued in India rather these are issued by an FPI registered in India to foreign investors. Due to the anonymity of the investor, FPIs are considered unsafe

## ►SOVEREIGN WEALTH FUND

It is a fund set up by government to invest its forex surplus in financial instruments like bonds, stocks, gold etc. Norway is operating the world's largest SWF (Government Pension Fund) with a corpus of around $ 1 trillion dollars. Similarly, China has also set up Chinese Investment Corporation (CIC) in the form of SWF.

## ►NATIONAL INFRASTRUCTURE AND INVESTMENT FUND (NIIF)

Only sovereign wealth fund set up by India. 49% is owned by the Indian Government and the remaining is owned by domestic and foreign investors. Foreign sovereign wealth funds such as Abu Dhabi Investment Authority have invested in NIIF. It is primarily set up to support infrastructure financing. Also provides Equity as well as debt to commercially viable infrastructure projects, including stalled projects.

Set up an Alternative Investment Fund Category II.

## ►ALTERNATE INVESTMENT FUND (AIF)

Any privately-pooled financial investment vehicle. Regulated by SEBI. Generally created in the form of a trust, a company, a body corporate or an LLP.

**CATEGORIES OF AIF**

| Category | Purpose | Source |
|---|---|---|
| **I** | Generally instituted to **initiate a pre-defined project or invest in early stages** of the project.<br>Eg: Start-up, social ventures, SMEs, infrastructure etc where the project is considered to be **socially or economically desirable**. | Venture capital funds including Angel Fund, SME Funds, Social venture funds, Infrastructure funds etc. |
| **II** | Generally instituted for the purposes of meeting the **operational requirements of an already running project.**<br>Besides these funds may also be instituted for the purpose of fulfilling requirements of **distressed assets.**<br>**Any fund that does not fall in the other two categories.** | Debt Funds, Real Estate Funds, PE Funds, Distressed Asset Funds etc. |
| **III** | Those funds primarily created for complex trading strategies with view of making short term gains and thus carry high-risk are categorized in Category III. | Hedge funds, Fund of Funds etc. |

## ►UDAY BONDS

Idea is to reduce the debt burden of the DISCOMs wherein the states would take over some percentage of their Debt obligations of the DISCOMs. In return, the DISCOMs are required to implement structural reforms in order to improve their financial viability.

States should take over 75% of the DISCOM debt. The governments will then issue 'UDAY bonds' to banks and other financial institutions to raise money to pay off the banks.

## ►PANDA BONDS

Yuan-denominated bond issued in the Chinese mainland market by an overseas entity. Usually issued by foreign companies and Chinese companies operating overseas to raise capital. International Finance Corporation and Asian Development Bank have issued Panda Bonds in 2005. Besides countries like Philippines and most recently Pakistan have issued Panda bonds.

**Similar Bonds:**

- **Dim Sum Bonds:** Yuan denominated bonds issued in Hong Kong.
- **Samurai Bonds:** Yen-denominated bonds issued in Japan by a foreign company.
- **Yankee Bonds:** Dollar denominated bonds issued in the U.S. by a foreign entity.

## ►MASALA BONDS

Rupee-denominated bonds issued by Indian entities (both public and private) in overseas market.

Thus the investor is shielded from exchange rate fluctuations because interest and principal are paid at the rates prevailing at the time of buying the bonds

## ►URIDASHI MASALA BONDS

Special type of Masala Bonds issued in Japan bought by the Japanese retail investors. Offer higher interest rates to Japanese investors compared to low interest rates due to negative interest rate policy in Japanese economy.

## ►MAHARAJA BONDS

Rupee-denominated bonds issued by International Finance Corporation (IFC) in India's domestic market.

## ►BONDI BONDS

In 2018-19, the World Bank has launched bond-*i* (blockchain operated new debt instrument), the world's first bond to be created, allocated, transferred and managed through blockchain technology.

## ►SOVEREIGN GOLD BONDS

Government securities denominated in grams of gold. Investors pay the issue price in cash and the bonds will be redeemed in cash on maturity. Introduced to reduce gold imports. Can be used as collateral for loans.

**Eligibility:** Only resident Indian entities, including individuals, HUFs, trusts, universities and charitable institutions.

## ►IMPACT BONDS

Innovative way of financing development. Unsecured bonds to raise funds towards a project with a social impact or development impact. The investors agree to pay on the condition that the money raised has led to pre-determined verifiable outcomes.

**Example:** Women Livelihood Bonds issued by World Bank, UN Women and SIDBI; USAID launched Utkrisht Impact Bond to reduce IMR and MMR in Rajasthan.

## ►GREEN BONDS

- Proceeds of such Bonds are exclusively used for financing green projects such as renewable energy projects, climate change, reducing fossil fuel emissions etc. The first Green Bond was issued in 2007 when European Investment Bank raised €600 million under the label "Climate Awareness Bond" dedicated for renewable energy projects and energy-efficient projects.
- The Indian Railway Finance Corporation Ltd (IRFC) has established a Green Bond Framework for fund raising to finance the Dedicated Freight Corridor project and electrification of the railways.

## ►ELEPHANT BONDS

Proposed by Surjit Bhalla Committee. People declaring undisclosed foreign income will be required to invest at least 50% in the Elephant Bonds to be used for financing Infrastructure.

## ►MUNI BONDS

Municipal bonds( also known as Muni Bonds) are the bonds issued by Urban Local Bodies (ULB) to raise money for the development of various capital intensive infrastructure projects. In India, the Bengaluru Municipal Corporation issued municipal bonds for the first time in 1997.

**2 TYPES**

- **General obligation bonds**: Can be used for creation and upgradation of any infrastructure. The money raised through such Bonds is repaid from the overall revenues earned by the ULBs.
- **Revenue Bonds**: The money raised through these Bonds can be used for a specific infrastructure project such as Construction of new Road. The money raised through such Bonds is repaid only through the revenue earned from such as specific infrastructure project.

## ►CREDIT DEFAULT SWAP

The RBI is set to release the new guidelines for the issuance of the Credit Default Swap (CDS) so as to strengthen the corporate bond market in India.

**About Credit Default Swap (CDS):** CDS reduces the risk of investment in a corporate bond by providing a kind of insurance on the default. Normally, in case of Health Insurance, you pay certain annual premium to an insurance company. In return, in case of hospitalization, the Insurance company would be required to pay your bills upon hospitalization/ major surgeries.

Similarly, in case of CDS, we have two entities- Protection buyer (Investor) and Protection Seller (Entity issuing CDS). The protection buyer (Investors) pay premium to the sellers of the Protection Seller (Entity issuing CDS). In case of default on the Corporate Bonds, the sellers of the CDS would be required to compensate the Investors for their loss.

**BENEFITS OF CREDIT DEFAULT SWAP (CDS)**

- Reduces the risk of investment in corporate Bonds → development of the corporate bond market

- Help market participants a tool to transfer and manage credit risk in an effective manner through redistribution of risk.
- Enable the small-sized companies such as MSMEs to raise money through the issuance of Corporate Bonds

## ►EVOLUTION OF GOVERNMENT'S DISINVESTMENT POLICY

The liberalization reforms undertaken in 1991 ushered in an increased demand for privatization/ disinvestment of PSUs.

- **First Phase:** Sale of minority stake in bundles through auction.
- **Second Phase:** Separate Sale of each PSU
- **Third Phase**:
  - Strategic Disinvestment- Sale of substantial portion of Government shareholding in identified Central PSEs (CPSEs) up to 50 per cent or more, along with transfer of management control.
  - Launch of exchange traded funds (ETFs) - an equity instrument that tracks a particular index.
  - Monetization of select assets of CPSEs.
  - Buyback of Shares.

## ►EXCHANGE TRADED FUNDS (ETFS)

Fund that is created by pooling together assets and then dividing this accumulated asset into individual units that are traded on the stock exchange. The value of the ETF comes from the value of the underlying assets (shares of stock, bonds, Gold, foreign currency, etc.).

**Examples:** Share-based ETFs (CPSE ETF and Bharat 22 ETF), Bond Based ETFs (Bharat Bond ETF), Gold ETFs etc.

## ►GOLD ETFs

- The Gold-based ETFs are those ETFs which invest in Gold. The company issuing the gold ETFs invests its money in physical Gold and converts its investment in different units of paper-based ETF. So, when a person buys 10 units of ETF, it is akin to buying of 10 gms of gold. These ETFs can be bought or sold in the stock exchange.
- Only some of the ETFs provide the option of redemption of Gold based ETF in terms of physical Gold for the retail Investor.

## ►BHARAT BOND ETF

Debt-based ETF made by pooling bonds issued by central public sector enterprises. 1st corporate bond ETF of India. It will invest in AAA-rated PSE bonds. Minimum investment: Rs.1000; Maximum investment for retail investors: Rs. 2 Lakh; Maturity Period: 3-year and 10-year.

## ►BUYBACK OF SHARES

Procedure that enables a company to purchase its shares from its existing shareholders, usually at a price near to or higher than the prevailing market price. When a company buys back, it reduces its outstanding shares in the market, which increases the percentage shareholding for the remaining shareholders.

**REASONS FOR THE BUYBACK OF THE SHARES**

- To enable the promoters to increase their stakes in the company.
- To improve earnings per share.
- To provide an additional exit route to shareholders when shares are undervalued or are thinly traded.
- To enhance consolidation of stake in the company.
- To return surplus cash to shareholders.
- To support share price during periods of sluggish market conditions.
- To Undertake Disinvestment

## ►STRATEGIC DISINVESTMENT

Disinvestment is a mechanism by which the government sheds its ownership in a company.

It necessarily involves (a) Shedding of ownership by the government below 51% (b) Transfer of management control to a strategic partner (mostly private sector)

Government identifies a 'strategic partner' (mostly private sector) and transfers the management control and sheds 51% of its ownership

**EXAMPLES:**

1. Strategic partner: 51 %; Government: 49%

2. Strategic partner: 26%; Government: 26%; Shares with public: 48%

**Procedure:** NITI Aayog identifies PSU for Strategic Disinvestment → DIPAM→ Makes Recommendations to Alternative Mechanism headed by Union Finance Minister→ In-principle approval by Cabinet Committee on Economic Affairs→ Alternative Mechanism decides on various modalities such as Quantum of Shares to be sold, identification of Strategic partner etc.

## ►NEW PUBLIC SECTOR ENTERPRISE POLICY

- The government has recently released a new 'Public Sector Enterprise Policy' during Budget 2021-22.
- Under the new policy, Various sectors will be classified as strategic and non-strategic sectors. The policy has identified 4 sectors as strategic sectors: i) Atomic energy, Space and Defence ii) Transport and Telecommunications iii) Power, Petroleum, Coal and other minerals iv) Banking, Insurance and financial services.
- In strategic sectors, there will be bare minimum presence of the public sector enterprises. The remaining CPSEs in the strategic sector will be privatised or merged with other CPSEs.
- In non-strategic sectors, CPSEs will be privatised, otherwise shall be closed.

## ►NATIONAL INVESTMENT FUND

Fund set up to channelize the proceeds from disinvestment of Central Public Sector Enterprises. It is a permanent fund as it is classified under Public Accounts of India.

**PURPOSE**

- Recapitalization of public sector banks and public sector insurance companies.
- Investment in RRBs/IIFCL/ NABARD/Exim Bank
- Equity infusion in various Metro projects

## ►RETAIL DIRECT

Presently, the Retail Investors cannot directly buy G-Secs from the RBI through the E-Kuber platform. They can buy the G-Secs indirectly through the facilitators such as Banks, Primary dealers, Stock exchanges etc.

The RBI is set to launch a new platform known as "Retail Direct" to allow retail investors to buy G-Secs directly from the RBI.

## ►NEGOTIATED DEALING SYSTEM

Electronic platform created by RBI to deal in government securities. Acts as both primary and secondary market for government securities.

## ►REITS AND InVITs

- **REITs:** Real Estate investment Trust. Similar to mutual fund, investors hold units of ReITs that are traded in the bourses
- Invests in mostly real estate projects, both completed and unfinished projects. Certain percentage of investments can also be made in equity of real estate companies and G-Secs. Regulated by SEBI
- **InVITs:** Infrastructure counterpart of ReITs. Similar to mutual fund to invest in infrastructure sector. Regulated by SEBI.

## ►DIFFERENTIAL VOTING RIGHTS

Shares that have special voting rights disproportionate to their economic holding. 2 types of shares

- Shares with superior voting rights
- Shares with lower voting rights

The Companies (Share Capital and Debentures) Rules 2014 allows the issue of shares with differential voting rights.

The capital raised through shares with differential voting rights must not exceed 74% of the total capital raised through the issuance of shares.

## ►GOLDEN SHARE

Type of share that gives the shareholder (mostly government) the veto power in decision making. Mostly used to accelerate disinvestment without government losing control over decision making.

## ►INVESTOR EDUCATION AND PROTECTION FUND

Set-up under the Companies Act, 1956 to support the activities relating to investor education, awareness and protection. The fund is set up out of the following funds if they are unclaimed and unpaid for a period of seven years

- Unpaid dividend
- Application money due for refund
- Matured deposits

Recommendations on how to spend the money so accrued is made by Investor Education and Protection Fund Authority set up under Ministry of Corporate Affairs.

## ►INNOVATORS GROWTH PLATFORM

Platform on stock exchanges where start-ups can list and trade on their shares.

It is a platform where listing norms such as IPO norms, pre-issue capital etc are eased for start-ups.

## ►BSE START-UP PLATFORM

The BSE has launched its start-up listing platform in December 2018 to facilitate funding for deserving start-ups by enabling them to raise capital from the market. It would help the entrepreneurs to raise equity capital for growth and expansion of Startups in a cost-effective manner.

## ►SOCIAL STOCK EXCHANGES

Proposed in the Union Budget 2020-21 to enable social enterprises such as NGOs to raise capital to meet their social cause. SEBI has appointed a task force under the Chairmanship of Ishaat Hussain to recommend the various modalities related to the working of Social Stock Exchanges

**Note:** Brazil's Socio-environmental Impact Exchange (BVSA) was the first SSE. Some of the other SSEs across the world include- UK Social Stock Exchange, South Africa's SASIX, Canada's Social Venture Connexion etc.

## ►ADR/GDR/IDR

The American Depository Receipts (ADRs)/ Global Depository receipts (GDRs) are the financial instruments through which the Indian Companies can raise capital from the equity markets based in other countries. An ADR is quoted in US dollars and one ADR represents a certain number of equity shares in the Indian company.

Similarly, the Indian Depository Receipts (IDRs) are issued by the foreign companies in India to raise capital from the Indian investors. They are denominated in terms of Rupees and listed on Indian Stock exchanges. Just like ADRs, the IDRs are created against the shares of an overseas company.

## ►DIRECT LISTING BY INDIAN COMPANIES

The existing legal framework in India does not permit the direct listing of equity shares of companies incorporated in India on foreign stock exchanges. The only available routes for companies incorporated in India to access the equity Capital markets of foreign jurisdictions is through the ADR/GDR.

**New Announcement:** The Government would soon come out with the necessary regulatory framework to enable the Indian companies to list their securities directly on the stock markets in other countries. It will enable the Indian companies to raise overseas capital directly.

## ►VULTURE FUNDS

Vulture Funds are the hedge funds that typically buy bonds issued by financially distressed firms and countries in the secondary market at discounted prices and later on recover much higher amount than the price at which they have bought the Bonds.

## ►ESG INVESTMENT

The ESG (Environmental, Social and Governance) strategy revolves around investing in companies that score high on three non-financial parameters i.e. environment friendliness, social responsibility, and governance.

In 2012, the SEBI has mandated the Annual Business Responsibility Reporting (ABRR), a reporting framework based on the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business released by the Ministry of Corporate Affairs.

## ►SPECIAL PURPOSE ACQUISITION COMPANIES (SPAC)

Listed shell companies created with the sole purpose to acquire unlisted private companies. SPAC do not have business operations or revenue of their own but are created to raise capital through IPO. The money raised is then used to acquire private companies. They are also called as "Blank cheques" as the investors would have no idea as to where their money will be invested.

## ►BILATERAL NETTING

- Parliament has recently passed the Bilateral Netting of Qualified Financial Contracts Bill, 2020.
- A bilateral netting agreement enables two counterparties in a financial contract to offset claims against each other to determine a single net payment obligation due from one counterparty to the

other. Earlier, Indian financial contract laws did not permit bilateral netting, however, they did allow multi-lateral netting.

- **Significance of new Bill**: Bilateral netting enables the companies to set aside lower capital against their obligations and hence free up the locked capital and boost credit creation and investment.

## ►RETAIL PARTICIPATION IN G-Secs

- **How are G-Secs issued?** Issued through auctions conducted by RBI on the electronic platform called the E-Kuber, the Core Banking Solution (CBS) platform of RBI. Scheduled Banks, Primary Dealers, Insurance companies etc. who maintain accounts with RBI, are members of this electronic platform. All members of E-Kuber can place their bids in the auction through this electronic platform.
- **Participation of Retail Investors in G-Secs Market:** Presently, the Retail Investors do not maintain account with the RBI and hence cannot directly buy G-Secs from the RBI through the E-Kuber platform. However, the retail investors can buy the G-Secs indirectly through the aggregators/ Facilitators such as Banks, Primary dealers, Stock exchanges etc.
- **RBI's new proposal:** New platform known as "Retail Direct" to allow retail investors to buy G-Secs directly from the RBI. In order to buy G-Secs, the Retail investors would be required to open their gilt accounts with the RBI. (Similar to DEMAT Account for buying shares/Bonds etc.)

# SECTION 10

# PUBLIC FINANCE AND TAXATION

## ►BASIC TERMS RELATED TO TAXATION

- **Direct tax:** Subject on whom the tax is levied is identifiable. The burden of paying the tax falls on the same person or entity and cannot be shifted. Eg: Income tax, Corporate tax, Wealth tax etc.
- **Indirect tax**: Subject on whom the tax is levied is not identifiable. Burden can be shifted. E.g.: GST, Excise duty, custom duty, Service tax etc.
- **Ad valorem Vs Specific Tax** : Ad Valorem tax is a tax imposed as percentage of the value of the product. For example, customs duty of 20% on solar panel cells. Specific tax is fixed amount of tax based upon the quantity of unit sold. For example, excise duty of Rs 10 on per litre of Petrol.
- **Progressive taxation**: System of taxation based on the ability to pay. Higher the income more is the tax rate leading to more revenue. Direct taxes are by nature progressive
- **Regressive taxation**: System of taxation where there is inverse relation between level of income and rate of taxation.
- **Fiscal Drag:** High inflation and high tax rates. High inflation → High Salaries → high tax burden → reduced spending → Fiscal Drag
- **Tax-GDP ratio**: Proportion of tax revenue in GDP. High Tax-GDP ratio → High government exchequer → High government spending → High Consumption → High demand → High investment → High Growth
- **Tax buoyancy:** It refers to the responsiveness of tax revenue to GDP growth. A tax is said to be buoyant if an increase in GDP results in increase in tax revenue without increasing the tax rate. Direct taxes are more responsive to GDP growth than indirect taxes.
- **Tax elasticity**: Refers to change in tax revenue with change in tax rate
- **Inverted Duty Structure:** Refers to the tariff structure where the customs duty on finished goods is lower than the customs duty on raw materials. It

promotes import of cheaper finished goods and discourages domestic manufacturing.

## ►LAFFER CURVE

Relationship between Tax rates (on the horizontal) and Tax revenue collected (on the vertical). It is an inverted U-shaped curve, showing that as tax rates increase, first the revenue increase, hits a maxima at a particular rate. Further increase in the tax rate leads to decline in the tax revenue.

## ►SURCHARGE AND CESS

| SURCHARGE AND CESS | | |
|---|---|---|
| **Criteria** | **SURCHARGE** | **CESS** |
| **Meaning** | **Additional Tax** | **Tax on Tax** |
| **When is it Imposed?** | **Income level above a certain threshold** | **Payment of tax** |
| **Examples** | Surcharge on Income Tax<br>➢ Greater than 50 lakhs and less than 1 crore → 10%<br>➢ Greater than 1 crore and less than 2 crores → 15%<br>➢ Greater than 2 crores and less than 5 crores → 25%<br>➢ Greater than 5 crores → 37% | • Health and Education Cess: 4% on major central taxes such as Corporate Tax, Income Tax etc.<br>• Health Cess: Imported Medical Devices.<br>• Road and Infrastructure Cess: Rs 10 per litre on imported and domestic sale of petrol and high-speed diesel. |
| **Calculated as** | Percentage of Income Tax | Percentage of (Income Tax + Surcharge) |
| **Credited into which fund?** | Consolidated Fund of India (CFI) | May Initially get credited to CFI. Transferred to separate dedicated fund outside CFI and remain non-lapsable. |
| **Purpose of Utilization** | Government's prerogative | Utilized for the purpose the cess is collected |
| **Part of Central Divisible Pool** | No | No |

## ►EXTERNAL DEBT OF INDIA

| | |
|---|---|
| **Categorisation of External Debt** | • Duration of loan- Short-term (less than 1 year) and long-term (more than 1 year)<br>• Sovereign Debt (Government) and Non-Sovereign Debt (Other than Government, including private sector) |
| **Major Heads under External Debt** | • **Multilateral Debt:** Debt from the multilateral institutions such as World Bank, IMF, ADB etc.<br>• **Bilateral Debt:** Debt from sovereign countries such as Japan, Germany etc.<br>• **Trade Credits/Export Credits:** Loans and credits extended for imports directly by overseas supplier, bank and financial institutions<br>• **External Commercial Borrowings:** loans from commercial banks, other commercial financial institutions<br>• Non-Resident Deposits in Banks and Financial Institutions |
| **Present status of External Debt** | **Cumulative External Debt** at US$ 558 billion (20.6% of the GDP) as on March 2020.<br>**Composition of Debt**: Non-Sovereign Debt (Non-Government Debt) : 17% of the GDP; Sovereign Debt (Government Debt): 3.6% of the GDP.<br>**Components of Debt**: ECBs (40%) followed by Non-resident deposits. |

| | |
|---|---|
| | **Duration of Debt**: Long term debt (maturity of more than 1 year) accounts for 81% of external debt; Short-term debt ( (maturity of less than 1 year) accounts for 19% of external debt<br>**Denomination of Debt**: US dollar (53%); remaining in Rupee, Yen, SDR and Euro. |

# BASICS OF THE BUDGET

## ►UNION BUDGET

- Under Article 112, the Government is required to present **Annual financial statement (AFS)** before both the houses of the Parliament. Contains Appropriation Bill (Expenditure Side) and Finance Bill. (Receipts).
- Presented in terms of (a) Consolidated Fund of India, (ii) Contingency Fund of India and (iii) Public Account of India. The Indian Constitution mandates that AFS should distinguish the expenditure on revenue account from the expenditure on other accounts.

## ►INTERIM BUDGET

Budget which is announced in an election year by the incumbent government and hence applicable for a part of financial year until the new government takes over. No provision in the Constitution that prohibits the Government from announcing new schemes or making amendments to the taxation in the Interim Budget. However, as per the established parliamentary convention, generally, the incumbent government does not announce new schemes and programmes. Similarly, on the revenue side of the budget, no tax proposals are made. Thus, normally the Interim Budget does not contain Finance Bill and Economic Survey.

## ►DIFFERENCE BETWEEN INTERIM BUDGET AND VOTE-ON-ACCOUNT

The Interim Budget is an estimate of the both receipts and expenditure of the Government. Through the Vote-on-account, the incumbent government seek approval from the parliament for withdrawing money to meet its expenditure needs until the new government takes over.

**Note:** Interim Budget for the financial year 2019-20 has introduced a vote-on-account wherein the government has sought approval for the expenditure, which is likely to be incurred during April to July, 2019.

**Note**: *The other details related to Budget have been covered separately in the Budget Compass Magazine.*

## ►GOODS AND SERVICES TAX (GST)

Comprehensive, multistage, destination-based indirect tax. Comprehensive as it has subsumed almost all the indirect taxes

Multi-staged as GST is imposed at every step in the production process, but is meant to be refunded to all parties other than the final consumer. Destination based tax as it is collected from point of consumption and not point of origin like previous taxes.

**WHY WAS GST INTRODUCED?**

Idea is to have "One India, One Market, One Tax"; Remove cascading effect of taxes; Simplification of indirect tax structure; Create a unified economic market

## ►3-TIERS OF GST

- **CGST or Central GST:** Levied and collected by the central government on sale of goods and services within a state.
- **SGST of State GST:** Levied and collected by the state governments on sale of goods and services within a state.
- **IGST or Integrated GST:** Levied and collected by the central government on interstate sale of goods and services.

  This additional tax allows claim of input tax credit in inter-state sale of goods and services, which was hitherto unavailable under Central Sales tax or State Sales taxes.

## ►POSSIBLE IMPACT OF GST

- Increases tax revenue as it improves tax compliance
- Will bring out-of-book transactions under the book due to input tax credit
- Will increase income tax compliance
- Lower the cost and hence improve export competitiveness

## ►RECENT CONTROVERSY OVER THE GST COMPENSATION CESS

Cess levied to compensate states for revenue losses on account of switching to GST for the first five years of GST implementation. According to the GST Act, States and UTs with Assemblies are guaranteed compensation if the GST revenue growth is less than 14 per cent. This amount is paid bi-monthly.

**Financial year 2020-21**: Covid-19→ Lower GST Collection→ Shortfall in the GST Compensation (Rs 2.35 Lakh Crores)

**Options given to States:** Borrow money from market or the RBI based upon Central Government Guarantee. Borrowed money to be repaid by extending GST beyond 5 years.

**Argument of the States**: Centre should compensate the states by borrowing money.

**How was the issue resolved?** Centre to borrow money from RBI→ Give loans to the States→ Loan to be repaid by extending GST Compensation Cess beyond 5 years.

## ►GST COUNCIL

Constitutional body (Article 279A) for making recommendations to the Union and State Government on issues related to Goods and Service Tax.

**Composition:** Chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.

**Decision Making:** Voting Weightage- Centre (1/3) and all States (2/3). Decision shall be taken by a majority of not less than three-fourths of the weighted votes of the members present and voting. Thus, Central Government has an effective veto on all decisions of the GST Council.

**Quorum:** ½ of the total members

## ►NATIONAL ANTI-PROFITEERING AUTHORITY (NAA)

Constituted by Union Cabinet in accordance with Section 171 of CGST Act to deal with profiteering. Headed by an officer of the rank of Secretary to the Government of India. 4 technical members from the Centre and the States.

**Need for NAA**: Ensures that any reduction in rate of tax or the benefit of input tax credit should be passed on to the consumer by way of commensurate reduction in prices. (*Check Profiteering*)

**Working Mechanism**: Investigate cases of Profiteering→ Order Firms to reduce the prices or return the undue benefit to the customers. If customer not found, money deposited under Consumer Welfare Fund. In extreme cases, the NAA can impose a penalty on the defaulting business entity and even order the cancellation of its registration under GST.

**Tenure**: Due to end by 30 November 2019. Extended for further 2 years by GST Council.

**Note:** No appellate authority against the order of NAA. Thus, only remedy for a person dissatisfied with the NAA order is to approach the High Court through Writ Petition.

## ►AUTHORITY FOR ADVANCE RULING (AAR)

**Need:** lack of clarity over certain tax provisions. For example, GST rate on Frozen parathas- not mentioned. Unclear whether it should be treated as unprocessed food ( 0% GST) or processed food ( GST of 5%, 12% or 18%).

**Advance Ruling**: written interpretation of tax laws issued by the Authority for Advance Rulings (AAR) to provide clarification on tax related matters.

**Benefits**: Certainty in tax liability + Reduce Tax litigation + Attract more FDI.

**Statutory bodies**: Authority for Advance Ruling (AAR) and Appellate Authority for Advance Ruling under the provisions of State Goods and Services Tax Act or Union Territory Goods and Services Tax Act.

**Jurisdiction**: Ruling given by the AAR & AAAR will be applicable only within the jurisdiction of the concerned state or union territory.

**Applicability:** An advance ruling binding only on the applicant who has sought the advance ruling; Not applicable to similarly placed other taxable persons in the State.

## ►GST NETWORK (GSTN)

Digital infrastructure to administer GST transactions. Non-profit fully-owned Government company ( 50%- Centre, 50%- States)

**Main Functions:** Facilitating registration; filing of returns; computation and settlement of IGST; Verifying tax payment details with banking network; Management Information System reports; Analysis of tax payers' profile; Verification of input tax credits

## ►E-WAY BILL

Electronic Way bill for movement of goods. A GST registered person cannot transport goods in a vehicle whose value exceeds Rs. 50,000 without an e-way bill.

Applicable for movement of Goods both within a state (Intra-State) as well as Inter-state. Not applicable for the movement of Goods exempted under GST.

## ►REVERSE CHARGE MECHANISM

Normally, a seller collects the GST from the buyer and then deposits the GST amount with the government. However, in case of Reverse Charge, the buyer directly pays the GST to the Government. It is normally applicable when the seller of Goods and Services is not registered under GST.

## ►GST APPELLATE TRIBUNAL

The Union Cabinet has approved the setting up of National Bench of the Goods and Services Tax Appellate Tribunal (GSTAT).

It would be a forum of second appeal in GST laws and the first common forum of dispute resolution between Centre and States.

## ► QRMP SCHEME

The government has launched the Quarterly Return filing & Monthly Payment of Taxes (QRMP) scheme for the benefit of small taxpayers under GST system.

**Present Mechanism**: GST return is required to be filed every month.

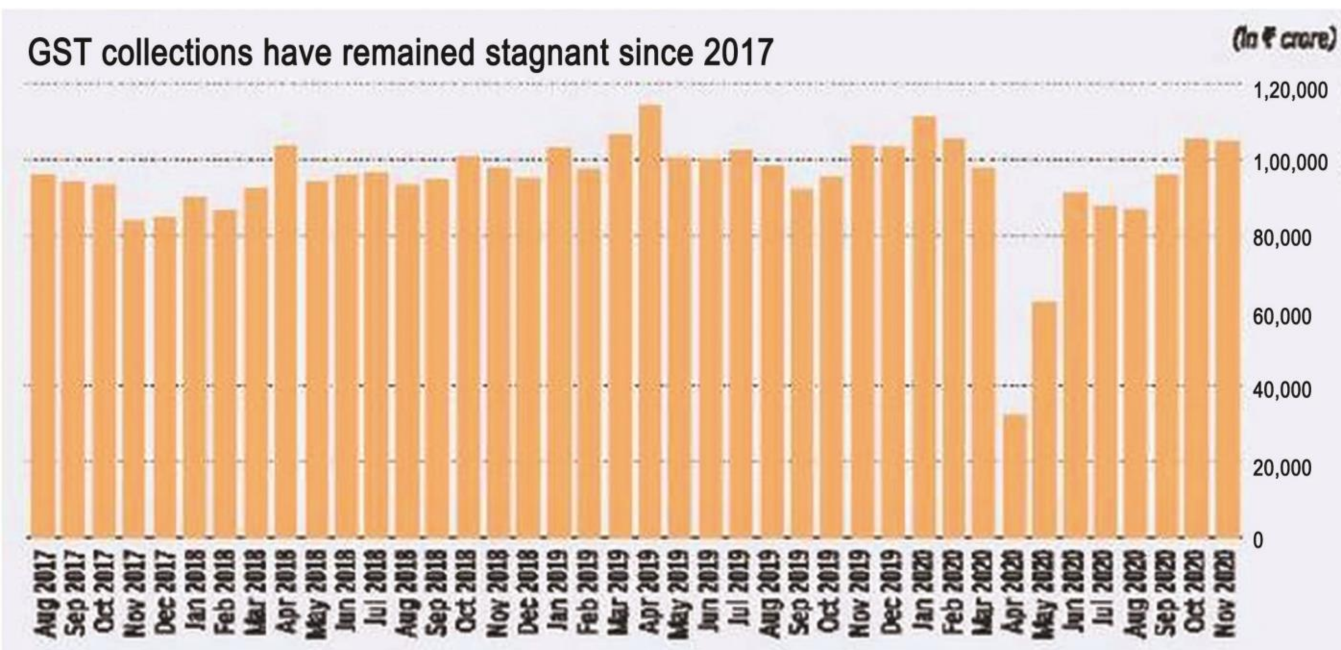
**New Mechanism:** Small taxpayers i.e., taxpayers with an aggregated turnover of up to Rs.5 crores can file their GST returns on a quarterly basis beginning from the quarter January-March 2021. However, the tax payments will still need to be done on a monthly basis. The new scheme has been introduced to reduce the compliance burden on the small taxpayers.

## ► GST ON LOTTERIES

The Lotteries are currently taxed on dual rate – while state-run lotteries are taxed at 12 per cent, private lotteries authorized by state governments are taxed at 28 per cent. Further, under the present mechanism, if a state authorized lottery is sold in the same state then it is taxed at 12%, however, if it is sold outside the state then it is taxed at 28%.

Such dual GST rates on lotteries goes against the principle of "One-Nation-One Tax". Even the private lottery operators have been arguing in favor of uniform GST rates so as to create a level playing field between State operated lotteries and private operated lotteries.

## ►TRENDS IN GST COLLECTION



# IMPORTANT TAXES IN NEWS

## ►GAFA TAX

Digital service tax introduced by France. Named after Google, Apple, Facebook, Amazon. 3% of the total revenues is levied in the form of GAFA tax

## ►EQUALISATION LEVY- INDIA'S VERSION OF GAFA TAX

Tax on digital transactions in the digital advertising space. It is a direct tax levied on the income accruing to foreign ecommerce companies from within India. It is a withholding tax levied at 6% of the transaction amount.

**CONDITIONALITIES**

- It is applicable for B2B (Business to Business) transactions only
- Currently it is applicable only on online advertising services
- For payments exceeding Rs 1 lakh in a year.

**Expansion of Equalisation Levy in Union Budget 2020:** Levy of 2% on the revenues generated through the online sale of goods and services by non-resident technological companies such as Amazon, Flipkart, Netflix etc. Applicable only if the aggregate revenues exceed a threshold of Rs 2 crores.

**Analysis of recent Changes:** Earlier, applicable only on Advertising revenue. Expanded to include overall revenue earned through online sale of Goods and Services. Earlier, applicable only on B2B transactions. Now, applicable to both B2B as well as B2C transactions.

## ►DIVIDEND DISTRIBUTION TAX AND BUYBACK TAX

2 ways companies reward their shareholders

**Dividends**: Companies distribute after-tax profits to their shareholders in proportion of their share-holding

**Buy-Back:** Company repurchases certain amount of its outstanding shares from the shareholders at a price higher than market price. When a company buys back its shares the share value increases which is beneficial to continuing shareholders

**DIVIDEND DISTRIBUTION TAX:** Tax on dividend that is distributed by the company to its shareholders. It was paid by the companies before distributing dividends. In Budget 2020 DDT was abolished. Now dividend will become a part of investor's income which may be taxed in accordance income tax slabs.

**BUYBACK TAX:** In order to reduce the tax burden imposed through dividend distribution, more companies started offering buybacks rather than distributing dividends. To discourage this, Budget has introduced tax on buybacks for listed companies as well. The 20% tax will be levied on the difference between the issue price and the buyback price of the share.

## ►CAPITAL GAINS TAX

Tax levied on gains made by buying and selling of assets.

**Long-term capital gains tax**: Tax on gains made in assets held for over 3 years. For shares and mutual funds it is 1 years.

**Short-term capital gains tax**: Tax on gains made in assets held for 3 years or less.

## ►ANGEL TAX

**Details:** Applicable to unlisted companies that have raised capital through sale of shares at a value above their fair market value. This excess capital is treated as income and taxed accordingly.

**Concerns:** The Angel Tax is calculated when the Startups receive funding which is higher than its "fair Market Value". However, it becomes extremely difficult for the tax authorities to ascertain the "Fair Market value" of the start-up companies. It has assumed significance in recent days as several start-ups and angel investors have raised concerns over notices received from income tax authorities over the payment of "Angel Tax". This has adversely affected the start-up ecosystem in India which nurtures innovation and entrepreneurship.

**Recent Announcement:** The government has withdrawn the Angel Tax on the entities registered with the Department of Industry and Internal Trade (DPIIT), Ministry of Commerce.

## ►COMMODITY TRANSACTION TAX (CTT)

Introduced during the Union Budget 2013-14. Tax imposed on the exchange traded non-agricultural commodity derivates in India. Whenever, any non-agricultural commodity derivatives (such as futures and options in Gold, Crude oil, Iron etc) are traded on the stock exchanges, CTT is required to be paid. Presently imposed at 0.01% of the price at which the commodity derivative is being traded.

### ►BORDER ADJUSTMENT TAX (BAT)

Additional Customs duty on imported Goods to bring them their prices on par with domestic Goods. Usually, done in order to compensate for the higher prices of domestic Goods on account of embedded taxes. The Embedded taxes are those taxes which are outside ambit of GST and on which the Industries cannot claim input tax credit. (Examples- Excise duty on fuel, mandi tax, Electricity duty etc).

### ►CHANGES IN CORPORATE TAX RATES (2019-20)

**Reduction in tax rates:** Tax rate for all the domestic companies has been cut to 22% provided they do not avail of any exemptions. Further, such company shall not be required to pay Minimum Alternate Tax (MAT).

**Boost to Make in India:** Companies incorporated in India after 1st October 2019 and beginning production by 31st March 2023 will enjoy an even lower tax rate of 15%, provided they do not avail of any other incentives.

**Reduction in MAT** from existing 18.5% to 15%.

### ►TDS AND TCS

| TAX DEDUCTED AT SOURCE (TDS) | TAX COLLECTED AT SOURCE (TCS) |
|---|---|
| Tax that is deducted at the time of making payment | Tax which is collected at the time of selling certain Goods |
| Deducted by the entity that makes the payment | Collected by the entity that sell the Goods |
| Deducted on Payments like salary, Interest, professional fee, Lottery prize, payment to contractors, Rent, purchase of immovable property etc. | Collected on sale of certain specified goods such as tendu leaves, scrap, Mineral ores, Motor vehicles etc. |

## IMPORTANT DEVELOPMENTS IN PUBLIC FINANCE

### ►15TH FINANCE COMMISSION

2 Reports- First Report (2020-21) and Second Report (2021-26). Recommendations valid for 6 years.

**Vertical Devolution of Taxes:** 41% as against the earlier 42% (To provide for the newly formed UTs of J&K and Ladakh).

**Criteria for the Horizontal distribution of taxes among the States:**

The criteria for distribution of central taxes among states for 2021-26 period is same as that for 2020-21.

| Criteria | 14th Finance Commission | 15th Finance Commission |
|---|---|---|
| **Income Distance** | **50** | **45** |
| **Population (1971 Census)** | **17.5** | **Not Considered** |
| **Population (2011 census)** | **10** | **15** |
| **Demographic Performance** | **Not Considered** | **12.5** |
| **Forest Cover** | **7.5** | **Not Considered** |
| **Forest and Ecology** | **Not Considered** | **10** |
| **Area** | **15** | **15** |
| **Tax Effort** | **Not considered** | **2.5** |
| **Total** | **100** | **100** |

**Grants-in-aid in the form of** Revenue Deficit Grants, Sector specific Grants and Grants to local bodies.

**Fiscal deficit and debt levels:** The Centre should bring down fiscal deficit to 4% of GDP by 2025-26. For states, fiscal deficit should be reduced to 3% of GSDP. The Commission observed that the recommended path for fiscal deficit for the centre and states will result in a reduction of total liabilities of: (i) the centre from 63% of GDP in 2020-21 to 56 % in 2025-26, and (ii) the states on aggregate from 33% of GDP in 2020-21 to 32.5% by 2025-26.

**Rationalisation of GST rates**: The GST was introduced in order to simplify the tax structure and improve the tax compliance. However, the existing GST regime has multiple rates: 0, 0.25, 1, 3, 5, 12, 18 and 28%; Rate structure should be rationalised by merging the rates of 12% and 18%.

**Centrally Sponsored Schemes (CSS):** Gradually stop the funding for those CSS and their subcomponents which have either outlived their utility or have insignificant budgetary outlays not commensurate to a national programme. There should also be a minimum threshold funding size for the approval of a CSS.

**Funding of defence and internal security:** A dedicated non-lapsable fund called the Modernisation Fund for Defence and Internal Security (MFDIS) should be constituted under the Public Account for capital expenditure in defence and internal security. The fund will be funded through (a) Transfers from the Consolidated Fund of India (b) Disinvestment of defence PSUs (c) Monetisation of defence lands.

## ►OFF-BUDGET FINANCING

Refers to the expenditure undertaken by the PSUs through the market borrowings based upon guarantee of repayment of loans given by Government. Used by the government to meet revenue and capital requirements outside budgetary allocation. Thus it remains outside the parliamentary control. It is also not counted under fiscal deficit.

Example: Payment of Food Subsidy bill to the FCI through borrowings from NSSF.

**Recent Development:** In Budget 2021-22, Finance Minister has announced doing away with the payment of Food subsidy bill through NSSF borrowings.

## ►FISCAL COUNCIL

An independent agency to review the government's adherence to fiscal rules. It was recommended by a number of committees including N K Singh Committee (2017), D.K. Srivastava committee on fiscal statistics (2018), 13th and 14th Finance Commissions.

**PROPOSED FUNCTIONS**

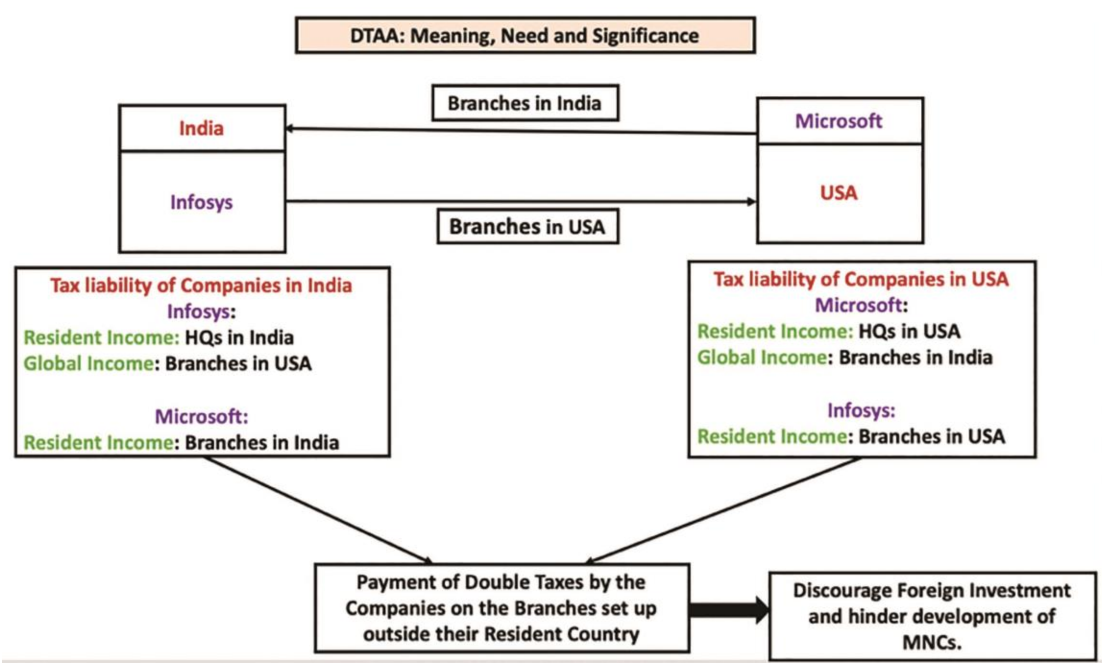
- Independent assessments of budget proposals
- Independent forecast of key macro variables like real and nominal GDP growth, tax buoyancy, commodity price, inflation etc.
- Advisory role with respect to FRBM targets
- Review the government's forecasts related to tax collections, Fiscal Deficit, GDP Growth etc.

## ►BASE EROSION AND PROFIT SHIFTING (BEPS)

Tax avoidance strategies adopted by MNCs that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity.

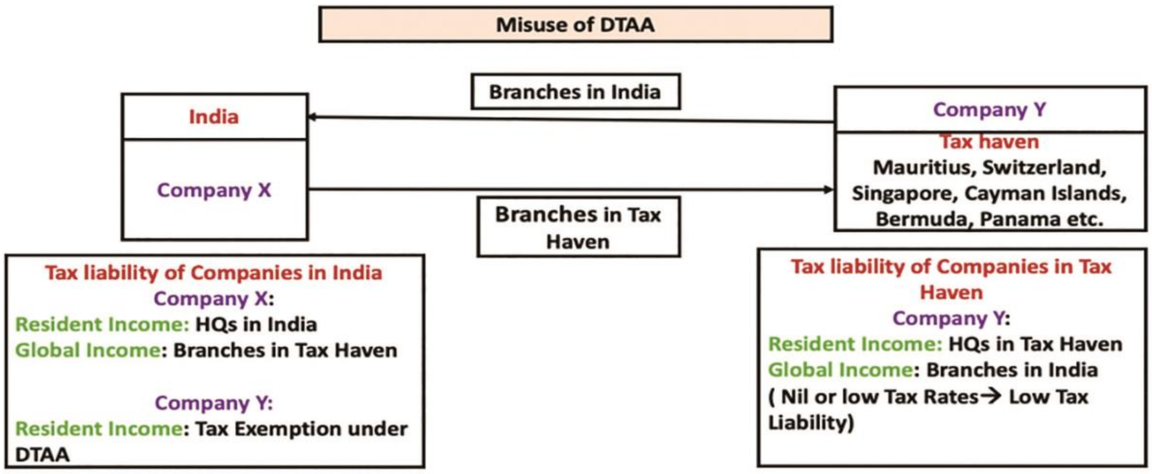
Strategies used: *Transfer Mispricing, Misuse of Double Taxation Avoidance Agreements (DTAA), Treaty Shopping, Round Tripping, Inflated invoices, Shell companies, Patent Box, Double Irish (Adopted by tech companies)* etc.

## ►DOUBLE TAXATION AVOIDANCE AGREEMENT (DTAA)




A DTAA is a tax treaty signed between two or more countries. Its key objective is that tax-payers in these countries can avoid being taxed twice for the same income. A DTAA applies in cases where a tax-payer resides in one country and earns income in another. DTAAs are intended to make a country an attractive investment destination by providing relief on dual taxation. Such relief is provided by exempting income earned abroad from tax in the resident country. India has signed DTAA with more than 80 countries.

## ►MISUSE OF DTAA

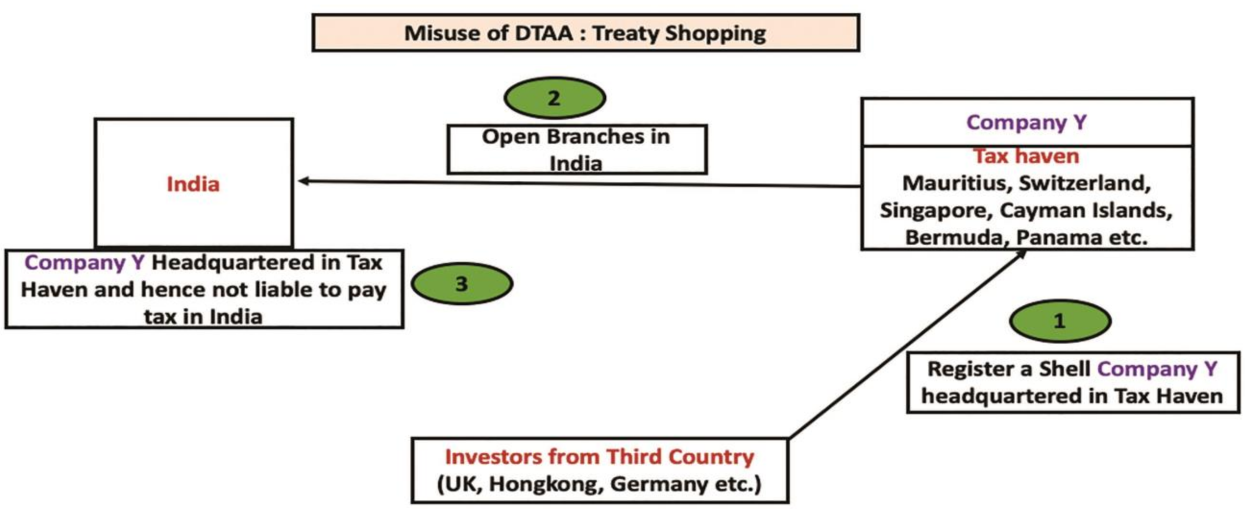



India has signed DTAA with the tax havens such as Mauritius, Singapore, Cayman Islands etc. These DTAAs have been misused by the MNCs in order to reduce their tax liability in India. For example, If a company (Shell Company) is registered in tax haven and carries out the operations through its subsidiary based in India. Under the provisions of DTAA, the company would be liable to pay tax only in the tax haven country, even for the profits which it makes in India. This causes significant revenue loss for India.

**Note:** There is no universally acceptable definition of a tax haven country. However, a Tax Haven Country has certain peculiar features such as:

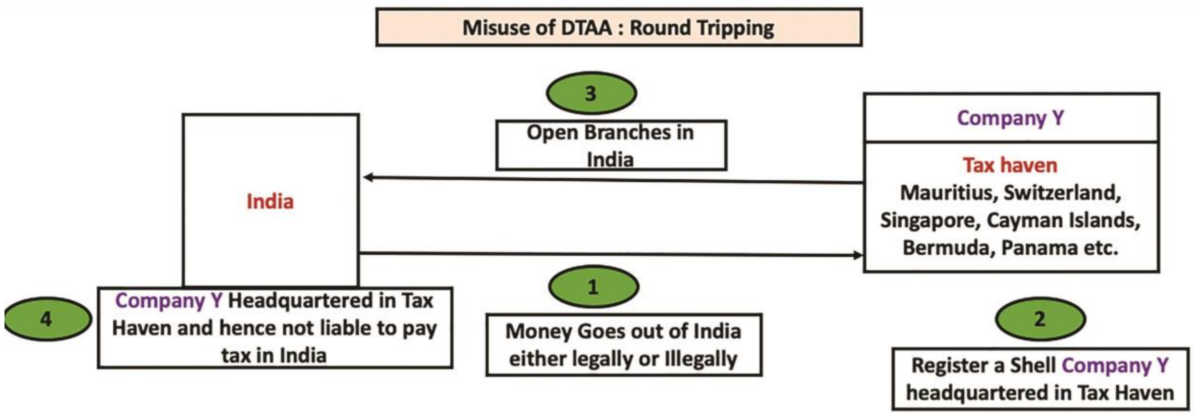
- Nil or Nominal Tax rates.
- Does not share Tax related Information with other Countries
- Presence of large number of Shell Firms. These Firms are legally registered in a tax haven country, but do not have substantial presence there. Most of its activities are carried out through its subsidiaries based in other countries. This is mainly done because under the Terms of DTAA, the Firm would be required to pay tax only in a tax haven country and not in other countries. Since, the tax rates are either Nil or Nominal in a tax haven country, the shell firm significantly reduces its tax liability.

## ►TREATY SHOPPING



Under Treaty Shopping, a foreign company routes its investment into India through a tax haven country i.e. it registers a company headquartered in tax haven and then establishes its Indian subsidiaries to carry out the operations. For example, Hutch's investment into India was routed through Cayman Islands. Since, the company is based in tax haven, it would be liable to pay tax to the Tax haven country.

## ►ROUND TRIPPING




Round tripping refers to the practice where, capital belonging to India goes out to tax haven country where it is used to set up Shell Company. The money is then, reinvested back in India in the form of FDI.

The profit out of such investment cannot be taxed in India as the capital is coming from tax haven.

## ►TRANSFER MISPRICING

Pricing of goods and services between two related companies is called transfer pricing. If the price paid intra-firm is artificially set to avoid taxes it is called transfer mispricing.

## ►ADVANCE PRICE AGREEMENT

Agreement between the tax authority and MNC on the appropriate transfer pricing methodology for a certain period of time. Under this, the transfer price is fixed based on the **"Arm's length principle"**. This principle states that the transfer price must be closer to the price at goods and services are transacted between two unrelated entities.

### TYPES OF ADVANCED PRICING AGREEMENT (APA)

- **Unilateral APA**: Agreement between the company and the tax authority of the country
- **Bilateral APA**: Agreement which involves taxpayer located in the country, tax authority of the taxpayer's location, associated enterprise (AE) of the taxpayer in a foreign country and tax authority of the country where the associated enterprise is located.
- **Multilateral APA**: Agreement involves multiple entities which get into an agreement about transfer pricing. These entities include the taxpayer in a country, the tax authority of the taxpayer's company, two or more associated enterprises of the taxpayer and the respective tax authorities of the countries where these AEs are located.

## ►PATENT BOX MISUSE

Paten Box is a special tax regime for Intellectual Property revenues. Under this a lower rate of tax is applicable for the income generated from patents. It is adopted to encourage R&D.

However, MNCs structure their operations in such a way that they set up a shell company in low-tax jurisdiction and register the patent there. This registration of patent in low-tax jurisdiction may take place even when the technology may have been developed in some other country.

**Patent Box Regime in India**: Introduced through Finance Act, 2016. It provides for a concessional rate of tax at the rate of 10% on the gross amount of royalty earned through Patents. However, to be eligible for this benefit, the Patent must be developed and registered in India.

## ►BEPS PROJECT

It is an international framework to combat tax avoidance by OECD. It seeks to update tax rules in various countries in a coordinated way. The BEPS Project identified 15 actions to address BEPS in a comprehensive manner. India is a member of this project.

## ►MULTILATERAL CONVENTION TO IMPLEMENT TAX RELATED MEASURES TO PREVENT BEPS

- Under OECD BEPS Project. Enables countries to implement the tax treaty related changes to achieve anti-abuse BEPS outcomes through the multilateral route without the need to bilaterally re-negotiate each such agreement.
- India has ratified the Convention IN 2019. The MLI will modify India's tax treaties to curb revenue loss through treaty abuse and BEPS. The MLI will be applied alongside existing tax treaties, modifying their application in order to implement the BEPS measures.

**Note:** The date of entry into force of the MLI for India was 1st October, 2019.

## ►FRBM REVIEW COMMITTEE (2017)

Headed by NK Singh

**IMPORTANT RECOMMENDATIONS**

1. Public debt to GDP ratio should act as the medium-term anchor for fiscal policy. Combined debt-to-GDP ratio of the centre and states should be brought down to 60% by 2023 (40%- Centre, 20%- States).
2. Fiscal deficit as the operating target. Fiscal deficit should be reduced from 3.5% (2017) to 2.5% by 2023. This will help achieve the public debt target of 40% for the centre by 2023.
3. Formation of Fiscal Council:
4. Escape Clause to accommodate counter cyclical issues: Flexibility in fiscal deficit target (0.5%) to deal with economic instabilities.

## ►NATIONAL E-ASSESSMENT SCHEME

- To facilitate faceless and jurisdiction-less assessment and scrutiny of income tax.
- New assessment process: Assessment of income tax of the tax payer is assigned to an Assessing Officer randomly by an automated system at the National e-assessment Centre. It also facilitates all communication between the tax payer and assessing office.

## ►TAX INSPECTOR WITHOUT BORDERS

- Jointly launched by UNDP and OECD. Intended to support developing countries to strengthen national tax administrations through building audit capacity and to share this knowledge with other countries.
- It is an example of South-South Cooperation. India has entered into agreement with Swaziland (now known as Eswatini) under the Tax Inspectors without Borders Program.

## ►SABKA VISHWAS LEGACY DISPUTE RESOLUTION

Notified by Government for closing **pending disputes** relating to legacy **Service Tax and Central Excise cases.** It is to be operationalized from 1st September 2019.

**Two main** components **of Scheme**:

- ***Dispute resolution***: It is aimed at liquidating legacy cases of Central Excise and Service Tax that have been subsumed in GST and are pending in litigation at various forums.
- ***Amnesty component***: It provides opportunity to taxpayers to pay outstanding tax and be free of any other consequence **under** law.

## ►VIVAD SE VISHWAS SCHEME

Scheme reduce pending tax litigations in the direct taxes. Under the scheme, a taxpayer would be required to pay only the amount of the disputed taxes and will get complete waiver of interest and penalty provided he pays by 31$^{st}$ March, 2020. Those who avail this scheme after 31$^{st}$ March, 2020 will have to pay some additional amount. The scheme will remain open till 30$^{th}$ June, 2020.

## ►TAXPAYERS CHARTER

The Finance Minister had proposed to introduce Taxpayers charter in the Union Budget 2020-21. The Taxpayers Charter, like the Citizens charter, highlights the roles and responsibilities of Citizens and Tax authorities, obligations of the taxpayers and provides a mechanism for Grievance redressal. The introduction of taxpayers charter would reduce the compliance burden, enhance trust between the taxpayers and tax authorities, reduce litigations and thus Promote good Governance Practices. Countries such as USA, Canada and Australia have already adopted Taxpayers Charter.

## ►BORROWING POWERS OF CENTRE STATES

**Borrowing Powers of the Centre:** Unrestricted powers of borrowing in India and from abroad subject only to such limits as may be fixed by the Parliament by law (Article 292).

**Borrowing Powers of State (Article 293):** Allowed to raise loans from the Centre or market. However, a State cannot raise a public loan without the consent of the Centre if there is still outstanding any part of a loan. Since all the State Governments have been and continue to be indebted to the Centre, the Centre effectively controls the amount of public debt raised by State Governments. Presently, the fiscal deficit of a State cannot exceed 3% of GSDP.

**Can States borrow from outside India?** No power to raise loans outside India. In 2017, the Central Government enabled the financially sound states to borrow directly from external agencies subject to fulfilment of certain conditions. The guarantee for such loans is given by the State Government. The Government of India acts as counter-guarantor.

## ►FOREIGN SOVEREIGN BONDS

In Union Budget 2020-21, Finance Minister announced that the Government would raise a portion of its gross borrowing from overseas markets. So far, the government has only issued bonds in the domestic market (G-Sec). The Government now plans to issue overseas bond which would be denominated in foreign currency. However, so far, no concrete actions have been taken.

## ►TYPES OF FISCAL POLICIES

| Fiscal policy (FP) Stance | Recession (GDP) | Expansion (GDP) | Outcome |
|---|---|---|---|
| **Pro-cyclical** | Contractionary FP<br>↓ Govt. Expenditure or /and ↑ Taxes | Expansionary FP<br>↑ Govt. Expenditure or/and ↓ Taxes | Deepens recessions and amplifies expansions, thereby increasing fluctuations in the business cycle. |
| **Counter-cyclical** | Expansionary FP<br>↑ Govt. Expenditure or/and<br>↓ Taxes | Contractionary FP<br>↓ Govt. Expenditure or /and<br>↑ Taxes | Softens the recession and moderates the expansions, thereby decreasing fluctuations in the business cycle. |

## ►INTEREST RATE GROWTH DIFFERENTIAL (IRGD)

Calculated as Interest rate- GDP growth rate. The debt of a particular country is said to be sustainable if the GDP growth rate is higher than the Interest rate. So, if value of IRGD is -ve, then a country has higher capacity to repay existing loans. On the other hand, if the value of IRGD is +ve, then the debt of a country would not be sustainable. This could also lead to increase in overall public debt in future.

## ►FINANCIAL STABILITY DEVELOPMENT COUNCIL (FSDC)

**Origin:** Set up as the apex level forum in 2010 with a view to strengthening and institutionalizing the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.

**Composition**: The Chairperson of the Council is the Finance Minister of India. Members include Minister of State for Finance, the heads of the financial sector regulators (RBI, SEBI, PFRDA & IRDA) and Secretaries of the relevant ministries/ departments of the Government of India.

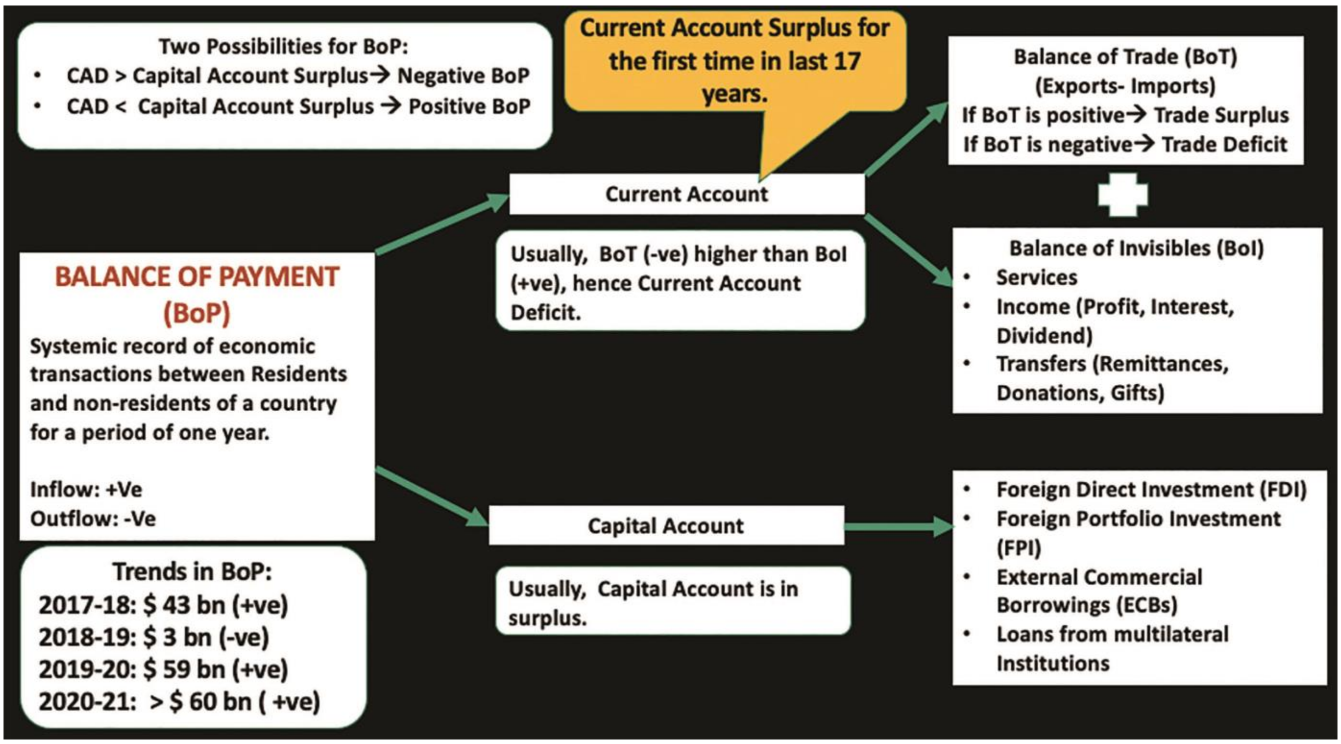
**Role**: The Council monitors macro prudential supervision of the economy, including functioning of large financial conglomerates, and addresses inter-regulatory coordination and financial sector development issues. It also focuses on financial literacy and financial inclusion.

# SECTION 11

# EXTERNAL SECTOR

## ► BALANCE OF PAYMENT

Record of economic transactions between residents and non-residents for a period of 1 year. The BoP comprises of Current Account and Capital Account.




## ► FOREX RESERVES

The FOREX Reserves rose to an all-time high of US$ 586.1 billion as of January, 2021. The Forex reserves in India comprise of Foreign Currency assets (FCAs), Special Drawing Rights (SDRs), Reserve Position in the IMF and Gold.

Highest Component: Foreign Currency Assets (FCA) > Gold > Reserve Position in IMF > SDRs.

## ► IMPORT COVER

Number of months of imports that could be paid for by Forex reserves.

## ►GREENSPAN-GUIDOTTI RULE

Forex Reserves should be sufficient to pay the short-term External Debt.

## ►NET INTERNATIONAL INVESTMENT POSITION (NIIP)

1. Residents from India owning assets in other countries → Assets for Indian Economy
2. Residents from other countries owning assets in India → Liabilities for Indian Economy

NIIP measures the total stock of external financial assets and liabilities. Calculated as (Assets owned by residents in other countries - Assets owned by non-residents within India).

**Positive NIIP**: Indian residents own more assets abroad as compared to assets owned by non-residents.

**Negative NIIP**: Indian residents own less assets abroad as compared to assets owned by non-residents.

Expressed both in absolute value as well as % of GDP. The higher the ratio of NIIP to GDP, the more vulnerable an economy becomes to the developments in international markets.

**Net terms of Trade (NTT):** Defined as the ratio of the prices of its exports to the prices of its imports. Since a particular country trades in multiple commodities, it can be considered as ratio of price Index of its exports to the price index of its imports. It is calculated in the following manner:

(Px/ Py) * 100 wherein Px denotes Price Index of Exports and Py denotes Price Index of Imports.

If a country receives higher prices for its exports as compared to its imports, then there would be improvement in the terms of trade.

On the other hand, if a country receives lower prices for its exports as compared to its imports, then there would be deterioration in the terms of trade.

## ►REMITTANCES INTO INDIA

According to World Bank's "Migration and Development Brief" report, India receives the world's highest remittances ($ 80bn) followed by China and Mexico. The remittances into India contribute around 3% of its GDP. However, for some countries such as Nepal and Philippines, the share of remittances as proportion of their GDP is much higher. India receives its highest remittances from UAE, USA, Saudi Arabia

## ►TYPES OF EXCHANGE RATE SYSTEMS

**Floating Exchange Rate System:** Currency is allowed to freely appreciate or depreciate depending upon the market forces. The Central Bank does not intervene in forex market. (No Devaluation/ Revaluation).

**Dirty Float/ Managed Exchange Rate**: Currency is allowed to freely appreciate or depreciate depending upon the market forces during the normal circumstances. In case of large-scale volatility, the Central Banks may intervene in Forex Market

(Devaluation/ Revaluation takes place).

**Fixed/ Pegged Exchange Rate:** Value of the currency is pegged to the other currency (*Mainly Dollars*). Example: Saudi Arabia: $ 1= 3.75 Riyal (1986).

## ►RUPEE CONVERTIBILITY

Refers to the freedom to convert the domestic currency into other internationally accepted currencies and vice versa.

**Full Rupee Convertibility on Current Account** transactions such as Imports, Exports, Remittances, Gifts, Donations. On these transactions, India has adopted full Rupee Convertibility in 1993.

**Partial Rupee Convertibility on Capital Account:** Capital Account Convertibility (CAC) is not just the currency convertibility, but it also involves the freedom to invest in financial assets of other countries. So, it basically refers to easing of restrictions on movement of capital (such as FDI, FPI etc) from one country to another. India has adopted partial Rupee convertibility on Capital Account.

1. **Restrictions on FDI:** Prohibited sectors; Sectoral Cap; Government's Approval in certain sectors.
2. **Restrictions on FPI:** Individual and Aggregate FPI Limit, FPI Limit in G-Secs and Corporate Bonds etc.
3. **External Commercial Borrowings:** RBI sets annual limits.

## ►EXTERNAL COMMERCIAL BORROWINGS

Commercial loans raised by residents from non-resident entities. Can be raised either in Foreign Currency or Indian Rupees. Interest rates for ECB are linked to LIBOR. RBI sets the limit for ECB (automatic route) under FEMA.

## ►FOREIGN DIRECT INVESTMENT (FDI)

Investment through capital instruments by a person resident outside India (a) in an unlisted Indian company; or (b) in 10 percent or more of the post issue paid-up equity capital in a listed Company.

**ROUTES**

- **Government Route:** Application in Foreign Investment Facilitation Portal→ Concerned Administrative Ministry/Department. Proposals of more than Rs 5000 crores to be approved by CCEA.
- **Automatic Route**: No Prior Approval of the Government or RBI

**Prohibited Sectors:** Lottery Business; Gambling and betting including casinos; Chit funds and Nidhi company; Trading in Transferable Development Rights (TDRs); Real Estate Business or Construction of Farm-Houses; Manufacturing of Cigars; Activities/ sectors not open to private sector investment viz., (i) Atomic energy and (ii) Railway operations

**Types of FDI:** Greenfield FDI (Net Investment); Brownfield FDI (Take-over of Existing Company)

**IMPORTANT POINTERS FOR PRELIMS**

- **Countries attracting highest FDI**: USA ($ 250 bn); China; Singapore ( India- placed at 10th Position)
- **Top FDI Sources for FDI (2019-20**): Singapore, Mauritius, Netherlands, USA, Japan
- **Top FDI Source between 2000-2019 (Cumulative**) : Mauritius, Singapore
- **Sectors attracting highest FDI (Both in terms of Cumulative value and in FY 2019-20)**: Services, Computer Software & Hardware, Telecommunications.

**RECENT CHANGES IN FDI**

- 100% FDI in Coal Mining and Coal processing plants such as Coal Washery. Earlier, allowed FDI in Coal Mining only for Captive Consumption. Now, allowed to sell coal in Open Market.
- 100% FDI in Contract Manufacturing under Automatic Route. Earlier, no specific Provision for Contract Manufacturing.
- Now, it has been explicitly provided.
- Presently, 49% FDI in Broadcasting Content Services (FM Radio, News TV Channels). But lack of clarity on whether FDI was allowed in Digital Media. Govt Announcement- 26% FDI in Digital Media for uploading/ streaming of News through Digital Media.
- FDI Cap in DTH has been increased to 100% (from existing FDI cap of 49%).
- FDI limit in Defence Production has been raised to 74% from existing 49% under Automatic Route. (100%- Govt. Route)
- FDI limit in Insurance increased from 49% to 74% (*Proposed Union Budget 2021-22*)

## ►FOREIGN PORTFOLIO INVESTMENT

Equity investment not exceeding 10% of the total paid up capital of the company is FPI.

Also called 'hot money'. Represent short-term inflows such as investment in shares, bonds, debentures, etc.

**Categories of Investments: Shares, Corporate Bonds, Debentures, Commercial Papers, Mutual Fund Units; Treasury Bills; Dated Securities; State Development Loans (SDLs)**

**CATEGORIES OF FPIS**

- Category –I (Low Risk): Foreign Government and their entities; Multilateral Organizations
- Category – II (Moderate Risk): Regulated entities such as Banks, Pension Funds, Mutual Funds etc.
- Category- III (High Risk): All other FPIs excluding the above.

**LIMITS ON FPI**

- Individual FPI limit in a single Indian Company: Less than 10%
- Aggregate FPI Limit in a single Indian Company: Either 49% or up to sectoral Cap, whichever is lower. (Earlier, the aggregate FPI Limit was 24%)

## ►DIFFERENCE BETWEEN FDI AND FPI

| CRITERIA | FDI | FPI |
|---|---|---|
| **Percentage of Ownership** | 10% or more | Less than 10% |
| **What it includes?** | Transfer of Capital + Technology + Management Skills | Only Transfer of Capital |

| | | |
|---|---|---|
| **What it leads to?** | Ownership + Management | Only Ownership |
| **Where does it flow?** | Physical Assets | Financial assets |
| **Which Segment of Market targeted?** | Primary Market | Mainly Secondary Market. Can Participate even in Primary Market as well. |
| **Nature of Investment** | Stable and Long term | Unstable and short-term ( Hot Money) |
| **Flexibility?** | Less Flexible ( Entry and Exit difficult) | More Flexible ( Entry and Exit easier) |
| **Role of Investors** | Active | Passive |

## ►VOLUNTARY RETENTION ROUTE (VRR)

Separate channel introduced by RBI (2019) to enable FPIs to invest in debt markets in India. Broadly, investments through this Route is free from the macro-prudential and other regulatory norms applicable to FPI investments in debt markets. However, for availing such a benefit, the FPIs should voluntarily commit to retain a required minimum percentage of their investments in India for a certain period.

**RBI'S REGULATIONS ON VRR**

- Any FPI registered with SEBI is eligible to participate through this Route. Participation through this Route shall be voluntary.
- FPIs are eligible to invest in any Government Securities i.e., Central Government dated Securities (G-Secs), Treasury Bills (T-bills) as well as State Development Loans (SDLs). They can also investment in corporate bonds.
- RBI imposes limit on investment under this Route. Presently, it is Rs 1.5 lakh crores.
- Minimum retention period for the Investment is 3 years.
- Minimum percentage of Investment which has to retained is 75%.
- FPIs that wish to liquidate their investments under the Route prior to the end of the retention period may do so by selling their investments to another FPIs. However, the FPI buying such investment shall abide by all the terms and conditions applicable under the Route.

## ►RUPEE DEPRECIATION/ APPRECIATION

| Value of Currency | Example | When does it happen? | How does it happen? | How does it impact the economy? |
|---|---|---|---|---|
| **Rupee Depreciation** | Earlier $ 1= Rs 60<br>Now<br>$ 1 = Rs 70 | Demand for Dollar increases<br>Supply of Dollar reduces.<br>(Shortage of Dollars) | • Increase in Imports<br>• Decrease in Exports<br>• Decrease in FDI, FPI<br>• Decrease in Remittances etc.<br>Dollar Outflows > Dollar Inflows → Shortage of Dollars → Dollar value Increases → Rupee value Reduces | **Short term**<br>Exports from India increase. Imports become Costly.<br>**Long term (In case of India where Imports > Exports)**<br>Outflow of dollars due to costly imports >> Dollar inflows due to increase in Exports → Rupee Depreciation |
| **Rupee Appreciation** | Earlier $ 1= Rs 60<br>Now<br>$ 1 = Rs 50 | Demand for Dollar reduces<br>Supply of Dollar Increases<br>(Surplus Dollars) | • Decrease in Imports<br>• Increase in Exports<br>• Increase in FDI, FPI<br>• Increase in Remittances etc.<br>Dollar Outflows < Dollar Inflows → Surplus Dollars → Dollar value reduces → Rupee | **Short Term**<br>Exports become uncompetitive Imports become cheaper.<br>**Long Term**<br>Cheaper Imports → Hurt Domestic Manufacturing → Dutch Disease |

| | | | | |
|---|---|---|---|---|
| | | | value Increases | |

## ►RUPEE DEVALUATION/ REVALUATION

- Under Devaluation, the Central Bank intervenes in the forex market and buys the dollars. This leads to artificial shortage of dollars leading to increase in the value of Dollar and decrease in the value of Rupee. It is mainly done to boost exports.
- Under Revaluation, the Central Bank intervenes in the forex market and sells the dollars. This leads to increase in supply of dollars leading to decrease in the value of Dollar and increase in the value of Rupee. It is mainly done to check large scale depreciation in value of Rupee.

## ►CURRENCY WAR

Takes place when countries seek to devalue their currency to gain a competitive advantage. If a particular country devalues its currency to boost exports, then it would prompt even other countries to do the same. Thus, it may lead to a situation of ***competitive devaluation where each country seeks to reduce the value of a currency so as to remain competitive***.

## ►CURRENCY MANIPULATOR

It is basically a label given by the US government to countries which it believes are deliberately devaluing their currencies against the dollars to boost exports, reduce imports and thus achieve higher trade surplus with US.

**3 CRITERIA**

- A bilateral trade surplus with the US of more than $20 billion
- A current account surplus of at least 3 per cent of GDP
- Net purchases of foreign currency of 2 per cent of GDP over 12 months

**Note:** An Economy which meets all the above 3 criteria is labelled as "Currency Manipulator". An economy meeting two of the three criteria is placed on the Monitoring List. Recently, India has been placed on the Monitoring List.

## ►CURRENCY SWAP AGREEMENT

India has entered into currency swap agreements with number of countries such as Japan, UAE, SAARC countries etc. It has also proposed for a swap agreement with USA.

1. **First Leg**: The RBI would provide $100 worth Indian Rupees to US Fed Bank at prevailing exchange rate. In return, the Fed Bank would provide equivalent value of dollars ($ 100) to the RBI.
2. **Second Leg (After 3 months)**: US Fed Bank would return Rs 7000 and take back $ 100 from the RBI. Now, this transaction takes place at the exchange rate which was fixed in the first leg. Hence, there is no exchange rate risk involved in the Currency Swap agreement.

**HOW WOULD IT BENEFIT INDIA?**

- The dollars availed under this route would act as second line of defence after the Forex Reserves to deal with the volatility.
- Reduce the speculation in the forex market and provide stability to the exchange rate.

## ►STAGES OF TRADE INTEGRATION

Refers to free movement of goods, services, investment and people across the countries.

1. **Preferential Trade Agreement (PTA)**: Agreement whereby the countries may decide to **reduce the customs duty** on commonly agreed goods. Example: India- Afghanistan PTA (2003)
2. **Free Trade Agreement (FTA)**: Bilateral agreement whereby the countries may decide to **reduce or eliminate the customs duty** on commonly agreed goods. Example: India-ASEAN FTA in Goods
3. **Comprehensive Economic Cooperation Agreement (CECA)/Comprehensive Economic Partnership Agreement (CEPA)**: These terms describe agreements which consist of an integrated package on goods, services and investment along with other areas including IPR, competition etc. The India Japan CEPA is one such example and it covers a broad range of other areas like trade facilitation and customs cooperation, investment, competition, IPR etc.
4. **Custom Union**: In a Customs union, member countries may decide to trade at zero duty among themselves, however they maintain common customs duty against rest of the world. Example: Southern African Customs Union (SACU) - South Africa, Lesotho, Namibia, Botswana and Swaziland.
5. **Common Market**: Customs Union with provisions to facilitate free movements of labour and capital.

6. **Economic Union**: Common Market extended through further harmonization of fiscal/monetary policies and shared executive, judicial and legislative institutions among the member countries. European Union (EU) is an example.

## ►NIRVIK SCHEME

New export credit insurance scheme. Implemented by Export Credit Guarantee Corporation. Extends insurance cover to the banks which give loans to the exporter. Provides insurance cover of up to 90% of the principal and interest. Thus, it enhances bank's ability to extend more loans to the exporters to meet their capital requirements

## ►INDIA AND RCEP

Mega trade deal among 16 countries – the 10 ASEAN countries and 6 countries with which the ASEAN bloc has free trade agreements (FTA), including India, Australia, China, South Korea, Japan and New Zealand.

**India has decided to call-off signing of the deal on account of following issues.**

- Domestic dairy industry may take a hit due to cheaper alternatives from countries Australia and New Zealand.
- Fearing an influx of cheap Chinese imports (particularly steel) into India
- India is not favouring the signing of data protection regime of RCEP.

## ►RULES OF ORIGIN

- Rules of origin are the criteria needed to determine national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend on source of imports.
- There is wide variation in the practice of governments with regard to the rules of origin. While the requirement of substantial transformation is universally recognized, some governments apply the criterion of change of tariff classification, others the ad valorem percentage criterion and yet others the criterion of manufacturing or processing operation.
- **GATT has no specific rules governing the determination of the country of origin of goods in international commerce.** Each contracting party was free to determine its own origin rules, and could even maintain several different rules of origin depending on the purpose of the particular regulation.
- Thus, there is a need for harmonisation of rules of origin.
- WTO has launched Harmonisation Work Program for standardising rules of origin.

**RULES OF ORIGIN ARE USED**

- to implement measures and instruments of commercial policy such as anti-dumping duties and safeguard measures;
- to determine whether imported products shall receive most-favoured-nation (MFN) treatment or preferential treatment;
- for the purpose of trade statistics;
- for the application of labelling and marking requirements; and
- for government procurement.

India has entered into Free Trade Agreements with many countries such as ASEAN, Japan, Korea etc. Also, negotiating certain rules of origin. Sometimes, there is abuse of rules of origin to make exports from certain other countries to India via countries with which have free trade agreements.

To ameliorate this, Central Board of Indirect Taxes has notified **Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020**.

**TERMS RELATED TO RULES OF ORIGIN**

1. **Goods Wholly Obtained:** Goods produced or obtained without any non-originating input material incorporated. (Totally made in the country with which India has Trade Agreement).
2. Goods that are produced using non-originating materials i.e. not Wholly Obtained, are required to undergo substantial transformation in a country for the good to be qualified as originating. This criterion can be met using following method in combination or standalone, depending upon the criteria assigned for a good,-

**(a) Change in Tariff Classification (CTC) Method:** To qualify under this origin criterion, non-originating materials that are used in the production of the good must not have the same HS classification as the final good. Producers and/or exporters should know the HS classification of the final good and the non-originating raw materials.

**(b) Regional or Domestic Value Content (RVC/DVC); Value Content Method:** This rule requires that a certain minimum percentage of the good's value originates in a country for the good to be considered as originating. The components of value and formula for calculating such value addition may vary from agreement to agreement.

(c) **Process rule:** This rule requires the good which is being considered as originating, to be produced through specific chemical process in the originating country.

3. **De minimis:** This provision allows that non-originating materials that do not satisfy an applicable rule may be disregarded, provided that the totality of such materials does not exceed specific percentages in value or weight of the good. This provision may or may not be there in an agreement and the percentage also varies from agreement to agreement.

4. **Cumulation/ Accumulation:** The concept of "accumulation"/"cumulation" allows countries which are part of a preferential trade agreement to share production and jointly comply with the relevant rules of origin provisions, i.e. a producer of one participating country of a trade agreement is allowed to use input materials from another participating country without losing the originating status of that input for the purpose of the applicable rules of origin. Otherwise said, the concept of accumulation/cumulation or cumulative rules of origin allows products of one participating country to be further processed or added to products in another participating country of that agreement.

5. **Indirect/Neutral** elements refer to material used in the production, testing or inspection of goods but not physically incorporated into the goods, or material used in the maintenance of buildings or the operation of equipment associated with the production of goods.

6. **Direct Consignment:** Most agreements lay down the condition that good claiming originating status of a country should be directly transported from that country to the importing country. Certain relaxation may be provided in a trade agreement, subject to presentation of certain documents.

## ►TARIFF RATE QUOTA

- A country imposes two types of trade barriers- Tariff (Customs Duty) and Non-Tariff barriers (Quota). Quota refers to the quantitative restriction imposed by a country on its imports.
- Tariff rate Quota is a combination of Tariff and Non-Tariff barrier. Under this mechanism, a country may import goods at lower or nil rate of customs duty only up to a certain limit (Quota). However, once the quota is breached, the country imports the goods at higher customs duty.

## ►MERCHANDISE EXPORTS FROM INDIA (MEIS) SCHEME

Introduced in the Foreign Trade Policy 2015-20 to incentive exports from India. Under this Scheme, the exporters are given incentive in the form of duty scrips on exporting goods from India. The value of the duty scrips depends upon the type of product as well as the country to which the goods are exported. These duty scrips can be used by the exporters to pay the customs duty, whenever they import goods. The duty scrips can also be sold by the exporters in the open market to other exporters.

Recently, WTO Dispute Panel ruled against MEIS Scheme on grounds that it is violative of WTO agreement on Subsidies and Countervailing Measures (SCM). Accordingly, the Government has sought to introduce WTO-Compliant scheme known as Remission of Duties or Taxes on Export Product (RoDTEP) from Jan 1, 2021.

## ►REMISSION OF DUTIES OR TAXES ON EXPORT PRODUCT (RoDTEP)

Under this Scheme, duties and taxes levied at the Central, State and local levels, such as electricity duties and VAT on fuel, which are not getting exempted or refunded under GST will be refunded to exporters in form of Duty Credit Scrips. The credits can be used to pay basic customs duty on imported goods or transferred to other importers – facilitating ease of transactions for exports. The RoDTEP rates would be notified by the Department of Commerce.

## ►TRADE BAROMETER INDEX

Published by WTO. 2 Types: (a) Goods Trade Barometer and (a) Services Trade Barometer. Provide "real-time" information on trends in Trade in Goods. Readings greater than 100 suggest above-trend growth while readings below 100 indicate below-trend growth.

## ►EXPORT PREPAREDNESS INDEX

- This index has been released by NITI Aayog.
- It examines export preparedness and performance of Indian states.
- The ranking is done on the basis of 4 pillars:

a. **Policy:** A comprehensive trade policy provides a strategic direction for exports and imports.

b. **Business Ecosystem:** An efficient business ecosystem can help states attract investments and create an enabling infrastructure for individuals to initiate start-ups.

c. **Export Ecosystem:** This pillar aims to assess the business environment, which is specific to exports.

d. **Export Performance:** This is the only output-based pillar and examines the reach of export footprints of States and Union Territories.

- Most of the Coastal States are the best performers. Gujarat, Maharashtra and Tamil Nadu occupy the top three ranks.
- In the landlocked states, Rajasthan has performed the best, followed by Telangana and Haryana. Among the Himalayan states, Uttarakhand is the highest, followed by Tripura and Himachal Pradesh. Across the Union Territories, Delhi has performed the best, followed by Goa and Chandigarh.

## ►EURASIAN ECONOMIC UNION (EAEU)

Recently, Russia has stated that it is looking forward to signing of FTA between India and EAEU. The EAEU is an economic union that was established in 2014 and currently includes Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan.

## ►GLOBAL VALUE CHAINS (GVCs)

GVCs refer to the full range of activities (design, production, marketing, distribution and support to the final consumer, etc) that are divided among multiple firms and workers in multiple countries to bring a product from its conception to its end use and beyond.

**Foreign Value Added (FVA)**: India imports Goods from other countries and then does value addition before exporting them. So, India is basically relying on foreign imports to export value-added Goods (**Backward Linkages in GVCs)**

**Domestic Value Added (DVA):** India either supplies the Intermediate Goods or Final Goods to other countries without relying on foreign Imports. (**Forward Linkages in GVCs).**

## ► ASIAN PREMIUM

Asian premium refers to the concept that the countries of the Asian continent are required to pay higher for the import of crude from OPEC as compared to the rich Western countries – the US and European nations.

The origin of the Asian Premium can be traced to 1986 when Saudi Arabia, the leading OPEC member, adopted a marker-based price system for its oil exports.

Under this price system, it adopted 3 markers for fixing Oil Prices- West Texas Intermediate (WTI) for the US, Brent for Europe and Dubai/Oman for Asia.

## ►MODEL BIT

Bilateral investment Treaties (BITs) are agreements between two Countries for the reciprocal promotion and protection of investments in each other's territories by individuals and companies situated in either State.

**SALIENT FEATURES**

- **Fair and Equitable Treatment (FET)**: Mandates States to have a stable and predictable legal framework regulating investments which meets the reasonable expectations of the investors.
- **Full Protection and Security (FPS)**: Mandates States to provide full protection and safety to foreign investments.
- **National Treatment**: The foreign investors should be treated at par with the domestic investors.
- **Most Favourable Nation Treatment (MFN)**: Concession extended to foreign investor of a particular country would be extended to foreign investors of other countries.
- **Expropriation (Taking over property)**: Bars the state from expropriating the foreign investments except under exceptional circumstances.
- **Repatriation of Investment and Returns**: Mandates the states to provide unrestricted power to the foreign investors to repatriate their investments and returns.
- **Investor State Dispute Resolution (ISDS)**: Foreign investors can directly initiate arbitration proceeding against a State without approaching its own government. To handle such a dispute, an ad-hoc tribunal may be set up in accordance with the Arbitration rules of the United Nations Commission on International Trade Law.

**REASON FOR TERMINATION OF BITs**

- The BITs signed by India gave extensive protection to the foreign investment with scant regard for state's interests based on the neoliberal model. For example, a number of foreign corporations slapped ISDS notices against India challenging a wide array of regulatory measures such as the imposition of retrospective taxes (Vodafone case),cancellation of spectrum licences and revocation of telecom licenses.

- These ISDS cases against India led to a fundamental rethink and review of BITs in India leading to the adoption of Model BIT in 2016.

**IMPORTANT PROVISIONS OF MODEL BIT**

- **Enterprise based definition of investment**: The asset-based definition of the investment under the earlier BITs has been replaced by Enterprise based definition under the model BIT. Asset based definition considers every kind of asset – both movable and immovable including the IPRs as investment and gives protection under treaties. Moving away from an asset-based approach to an enterprise-based approach aims at narrowing the scope of investments to be protected and thus seeks to reduce the number of BIT claims that can be brought against India.
- **Exclusion of MFN treatment**: In recent years, some foreign investors have sued India arguing that they have to get the same beneficial treatment given to companies from other countries. Accordingly, India has dropped MFN Clause from the Model BIT.
- **Conditions for initiating arbitrations at international arbitrations**: The Model BIT stipulate that the aggrieved investor should use all local remedies as well as negotiations and consultations before initiating arbitrations against the host State. Investor can use outside remedies only five years after resorting to all domestic arrangements.
- **Corporate Social Responsibility**: The Model BIT mandates foreign investors to voluntarily adopt internationally recognized standards of corporate social responsibility.

## ►SINGAPORE CONVENTION ON MEDIATION

The Singapore Convention on Mediation came into force on 12th September 2020. It will provide a more effective way for enforcing mediated settlements of corporate disputes involving businesses in India and other countries that are signatories to the Convention.

**DETAILS ABOUT SINGAPORE CONVENTION**

- **Mandate:** Applies to international settlement agreements resulting from mediation, concluded by parties to resolve a commercial dispute. It ensures that a settlement reached by parties becomes binding and enforceable in accordance with a simplified and streamlined procedure.
- **Objectives:** The Convention contributes to the development of a mature, rule-based global commercial system. The primary goals of the Convention are - To facilitate international trade; and promote the use of mediation for the resolution of cross-border commercial disputes.
- **Signatories:** The Convention has 53 signatories, including India. The Indian Government had approved the signing of the Convention in July 2019.
- **Benefits:** Businesses will have greater assurance that mediation can be relied on to settle cross-border commercial disputes, which will facilitate the growth of international commerce and promote the use of mediation around the world.

## ►CREDIT RATING AGENCIES

The three biggest global rating agencies include Fitch Rating Ltd, Moody's and Standard and Poor's.

**How Credit ratings are assigned?** Typically expressed by letters corresponding to the potential risk, with the highest rating represented by AAA and the lowest rating by C or D. The credit ratings of BBB (minus) / Baa3 and above are considered to be 'investment grade'. All ratings below that are termed as 'speculative grade', more commonly known in bond market as 'junk' category.

**TRENDS IN INDIA'S SOVEREIGN CREDIT RATING**

| Period | S&P | Fitch | Moody's | Real GDP growth (%y-o-y)* | Gen. Govt. Debt (% of GDP)** | Gen. Fiscal deficit (% of GDP)** |
|---|---|---|---|---|---|---|
| Apr-06 | BB + positive | | | 8.9 | 74.7 | 5.5 |
| Aug-06 | | BBB – stable | | 8.9 | 74.7 | 5.5 |
| Jan-07 | BBB – stable | | | 9.0 | 71.4 | 4.1 |
| Feb-09 | BBB – negative | | | 5.5 | 72.2 | 8.6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mar-10 | BBB – stable | | | 6.7 | 70.6 | 9.5 |
| Apr-12 | BBB – negative | | | 6.2 | 67.4 | 7.8 |
| June-12 | | BBB – negative | | 6.2 | 67.4 | 7.8 |
| Jun-l3 | | BBB – stable | | 5.7 | 67.1 | 6.7 |
| Sep-14 | BBB – stable | | | 6.4 | 66.6 | 6 7 |
| Apr-15 | | | Baa3 positive | 7.6 | 68.6 | 6.9 |
| Nov-17 | | | Baa2 stable | 6.2 | 68.9 | 5.9 |
| Nov-19 | | | Baa2 negative | 5.5 | 68.3 | 6.3 |

# SECTION 12

# INTERNATIONAL INSTITUTIONS

## ►WORLD BANK GROUP

Set up along with the IMF in 1945 following the Bretton Woods agreements. Institutions under World Bank:

- **International Bank for Reconstruction and Development (IBRD)**: Loans to middle-income and creditworthy low-income countries.
- **International Development Association (IDA):** Interest-free loans and grants to governments of the poorest countries.
- **International Finance Corporation (IFC):** Lends money to private sector companies of its member countries thereby promoting economic development

  **Note**: The IFC has enabled investments into India through the launch of *Masala Bonds.*
- **Multilateral Investment Guarantee Agency (MIGA):** Promotes FDI into developing countries by offering political risk insurance (guarantees) to investors and lenders.
- **International Centre for Settlement of Investment Disputes (ICSID):** Provides international facilities for conciliation and arbitration of investment disputes.

  **Note:** India is a member of all these institutions except ICSID.
- **World Bank**: IBRD + IDA. **World Bank Group**: IBRD+ IDA+ IFC+ ICSID+ MIGA.

### STRUCTURE OF WORLD BANK:

- **Board of Governors**: Comprises of 189 member countries represented by their Minister for Finance; Highest decision making body.
- **Board of Executive Directors**: 25 Executive Directors responsible for day-to-day management. The five largest shareholders of the World Bank appoint an executive director, while other member countries are represented by elected executive directors.
- **World Bank President**: Selected by the Board of Executive Directors for a five-year. As per the convention followed so far, the World Bank President has been an American Citizen, while the IMF President has been a European.

- **Reports published by World Bank:** Doing Business Report; Human Capital Index (HCI); World Development Report
- Global Economic Prospects; Logistics Performance Index; Women, Business and Law; Global Financial Development Report

## ►INTERNATIONAL MONETARY FUND (IMF)

Multilateral institution which promotes international financial stability and monetary cooperation and facilitates international trade. 3 Main roles of IMF

- Economic Surveillance of member countries to achieve macroeconomic stability.
- Lending to member countries which are facing BoP Crisis
- Capacity development of the member countries

### SOURCES OF THE IMF's FUNDS

Presently, the lending capacity of the IMF is **around $ 1 trillion**. The IMF raises money in the following manner:

- **Quota**: Financial Contribution made by the member countries.
- **New Arrangements to Borrow (NAB):** Number of member countries and institutions stand ready to lend additional resources to the IMF; second line of defence to supplement IMF resources.
- **Bilateral Borrowing Agreements**: Third line of defence; IMF has entered into bilateral borrowing agreements with certain member countries to ensure that it could meet the financing needs of its members.

### IMF - QUOTA, SDR AND REFORMS

**QUOTA:** Quotas determine the **maximum amount of financial resources a member is obliged to provide to the IMF**.

Determined based on 4 indicators- Size of GDP (50%), Openness (30%), Economic Variability (15%) and International Reserves (5%). The Quotas are denominated in **Special Drawing rights (SDRs)**. The Quotas also determine:

- **Voting Power**
- **Borrowing Limit**: Presently the member countries are allowed to borrow up to 145% of its quota on annual basis and 435% cumulatively.
- **SDR allocations** to member countries.

**SPECIAL DRAWING RIGHTS (SDR):** Interest bearing international reserve asset to supplement its member countries' official reserves. Allocated to member countries in proportion to their IMF quotas.

The value of the SDR is **based on a basket of five currencies**—the U.S. dollar, the Euro, the Chinese Renminbi, the Japanese Yen, and the British Pound Sterling. ( Criteria to be included in the basket- (a) Export Criteria- Among Top 5 Exporters (b) Freely convertible currency)

The value of SDR is set daily by the IMF on the basis of exchange rates between the currencies included in SDR. The value of SDR is denominated in terms of dollars.

### USES OF SDRs (ALSO CALLED AS PAPER GOLD)

- Held as part of Forex Reserves
- SDRs can be exchanged into other freely usable currencies among themselves. (This signifies that SDR is neither claim nor currency of IMF Rather, it is potential claim on freely usable currencies of IMF members)
- Use SDRs in their transactions with IMF such as repayment of loans, payment of interest, payment for increasing their IMF quota and so on.
- Members can sell a part or all their SDR allocations.

**Reserve Position in the IMF:** The subscription of the quota consists of two components: (i) foreign exchange component and (ii) domestic currency component. Under the foreign exchange component, a member is required to pay 25 per cent of its quota in SDRs or in foreign currencies. This is termed as “reserve position in the IMF or reserve tranche” and is part of the member country’s reserve assets.

**Quota Review:** In 2010, India's quota and voting rights have increased to 2.76% and 2.64% respectively.

Top 10 Countries in Quota (Descending order): USA, Japan, China, Germany, France, UK, Italy, India, Russia and Brazil

India’s demand for an increase in its quota and voting shares has been opposed by the developed economies led by USA.

The quota changes can be approved only through 85% of the votes and since USA enjoys 16% of the voting rights, it can exercise a virtual veto over the decisions of the IMF.

### STRUCTURE OF IMF

- **Board of Governors:** Representatives of 189 Member countries. Consists of one governor and one alternate governor for each member country is usually the minister of finance or the head of the central bank. Meet once in a year and take broad policy decisions.

- **Executive Board**: Responsible for conducting the day-to-day; Composed of 24 directors elected by member countries.
- **President**: Appointed by the Executive Board for a period of 5 years.
- **International Monetary and Finance Committee (IMFC):** Advises and reports to the IMF Board of Governors on the supervision and management of the international monetary and financial system. A number of international institutions, including the World Bank, participate as observers in the IMFC's meetings.
- **Reports published by IMF:** World Economic Outlook, Global Financial Stability Report, Fiscal Monitor Report

## ►WTO AND ITS REFORMS

### ABOUT WORLD TRADE ORGANISATION (WTO)

- International organisation set up on 1st January 1995 through the Marrakesh Treaty to promote free and fair International trade. It is successor to the General Agreement on Tariffs and Trade (GATT), a multilateral agreement which came into being in 1947 to promote trade in Goods.
- Under GATT, 8 rounds of negotiations took place. The 8th Round of Negotiations are referred to as Uruguay Round (1986-94), which ultimately led to establishment of WTO in 1995. The WTO is based at Geneva, Switzerland. Presently, it has more than 160 member countries.

### DIFFERENCE BETWEEN GATT AND WTO

1. GATT: Agreement; WTO: International organisation.

2. GATT covers only Goods while WTO covers Goods, Services, IPRs etc.

3. Dispute Settlement Mechanism under WTO is much stronger than that under GATT.

### PRINCIPLES OF INTERNATIONAL TRADE

- **Most Favoured Nation Clause**: Each of the WTO member countries should "treat all the other members equally as 'most-favored' trading partners.". "Grant someone a special favor (such as a lower customs duty rate) and you have to do the same for all other WTO members". However, some exceptions such as FTAs are allowed.
- **National Treatment:** Imported and locally produced goods should be treated equally. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.
- **Special and Differential Treatment:** Give developing countries special rights such as include longer time periods for implementing agreements and commitments, support to help developing countries to build the infrastructure to undertake WTO work etc.

## ►STRUCTURE OF WTO

- Ministerial Conference comprising of all member countries and meets at least once every 2 years.
- General Council oversees the operation of the agreements and ministerial decisions on a regular basis. It also acts as a **Dispute Settlement Body and a Trade Policy Review Body**, each with its own chairman.
- **Director General (DG)**, appointed for period of four years by the Ministerial Conference, heads the Secretariat of the WTO.

## ►ISSUES UNDER WTO NEGOTIATIONS

**1. Plurilateral Vs. Multilateral Agreements:**

- **Multilateral Agreement:** Adopted through consensus and applicable to all the member countries; Incorporate special and differential treatment for the benefit of poor and developing economies. Ex: AoA, GATS, TRIPS etc
- **Plurilateral agreement**: Agreement between limited number of member countries and hence not applicable to all the member countries; Do not incorporate special and differential treatment for benefit of developing countries.

  Ex: Trade in civil aircraft; Government Procurement etc.
- **Current Debate:** Developed countries have put forward **plurilateral agreements** in the areas of e-commerce, investment facilitation, MSME etc. However, developing countries led by India have opposed such agreements and instead pushed forward for the continuation of multilateral framework.

**2. Agreement on Fishery Subsidies:**

Seeks to prohibit certain forms of fisheries subsidies that contribute to overcapacity and overfishing. Some of the developed countries want larger developing countries like India and China should not get special and differential treatment. However, India is in favour of special and differential treatment.

**3. Agreement on E-Commerce:**

Put forward by developed economies and includes the provision of cross-border free flow of data; Opposed by India since it is against data Localisation requirements.

**4. Permanent Solution to Public Stock holding:**

India has been demanding a permanent solution on Public stockholding in order to implement National Food Security Act. ( Discussed later as part of AoA)

**5. Definition of Developing Country under WTO**

**Background:** There are no WTO definitions of "developed" and "developing" countries. Members announce for themselves whether they are "developed" or "developing" countries. However, it can be challenges by other members.

**USA's Opposition:** US has also questioned India's status of developing country in the WTO.

**6. Defunct Dispute Settlement Body**

The sanctioned strength of the Appellate Body (AB) of WTO's Dispute Settlement Mechanism is seven members and these members are appointed through consensus among the member countries. The quorum required to decide on disputes is 3 judges. The US government believes that AB is biased against it and has criticized it for being "unfair". Consequently, US has so far been blocking appointment of members to the Appellate Body (AB) and it is left with only one judge which is below the quorum of 3 judges needed to hear appeals.

## ►AGREEMENT ON AGRICULTURE

Aims to facilitate international trade in agricultural goods by putting a cap on the agricultural subsidies given by the member countries. This agreement stands on 3 pillars viz. Domestic Support, Market Access, and Export Subsidies.

**DOMESTIC SUPPORT**

- **Green Box Subsidies**: R&D, Expansion of Irrigation Facilities, Income support to the Farmers (which is not product specific) etc. Non-distortionary and hence no limit.
- **Blue Box Subsidies:** Limit production by imposing production quotas or requiring farmers to set aside part of their land. No limit on Blue Box Subsidies.
- **Amber Box Subsidies:** Electricity, Fertilisers, Seeds, Water, MSP etc.

**LIMIT ON AMBER BOX SUBSIDIES**

- Developing countries: 10% of the domestic agricultural value production in 1986-88.
- Developed countries: 5% of the domestic agricultural value production in 1986-88

**Development Box:** Developmental measures (Special and Differential Treatment for Developing Countries)

- Investment subsidies in developing countries.
- agricultural input subsidies available to low-income producers; and
- domestic support to encourage diversification from growing illicit narcotic crops.

**Current Issues with the AoA:** India would be required to declare subsidies over and above the limit specified under AoA in order to implement NFSA. This was challenged by the developed countries. At the Bali ministerial conference (2013), India secured a "peace clause". Under it, if India breaches the 10% limit on subsidy under AoA, other member countries will not take legal action under the WTO dispute settlement mechanism.

Further, in 2014, India forced developed countries to clarify that the peace clause will continue indefinitely until a permanent solution is found. Presently, India has been demanding a permanent solution on Public stockholding in order to implement National Food Security Act.

**INDIA'S ARGUMENT AGAINST SUBSIDIES UNDER AoA**

- The percentage limit on the Subsidies is quite deceptive. In terms of absolute value, the developed economies have been providing subsidies far higher than India.
- The limit on the subsidy does not factor in the Inflation. It is calculated as the value of production in 1986-88. Since then, the prices of agricultural commodities have increased.
- Under the Green Box Subsidies, direct income support to the farmers (not linked to specific product) is allowed. This has been misused by countries such as USA.
- Procurement of the Commodities under MSP regime is not for boosting agricultural exports, rather it is for meeting food security needs of Indian Citizens. Hence, procurement of commodities for ensuring food security should not be included in the Amber Box, rather it should be included in the Green Box.

## ►TRIPS AGREEMENT

- **Background:** Protection of IPRs under different Treaties- Paris Convention (Industrial Property); Berne Convention (Copyrights); TRIPS Agreement – Certain

Minimum Standards for IPRs and applicable to all the member countries.

- **IPRs covered under agreement:** Patents; Copyrights; Trademarks; GI Tags; Industrial Designs; Layout Design Of Integrated Circuits; Trade Secrets.
- **When can patent be issued?:** 3 Criteria for issuing patents: Novel; Inventive step; Capable of industrial application.
- **What cannot be patented?:** Frivolous invention; Invention that harms public order/morality/ health of animals, plants and humans; a method of agriculture or horticulture; traditional knowledge; computer program; inventions related to atomic energy; plants and animals; mere discovery of scientific principle.
- **Are Patents filed in India internationally accepted?:** Patent filed in India effective only within India; Under Patent cooperation Treaty, single international patent application applicable in all member countries.
- **Types of patents:** Product patent: exclusive monopoly to manufacture the product; Process patent: exclusive monopoly over the process to manufacture the product. Possibility of multiple manufacturers of same product using different processes.

**PATENTS AMENDMENT ACT, 2005**

- **Prior to 2005**: Process patent on pharmaceutical drugs--> enabled indian pharma companies to manufacture generic drugs at lower prices→ more profits for indian companies
- **Patents Amendment Act 2005** ( after adoption of TRIPS agreement): Adoption of product patent on pharmaceutical drugs→ No scope for manufacturing patented drugs.

**EXCEPTIONS UNDER TRIPS AGREEMENT**

- **Compulsory licensing:** It is issued when the government allows someone else to produce the patented drug without the consent of the patent owner. India has exercised the Compulsory licensing option in 2013 for Bayer's Nexavar, a patented kidney cancer drug. It authorized NATCO Pharma to manufacture and sell Nexavar in India. Subsequently, the price of the Nexavar drug got reduced to 4% of its original price.
- **Parallel or Grey Imports:** These are products marketed by the patent owner in one country and imported into another country without the approval of the patent owner.
- **Bolar Exception:** Allows potential competitors to use a patented invention during the patent term without the consent of the patent owner for the purpose of obtaining marketing approval for a prospective generic product.

## ►INITIATIVES TO PROMOTE IPRs

- **National IPR Policy 2016:** Create a vibrant IP ecosystem in the country. One of the key objectives of this policy is to create IPR Awareness through outreach and promotional activities.
- **Cell for IPR Promotion and Management (CIPAM):** CIPAM has set up under the Department for promotion of Industry and Internal Trade (DPIIT) for enhancing awareness of the IPRs.
- **Iprism:** Intellectual Property (IP) competition for the students of schools, colleges and universities. Conducted by CIPAM.
- **Legal Framework**: The laws governing different kinds of IPRs in India are Patents Act, 1970; Trade Marks Act, 1999; Designs Act, 2000; Geographical Indications of Goods (Registration and Protection) Act, 1999;Copyright Act, 1957; Protection of Plant Varieties and Farmers' Rights Act, 2001; Semiconductor Integrated Circuits Layout-Design Act, 2000 and Biological Diversity Act, 2002.

| IPRs | Administrative Ministry |
|---|---|
| Patents, Copyrights, Designs, TradeMarks and Geographical Indications | Ministry of Commerce and Industry |
| Protection of Plant Varieties and Farmers' Rights Act, 2001 | Ministry of Agriculture |
| Semiconductor Integrated Circuits Layout-Design Act, 2000 | Ministry of Electronics and Information technology |

**Note:** Copyrights were earlier administered by the Ministry of Human Resource Development. In 2016, it was transferred to Department for Promotion of Industry and Internal Trade under Ministry of Commerce and Industry

## ►GEOGRAPHICAL INDICATION (GI) TAG

- **Definition:** A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a **definite geographical territory**.
- **International Framework**: WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- **Legal Framework**: Geographical Indications of Goods (Registration and Protection) Act, 1999.
- **Benefits:** Legal Protection to GI Tag; Prevent unauthorised use of GI tag by third party; Boost Exports
- **Application:** Filed by association of persons, producers, organisation or authority established by or under the law.
- **Validity:** 10 years. Renewed from time to time.
- **Issued by**: Controller-General of Patents, Designs and Trade Marks issues the GI tags. The Geographical Indications registry maintain the registry of all GI tags issued in India.
- **Difference between GI tag and Trade Mark**: Trade Mark- associated with enterprise; GI Tag- Associated with territory
- **Products issued with GI Tag recently**: Kandhamal Haladi (Odisha); Odisha Rasagolla; Pawndrum, Ngotekherh, Hmaram
- (Mizoram); Dindigul locks, Kandangi Saree, Arambavur Wood Carvings (Tamil Nadu); Tirur betel leaf (Kerala); Kashmir Saffron (J&K); Sohrai-Khovar Painting (Jharkhand)

## ►INFORMATION TECHNOLOGY AGREEMENT (ITA)

- **ITA-1:** Plurilateral agreement under the WTO (1997); Signed by 81 countries including India; Seeks to eliminate all taxes and tariffs on certain IT products, which are listed under Annex to the Agreement. India is a signatory to ITA-1 and hence it has eliminated customs duties on 217 IT products over a period of time.
- **ITA-2:** Plurilateral agreement under the WTO (2015); Covers new generation semi-conductors, semi-conductor manufacturing equipment, optical lenses, GPS navigation equipment etc. However, it is to be noted that India has not signed ITA-2 since it would have an adverse impact on domestic manufacturing due to cheaper imports.
- **Impact of ITA-1 on India:** The elimination of customs duties on IT products under the ITA-1 has adversely affected the domestic manufacturing of IT components in India.
- **Steps taken by India:** In order to boost domestic manufacturing of IT products, India has been increasing customs duty on electronic goods, including mobile phones.
- **Recent Controversy:** Some of the countries such as Japan have alleged that duties imposed on IT products were against India's obligations under ITA-1 of keeping them at zero per cent. On the other hand, India has stated that the IT goods in question do not fall under the ITA-1, but rather under ITA-2. Since India is not a signatory to ITA-2, it can raise customs duty on such IT products.

## ►WTO'S AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES (SCM AGREEMENT)

In 2019, in a case filed by USA, the WTO dispute settlement panel has concluded that the export incentive schemes of the Indian Government are against the provisions of the WTO's agreement on SCM.

### ABOUT THE SCM AGREEMENT

- Provides a definition of subsidies, categorises of such subsidies and lays down rules by which governments may grant the subsidies. Certain types of subsidies are allowed, others are prohibited
- A Government's measure is treated as subsidy based on the principle of Specificity i.e. only when the subsidies are **given to specific Industry or Specific Sector or Specific Region in a country.**

### CATEGORIES OF SUBSIDIES

- **Prohibited Subsidies** includes two sub-categories- Export Subsidies and Local Content Subsidies.
- **Actionable Subsidies**: Given in order to enhance the production of goods and services; includes loans at concessional rates, cheaper land, tax benefits etc. Not prohibited. However, an importing country can impose countervailing duty or challenge such subsidies at WTO.

## ►GENERALISED SYSTEM OF PREFERENCES (GSP)

USA revoked India's preferential trade Status under GSP Status.

**ABOUT GSP**

Instituted in 1971 under the aegis of UNCTAD. Aims to reduce trade barriers; Enables the countries to give special preference to developing and poor countries by importing Goods and services at zero customs duty.

**GSP PROGRAM OF USA**

Largest and oldest trade preference program of USA. It is designed to promote economic development in developing and poor countries by allowing duty-free entry for certain products from designated beneficiary countries. India was the largest beneficiary of the program in 2017 with $5.17 billion in imports to the US. USA revoked GSP status to India as it alleged that India failed to give US companies equitable and reasonable access to its markets.

## ►INTERNATIONAL LABOUR ORGANIZATION (ILO)

**Establishment and its Role:** Created in 1919 as part of the Treaty of Versailles after the end of First World War. United Nations agency that sets international labour standards and promotes social protection and work opportunities for all. It is headquartered in Geneva, Switzerland.

**Unique Structure of ILO**: Unlike other UN specialized agencies, the ILO has a tripartite governing structure that brings together governments, employers, and workers to set labour standards.

**How ILO Works?** The ILO accomplishes its work through three main bodies which comprise governments, employers and workers' representatives:

- **International labour Conference**: It sets the International labour standards and the broad policies of the ILO. It meets annually in Geneva and it is also as international Parliament of labour.
- **Governing body**: It is the executive council of the ILO.
- **International Labour Office**: It is the permanent secretariat of the International Labour Organization.

**Supervision of Labour Standards:** The ILO regularly examines the application of standards in member states and points out areas where they could be better applied. If there are any problems in the application of standards, the ILO seeks to assist countries through social dialogue and technical assistance.

**Reports published by ILO:**

- World Employment and Social Outlook
- Global Wage Report
- World Social Protection Report

**International Labour Standards:** Legal instruments setting out basic principles and rights at work. They are either **Conventions (or Protocols)**, which are legally binding international treaties that may be ratified by member states, or **Recommendations**, which serve as non-binding guidelines.

8 Fundamental ILO Conventions are:

| ILO Convention Name | Convention Number |
|---|---|
| Freedom of Association and Protection of the Right to Organise | 87 |
| Right to Organise and Collective Bargaining Convention | 98 |
| Forced Labour Convention | 29 |
| Abolition of Forced Labour Convention | 105 |
| Minimum Age for Admission to Employment | 138 |
| Worst Forms of Child Labour Convention | 182 |
| Equal Remuneration Convention | 100 |
| Discrimination in Respect of Employment and Occupation | 111 |

**India and ILO:** India is a founding member of ILO. India has so far ratified 47 ILO Conventions. Out of the 8 Fundamental Conventions highlighted above, India has ratified 6. The Conventions which are not ratified by India are- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and Right to Organise and Collective Bargaining Convention (No. 98).

## ►KIMBERLEY PROCESS

India assumed Chairmanship of the Kimberley Process Certification Scheme (KPCS) from January 1, 2019.

The Kimberley Process (KP) is a **multilateral trade regime** established in 2003 with the goal of **preventing the flow of conflict diamonds**. The core of this regime is the **Kimberley Process Certification Scheme (KPCS)** under which States implement safeguards on shipments of rough diamonds and certify them as "**conflict free**". The conflict diamonds are defined as: 'rough diamonds used to finance wars against governments'.

## ►WORLD GOLD COUNCIL

Association consisting of the world's leading gold mining companies. Newly mined gold could be used to finance armed conflicts in the countries. Thus, there is a need to ensure that the gold that is sold in the market does not indirectly finance such conflicts. In this regard, the World Gold Council has developed the **Conflict-Free Gold Standard** to help companies to provide assurance that their gold is not contributing to conflict.

## ►WIPO

**United Nations (U.N) agency** charged with protecting intellectual property (IP) through an international system that promotes and sustains creativity and innovation and helps develop international economies.

**Treaties administered by WIPO:** Administers almost 26 treaties – Paris Convention ( Industrial Property), Berne Convention (Artistic and literary works); Washington treaty ( Layout design of IC chips), Patent Cooperation Treaty.

**NICE Agreement:** Mechanism for the classification of goods and services for the purposes of registering trademarks and service marks.

**Vienna Convention**: International Classification of the Figurative Elements

**Locarno Agreements:** International classification system used to classify goods for the purposes of the registration of industrial designs.

**Some of the globally important Innovation Indices are**:

- Global Innovation Index (GII) and World Intellectual Property Report: Published by WIPO
- Global Competitiveness Report: Published by World Economic Forum
- International IP Index: Published by US Chamber of Commerce's Global Innovation Policy centre.

## ►NDB Vs AIIB

| Criteria | New Development Bank | Asian Infrastructure Investment bank |
|---|---|---|
| Establishment | BRICS Countries through Fortaleza declaration in 2014 | China-led multilateral Bank in 2016 |
| Number of Members | BRICS member countries | Around 80 members<br>Approved: Additional 22 members |
| Membership open to? | All UN Members<br>( Voting rights of BRICS countries shall not reduce below 55% | All members of IBRD or Asian Development Bank<br>( Non-regional Members from outside Asia can also join) |
| Total Authorised Capital | $ 100 bn.<br>The Initial capital of $ 50 bn has been contributed by BRICS countries equally. | $ 100 bn |
| Voting Weightage | Same contribution by BRICS countries--> all countries given equal voting weightage (20%) | Voting depends upon the share capital provided.<br>Countries with highest voting rights: China (26.64%); India (7.6%); Russia (6%) |

## ►INSTEX

- Barter mechanism being setup by the Germany, UK and France to secure trade with Iran and bypass US sanctions. It is registered at Paris.
- Under this mechanism, Iran would import essential goods (food, medicines etc.) from the European Union without any payment. The money to be paid by Iranian Government would then have to be compensated by exporting oil to the EU member countries.
- Note: The Iranian Government has set up Special Trade and Finance Institute (STFI) which works similar to EU's INSTEX.

## ►GLOBAL NETWORK AGAINST FOOD CRISES

Launched at the 2016 World Humanitarian Summit by the European Union, Food and Agriculture Organisation (FAO) and United Nations World Food Programme (WFP) with the objective of tackling the root causes of food crises through shared analysis and knowledge. The Global Report on Food Crises 2017 was the first step towards this commitment.

## ►GLOBAL PARTNERSHIP ON ARTIFICIAL (GPAI)

India has recently joined the Global Partnership on Artificial (GPAI) as a founding member.

- **What is it?** International coalition that aims at ensuring that Artificial Intelligence is used responsibly, respecting human rights and democratic values.
- **Founding Members:** Australia, Canada, France, Germany, India, Italy, Japan, Mexico, New Zealand, the Republic of Korea, Singapore, Slovenia, the United Kingdom, the United States of America and the European Union.
- **Secretariat:** Hosted by Organization for Economic Cooperation and Development (OECD) in Paris.

## ►KNOMAD

Global Knowledge Partnership on Migration and Development **(**KNOMAD) is supported by a multi-donor trust fund established by the World Bank. It is a global hub of knowledge and policy expertise on migration and development.

# SECTION 13

# AGRICULTURE

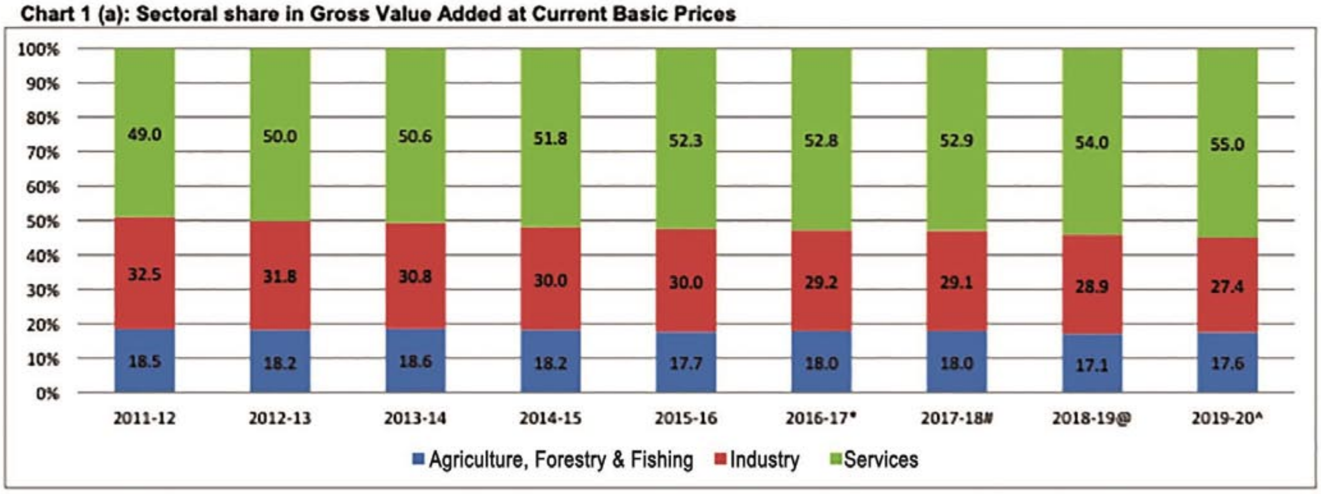
## ► TRENDS IN SHARE OF AGRICULTURE TO GVA

**Table 1.4: Sectoral share in Gross Value Added at Current Basic Prices**

(Percentage)

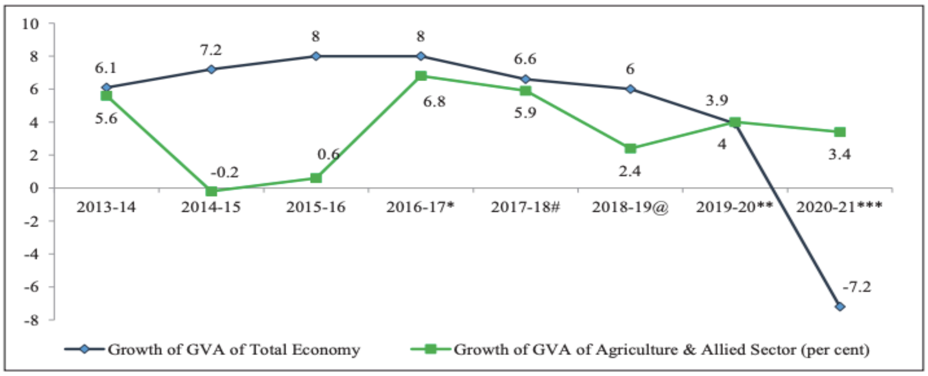
| S.No. | Industry | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17* | 2017-18# | 2018-19@ | 2019-20^ |
|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) |
| I | **Agriculture, forestry & fishing** | **18.5** | **18.2** | **18.6** | **18.2** | **17.7** | **18.0** | **18.0** | **17.1** | **17.6** |
| | Crops | 12.1 | 11.8 | 12.1 | 11.2 | 10.6 | 10.6 | 10.4 | 9.4 | - |
| | Livestock | 4.0 | 4.0 | 4.1 | 4.4 | 4.6 | 4.8 | 5.1 | 5.1 | - |
| | Forestry and logging | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | - |
| | Fishing and aquaculture | 0.8 | 0.9 | 0.9 | 1.0 | 1.1 | 1.1 | 1.2 | 1.2 | - |
| II | **Industry** | **32.5** | **31.8** | **30.8** | **30.0** | **30.0** | **29.2** | **29.1** | **28.9** | **27.4** |
| | Mining and quarrying | 3.2 | 3.1 | 2.9 | 2.7 | 2.3 | 2.3 | 2.3 | 2.3 | 2.1 |
| | Manufacturing | 17.4 | 17.1 | 16.5 | 16.3 | 17.1 | 16.7 | 16.4 | 16.1 | 15.1 |
| | Electricity, gas, water supply & other utility services | 2.3 | 2.3 | 2.5 | 2.5 | 2.7 | 2.5 | 2.7 | 2.7 | 2.6 |
| | Construction | 9.6 | 9.2 | 8.9 | 8.5 | 7.9 | 7.7 | 7.7 | 7.8 | 7.6 |
| III | **Services** | **49.0** | **50.0** | **50.6** | **51.8** | **52.3** | **52.8** | **52.9** | **54.0** | **55.0** |
| | **GVA at basic prices** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

**Chart 1 (a): Sectoral share in Gross Value Added at Current Basic Prices**

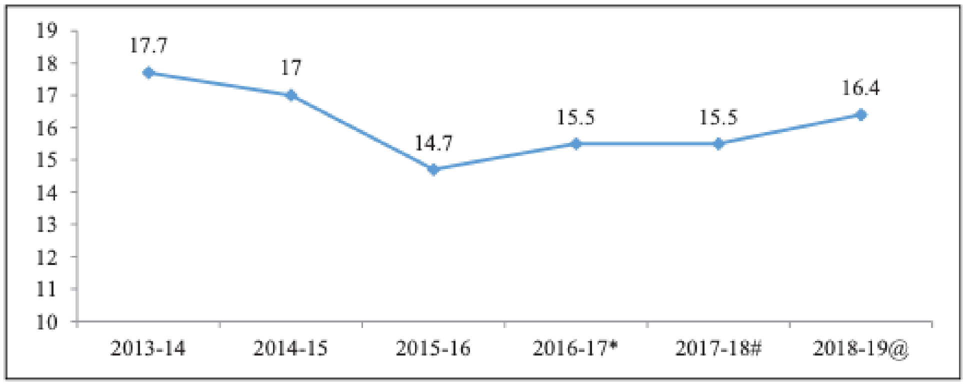


## ►TRENDS IN GROWTH RATE OF AGRICULTURE

**Figure 2: Growth of GVA of Economy and Agriculture & Allied Sectors at Constant (2011-12) Prices (In per cent)**



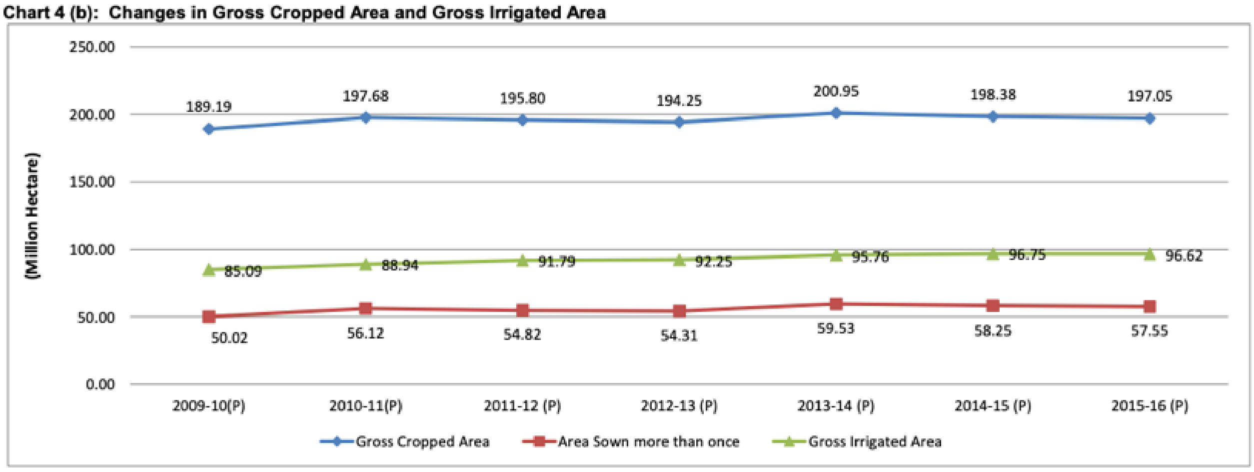

## ►TRENDS IN GCF IN AGRICULTURE



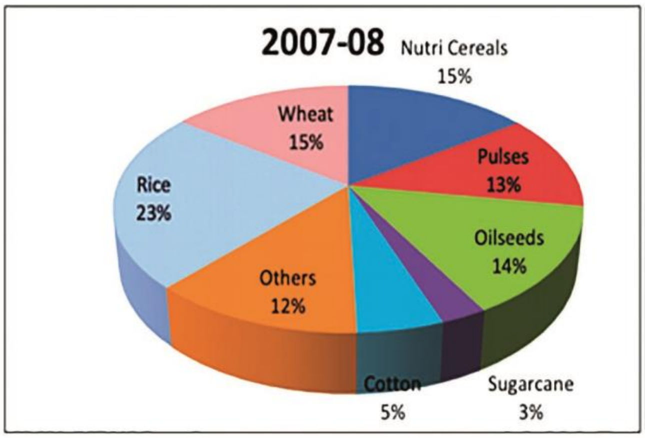

- The GCF in agriculture and allied sectors has seen showing a fluctuating trend in last 5 years.
- The GCF as percent of agricultural GDP (16.4%) is much lower than the GCF of Indian Economy (around 30% of India's GDP).
- A major chunk of GCF in Agriculture is contributed by private sector. Hence, the government needs to rationalise the agricultural subsidies and money saved should then be used for enhancing public sector investment in agriculture, particularly for expanding irrigation and R&D.

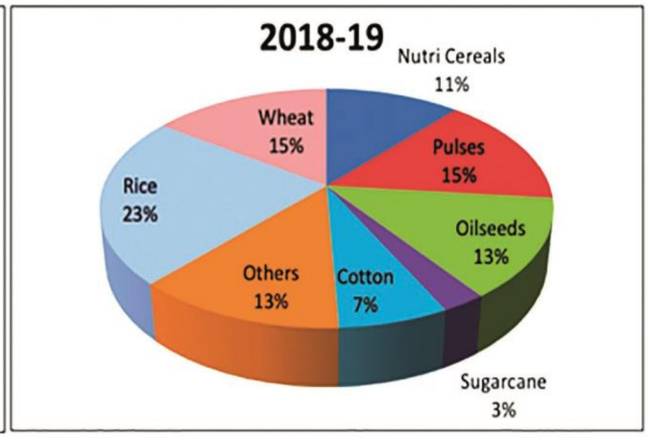
## ►TRENDS IN GROSS CROPPED AREA AND GROSS IRRIGATED AREA

**Chart 4 (b): Changes in Gross Cropped Area and Gross Irrigated Area**



## ►TRENDS IN CROPPING PATTERN




## ►TRENDS IN CROP PRODUCTION

(Million Tonnes)

| S.No. | Crop | 1950-51 | 1960-61 | 1970-71 | 1980-81 | 1990-91 | 2000-01 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) |
| 1 | **Foodgrains** | **50.82** | **82.02** | **108.42** | **129.59** | **176.39** | **196.81** | **244.49** | **259.29** | **257.13** | **265.05** | **252.03** | **251.54** | **275.11** | **285.01** | **284.95** |
| | Rice | 20.58 | 34.58 | 42.22 | 53.63 | 74.29 | 84.98 | 95.98 | 105.30 | 105.23 | 106.65 | 105.48 | 104.41 | 109.70 | 112.76 | 116.42 |
| | Wheat | 6.46 | 11.00 | 23.83 | 36.31 | 55.14 | 69.68 | 86.87 | 94.88 | 93.51 | 95.85 | 86.53 | 92.29 | 98.51 | 99.87 | 102.19 |
| | Maize | 1.73 | 4.08 | 7.49 | 6.96 | 8.96 | 12.04 | 21.73 | 21.76 | 22.26 | 24.26 | 24.17 | 22.57 | 25.90 | 28.75 | 27.23 |
| | Nutri Cereals | 15.38 | 23.74 | 30.55 | 29.02 | 32.70 | 31.08 | 43.40 | 42.01 | 40.04 | 43.29 | 42.86 | 38.52 | 43.77 | 46.97 | 42.95 |
| 2 | **Pulses** | **8.41** | **12.70** | **11.82** | **10.63** | **14.26** | **11.08** | **18.24** | **17.09** | **18.34** | **19.25** | **17.15** | **16.32** | **23.13** | **25.42** | **23.40** |
| | Gram | 3.65 | 6.25 | 5.20 | 4.33 | 5.36 | 3.86 | 8.22 | 7.70 | 8.83 | 9.53 | 7.33 | 7.06 | 9.38 | 11.38 | 10.13 |
| | Tur (Arhar) | 1.72 | 2.07 | 1.88 | 1.96 | 2.41 | 2.25 | 2.86 | 2.65 | 3.02 | 3.17 | 2.81 | 2.56 | 4.87 | 4.29 | 3.59 |
| | Lentil (Masur) | -- | -- | 0.37 | 0.47 | 0.85 | 0.92 | 0.94 | 1.06 | 1.13 | 1.02 | 1.04 | 0.98 | 1.22 | 1.62 | 1.56 |
| 3 | **Oilseeds** | **5.16** | **6.98** | **9.63** | **9.37** | **18.61** | **18.44** | **32.48** | **29.80** | **30.94** | **32.75** | **27.51** | **25.25** | **31.28** | **31.46** | **32.26** |
| | Groundnut | 3.48 | 4.81 | 6.11 | 5.01 | 7.51 | 6.41 | 8.26 | 6.96 | 4.70 | 9.71 | 7.40 | 6.73 | 7.46 | 9.25 | 6.69 |
| | Rapeseed & Mustard | 0.76 | 1.35 | 1.98 | 2.30 | 5.23 | 4.19 | 8.18 | 6.60 | 8.03 | 7.88 | 6.28 | 6.80 | 7.92 | 8.43 | 9.34 |
| | Soybean | -- | -- | 0.01 | 0.44 | 2.60 | 5.28 | 12.74 | 12.21 | 14.67 | 11.86 | 10.37 | 8.57 | 13.16 | 10.93 | 13.79 |
| | Sunflower | -- | -- | 0.08 | 0.07 | 0.87 | 0.65 | 0.65 | 0.52 | 0.54 | 0.50 | 0.43 | 0.30 | 0.25 | 0.22 | 0.22 |
| 4 | **Cotton #** | 3.04 | 5.60 | 4.76 | 7.01 | 9.84 | 9.52 | 33.00 | 35.20 | 34.22 | 35.90 | 34.80 | 30.01 | 32.58 | 32.81 | 28.71 |
| 5 | **Jute & Mesta @** | 3.31 | 5.26 | 6.19 | 8.16 | 9.23 | 10.56 | 10.62 | 11.40 | 10.93 | 11.68 | 11.13 | 10.52 | 10.96 | 10.03 | 9.77 |
| 6 | **Sugarcane** | 57.05 | 110.00 | 126.37 | 154.25 | 241.05 | 295.96 | 342.38 | 361.04 | 341.20 | 352.14 | 362.33 | 348.45 | 306.07 | 379.90 | 400.16 |

*Source:* Directorate of Economics and Statistics

**Important Note**: Since 1951, there has been increase in the per capita net availability of all food grains except Pulses. The per capita availability of Pulses has reduced from 22 kgs per year (1951) to 20 kgs per year (2018)

| Crop | Top 3 Largest Producing States (In descending Order) |
|---|---|
| Rice | West Bengal, UP and Punjab |
| Wheat | UP, Punjab and Madhya Pradesh |
| Maize | Karnataka, MP and Bihar |
| Nutri-cereals | Rajasthan, Karnataka and MP |
| Total Pulses | MP, Rajasthan and UP |
| Total Food grains | UP, MP and Punjab |
| Groundnut | Gujarat, Rajasthan and Tamil Nadu |
| Rapeseed and Mustard | Rajasthan, Haryana and UP |
| Soybean | MP, Maharashtra and Rajasthan |
| Sunflower | Karnataka, Odisha and Haryana |
| Total Oilseeds | MP, Rajasthan and Maharashtra |
| Sugarcane | UP, Maharashtra and Karnataka |
| Cotton | Maharashtra, Gujarat and Telangana |
| Jute | West Bengal, Bihar and Assam |

## ►TRENDS IN PULSES PRODUCTION

India is the world's largest producer of pulses accounting for 35% of global area and 27% of global production. Predominantly grown in rain-fed areas.

**PRODUCTION OF PULSES**

- **Top Pulses:** Top six pulses grown in India are chickpeas (chana), pigeonpea (Arhar/tur dal), urad beans (urad dal), mung beans (moong), lentils (masoor) and peas.
- **Top States:** Production of pulses has largely shifted from northern India to central and southern part. More than 90% of total pulses production is realized in 10 states namely, MP, Rajasthan, UP, Karnataka, AP, Gujarat, Jharkhand, CG and Telangana
- **Net Importer**: India accounts for 25% import of Pulses across the world.
- **Demand-Supply Mismatch:** With the rising incomes and fall in the poverty ratio combined with greater health consciousness, the demand for pulses has run ahead of production.

## ►TRENDS IN OILSEEDS PRODUCTION

- **List of Oilseeds:** Nine oilseeds are the primary source of vegetable oils in the country - Soybean, Groundnut, Rape seed and Mustard, Sunflower, Safflower, Sesame, Niger, Castor, linseed.
- **Production:** Soybean (34%), groundnut (27%), rapeseed & mustard (27%) contributes to more than 88% of production.
- **Distribution**: Andhra Pradesh & Gujarat (Groundnut), Haryana (Mustard), Karnataka (Groundnut), M.P (Soybean), Maharashtra (Soybean), Rajasthan (Mustard & Soybean), Tamil Nadu (Ground nut), U.P (Mustard), West Bengal (Mustard) contribute more than 95% of total oilseed production in the country.
- **Demand-Supply mismatch**: India has emerged as the **largest importer of vegetable oils** in the world followed by China & USA. Of imported edible oils, share of **palm oil** is about 60% followed by **soybean oil** and **sunflower**.
- **NATIONAL MISSION ON EDIBLE OIL:** Aims to increase domestic availability and reduce import dependency. Proposed to be implemented for 5 years from 2020-21 to 2024-25.

**TARGETS:**

- Increase production from 30.88 to 47.80 million tonnes of oilseeds.
- Increase productivity from 1263 to 1587 kg per hectare
- Reduction of import dependence from 60% to 45%.

## ► COTTON PRODUCTION IN INDIA

India occupies first position in the world in cotton acreage. India is the also the 2nd largest cotton producer and the largest consumer of cotton in the world. India produces about 6 Million tons of cotton every year which is about 23% of the world cotton.

To support the cotton industry, Government of India announces Minimum Support Price (MSP) for two basic staples groups viz., medium staple and long staple cotton. Cotton Corporation of India (CCI), a Public Sector Undertaking under the Ministry of Textiles, is the nodal agency of Government of India for undertaking MSP operations.

## ►ORGANIC FARMING IN INDIA

**Present Status:** India ranks first in number of organic farmers and ninth in terms of area under organic farming. Madhya Pradesh has covered largest area under organic certification followed by Rajasthan and Maharashtra. In 2016, Sikkim became the first State in the world to become fully organic.

**INITIATIVES**

**1. Certification of Organic Foods:**

- **National Programme for Organic Production (NPOP)** for Exports. Under the Ministry of Commerce and Industry. NPOP certification is facilitated by Agriculture Processed Food and Export Development Authority (APEDA).
- **Participatory Guarantee System (PGS)** for Domestic and Local markets. Under the Ministry of Agriculture**.** Implemented by Ministry of Agriculture with National Centre for Organic Farming (NCOF) acting as its secretariat.

Note: The Jaivik Bharat logo for Organic Food is an identity mark to distinguish organic products from non-organic ones.

**2. Paramaparagat Krishi Vikas Yojana (PKVY)**: The scheme promotes cluster based organic farming with PGS certification.

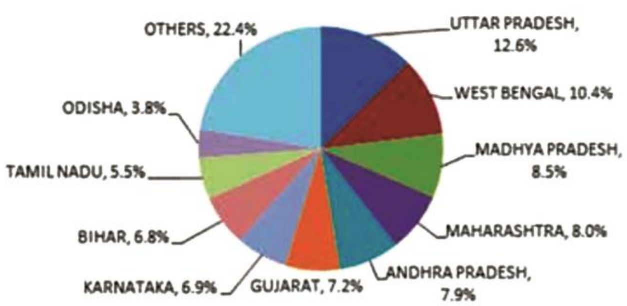
**Mission Organic Value Chain Development for North Eastern Region (MOVCDNER)**: Development of certified organic production in a value chain mode to link growers with consumers.

**Note:** Arunachal Pradesh has become the first State in India to obtain Organic Certification for Kiwis grown in Ziro Valley.

## ►HORTICULTURE SECTOR

Total horticulture production in the country has consistently increased from 240 MT in 2010-11 to 326 MT in 2019-20. The area under horticulture crops has also increased.

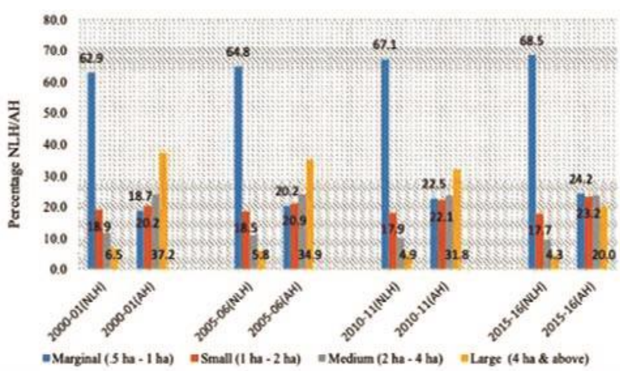
**Major Horticulture Producing States**




India is the second largest producer of fruits and vegetables in the world with first rank in the production of Banana, Mango, Lime & Lemon, Papaya and Okra.

## ►TRENDS IN OPERATIONAL LANDHOLDINGS

**Figure: Operational Land Holdings (Number & Area Operated in Ha)**




Source: Agriculture Census 2015-16.
Note: NLH: Number of Operational Land Holdings, AH: Area Operated by Operational Land Holdings.

Based on landholdings, the farmers are categorized into Marginal (Less than 1 ha); Small (1-2 ha); Medium (2-4 ha) and

Large (More than 4 ha)

**IMPORTANT OBSERVATIONS**

**Share of different categories of farmers**

- Share of Small and marginal farmers in 2015-16 was 86.2% out of which Marginal farmers (68.5%) and Small farmers (17.7%).
- Increase in the share of marginal farmers from 62.9% in 2000-01 to 68.5% in 2015-16
- Decline in the share of the small and large farmers from 2000-01 to 2015-16.

**Percentage of land cultivated by different categories of farmers**

- Percentage of land cultivated by small and marginal farmers in 2015-16 was 47.4% out of which marginal farmers (24.2% and small farmers (23.2%).
- Area operated by small and marginal farmers increased from 38.9% in 2000-01 to 47.4% in 2015-16.
- Area operated by large farmers decreased from 37.2% in 2000-01 to 20% in 2015-16.

## ►MINIMUM SUPPORT PRICE (MSP)

**WHAT IS MSP?**

Announced by the Cabinet Committee on Economic Affairs (CCEA) based upon the recommendations of Commission on Agricultural Costs and Price (CACP).

**HOW IS MSP FIXED?**

Different approaches:

- A2 Method: Expenditure on various inputs paid by farmers such as Seeds, Fertilizers, Pesticides etc.
- A2+ FL Method: Expenditure on various Inputs + Implied cost of Family labor
- C2 Method: A2+FL+ Implied cost of rent of land + all other implied cost. (Recommended by M.S. Swaminathan Committee)

**Present Method**: A2+FL Method (1.5 times the production cost)

**COVERAGE OF COMMODITIES**

- **7 Cereals**: Paddy, Wheat, Maize, Jowar (Sorghum), Bajra (Pearl Millet), Barley and Ragi.
- **5 Pulses**: Gram, Tur, Moong, Urad and Lentil
- **7 Oilseeds**: Groundnut, Rapeseed/ Mustard, Soybean, Sesamum, Safflower, Niger seed.
- **3 Commercial Crops**: Copra, Cotton, Raw Jute (Sugarcane covered under FRP)

## ►PM-AASHA

Aims to incentivize the farmers to produce oilseeds and pulses by offering them remunerative prices on these crops.

**Price Support Scheme (PSS)**: Physical procurement of pulses, oilseeds and Copra by Central Nodal Agencies with the proactive role of the state governments.

**Price Deficiency Payment Scheme (PDPS):** It covers all the oilseeds for which MSP is notified. It seeks to compensate the farmers if the market price of the notified oilseeds falls below the MSP. Under this scheme, the difference between the MSP and market price shall be transferred directly to the farmers' bank accounts.

**Pilot of Private procurement and stockist scheme (PPPS):** The states have been given the flexibility to rope in the private sector for the physical procurement of the oilseeds.



## ►MSP FOR MINOR FOREST PRODUCE

- **Declaration of MSP:** Declared by the Ministry of Tribal Affairs. It is done based upon the recommendations of Pricing Cell set up within TRIFED.
- **Coverage:** Initially, the scheme included 10 MFPs in 9 PESA States. Subsequently, it has been expanded to cover all the states and more than 50 MFPs.
- **Nodal Agency**: TRIFED
- **Procurement by**: State Level designated agencies

## ►MARKET INTERVENTION SCHEME (MIS)

The Market Intervention Scheme (MIS) is an ad-hoc scheme under which are included horticultural commodities and other agricultural commodities which are perishable in nature and which are not covered under the minimum price support scheme. In order to protect the growers of these horticultural/agricultural commodities from making distress sale in the event of bumper crop during the peak arrival period when prices fall to very low level, Government implements M.I.S. for a particular commodity on the request of a State Government concerned. Losses suffered are shared on 50:50 basis between Central Government and the State.

## ►RAINBOW REVOLUTION IN AGRICULTURE

| NAME | PRODUCT |
|---|---|
| Protein revolution | Higher agricultural production |
| Yellow revolution | Oil Seed production |
| Blue revolution | Fish production |
| Brown revolution | Non-conventional energy |
| Golden revolution | Fruits/honey/horticulture |
| Golden fiber revolution | Jute production |
| Grey revolution | Fertilizers |
| Pink revolution | Meat |
| Silver revolution | Eggs/poultry |
| Red revolution | Tomatoes |
| Round revolution | Potato |
| Green revolution | Food grains |
| White revolution/operation flood | Milk production |

## ►FARMERS PRODUCER ORGANISATION (FPOs)

In the Budget, 2019-20, government had announced formation of 10,000 new FPOs.

**DETAILS ABOUT FPOs**

- **Registration**: Registered as Cooperatives (under Cooperative Societies Act of the respective State), Farmer Producer Company (Under Companies Act, 2013) or Societies (under Society Registration Act, 1860).
- **Essential Features:** Farmers as shareholders + registered legal entity + Profits shared among the farmers.

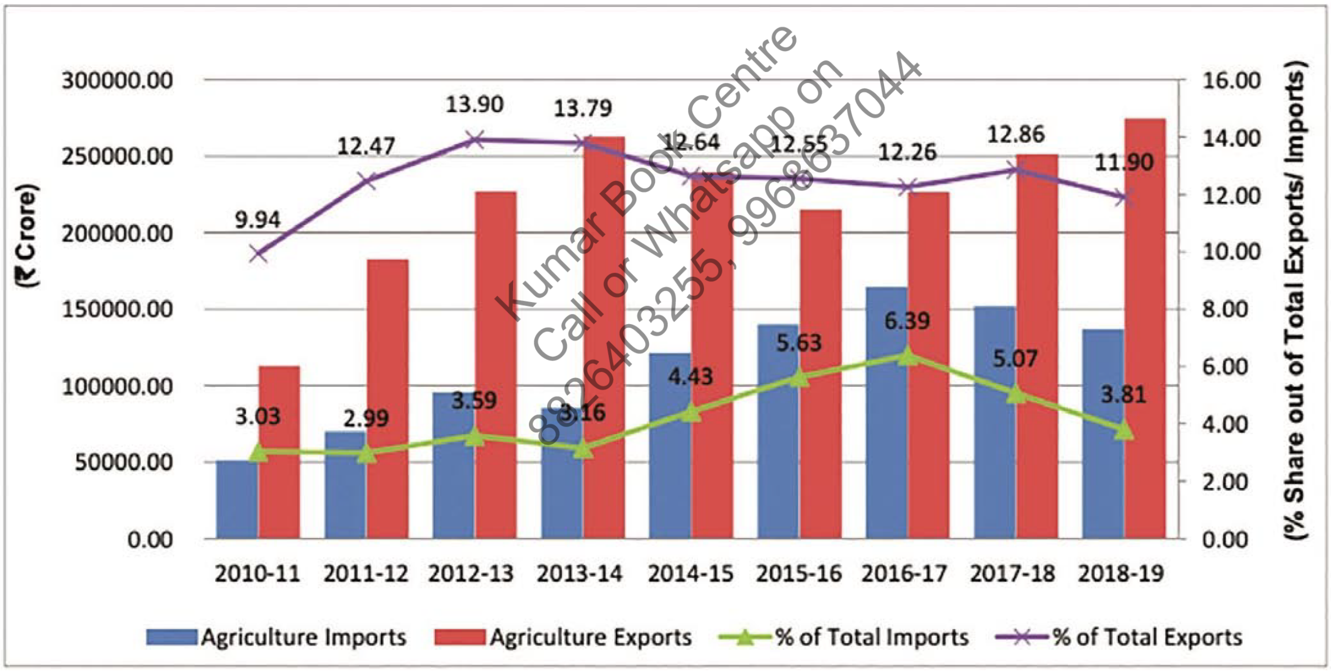
**DIFFERENCE BETWEEN FPCs AND COOPERATIVES**

- Cooperatives- Scope for Political Interference, bureaucratic delays and inefficiencies; No Such problems with FPCs.
- FPCs- Hybrid between Cooperatives (Principle of mutual Cooperation Trust) and Private limited Company (Principle of Profit Making and Professional management)

**INITIATIVES FOR THE PROMOTION OF FPOs**

- **Nodal Agency:** SAFC- Credit Guarantee Fund to mitigate credit risks of financial institutions which lend to the FPCs without collateral.
- **Other Initiatives**: NABARD- Producers Organization Development Fund (PODF) and PRODUCE Fund (Producers' Organization Development and Upliftment Corpus). Both these funds managed by NABARD offer financial assistance to FPOs.

## ►TRENDS IN AGRICULTURAL TRADE






Since the economic reforms of 1991, India has remained consistently a net exporter of Agri-products.

**India's share in global trade:** 2.15 per cent of the world agricultural trade.

**Top Agricultural Exports:** Marine Products, Basmati Rice, Spices.

**Top Agricultural Imports:** Vegetable Oils, Fresh fruits, Cashew and Pulses.

**Major export destinations**: USA, Saudi Arabia and Iran.

## ►AGRICULTURAL EXPORTS POLICY 2018

This policy has been released by Ministry of Commerce and Industry with the following objectives:

- Double agricultural exports from present US$ 30 Billion to US$ 60 Billion by 2022 and reach US$ 100 Billion in the next few years thereafter, with a stable trade policy regime.
- Diversify our export basket, destinations and boost high value- and value-added agricultural exports including focus on perishables.
- Promote novel, indigenous, organic, ethnic, traditional and non-traditional Agri products exports.
- Institutional mechanism for pursuing market access, tackling barriers and deal with sanitary and Phyto-sanitary issues.
- Double India's share in world agri exports by integrating with global value chain.

## ►RECENT AGRICULTURE MARKETING REFORMS - 3 FARM ACTS

Centre has passed three farm acts by invoking Entry 33 in the concurrent list which provides for regulation of trade and commerce of agricultural commodities. This entry was added through the first constitutional amendment Act. While the states argue that Centre does not enjoy legislative competence to make laws on agriculture, the Centre has counter argued that it can do so under Entry 33 of Concurrent list.

**1. Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020**

- **Mandate:** Freedom to farmers to carry on Inter-state or Intra-state trade of agricultural produce in the trade area.
- **Definition of Trade Area**: Farm gate, Factory premises, Warehouses, cold storage etc. (Area outside the APMCs).
- **Elimination of Intermediaries:** The produce could be sold directly to wholesale or retail trader, exporter, food processing Industry, end-consumer etc.

- **Elimination of Market Fee:** No market fee/ cess would be imposed on the sale of agricultural produce outside the APMCs in the trade area.
- **Dispute Resolution Mechanism**: Conciliation Board to be set up by Sub-Divisional Magistrate at the district level.

**Note:** The APMCs set up by the states would continue to remain. So, the new act seeks to set up parallel market in addition to existing APMCs. The new market would have no restrictions which we normally associate with the APMCs.

**2. Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020**

- **Mandate**: Promote Contract Farming and ensure fair and remunerative prices.
- **Dispute Resolution Mechanism**: Conciliation Board to be set up by Sub-Divisional Magistrate at the district level.

**3. Amendments to Essential Commodities Act (ECA), 1955**

- **Essential Commodities Act and its rationale:** Used by the Government to regulate the production, supply and distribution of commodities which are declared as essential under the act. The list of items under the Act includes drugs, fertilizers, pulses and edible oils, and petroleum and petroleum products. The Central Government may add or remove a commodity from the schedule in consultation with the State Governments.
- **How does it work?** If the Centre finds that a certain commodity is in short supply and its price is increasing, it can notify stock-holding limits on it for a specified period. Anybody trading or dealing in a such a commodity, be it wholesalers, retailers or even importers are prevented from stockpiling it beyond a certain quantity.

**New Amendments**:

- **Regulation of Agricultural Commodities:** It provides that the central government may regulate the supply of certain food items including cereals, pulses, potatoes, onions, edible oilseeds, and oils, only under extraordinary circumstances. These include: (i) war, (ii) famine, (iii) extraordinary price rise and (iv) natural calamity of grave nature.
- **Stock limit:** Imposition of any stock limit on agricultural produce must be based on price rise. A stock limit may be imposed only if there is: (i) a 100% increase in retail price of horticultural produce; and (ii) a 50% increase in the retail price of non-perishable agricultural food items. The increase will be calculated over the price prevailing immediately preceding twelve months, or the average retail price of the last five years, whichever is lower.

## ►E-NAM PORTAL

- **What is E-NAM?:** Pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.
- **How is different from existing Mandis?:** eNAM is not a parallel marketing structure but leverages the physical infrastructure of the mandis through an online trading portal.

**CONDITIONS FOR JOINING E-NAM:**

States interested to integrate their mandis with eNAM are required to carry out following three reforms in their APMC Act.

a) Single trading license (Unified) to be valid across the state

b) Single point levy of market fee across the state; and

c) Provision for e-auction/ e-trading as a mode of price discovery

- **Who operates the E-NAM platform?:** Small Farmers Agribusiness Consortium (SFAC).

## ►NEGOTIABLE WAREHOUSING RECEIPTS (NWRs)

- **Legal Framework:** The Warehousing development and Regulation Act (WDR Act) provides for issuance of Negotiable Warehouse Receipts (NWRs) by the warehouses registered under this Act.
- **Regulation**: WDR Act has also established Warehousing Development and Regulatory Authority. It functions under the Ministry of Consumer Affairs, Food and Public Distribution.
- **Benefits of Negotiable Warehousing Receipts for the farmers:** Store perishable commodities + Use collateral for short-term borrowing + direct sale of the commodities under new farm acts + Scientific storage + Reduce post-harvest losses.
- **Recent Progress:** The Ministry of Agriculture has enabled integration of NWRs with the E-NAM portal.

## ►COMPARISON OF INCOME SUPPORT SCHEMES- PM-KISAN VS KALIA VS RYUTHUBANDHU

| Comparison of Income Support Schemes for the Farmers | | | |
|---|---|---|---|
| | **KALIA SCHEME** | **RYUTHU BANDHU SCHEME** | **PM-KISAN SCHEME** |
| **Government** | **Odisha** | **Telangana** | **Centre** |
| | • Small and Marginal Farmers<br>• Landless Agricultural Households<br>• Vulnerable Agricultural Household<br>• Sharecroppers Yes | All the Farmers | All the Land holding Farmers. |
| **Sharecroppers included?** | Yes | No | No |
| **Assistance Provided** | Differs for different categories | Rs 4,000 per acre per season (No Cap on the acres owned by Farmers) | Rs 6,000 per year |
| **Life Insurance Support** | Rs 2 Lakhs | Not Provided | Not Provided |
| **Interest Free Crop Loan** | Loans up to Rs 50,000 @ Not Provided 0% interest | Not Provided | Not Provided |

## ►ZERO BUDGET NATURAL FARMING (ZBNF)

The budget document of 2019-20 and the Economic Survey 2018-19 focused on adoption of 'Zero Budget Natural Farming' (ZBNF) in order to double the farmers' income by the end of 2022.

**FOUR PILLARS OF ZBNF:**

| | |
|---|---|
| Jeevamrutham: a fermented microbial culture derived primarily from cow dung and urine, jaggery, pulse flour and uncontaminated soil | Benefits: Stimulate microbial activity to make nutrients plant-available; protect against pathogens; increase soil carbon. |
| Beejamrutham: microbial coating of seed/ seedlings, is based on cow dung and urine and lime. | Benefits: protects young roots from fungus and seed-borne or soil-borne diseases. |
| Acchadana-Mulching: the process of covering the topsoil with cover crops and crop residues | Benefits: produces "humus", conserves topsoil increase water retention, encourage soil fauna and supply the soil with essential nutrients, control weeds. |
| Whaphasa: soil aeration, a result of jivamrita and acchadana - represents the changes in water management brought about by improved soil structure and humus content | Benefits: increase water availability, water use efficiency; increase resilience to droughts. |

## ►PPVFR ACT, 2001

In 2019-20, PepsiCo filed a case against the potato farmers in Gujarat for allegedly growing its registered potato variety "FC5" which is used to make 'Lays' chips. The Company sought a compensation of around Rs 1 crore from the farmers for the violation of its rights under the Protection of Plant Varieties and Farmers' Rights Act, 2001.

**DETAILS ABOUT PPVFR ACT, 2001:**

**Background:** TRIPS agreement provides for a flexibility mechanism wherein that new plant variety can be protected either by issuing patents or an effective "sui generis" system or a combination of the two. TRIPS agreement provides that Union for protection of Plant

Varieties (UPOV) *may be used* as the basis for "sui generis" system.

**India's Stand**: India decided to enact domestic law in the form of PPVFR Act, 2001 without becoming a member of UPOV. This was specifically done in order to protect the interest of the farmers since the UPOV denies the farmers the freedom to re-use farm saved seeds and to exchange them with their neighbours.

**Objective of PPVFR Act, 2001:** Grant intellectual property rights to plant breeders, researchers and farmers who have developed any new or extant plant varieties. It balances the interests of the breeders with the farmers wherein it promotes research in the development of new plant varieties without adversely affecting the interests of the farmers.

**Varieties registered under the Act**: Both new varieties and extant varieties which conform to the criteria of distinctiveness, uniformity and stability.

**RIGHTS OF VARIOUS STAKEHOLDERS:**

- **Breeders' Rights**: Exclusive rights to produce, sell, market, distribute, import or export the protected variety
- **Researchers' Rights**: Use registered variety for conducting experiment or research
- **Farmers' Rights**: Register new variety + Claim compensation if registered variety developed by breeder fails to provide expected performance + Save, Use, re-sow, exchange, share or sell the registered variety. However, not allowed to sell branded seed of a registered variety.

**DURATION OF PROTECTION:**

- Trees and vines - 18 years.
- For other crops - 15 years
- For extant varieties notified - 15 years from the date of notification.

## ►UPOV

- International Union for the Protection of New Varieties of Plants (UPOV) is an intergovernmental organization based in Geneva, Switzerland. Established by the International Convention for the Protection of New Varieties of Plants (1961).
- It seeks to provide and promote an effective system of plant variety protection, with the aim of encouraging the development of new varieties of plants. *India is not a member country of UPOV. However, it is an observer country.*

## ►FOOD MANAGEMENT IN INDIA

**VARIOUS COMPONENTS OF FOOD MANAGEMENT**

**Procurement:** The cost incurred by FCI for the procurement of food grains is referred to as Economic Cost of Food grains. It comprises of 3 components - Pooled cost of grains (weighted MSP of stock of food grains), Procurement incidentals (Labour charges, Transport charges, storage cost etc.) and cost of distribution.

**FOOD GRAIN STOCKING NORMS:** 2 COMPONENTS:

- **Operational Stocks**: For meeting monthly distributional requirement under TPDS and other welfare schemes.
- **Strategic Reserves**: To meet emergency situations.

**Distribution of Food grains under NFSA:**

- **Target Population:** 67% (75%- Rural; 50%- Urban)
- **Categorisation of households**: Priority households (5kg per person per month); Antyodaya Anna Yojana (AAY) households (35 kg of food grains per household per month)
- **Food grains provided**: Rs 1/2/3 per kg for Nutri-cereals/wheat/rice respectively

**Note:** The Central Issue Price is the price at which centre allocates food grains to the states. It can be considered as the price at which food grains are sold through the network of fair price shops.

## ►INCREASE IN THE FOOD SUBSIDY BILL

- **What constitutes Food subsidy?** The Food subsidy bill is calculated as the difference between Economic cost of Food grains and Central Issue price (CIP).
- **Increase in Food Subsidy Bill:** The food subsidy bill has increased from 1.2 lakh crores in 2014-15 to 1.7 lakh crores in 2018-19. In order to pay the food subsidy bill, the Government has been borrowing from National Small savings Fund (NSSF) through the issuance of special G-Secs.

**Reasons for increase in Food Subsidy Bill**:

**Increase in Economic Cost of Food grains**

- Higher coverage of beneficiaries under NFSA as compared to erstwhile TPDS

- Increase in MSP (Increase of one unit in real MSP leads to 0.48 unit increase in real economic cost procurement)
- Higher procurement of food grains as against the stocking norms (due to Open Ended procurement Policy)
- Increase in storage cost

**PROBLEMS WITH CENTRAL ISSUE PRICE (CIP)**

- Non-revision of CIP.
- Uniform CIP for BPL and APL households

## ► RECENT CHANGES IN PRADHAN MANTRI FASAL BIMA YOJANA (PMFBY)

- **What it does?** Insurance coverage to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests & diseases.
- **Coverage of Risks-** Prevented Sowing/Planting, Yield losses due to non-preventable risks, such as Drought, Dry spell, Flood, Inundation, widespread Pests and Disease attack, Post-harvest losses, localised calamities etc.

  **Note:** States may consider providing add-on coverage for crop loss due to attack by wild animals.
- **Risks not covered**: Losses arising out of war and nuclear risks, malicious damage and other preventable risks shall be excluded
- **Premium**: The Premium to be paid by Farmers: Kharif Crops: 2%, Rabi Crops: 1.5%, Commercial and Horticultural Crops: 5%. ***The balance premium is paid equally by Centre and States.***
- **Coverage**: Loanee farmers, non-loanee farmers, sharecroppers and tenant farmers.

**RECENT CHANGES INTRODUCED IN MARCH 2020**

**Limit on the Centre's Premium:** The Centre would contribute its share of the premium amount, provided the premium is up to 30% for unirrigated areas/crops and 25% for irrigated areas/crops. If the premium is above the threshold, then the centre would not provide the additional premium amount. So, in that case, the additional premium amount would be borne by the respective state government.

**Note:** Districts having 50% or more irrigated area will be considered as irrigated area/district

**Voluntary enrolment of farmers**: Earlier, the scheme was mandatory for the loanee farmers and optional for non-loanee farmers. The recent changes have made the enrolment under the scheme voluntary even for the loanee farmers.

**Higher share of centre's contribution in North-Eastern States to 90:10 (earlier 50:50)**

**Timely payment of Insurance premium by States:** States would not to be allowed to implement the Scheme in subsequent Seasons in case of considerable delay in payment of premium in previous season.

## ► PM-KISAN SCHEME

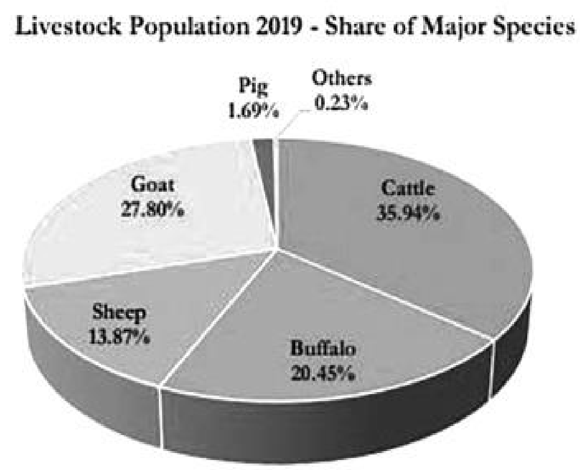
- **Mandate:** Central sector scheme to provide income support to all landholding farmers' families.
- **Benefits:** Financial benefit of Rs 6,000 per year payable in three equal instalments of Rs 2000 every 4 months.
- **Coverage**: Initially, the scheme covered only the small and marginal farmers with land holdings of up to 2 hectares. Later, it was extended to all land-owning farmers irrespective of the size of their land holdings. It does not provide benefit to the tenants and sharecroppers.

## ►LIVESTOCK IN INDIA

**IMPORTANT FACTS**

**Contribution:** Contributes 4.11% GDP and 25.6% of total Agriculture GDP.

Distribution of Livestock Population




**Total Livestock Population:** 535.78 million showing an increase of 4.6% over Livestock Census-2012.

**Highest Livestock Population**- UP, Rajasthan, Madhya Pradesh, West Bengal and Bihar.

**RELATED INFORMATION:** IMPORTANT INDIGENOUS CATTLE BREEDS IN INDIA

| Cattle Name | Type | Description |
|---|---|---|
| Gir | Milch | Originated in Gir forests of South Kathiawar in Gujarat also found in Maharashtra and adjacent Rajasthan. Horns are peculiarly curved, giving a 'half-moon' appearance. |
| Red Sindhi | Milch | Originated in Karachi and Hyderabad (Pakistan) regions of undivided India and also reared in certain organized farms in our country. |
| Sahiwal | Milch | Originated in Montgomery region of undivided India. Heavy breed with symmetrical body having loose skin. |
| Hallikar | Draught | Originated from the former princely state of Vijayanagar, presently part of Karnataka. |
| Amritmahal | Draught | Originated in Hassan, Chikmagalur and Chitradurga district of Karnataka. |
| Khillari | Draught | Originated from Sholapur and Sitapur districts of Maharashtra. Closely resembles Hallikar breed. |
| Kangayam | Draught | Originated from Tamil Nadu.The horns are spread apart, nearly straight with a slight curve backwards. |
| Bargur | Draught | Found around Bargur hills in Bhavani taluk of Erode district in Tamil Nadu. |
| Umblachery | Draught | Originated from Thanjavur District of TN. |
| Pulikulam | Draught | Originated from Madurai District of TN. |
| Alambadi | Draught | Originated from Dharmapuri District of TN. |
| Thaparkar | Dual Purpose | Originated in Tharparkar district (Pakistan) of undivided India and also found in Rajasthan. |
| Hariana | Dual Purpose | Originated from Rohtak, Hisar, Jind and Gurgaon districts of Haryana |
| Kankrej | Dual Purpose | Originated from Southeast Rann of Kutch of Gujarat and adjoining Rajasthan (Barmer and Jodhpur district). |
| Ongole | Dual Purpose | Found in Guntur District of AP |
| Krishna Valley | Dual Purpose | Originated from Krishna river valley in Karnataka and also found in border districts of Maharashtra. |
| Deoni | Dual Purpose | Originated in Western Andhra Pradesh and also found in Marathwada region of Maharashtra state and adjoining part of Karnataka. |

**IMPORTANT INDIGENOUS BUFFALO BREEDS IN INDIA**

| Buffalo Breed | Description |
|---|---|
| Murrah | Mainly found in Rohtak, Hisar districts of Haryana, Patiala district of Punjab. |
| Surti | Mainly found in Kaira and Baroda district of Gujarat. |
| Jaffrabadi | Mainly found in Gir forests, Kutch and Jamnagar districts of Gujarat. |
| Bhadawari | Mainly found in Agra and Etawah district of Uttar Pradesh and Gwalior district of Madhya Pradesh. |
| Nili Ravi | Found in Sutlej valley in Ferozpur district of Punjab and in the Sahiwal (Pakistan) of undivided India. |
| Mehsana | Found in Mehsana and Banaskanta districts in Gujarat and adjoining Maharashtra state. |
| Nagpuri | Found in Nagpur, Akola and Amravati districts of Maharashtra. |
| Toda | Named after Toda Tribes of Nilgiris Hills in south India |

## ►PRESENT STATUS OF FISHERIES SECTOR

- **Production:** India is second largest producer of fish and also second largest aquaculture nation. Of this, the Inland fisheries contributed 68% and the remaining 32% is contributed by Marine Fisheries.
- **Major Producers:** Andhra Pradesh (Inland); Gujarat (Marine)
- **Contribution to GDP**: Increased from 0.40% in 1950-51 to 1% in 2017-18

### DETAILS ABOUT PRADHAN MANTRI MATSYA SAMPADA YOJANA

- **Target:** Enhance fish production by an additional 70 lakh tonne by 2024-25, increasing fisheries export earnings to Rs.1 lakh crore by 2024-25, doubling of incomes of fishers and fish farmers, reducing post-harvest losses from 20-25% to about 10% and generation of additional 55 lakhs direct and indirect gainful employment opportunities in fisheries sector and allied activities.
- **Approach**: 'Cluster or Area based approaches and creation of Fisheries clusters through backward and forward linkages.
- **Nature of Scheme:** PMMSY is an umbrella scheme with two separate Components namely (a) Central Sector Scheme (CS) and (b) Centrally Sponsored Scheme (CSS).
- **Funding Pattern**: Central Sector Component: 100% funding by Centre; Centrally sponsored component: 60: 40 (in case of North Eastern and Himalayan States: 90:10)

## ►PRESENT STATUS OF SERICULTURE SECTOR

- **Silk varieties**: India has the unique distinction of being the only country producing all kinds of commercially exploited natural silks namely, Mulberry, Eri, Muga, Oak Tasar and Tropical Tasar. However, mulberry silk is the dominant one and contributes to about 70 per cent of the country's raw silk production.
- **India's Ranking:** India is the second largest producer of silk in the world after China. China and India together account for about 98 per cent of the global raw silk production.
- **Top Producing States:** Karnataka and Andhra Pradesh

## ►NATIONAL RUBBER POLICY, 2019

- The Minister of Commerce and Industry released the National Rubber Policy 2019.
- **India's Rubber Production:** India is currently the sixth largest producer and second largest consumer of natural rubber in the world. Traditional rubber-growing states comprising Kerala and Tamil Nadu account for 81% of production.

### LEGAL AND INSTITUTIONAL FRAMEWORK

- The Rubber Act, 1947 provides for the development of the rubber industry under the control of the Union. The Rubber Board, headquartered at Kottayam, Kerala, under the administration of the Ministry of Commerce and Industry has been effectively supporting the rubber industry.
- **FDI in Plantations**: 100% FDI in plantations of rubber, coffee, tea, cardamom, palm oil tree and olive oil tree.

### NATIONAL RUBBER POLICY 2019

- **Status of Natural Rubber**: Treat natural rubber as an agricultural product and income from rubber production as agricultural income for all practical and legal purposes.
- **Sustainability in Production**: The domestic production of natural rubber should be able to meet at least 75% of the requirement in 2030 and hence area under rubber plantation should be increased.
- **Import- Export Policy:** The import of natural rubber has seen a significant increase over the years. Protection to rubber growers against unwarranted imports adversely influencing domestic prices is proposed, and at the same time ensuring availability of the raw material for consumers at affordable prices. Brand "Indian Natural Rubber" distinguishing Indian rubber in the international market with its assured and consistent quality parameters may also be promoted.

## ►SMALL FARMERS' AGRI-BUSINESS CONSORTIUM (SFAC)

Society to facilitate agri-business ventures.

### ROLE

- Promotion of development of small agribusiness.
- Helping formation and growth of FPOs.
- Implementation of National Agriculture Market (e-NAM) Electronic Trading platform.

**SCHEMES IMPLEMENTED BY SFAC**

- Agri-Business Development (ABD) through Venture Capital Assistance (VCA) and Project Development Facility (PDF)
- Equity Grant and Credit Guarantee Fund Scheme for Farmer Producer Companies
- Price Stabilisation Fund

## ►NATIONAL ANIMAL DISEASE CONTROL PROGRAMME (NADCP)

This programme seeks to control and eradicate the Foot & Mouth Disease (FMD) and Brucellosis amongst the livestock in the country. The programme aims to vaccinate over 500 million livestock against FMD, and some 36 million female bovine calves annually against brucellosis. The NADCP aims to control these two diseases by 2025, and to eradicate them by 2030.

It is a program under the Ministry of Fisheries, Animal Husbandry and Dairying.

## ►AGMARK

Certification mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection under the Ministry of Agriculture.

The present AGMARK standards cover quality guidelines for 222 different commodities spanning a variety of pulses, cereals, essential oils, vegetable oils, fruits and vegetables and semi-processed products like vermicelli.

## ►FROM 'TOP' TO TOTAL – OPERATION GREENS

- **Background:** Operation Greens was announced in the Budget 2018-19 to stabilize the supply of Tomato, Onion and Potato (TOP) crops. This scheme is implemented by the Ministry of Food Processing Industries and NAFED acts as the nodal agency.
- **New announcement:** Operation Greens has been extended from Tomatoes, Onion and Potatoes (TOP) to ALL fruits and vegetables (TOTAL).
- The Scheme features will be as follows:
  - 50% subsidy on transportation from surplus to deficient markets.
  - 50% subsidy on storage, including cold storages.
- **Expected outcomes:** Better price realisation to farmers, reduced wastages, affordability of products for consumers.

## ►ANIMAL HUSBANDRY INFRASTRUCTURE DEVELOPMENT FUND

- **Background:** India is the largest producer of Milk in the world with an annual milk production of around 180 MT. The per-capita availability of milk has increased to 375 grams/day as against the global average of 300 grams/day.
- **New announcement:** Financial incentives would also be given for private sector investment in certain niche products such as Milk powder, Ghee, butter, Cheese etc.

## ►FORMALISATION OF MICRO FOOD ENTERPRISES (MFE) SCHEME

Under this scheme, the Existing micro food enterprises, Farmer Producer Organisations, Self Help Groups and Cooperatives would be supported for undertaking technical upgradation. Doing so, would enable them to meet international food standards, build brand value and market their products.

The focus of the Government would be on Cluster based approach (e.g., Mango in UP, Kesar in J&K, Bamboo shoots in North-East, Chilli in Andhra Pradesh, Tapioca in Tamil Nadu, Ragi in Karnataka, Turmeric in Telangana etc.)

**Benefits:** Improved health and safety standards, integration with retail markets, improved incomes. It will also help in diversifying our export basket with substantial amount of value addition.

## ►AGRI INFRASTRUCTURE FUND FOR FARM-GATE INFRASTRUCTURE

The Government has unveiled Rs 1 lakh crore worth Agri Infrastructure Fund to improve the farm-gate infrastructure such as collection centres, storage, cold chain infrastructure etc. This fund would provide necessary funding support to Primary Agricultural Cooperative Societies, Farmers Producer Organizations, Agriculture entrepreneurs, Start-ups, etc. to invest in post-harvest management infrastructure.

## ►PRODUCER SUPPORT ESTIMATES (PSEs)

- The OECD has come up with the concept of "Producer Support Estimates" (PSE) to understand the impact of the agricultural policies on the farmers. The PSE is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support farmers. The PSE takes into account two factors:

- Prices received by the farmers on the agricultural commodities. Please note that average prices of the agricultural commodities at the Global level are being considered to calculate this parameter.
- Subsidies given to the farmers through the budgetary allocation by the centre and states.

- The PSE is then calculated in terms of percentage as (Prices received by farmers- Subsidies)/ (Gross value of agricultural output) * 100.
- A positive PSE means that there is a net transfer from consumers and taxpayers to farmers enabling the farmers to earn higher revenue. On the other hand, negative PSE would mean that there is a net transfer from farmers to consumers/taxpayers leading to decrease in revenue earned by farmers.
- According to OECD, India's average PSE between 2014 and 2017 was "minus 6 per cent" of farm receipts. This is in contrast with most other countries which had large positive PSEs -Norway (60%), EU (19.6%), China (15%), U.S. (10%) etc. This clearly indicates that despite positive input subsidies, farmers in India received 6% less revenue due to restrictive trade and marketing policies.

## ►ENABLING THE BUSINESS OF AGRICULTURE (EBA) REPORT

- **Agency:** Published by the World Bank.
- **Rationale:** Examines whether government-designed regulations and processes either facilitate or hinder agricultural activities of domestic farmers.
- **Indicators used**: 8 Indicators used: Supplying seed, registering fertilizer, securing water, registering machinery, sustaining livestock, protecting plant health, trading food, and accessing finance
- **What is not measured?** Natural factors affecting the productivity of farmers such as the type of soil, average temperatures and precipitation levels, the length of the growing season, or the risk of droughts and floods.

## ►POKKALI RICE VARIETIES

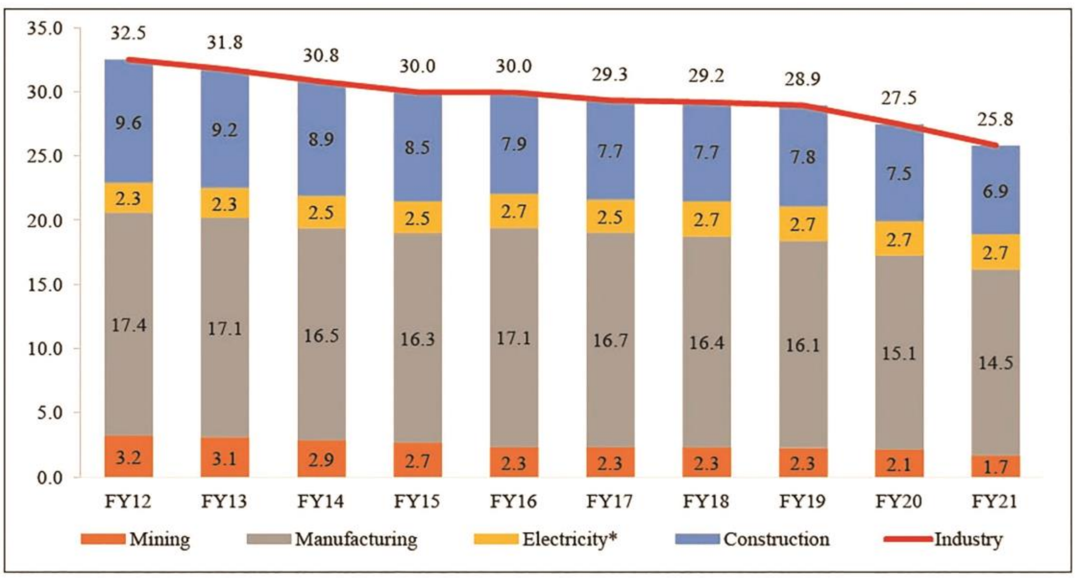
- **News:** Farmers in West Bengal are trying to introduce Pokkali Rice variety from Kerala.
- **Details:** Pokkali is a unique saline tolerant rice variety that is cultivated in an organic way in the water-logged coastal regions of Alappuzha, Thrissur and Ernakulam districts of Kerala. The rice is cultivated from June to early November when the salinity level of the water in the fields is low. From mid-November to mid-April, when the salinity is high, prawn farming takes over. The prawn seedlings, which swim in from the sea and the backwaters after the rice harvest, feed on the leftovers of the harvested crop. The rice crop, which get no other fertilizer or manure, draw nutrients from the prawns' excrement and other remnants. The uniqueness of the rice has brought it the Geographical Indication (GI) tag and is the subject of continuing research.

# SECTION 14

# INDUSTRY

## ►TRENDS IN CONTRIBUTION OF INDUSTRIAL SECTOR

**Figure: Share of Industry and its Components in GVA (Current Prices, Per cent)**




## ►INDEX OF INDUSTRIAL PRODUCTION (IIP)

Measures the **quantum of changes in the industrial production** in an economy. The **current base year** for the IIP series in India is **2011-12**. It is compiled and published every month by **National Statistical Office under** the Ministry of Statistics and Programme Implementation.

### CATEGORIZATION OF IIP

**SECTORAL CLASSIFICATION**

Industrial production for the purpose of IIP is divided into three sectors, i.e. **Mining, Manufacturing and Electricity.**

**Highest Weightage**: Manufacturing

**USE-BASED CLASSIFICATION**

- **Primary goods**: Goods directly obtained from natural sources and used for further processing and consumption E.g.: Ores and Minerals and Electricity
- **Capital goods**: Plants, machinery and goods used for further investments. E.g.: Boilers, Air & Gas Compressors, Engines including Internal Combustion and Diesel Engine
- **Infrastructure/ construction goods**: Finished goods which are primarily used in infrastructure industry or construction industry as an input. E.g.: paints, cement, cables, bricks
- **Intermediate goods**: Any good/ product produced as incomplete product or which goes as input in production for further finishing or forming a part of a product. E.g.: Cotton yarn, Plywood etc
- **Consumer durables**: Products directly used by consumers and having a longer durability (more than 2/3 years). E.g.: Pressure Cooker, Air Conditioners, Tyres etc
- **Consumer non-durables**: Products that are directly used by consumers and can't be preserved for long periods. E.g.: Soyabean Oil, Full-cream/ Toned/ Skimmed milk etc.

**Highest Weightage**: Primary Goods

**Lowest Weightage**: Capital Goods

## ►INDEX OF EIGHT CORE INDUSTRIES

In India there are eight core sectors comprising of **coal, crude oil, natural gas, petroleum refinery products, fertilisers, steel, cement and electricity**. The eight core industries constitute **40.27%** of the total index of industrial production (IIP).

This index is prepared by **Office of the Economic Advisor**, Ministry of commerce and Industry and is published monthly with the base year as 2011-12.

**Weightage of different sectors in the Index**

- Highest Weightage: Petroleum Refinery production.
- Lowest Weightage: Fertilizers production.

**Note:** It is noted that Index of Industrial production (IIP) is published by CSO, Ministry of Statistics and Programme implementation while Index of Eight core Industries is published by Office of Economic Advisor, Ministry of Commerce and Industry.

## ►DIFFERENCES BETWEEN IIP AND PMI

| Purchasing Managers Index (PMI) | Index of Industrial Production (IIP) |
|---|---|
| Published by Nikkei | Published by National Statistical Office |
| Does not track the actual Production | Tracks the actual Production |
| Covers only 500 private sector companies | Covers both Private Sector as well as PSUs |
| Covers both Manufacturing and Services | Covers only the Manufacturing Sector |
| Less Comprehensive since it covers only private sector companies | More Comprehensive |
| Not used for GDP calculation | Used for GDP Calculation to account for the unorganised sector |

## ►NATIONAL MINING POLICY 2019

**Background:** Replaces the existing National Mineral Policy 2008.

**Prospecting and Exploration of Minerals:** Special attention towards exploration of energy critical minerals, fertilizer minerals, precious metals and stones etc. Encourages private sector participation through various tools such as Right of First Refusal at the time of auction, Seamless transition from Reconnaissance permit (RP) to Prospecting Licence (PL) to Mining Leases (ML), Auctioning of composite Reconnaissance permit (RP) cum Prospecting License (PL) cum Mining Lease (ML) in virgin areas.

**Financial Support for Mining** : Grant status of industry to mining activity.

**Protection of Environment**: The Government shall identify such areas that are critically fragile in terms of ecology and declare as 'in-violate areas' or 'no-go areas' out of bounds for mining; Also seeks to create Exclusive Mining Zone (EMZ) with prior in-principle statutory clearances.

**Inter-Ministerial Mechanism**: Unified authority in the form of an inter-ministerial body under Ministry of

Mines with members like Ministry of Coal, Ministry of Earth Sciences, Ministry of Tribal Affairs etc.

## ►STRATEGIC AND CRITICAL MINERALS

**Details:** According to a report published by Council on Energy, Environment and Water (CEEW), 12 critical minerals could play an important role in the success of 'Make in India' programme. These critical minerals such as ***Beryllium, Rhenium, Rare Earths, Germanium, Lithium, Cobalt, Tantalum, Chromium, Strontium etc***. find specialized use in a range of industries and modern applications, such as Electric Vehicles, aerospace, Defence, laptops, medical imaging, nuclear energy and smartphones.

**Present Status of Critical Minerals in India:** India is totally import-dependent for seven out of 12 identified minerals and does not have any declared resources for them, except light rare earth (found along with monazite sands) and beryllium

China is currently a leading global supplier for 6 out of the 12 mineral resources identified as critical for India by 2030.

**RECENT DEVELOPMENTS**

1. Preliminary surveys by Atomic Minerals directorate for Exploration and Research (AMD) has shown presence of 1,600 tonnes of lithium in Mandya District of Karnataka.
2. Geological Survey of India has recently found reserves of Vanadium in Arunachal Pradesh.

## ►KABIL

Set up as a joint venture company by 3 PSUs for carrying out mining and processing of strategic minerals overseas for commercial use.

**Note:** KABIL has signed an agreement with an Argentine firm for the joint prospecting and exploration of Lithium in Argentina. Latin America's famous lithium triangle that encompasses lithium deposits in northwest Argentina, northern Chile and southwest Bolivia holds about 80% of the explored lithium of the world.

## ►DISTRICT MINERAL FOUNDATION (DMF)

**RATIONALE**

Work for the interest and benefit of persons and areas affected by mining related operations.

**CONTRIBUTIONS BY MINERS:**

- 10% of royalty in respect of mining leases granted on or after 12.1.2015; and
- 30% of royalty in respect of mining leases granted before 12.1.2015.

**USAGE OF FUNDS**

These funds are utilized under Pradhan Mantri Khanij Kshetra Kalyan Yojana (PMKKKY) for the welfare of areas and people affected by mining related operations. ( 60%-High priority areas such as Education, Health etc. 40%-Physical infrastructure)

**ROLE OF GRAM SABHA**

In respect of villages affected by mining situated within the schedule V and Schedule VI areas, approval of the Gram Sabha shall be required for the usage of funds and identification of beneficiaries.

## ►COAL SECTOR REFORMS

1. Auction of Coal mine blocks through the Revenue sharing mechanism instead of present fixed Rupee/tonne mechanism.
2. Entry norms will be liberalised. Nearly 50 Blocks will be offered immediately.

## ►NATIONAL COAL INDEX

Unveiled by Ministry of Coal to calculate Government's revenue share from the auction of coal mines.

**DETAILS:**

- Price index which reflects the change in the prices of coal in a particular month in comparison to the fixed base year (Base year: 2017-18).
- Index is calculated by taking into account the prices of coal from all the channels- Notified prices, auctioned prices and import prices.
- NCI is composed of a set of five sub-indices: three for Non-Coking Coal and two for Coking Coal. The three sub-indices for Non-Coking Coal are combined to arrive at the Index for Non-Coking Coal and the two sub-indices for Coking Coal are combined to arrive at the Index for Coking Coal. Thus, indices are separate for Non-coking and Coking Coal.
- Developed by the Indian Statistical Institute, Kolkata.

## ►STRATEGIC CRUDE OIL RESERVES

Indian Strategic Petroleum Reserve Limited (ISPRL), a Government of India Special Purpose Vehicle, has established Strategic Petroleum Reserves (SPR) facilities with total capacity of 5.33 Million Metric Tonnes (MMT) at 3 locations, namely (i) Vishakhapatnam, (ii) Mangaluru and (iii) Padur. As per the consumption pattern of 2019-20, the total capacity is estimated to provide for about 9.5 days of crude oil requirement.

Under Phase II of the SPR Programme, the Government has given 'in principle' approval for establishing two additional SPR facilities (i) Cianciolo in Odisha and (ii) Padur in Karnataka. As per the consumption pattern of 2019-20, 6.5 MMT SPR capacity is estimated to provide for about additional 12 days of India's crude oil requirement.

## ►NATIONAL STEEL POLICY 2017

The New Steel Policy, 2017 aspires to achieve 300 MT of steel-making capacity by 2030. This would translate into additional investment of Rs. 10 lakh Crore by 2030-31. The Policy seeks to increase per capita steel consumption to the level of 160 Kgs by 2030 from existing level of around 60 Kg.

**STEEL PRODUCTION IN INDIA**

**Table: Production in Last five Years and in April-December, 2019.**

| Year | Total Finished Steel (alloy + non-alloy) (in Million Tonnes) | | | |
|---|---|---|---|---|
| | **Gross Production** | **Import** | **Export** | **Consumption** |
| 2014-15 | 104.58 | 9.32 | 5.59 | 76.99 |
| 2015-16 | 106.60 | 11.71 | 4.08 | 81.52 |
| 2016-17 | 120.14 | 7.23 | 8.24 | 84.04 |
| 2017-18 | 126.86 | 7.48 | 9.62 | 90.71 |
| 2018-19 | 101.29# | 7.83 | 6.36 | 98.71 |
| **April-December, 2019-2020*** | **76.33#** | **5.51** | **6.52** | **75.05** |

**Top Crude Steel Producers in World:** China, India, Japan, USA and Russia. It is the largest producer of Sponge Iron.

**Import and Export of Steel from India:** India was a net importer of total finished steel in 2018-19. However, India emerged as a net exporter in 2019-20.

**Share of Steel Production:** Public Sector (20%); Private Sector (80%).

## ►NATIONAL MANUFACTURING POLICY 2011

The share of manufacturing in India's GDP has stagnated at 15-16% since 1980 while the share in comparable economies in Asia is much higher at 25 to 34%.

**TARGETS**

- Increase manufacturing sector growth to 12-14% over the medium term to make it the engine of growth for the economy
- Increase share of manufacturing sector to 25% of GDP
- Create 100 million additional jobs by the end of 2022.
- Technology Acquisition and Development Fund (TADF) for acquisition of appropriate technologies.
- Setting up of National Investment and Manufacturing Zones (NIMZ)

## ►NATIONAL INVESTMENT AND MANUFACTURING ZONES (NIMZs)

Large areas of developed land with the requisite ecosystem for promoting world class manufacturing activity. The Central Government creates the enabling policy frame work and provide incentives, while the State Governments declare the NIMZs as Industrial townships under Article 243 (Q) of Indian Constitution.

So far, three NIMZs namely Prakasam (Andhra Pradesh), Sangareddy (Telangana) and Kalinganagar (Odisha) have been accorded final approval and 13 NIMZs have been accorded in-principal approval.

**Difference between SEZs and NIMZs**: The main objective of Special Economic Zones is promotion of exports, while NIMZs are based on the principle of industrial growth in partnership with States and focuses on manufacturing growth and employment generation. NIMZ are different from SEZs in terms of size, level of infrastructure planning, governance structures related to regulatory procedures, and exit policies.

## ►INDUSTRIAL CORRIDORS

The Government is developing various Industrial Corridor Projects as part of National Industrial Corridor programme. This programme is aimed at development of futuristic industrial cities in India which can compete with the best manufacturing and investment destinations in the world. It will lead to creation of employment opportunities leading to overall socio-economic development.

11 Industrial Corridors

- Delhi Mumbai Industrial Corridor (DMIC)
- Chennai Bengaluru Industrial Corridor (CBIC)
- Amritsar Kolkata Industrial Corridor (AKIC)
- East Coast Industrial Corridor (ECIC) with Vizag Chennai Industrial Corridor (VCIC)
- Bengaluru Mumbai Industrial Corridor (BMIC)
- Hyderabad Nagpur Industrial Corridor (HNIC)
- Hyderabad Warangal Industrial Corridor (HWIC)
- Hyderabad Bengaluru Industrial Corridor (HBIC)
- Odisha Economic Corridor (OEC)
- Delhi Nagpur Industrial Corridor (DNIC)

## ►SPECIAL ECONOMIC ZONES (SEZs)

Asia's first Export Processing Zone (EPZ) was set up in Kandla in 1965. Subsequently, SEZ policy was announce in 2000 which added new features. The SEZ act 2005 provides a legal framework for SEZs in India.

**SALIENT FEATURES OF SEZs**

- Designated duty-free enclave to be treated as a territory outside the customs territory of India.
- Goods entering into SEZs from the domestic tariff area are treated as exports from India and goods supplied from the SEZ to the DTA are treated as imports into India.
- No license required for import.
- Manufacturing or service activities allowed.
- Units are required to achieve Positive Net Foreign Exchange within a period of five years.
- Domestic sales subject to full customs duty
- No routine examination by customs authorities of export/import cargo.
- SEZ Developers /Co-Developers and Units enjoy Direct Tax and Indirect Tax benefits as prescribed in the SEZs Act, 2005.

## ►PRODUCTION LINKED INCENTIVE (PLI) SCHEME

As part of Aatma Nirbhar Bharat Package, the Government has already approved PLI schemes for 3 sectors- Mobile Manufacturing and specified electronics components, Active Pharmaceuticals Ingredients (APIs) and Manufacturing of Medical Devices. Later Government decided to extend the PLI Scheme to 10 more champion sectors to boost the competitiveness of domestic manufacturing. These sectors include- Textile Products, Food Products, Telecom & Networking Products, Pharmaceuticals Drugs, Automobiles; Auto Components, Electronic/Technology Products, Advance Cell Chemistry Battery, High Efficiency Solar PV Modules, White Goods and Specialty Steel.

**Details about PLI Scheme**

**Objective:** Boost domestic manufacturing and attract large investments in domestic manufacturing

**Incentives**: Extend an incentive of 4% to 7% on incremental sales (over base year of 2019-20) of goods manufactured in India for a period of 5 years.

**Eligibility**: Incentives are provided under the scheme to only those companies which cross the threshold level in terms of incremental sale of Manufactured Goods and Incremental investment over the base year.

**Tenure of Scheme**: 5 years

**Main Features of Scheme:**

The incentive structure will be as below. For MSMEs, one percent (1%) higher incentive is proposed in year 1, year 2 and year 3.

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| **MSME** | 7% | 7% | 6% | 5% | 4% |
| **Others** | 6% | 6% | 5% | 5% | 4% |

## ►DEFENCE MANUFACTURING IN INDIA

The size of the Defence Industry, including Aerospace and Naval Shipbuilding Industry, is currently estimated to be about Rs 80,000 Cr in 2019-20.

**Steps taken by the Government to boost Indigenization of Defence Industry**

**FDI Policy in Defence:** In May 2020, the FDI limit in Defence Production has been raised to 74% from existing 49% under Automatic Route.

**Defence Production & Export Promotion Policy (DPEPP) 2020:** Turnover of Rs 1.75 lakh crores ($ 25 bn) by end of 2025

**Defence Procurement Procedure (DPP)**: A new category of capital procurement 'Buy Indian-IDDM' (Indigenously Designed, Developed and Manufactured has been introduced in Defence Procurement Procedure (DPP) to promote indigenous design and development of defence equipment. Under this, highest priority would be given to procurement of Defence Goods which are indigenously designed, developed and Manufactured within India.

**Defence Offset Policy:** First introduced through the Defence Procurement Policy and Procedure which was adopted in 2005 based upon the recommendations of Vijay Kelkar Committee. The Policy provided that all capital purchases above Rs 300 crore through imports will have the foreign vendor invest at least 30% of the value of the purchase in India.

**Recent Changes in Defence Offset Policy**: All other international defence deals will continue to have a 30% offset clause. However, offsets would be applicable in case of capital purchases of above Rs 2000 crores (as against capital purchases of Rs 300 crores earlier). Further, the government has decided to remove the offset clause, if the equipment is being bought either through Inter-Governmental Agreements (IGAs) between Indian and Foreign Government, or through single-vendor deal.

**Strategic Partnership Model (2017)**: Envisages establishment of long-term strategic partnerships between Indian companies and global Original Equipment Manufacturers (OEMs) wherein Indian companies can seek technology transfers to set up domestic manufacturing infrastructure and supply chains.

**Defence Corridors:** In Feb 2018, Government decided to establish two defence industrial corridors (One in UP and another in Tamil Nadu) to promote growth of defence industrial base in India.

**Public Procurement Order**: Department of Defence Production has notified list of 24 items for which there is local capacity and completion, and procurement of these items shall be done from local suppliers only irrespective of the purchase value.

## ►PHARMACEUTICAL INDUSTRY IN INDIA

The Indian Pharmaceutical Industry is the third largest in the world in terms of volume and 14th largest in terms of Value.

**Higher Import Dependence on China for APIs:** Before 1991, Indian Pharma Industry imported only 0.3% of its API requirements from China. However, presently, almost two-thirds of APIs are imported. In some of the specific APIs, the import dependence is as high as 80-100%.

### INITIATIVES TAKEN BY GOVERNMENT TO PROMOTE MANUFACTURE OF APIs

**Scheme for Promotion of Bulk Drugs:** This scheme seeks to finance common infrastructure facilities in 3 mega Bulk Drug parks in partnership with States. Government of India will give Grants-in-Aid to States with a maximum limit of Rs. 1000 Crore per Bulk Drug Park.

**Production Linked Incentive Scheme**: Financial incentive to eligible manufacturers of identified 53 critical bulk drugs on their incremental sales over the base year (2019-20) for a period of 6 years.

## ►MSME SECTOR - POLICIES/ SCHEMES

MSME sector employs around 111 million people and is the second largest employer after agriculture. It contributes 28% of India's GDP 45% of our manufacturing output and 28% of GDP.

### INITIATIVES/PROGRAMMES

- **Prime Minister Employment Generation Programme (PMEGP):** Financial Support for setting up of new MSMEs; Maximum Cost of project: Rs 25 lakhs
- **ZED Certification Scheme**: Financial support for manufacturing products which have Zero Defect and Zero Effect on Environment.
- **Credit Guarantee Trust Fund for Micro & Small Enterprises (CGT SME)**: Collateral free loan up to a limit of Rs 1 crore is available for individual MSE on payment of guarantee fee to bank by the MSE.
- **A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)**: One-time grant of 100% of the project cost or Rs 1 crore (whichever is lower) for promotion of innovation and entrepreneurship
- **National Manufacturing Competitiveness Programme (NMCP)**: Credit Linked Capital Subsidy for Technology Upgradation (CLCSS); Lean Manufacturing Competitiveness for MSMEs
- **MSME SAMADHAAN**: Portal to monitor the delays in the payments
- **TReDS Platform**: Discounting of invoices for MSMEs from corporate buyers through multiple financiers.
- **MSME-SAMBANDH**: Portal to monitor Public procurement policy

## ►NEW DEFINITION OF MSMEs

The definition of MSMEs has been provided under MSMED Act, 2006. Recently, the Government has changed the definition of MSMEs.

<table>
<tr><th colspan="4">Existing MSME Classification</th></tr>
<tr><th colspan="4">Criteria: Investment in Plant & Manufacturing or Equipment</th></tr>
<tr><th>Classification</th><th>Micro</th><th>Small</th><th>Medium</th></tr>
<tr><td>Manufacturing Enterprises</td><td>Investment < Rs 25 lakh</td><td>Investment < Rs 5 crore</td><td>Investment < Rs 10 crore</td></tr>
<tr><td>Service Enterprises</td><td>Investment < Rs 10 lakh</td><td>Investment < Rs 2 crore</td><td>Investment < Rs 5 crore</td></tr>
<tr><td colspan="4"></td></tr>
<tr><th colspan="4">Revised MSME Classification</th></tr>
<tr><th colspan="4">Composite Criteria: Investment and Annual Turnover</th></tr>
<tr><th>Classification</th><th>Micro</th><th>Small</th><th>Medium</th></tr>
<tr><td>Manufacturing Enterprises</td><td rowspan="2">Investment < Rs 1 crore<br>And<br>Turnover < Rs 5 crores</td><td rowspan="2">Investment < Rs 10 crore<br>And<br>Turnover < Rs 50 crores</td><td rowspan="2">Investment < Rs 50 crore<br>And<br>Turnover < Rs 250 crores</td></tr>
<tr><td>Service Enterprises</td></tr>
</table>

**New Definition:** As shown in the above table, 3 important changes have been introduced in the new definition of MSMEs:

- The Investment limit has been increased.
- An additional criterion of annual turnover has been introduced.
- The distinction in the definition of Manufacturing and service sector enterprises has been done away with.
- Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise

## ► FUND-OF-FUNDS FOR MSMEs

The Fund of Funds is a fund that makes ***indirect investment*** in various sectors such as Start-ups, Electronics Manufacturing Industries, MSMEs etc. For example, the Government has set up Fund of Funds for the Start-up companies. This fund is managed by SIDBI. This fund invests money in the various Alternate Investment Funds (AIF) registered with the SEBI for funding the start-up companies.

The U.K. Sinha Committee on MSMEs had recommended for the setting up of Fund-of-funds worth Rs 10,000 crores for the MSME sector. Accordingly, the Government has now decided to implement this recommendation of setting up fund-of-fund worth Rs 10,000 crores.

## ►PUBLIC PROCUREMENT POLICY

All Central Government Ministries/ Departments and CPSEs are required to procure 25% of their annual requirements of goods and services from MSEs including 4% from MSEs owned by SC/ST and 3% from MSEs owned by women entrepreneurs under the public procurement policy.

**New Announcement:** Disallow global tender contracts in procurement of Goods and Services of value of less than Rs 200 crores. Such tenders to be awarded only to domestic MSMEs.

## ►START-UP ECOSYSTEM IN INDIA

**Definition of Start-up:** An entity is considered as a Start-up for up to ten years (earlier 7 years) from the date of its incorporation/ registration, with an annual turnover not exceeding Rs 100 crores (earlier Rs 25 crores) for any of the financial years since incorporation/ registration.

### INITIATIVES TO BOOST START-UPS

**Startup India Scheme**

- Three Year Income Tax Exemption
- Self-Certification based Compliance Regime: Compliance norms relating to Environmental and Labour laws have been eased in order to reduce the regulatory burden on Start-ups
- Start-up India web portal
- States' Start-up Ranking Framework
- Relaxed norms in Public Procurement: Central Ministries/ Departments have to relax condition of prior turnover and prior experience in public procurement to all Start-ups.

**Fund-of-Funds (FFS) for Start-ups**: The Government has set up FFS with initial corpus of Rs 10,000 crores. It makes contribution to the corpus of Alternate Investment Funds (AIFs) for investing in equity of start-up companies. This fund is managed by SIDBI.

**Stand-up India Scheme**: Facilitate bank loans between 10 lakh and 1 crore to at least one scheduled caste (SC) or Scheduled Tribe, borrower and at least one women per bank branch for setting up a greenfield enterprise.

**Note:** The Start-up India scheme comes under the Ministry of Commerce and Industry while Stand-up India scheme comes under Ministry of Finance

### ASSOCIATED NEWS

**Flipping of Start-Ups:** Flipping is an act of converting an Indian Start-up company (wholly owned and registered in India) into a subsidiary of a holding company located overseas. Recently, one of the well-renowned IIndian internet entrepreneur has highlighted the concerns over the growing Flipping of Indian Start-up companies. He has claimed that the foreign Funds have emerged as the New East India Company and have been colonising successful start-ups in India through flipping.

## ►NATIONAL START UP ADVISORY COUNCIL

The Central Government has recently notified the structure of the National Start-up Advisory Council to advise the Government on measures needed to build a strong ecosystem for nurturing innovation and start-ups in the country.

**Composition**:

**Chairman**: Minister for Commerce and Industry

**Ex-officio Members**: Nominees of the concerned Ministries/Departments/Organisations of the rank of Joint Secretary and above.

**Nominated Members**: Founders of successful start-ups, veterans who have grown and scaled companies in India, persons capable of representing interests of investors into start-ups, persons capable of representing interests of incubators (Term of 2 years)

**Convener of Council**: Joint Secretary, Department for Promotion of Industry and Internal Trade

## ►KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC)

**Nature of Organisation:** Statutory body created by Parliament under the Khadi and Village Industries Commission Act, 1956. It functions under the administrative control of Ministry of MSME.

**SCHEMES IMPLEMENTED BY KVIC**

**Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** Promote cluster development of Khadi and other village Industries.

**Market development assistance (MDA):** Help Khadi institutions to reorient their activities extending adequate emphasis towards increasing artisans' earnings as well as ensuring quality of Khadi to customers.

**Interest Subsidy Eligibility Certificate Scheme:** Under this scheme, loans are given to eligible Khadi Industries at concessional interest rate of 4%. The difference between the actual interest rate and concessional interest( 4%) is borne by KVIC as subsidy.

**Honey Mission**: Under this mission, KVIC provides awareness, training and 'Bee Boxes' along with Bee Colonies to the farmers. The mission was launched in August 2017 in line with the 'Sweet Revolution'.

Solar Charkha Mission: Envisages setting up of Solar Charkha Clusters (consisting of focus villages and surrounding villages in a radius of 8-10 Kms).

**Prime Ministers Employment Generation Program (PMEGP)**

## ►PHARMACEUTICAL PRICING IN INDIA

**Legal Framework:** Drug Price Control Orders (DPCO) are issued by the Government in exercise of the powers conferred under the Essential Commodities Act, 1955, for enabling the Government to declare a ceiling price for lifesaving medicines.

Notified by the Ministry of Chemicals and Fertilisers.

**Institutional framework**: National Pharmaceutical Pricing Authority (NPPA) fixes the prices of controlled drugs and formulations and enforces prices and availability of the medicines in the country.

**Drugs Covered**: Scheduled Drugs ( First Schedule of DPCO); Medical Devices ( Cardiac stents, Knee Implants); Non-Scheduled drugs ( Prices should not increase by more than 10% annually).

**Exceptional powers under Paragraph 19 of DPCO, 2013**: Fix the prices of the Drugs which are outside the NLEM + Increase or decrease the prices of drugs covered under NLEM.

**Recent amendments to DPCO 2013:** Drugs patented under Indian law would be exempted from price control for a period of 5 years. Drugs for treating Orphan diseases would also be exempted from price controls.

"Orphan drugs" are medicines which are intended for treatment of life-threatening rare diseases which may affect only a small percentage of population. For example, Rituximab is an orphan drug which is used to treat certain autoimmune diseases and cancer.

## ►PRADHAN MANTRI BHARTIYA JANAUSHADHI PARIYOJANA

Campaign launched by the Department of Pharmaceuticals to provide generic drugs at affordable prices to the masses through special centres known as Pradhan Mantri Bhartiya Jan Aushadhi Kendra. The scheme is implemented by Bureau of Pharma PSUs of India (now known as Pharmaceuticals & Medical Devices Bureau of India (PMBI).

**Note:** Generic drugs are the drugs that have the same chemical composition as branded drugs. However, the generic drugs are sold under the chemical names which are not familiar with the general public. For example, for popular branded drugs like Crocin and Calpol, their generic name is Paracetamol. These drugs are usually manufactured by the Indian companies after the expiry of 20 years of patent period of the drugs.

## ►NATIONAL TECHNICAL TEXTILES MISSION

**What are Technical Textiles?** Technical textiles are textiles materials and products manufactured primarily for technical performance and functional properties rather than aesthetic characteristics. Examples- Fishing nets, mosquito nets, Floor and wall coverings, Mattress and pillow, diapers, sanitary napkins, Airbags, helmets, seat belts, Industrial gloves, Bullet proof jackets etc.

**Status of Technical Textile Production:** India has emerged as the one of the largest manufacturers and exporter of Conventional textiles. However, India has emerged as the net importer of Technical textiles with annual imports worth $ 16bn.

**New Announcement**: The Finance Minister had announced the launch of National Technical Textiles Mission in the Union Budget 2020-21.

## ►INTERCONNECT USAGE CHARGE (IUC)

IUC is the cost that a mobile operator pays to another operator for carrying through/ terminating a call. If a customer of Mobile Operator A calls a customer of Mobile Operator B and the call is completed, then A pays an IUC charge to B for carrying/ facilitating the call. Essentially, it is the originating network compensating the receiving network for cost of carrying the call. In India IUC is set by the TRAI.

**Recent Development:** In September 2017, TRAI had ordered a reduction in IUC to 6 paise per minute from 14 paise earlier. Now, the TRAI has decided to do away with the regime completely.

## ►ADJUSTED GROSS REVENUE-TELECOM SECTOR

Supreme Court verdict on what constitutes the Adjusted Gross Revenue (AGR) of the Telecom Companies in India has adversely affected the health of Telecom companies.

**Adjusted Gross Revenue (AGR):** Refers to the total revenue earned by the Telecom companies in India. AGR is used to

calculate the license fee, Spectrum Usage Charges (SUC) and contribution to Universal service obligation fund (USOF).

**Controversy over AGR**: Govt's stand- AGR should include core revenue (Telecom services) and Non-core revenue (Sale of Assets, Interest on deposits etc). Telecom Operators- AGR should include only the core revenue.

**Supreme Court Verdict**: AGR should include both Core and Non-core revenue.

**Impact on Telecom Operators:** Financial implication of Rs 1.4 lakh crores including penalty on AGR dues.

## ►UNIVERSAL SERVICE OBLIGATION FUND (USOF)

The Indian Telegraph (Amendment) Act, 2003 has given a statutory status to the Universal Service Obligation Fund (USOF). The financial resources for this fund are raised through Universal Service Levy (USL) of 5% of the Adjusted Gross Revenue (AGR) of Telecom Service Providers. The proceeds of the fund are used for improving the telecommunication infrastructure in the rural and remote areas.

## ►E-COMMERCE SECTOR

The Government is in the process of finalizing E-Commerce Policy. E-commerce is the activity of buying or selling of products on online services or over the Internet.

**DIFFERENT MODELS OF E-COMMERCE**

**Market Place Model**: Based on Zero Inventory Model; Offers digital platform to bring together consumers and merchants.

**Inventory Model:** Maintains and sells its own products.

Present FDI Guidelines in E-Commerce: 100% FDI under automatic route is permitted in marketplace model of e-commerce. However, FDI is not permitted in inventory-based model of e-commerce.

## ►MANDATORY GOLD HALLMARKING

The Union Minister for Consumer Affairs, Food and Public Distribution has recently announced that Gold Hallmarking will be made mandatory across the nation from 15th January 2020.

**What is Hallmarking?:** Accurate determination and official recording of the proportionate content of precious metal in precious metal articles.

**Who does Hallmarking in India?** Bureau of Indian Standards (BIS) as the sole agency

**How the Hallmarking is done?:** The Bureau of Indian Standards has formulated Hall Marking Scheme for certification of gold/silver jewellery & artefacts. As per this scheme, the jewellery retailer/manufacturer desirous of obtaining a licence has to apply to BIS for use of Standard Mark (Hallmark).

**Components of Hallmarking:** BIS Mark + Purity in Karat and fineness + Assaying and Hallmarking Centre's identification mark/number + Jeweller's Identification mark/number

**About Bureau of Indian Standards:** Works under the Ministry of Consumer Affairs. BIS operates a Product Certification scheme for ensuring compliance to Indian Standards. The BIS certification scheme is voluntary in nature. However for a number of products, compliance to Indian Standards made mandatory by the Central Government under various statutes in public interest.

## ►SHIP BREAKING INDUSTRY

The global ship breaking Industry has shifted towards the developing economies such as **Bangladesh, India, Pakistan, China and Turkey**. More than 80% of the shipping vessels are recycled along the beaches of **Alang (Gujarat), Chattogram (Bangladesh) and Gadani (Pakistan).** The Asian countries dominate the industry because of cheap labour cost and relatively less stringent environmental and health regulations.

**Significance for India:** Extraction of Steel + Employment Generation + Forex revenue

**Issues:** Adverse impact on Environment and health of the workers

### STEPS TAKEN BY INDIA

**Recycling of Ships act, 2019**: The Indian Parliament has passed Recycling of Ships act, 2019. Through this act, India has acceded to Hong Kong Convention (HKC) which is implemented by International Maritime organization (IMO). The provisions of HKC have also been included in the new Recycling of Ships Act, 2019.

**Hong Kong International Convention:** The Hong Kong Convention covers the design, construction, operation and maintenance of ships to ensure they can be recycled safely and in an environment-friendly way at the end of their lives. Under the Hong Kong Convention, ships sent for recycling are required to carry an inventory of all hazardous materials on board. Ship recycling facilities are required to provide a "Ship Recycling Plan", specifying how each ship will be recycled, based on its particular characteristics and its inventory of hazardous materials.

## ►ONE-PERSON COMPANIES

In the Union Budget 2021-22, the Finance Minister has eased the restrictions on one-person companies which are registered under the Companies Act, 2013.

### TYPES OF COMPANIES IN INDIA

The companies act, 2013 provides for 3 types of companies depending upon the number of members.

- **One-person company**: Single Member
- **Private Limited Company**: At least 2 members and not more than 200 members.
- **Public Limited Company:** At least 7 members and no limit on maximum members

**About One-person Companies: Idea put forward by** J.J. Irani Committee Report on Company Law. One-person companies have been provided significant leeway to reduce the compliance burden. For instance, such a company does not need to conduct an annual general meeting, which is a requirement for other companies.

**How is one-person company different from sole proprietorship?**

In case of sole proprietorship mode, person and the company are not considered as separate legal entities. Hence, personal wealth and assets of a person are linked to business. There is unlimited liability of the owner.

However, in case of one-person company, the person and the company are considered as separate legal entities. The liability of the person is limited only to its investment.

### RECENT CHANGES INTRODUCED IN THE BUDGET

**Doing away with Restrictions on Capital:** Presently, as per the rules, the company would be treated as One-person company provided its paid-up share capital does not exceeds Rs 50 lakh or its average turnover for the preceding three years does not exceed Rs 2 crore. If the paid-up share capital or the turnover exceeds the threshold, then it can no longer be treated as One-person company. It would be required to get converted into Private limited or Public Limited company.

The Finance Minister has decided to lift the restrictions on share capital or turnover and has thus enabled them to grow without any restrictions.

**Eligibility for opening One-Person Companies**: Earlier, only an Indian citizen and an Indian resident could start a single-person company. Now, even the NRIs can also open such companies.

## ►GLOBAL PARTNERSHIP ON ARTIFICIAL (GPAI)

International coalition that aims at ensuring that Artificial Intelligence is used responsibly, respecting human rights and democratic values.

**Founding Members:** Australia, Canada, France, Germany, India, Italy, Japan, Mexico, New Zealand, the Republic of Korea, Singapore, Slovenia, the United

Kingdom, the United States of America and the European Union.

**Secretariat:** GPAI will be supported by a Secretariat, to be hosted by Organization for Economic Cooperation and Development (OECD) in Paris, as well as by two Centers of Expertise- one each in Montreal and Paris.

## ►INDIA'S INITIATIVES TO PROMOTE ARTIFICIAL INTELLIGENCE

**National AI Strategy:** The Strategy is termed #AIForAll as it is focused on leveraging AI for inclusive growth. It has also proposed setting up of Centre of Research Excellence (CORE) to focus on developing better understanding of existing core research. Besides this, the strategy paper also recommends setting up of International Centres of Transformational AI with a mandate to develop and deploy application-based research in collaboration with private players.

**SAMARTH Udyog**: Initiative of Ministry of Heavy Industries and Public Enterprises for the adoption of Industrial Revolution 4.0 in Indian Manufacturing sector

**Crop yield prediction model using AI**: In May 2018, NITI Aayog partnered with IBM to develop a crop yield prediction model using AI to provide real-time advisory to farmers.

# SECTION 15

# INFRASTRUCTURE SECTOR

## ►NATIONAL INFRASTRUCTURE PIPELINE

- **Aim:** Envisages expenditure of around Rs 102 lakh crore over the next 5 years in order to realise $ 5 trillion economy.
- **Funding**: Centre, states and the private sector in the proportion of 39:39:22.
- **Sectors with highest Investment**: Energy (24%), Roads (19%), Railways (13%)

## ►ROAD SECTOR

India has the second-largest road network globally with total road network of 59 lakh km. It accounts for largest share in the movement of both passengers and freight.

**GOVERNMENT INITIATIVES FOR ROAD SECTOR**

- **Bharatmala Pariyojana:** Bridging critical infrastructure gaps through effective interventions like development of Economic Corridors, Inter Corridors and Feeder Routes, National Corridor Efficiency Improvement, Border and International Connectivity roads, Coastal and Port Connectivity roads and Green-eld expressways etc.
- **Setu Bharatam:** Make all national highways free of railway crossings
- **Setting up of Multi-Modal Logistics Parks:** India's first multi-modal logistics park was recently inaugurated at Jogighopa in Assam.
- **Monetisation of Assets** through Toll-Operate-Transfer (TOT) Model
- **Electronic Toll Collection (ETC)** system to remove bottlenecks and ensure seamless movement of traffic and collection of user fee.
- **BhoomiRashi Porta**l: Digital and paper-less processing of land acquisition related Notifications
- **Infrastructure Debt Fund (IDF)** set up to enhance flow of long-term infrastructure debt

## ►RAILWAYS

India has the fourth largest railway network in the world.

**PROBLEMS WITH THE INDIAN RAILWAYS**

- **Decline in share of Freight Traffic** on account of shortfall in carrying capacity and lack of price competitiveness.
- **Under- Investment:** The expenditure on the railways as a percentage of transport expenditure declined from 56 per cent in 1985-90 to 30 per cent in 2007-12.
- **Organizational structure**: Delays in decision making, inadequate market orientation led to slow turnover

times and delays in the implementation of railways projects.

- **Internal generation of resources**: Lower share of the railways in freight traffic; Low and static prices for the passenger segment
- **Safety and poor quality of service delivery**:
- **Higher Operating Cost** of 98.4%

**PPP MODEL IN INDIAN RAILWAYS**

**Sharing of Resources:** Under this model, the physical infrastructure such as Railway tracks, signaling, Railway stations etc. would remain under the control of Indian railways. The private sector entities would be required to bring in their modern coaches to operate on specific routes. Here, the Private sector entities are expected to be given complete autonomy with respect to fixing the fares and provision of various other services such as catering, housekeeping etc.

**Payment Mechanism:** The Private sector is required to pay haulage charge to the Railways for the use of its physical infrastructure such as Railway tracks, signaling, Railway stations etc. Apart from that, the private sector operator needs to share the revenue with the Indian Railways.

**How PPP Model in Indian Railways benefits various stakeholders?** Entry of private sector players would break the monopoly enjoyed by the Indian railways leading to competition, lower costs and improvement in service delivery.

## ►KISAN RAIL

In line with the Budget 2020-21 announcement, recently the Government has unveiled the KISAN rail for benefit of farmers. This train will help in bringing perishable agricultural products like vegetables, fruits to the market in a short period of time. The train with frozen containers is expected to build a seamless national cold supply chain for perishables, inclusive of fish, meat and milk. Indian Railways has earlier run single commodity special trains like Banana Specials etc. But this will be the first ever multi commodity trains and will carry fresh fruits and vegetables.

## ►RORO SERVICE

Recently, the first ever RORO service of South Western Railways was flagged on Bengaluru- Solapur section. It is also India's first privately operated RORO train services on Indian Railways.

**WHAT IS RORO?**

Roll on Roll Off (RORO) is a concept of carrying road vehicles loaded with various commodities, on open flat railway wagons. Road transport has advantage of door-to-door delivery of goods. On the other hand, Railways provide hassle free and environmentally friendly transport to medium to large quantum of freight. Rail transport is most fuel efficient of all means of transport and is much safer than road.

## ►PORTS

**Major and Minor Ports**: India has 12 Major ports and about 200 non-major ports. The Major Ports are under the Union List while the Non-Major Ports are under the Concurrent List. Major Ports are under the administrative control of Government of India while the Non-major ports are governed by the respective State Governments.

**List of Major Ports:** Kolkata (including Haldia), Visakhapatnam, Chennai, Tuticorin, Cochin, New Mangalore, Mormugao, Jawaharlal Nehru Port Trust (JNPT), Mumbai, Kandla and Ennore.

**Note:** Further, in 2010, the Government has declared Port Blair as major port. However, the Government has so far not taken any action.

## ►LANDLORD MODEL OF PORT DEVELOPMENT

Union Cabinet has given its 'in-principle' approval for setting up a Major Port at Vadhavan near Dahanu in Maharashtra. The new major port would be set up on "Landlord Model".

**LANDLORD MODEL OF PORT DEVELOPMENT**

The activities which are carried out in the management of Ports can be broadly classified as:

- **Governing functions**: Ownership of Land and Regulation of Port activities.
- **Port Operations**: commercial functions such as Loading and unloading of cargo, Storage and warehousing etc.
- **Types of Port Development Models**: 2 Models of Port Development- Service Ports Model (Port Authority- Both Governing and Port Operations); Landlord Model- (Port Authority- Regulator and landlord; Port Operations- Private Sector).

## ►FLAGGING SHIPS IN INDIA

- **Meaning:** Global ship owners would register their ships in India. These Ships would fly Indian Flag and would be involved in both International trade and Coastal Trade.

- **Rationale:** Presently foreign owned vessels account for almost 92% of India's cargo. Hence, need to ensure that more ships are registered in India.
- **Benefits announced for Flagging Ships in India:** No global tender for the procurement of services below the value of Rs 200 crores. So, the preference would be given to domestically registered ships.

**OTHER SHIPPING RELATED TERMS IN NEWS (IMPORTANT FOR PRELIMS)**

- **Cabotage Rules:** Cabotage refers to the movement of goods between the two ports in the same country. Earlier, the Government had allowed only the Indian-flagged vessels to involve in Cabotage operations. In May 2018, the shipping Ministry eased the Cabotage rules to enable the foreign-owned vessels to perform cabotage operations without the need for special approval.
- **Right-of-First Refusal:** This policy has been unveiled by the shipping Ministry to give higher preference to the Indian vessels. Under this policy, if a tender for the movement of cargo has been awarded to a foreign registered vessel based upon the bidding, then the entity owning the Indian-registered vessel can bag the same contract by paying the lowest bid amount.

## ►DIGITAL INFRASTRUCTURE- POLICIES AND INITIATIVES

**PM-WANI:** The Prime Minister Wi-Fi Access Network Interface (PM-WANI) project aims at delivering broadband connectivity speeds to every user through the public Wi-Fi hotspots at affordable rates.

- Any entity (company, proprietorship, societies, non-profits, etc.) can set up a paid public Wi-Fi Access Point.
- No license fee for providing Broadband Internet through these public Wi-Fi networks.
- Users would be easily able to discover WANI compliant network, do one-click authentication and payment, and connect one or more devices in a single session.

**NATIONAL DIGITAL COMMUNICATION POLICY 2018**

- Broadband for all
- Creating 4 million additional jobs in Digital Communications sector
- Enhancing contribution of the digital communication sector to 8% of India's GDP from 6% in 2017.
- Propelling India to Top 50 Nations in the ICT Development Index of ITU from 134 in 2017.
- Enhancing India's contribution to Global Value Chains
- Ensuring Digital Sovereignty

**BharatNet:** Providing high-speed broadband to all the panchayats in the country. funded by the Universal Service Obligation Fund (USOF). Implemented by Bharat Broadband Network Limited (BBNL). Provides broadband connectivity through underground and aerial optical fibres, Satellite, Wi-fi hotspots etc.

**National Broadband Mission**: Universal and equitable access to broadband services across the country, especially in rural and remote areas.

**Digital India Scheme:** Areas of focus include broadband highways, providing universal access to mobile connectivity, a public internet access program, e-governance, electronic service delivery, access to information, increasing electronics manufacturing, providing information technology skills for jobs and early harvest programs.

**National Information Infrastructure (NII)**: Ensure the integration of the networks and cloud infrastructure to provide high-speed connectivity to various government departments up to the panchayat level.

**Public Internet Access Programme:** Make 2,50,000 common service centres (CSCs) operational at the gram panchayat level to deliver government services online

**Universal Service Obligation Fund (USOF):** Fund is raised through the imposition of 'Universal Access Levy (UAL)', which is a percentage of the revenue earned by the operators under various licenses. This fund was established with the object of improving telecom services in the remote and rural areas of India.

**Note:** According to the current definition notified by TRAI, Broadband must be able to support the download speed of 512 kbps. The National Digital Communications Policy 2018 has set a target of providing universal broadband connectivity at 50 Mbps to every citizen. Recently, the TRAI had come out with the consultation paper on the need to redefine the current definition of Broadband and increase the minimum speed limit.

## ►ELECTRIC MOBILITY IN INDIA– INITIATIVES AND POLICIES

**National Electric Mobility Mission Plan 2020:** Aims to have 6-7 Million Electric Vehicles by the end of 2020. Implemented by Ministry of Heavy Industries and Public Enterprises.

**National Council for Electric Mobility**: Inter-Ministerial team headed by Minister of Heavy Industries to approve Electric Mobility Plans.

**National Board for Electric Mobility**: Inter-Secretarial team headed by Secretary, Department of Heavy Industries to recommend Policies for adoption of Electric Vehicles.

**FAME Scheme (Phase II):** The Department of Heavy Industries is implementing phase 2 of the FAME Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) for a period of 3 years starting from 1st April 2019.

- **Objective:** Target to achieve 6-7 million sales of hybrid and electric vehicles year on year from 2020 onwards
- **Mandate:** Demand Incentive and Charging Infrastructure
- **Nature of Demand Incentive**: The higher cost of Electric vehicles can act as prohibitive factor. Hence, the Government provides for upfront demand incentive on purchase of Electric Vehicles. This demand incentive leads to decrease in purchasing cost of Electric vehicle for the consumer. For example, to buy Electric Vehicle worth Rs 1.5 lakh, the customer would be required to pay only Rs 1.3 lakhs. The remaining amount of Rs 20,000 is later reimbursed by the Government to the manufacturer.
- **Applicability:** Applicable for all vehicles (Two-Wheelers, Three-Wheelers, Four-Wheelers, Buses etc) used for both Public and Private Transportation. However, higher preference is being given for Public Transportation vehicles. Further, incentive depends upon battery capacity of vehicles. Higher the battery capacity, higher would be the demand incentive.

## ►NATIONAL COMMON MOBILITY CARD (NCMC)

One Nation, One Card for transport mobility is an initiative of the Ministry of Housing and Urban Affairs to enable seamless travel by different metros and other transport systems across the country besides retail shopping and purchases.

**About NCMC?** These are bank issued Debit/Credit/Prepaid cards and the customer may use this single card for payments across all segments including metro, bus, suburban railways, toll, parking etc. The stored value on card supports offline transaction across all travel needs with minimal financial risk to involved stakeholders.

**WHAT ARE THE BENEFITS OF NCMC?**

- Interoperability for passenger between bus, train, metro, parking etc. in the urban area.
- Single e-purse with access to multiple products.

## ►LEADS INDEX

Developed by the Ministry of Commerce and Industry to establish the baseline of performance of the states/UTs in the logistics sector. It is calculated based on eight parameters such as infrastructure, services, timeliness, track and trace, competitiveness of pricing, safety of cargo, operating environment and regulatory process. LEADS is loosely based on World Bank's biannual Logistics Performance Index (LPI) which ranks the countries in terms of efficacy of the Logistics sector.

## ►PUBLIC PRIVATE PARTNERSHIP-MODELS, POLICIES AND INITIATIVES

**Initiatives taken by Government to boost PPP**

**Viability Gap Funding (VGF) Scheme:**

- **Objective:** Support infrastructure projects that are economically justified but may not be financially viable
- **Assistance:** Viability Gap Funding in the form of up to 20% of the Total Project Cost (TPC). State Government may provide additional grants out of its budget up to further 20% of the TPC.
- **Recent Modification:** To boost Social Infrastructure, the Government will enhance the quantum of Viability Gap Funding (VGF) up to 30% each of TPC.

**India Infrastructure Project Development Fund (IIPDF):** Funding to Central, State and local bodies to carry out various activities related to project development.

**Public Private Partnership Appraisal Committee:** Inter-secretarial team led by Secretary, Department of Economic Affairs. Set up to streamline the procedure for approval of PPP projects. PPP cell in the Department of

Economic Affairs (DEA) acts as Secretariat for Public Private Partnership Appraisal Committee (PPPAC).

**India Infrastructure Finance Company (IIFC):** Dedicated institution for financing infrastructure with focus on PPP projects.

**National Infrastructure Investment Fund (NIIF):** Quasi-Sovereign Wealth Fund to provide financing to infrastructure projects.

**MODELS OF PPP IN INDIA**

PPP arrangements are characterised by the identification of risks and their allocation among the parties to the arrangement. On the basis of the risk allocation, the various PPP models are designed.

| Type of Risk ⇒<br>Type of Model ⇓ | Financing Risk | Revenue Risk | Maintenance Risk |
|---|---|---|---|
| BOT Model | Private | Private | Private |
| EPC Model | Govt. | Govt | Govt |
| HAM Model | Govt, and Private | Govt. | Private |

| Build own operate Transfer (BOOT) Contracts | Private partner has the responsibility for construction and operations. Ownership Is with the private partner for the duration of the concession. | | | | |
|---|---|---|---|---|---|
| **MODES** | **Asset ownership during contract** | **PPP duration** | **Capital Investment by** | **Role of Private Sector** | **Examples** |
| Bui Id-own-operate - transfer (BOOT) or DBOOT | Private | Long (e.g. 20-30 yrs.) | Private | Design, Finance, construct, own, manage, maintain, Transfer | Used for development of Minor Ports |
| Build own operate (BOO) | Private | Perpetual | Private | Design, Finance, construct, own, manage, maintain | Not very common in India |

## ►SWISS CHALLENGE METHOD (SCM)

**METHOD TO AWARD PPP PROJECTS**

**PROCEDURE USED IN SWISS CHALLENGE METHOD**

⬇

Private Sector Company "A" Identities a Particular project on its own (Let's say, Modernisation of Existing Railway Station or Construction of New National Highway)

⬇

Company "A" submits the detailed proposal to the Government with specifications including Financing and Technical requirements

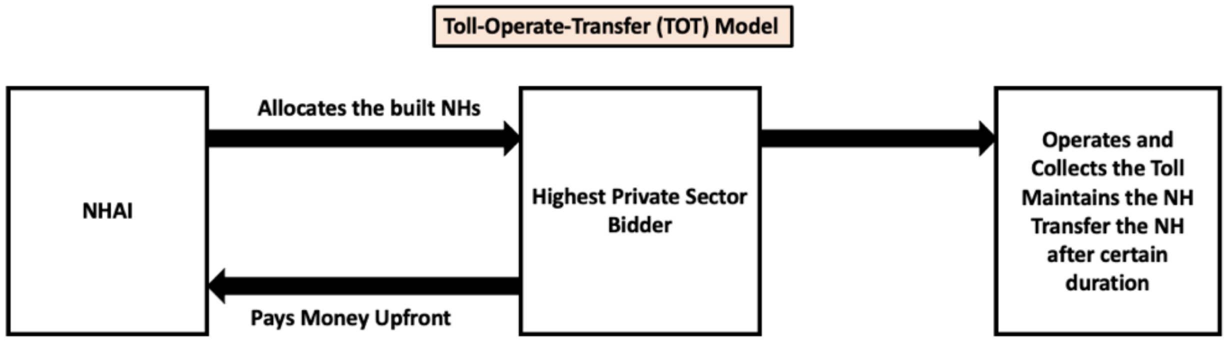
⬇

Expert Committee of Government reviews the Proposal and okays it. Calls for open bidding from other Private Sector entitles.

⬇

- Lets' say, Company "B" puts forward the best proposal to the Government.
- Company "A" would have "Right of Refusal' i.e.,It can match up the bid put forward by Company "B" and win the contract.
- Else Contract awarded to Company "B".

## ►PPP MODEL OF TOLL-OPERATE-TRANSFER (TOT)




**Working Mechanism**: Under TOT model, the already constructed national highways are given on long-term lease (15-30 years) to private entities against an upfront payment. During the concession period, the TOT operator collects user fee on the stretches following the prescribed rates by the NHAI to recoup their investments. The TOT operator is also required to operate and maintain the stretches.

**BENEFITS**

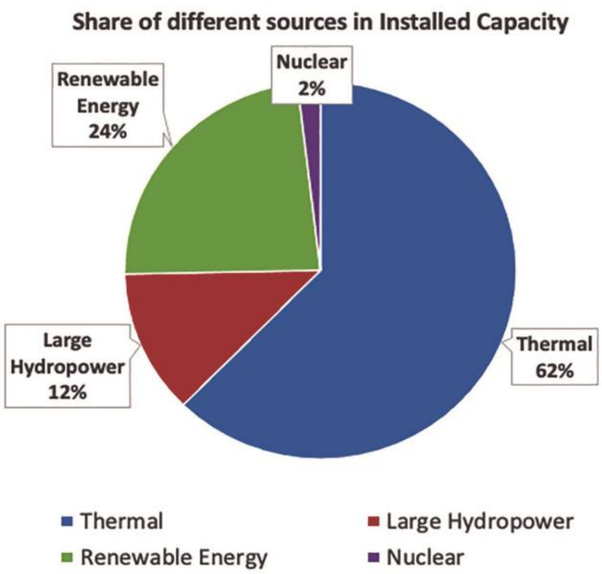
- Enables the NHAI to monetise the existing National Highways with toll revenue generation capacity.
- Enables the NHAI to repay its debts and also raise money for undertaking construction of new NHs.
- Since existing and operational roads are auctioned under the TOT model, it does not need developers with construction skills to participate.

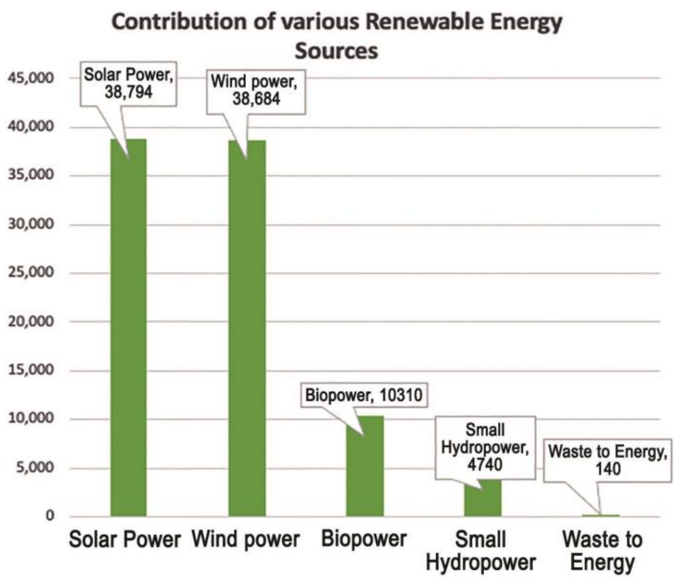
# SECTION 16

# ENERGY SECTOR

## ►SHARE OF DIFFERENT SOURCES IN INSTALLED CAPACITY

The total Installed power capacity in India is around 3.7 lakh MW.




### ACHIEVEMENTS IN RENEWABLE ENERGY SECTOR

- Total Installed Capacity of Renewable energy (excluding large hydropower above 25 MW): 89.6 GW
- Share of Renewable energy (including large hydropower above 25 MW) in total installed capacity: 36%
- Share of Renewable energy (including large hydropower above 25 MW) in total electricity generation: 26%
- During the last 6 years, renewable energy capacity has grown by 2.5 times and solar energy by over 13 times.
- A decade ago, the solar segment had a capacity of just 18 MW, while wind power's installed capacity was at 13,000 MW. However, as of January 31, 2021, the total installed capacity of solar power stood at 38,794 MW. The total wind power capacity was 38,684 MW.
- India now has the 4th largest wind power capacity in the world.

**Top 3 States in Installed Wind Power (as on 31st Dec 2019):** Tamil Nadu, Gujarat and Maharashtra

**Top 3 States in Installed Solar Power (as on 31st Dec 2019):** Karnataka, Rajasthan and Tamil Nadu

### RECENT DEVELOPMENT

Earlier, only smaller hydro power projects of less than 25 MW in capacity were categorized as renewable energy. However, in 2019-20, the Government has decided to declare even the large hydropower projects ( more than 25 MW) as Renewable energy source. Later, even the Ocean Energy was also declared as Renewable energy.

## ►INITIATIVES TO BOOST SOLAR ENERGY

### NATIONAL SOLAR MISSION

**Target:** 100 GW of Solar Power by the end of 2022

**Strategy:** Solar Park and Ultra Mega Solar Power Projects: 40,000 MW of Solar power through 50 Solar Parks (Capacity of 500 MW and Above) +. Grid-connected Roof up Solar Programme: Target of 40,000 MW. Implemented through DISCOMs.

### PM-KUSUM SCHEME

- Setting up of 10,000 MW of Grid-Connected Solar and Other Renewable energy plants on Barren/Uncultivable land→ Sell Power to DISCOMs and earn Income.
- **Off-Grid Areas:** Replacement of diesel agriculture pump sets with 20 lakh Solar Agriculture Pumps → Reduce the dependence of farmers on diesel and meet their irrigation needs.
- **Grid-connected Areas:** Replacement of diesel agriculture pump sets with 15 lakh Solar Agriculture Pumps → Use the generated solar power to meet the irrigation needs and the excess solar power will be sold to DISCOMs.

### NATIONAL WIND-SOLAR HYBRID POLICY

Hybrid System--> Wind Turbine Generators (WTGs) and Solar PV systems can operate on same land. However, for being considered as Hybrid system, the Installed capacity of at least one of them should be minimum 25%.

**Note:** Recently, PM Modi has laid down the foundation stone for the Hybrid Renewable Energy Park near Vighakot village in the Kutch district of Gujarat. It will be the India's largest renewable energy generation park.

### ATAL JYOTI YOJANA (AJAY) PHASE-II

To illuminate dark regions through installation of solar streetlights. Implemented by Energy Efficiency Services Limited (EESL).

### PUBLIC SECTOR UNDERTAKING (CPSU) SCHEME

A scheme for setting up 12 GW Grid- Connected Solar PV Power Projects by Public Sector Undertakings with domestic cells and modules is under implementation. Viability Gap Funding support is provided under this scheme.

### PRODUCTION LINKED INCENTIVE SCHEME

Production linked Incentive scheme for manufacturing of high-efficiency solar PV Modules: Close to 75 per cent of India's solar power capacity is built on Chinese solar cells and modules. Hence, the PLI scheme is expected to ensure Aatma Nirbhar Bharat in solar energy sector.

## ►ABOUT INTERNATIONAL SOLAR ALLIANCE (ISA)

### BACKGROUND

Launched at the United Nations Climate Change Conference in Paris in 2015 by India and France. Came into force in 2017 on receipt of ratification of 15 countries.

### MEMBERSHIP

It seeks to bring together the countries which lie either completely or partly between the Tropic of Cancer and the Tropic of Capricorn for harnessing the solar energy. The membership of the ISA has now been extended to UN member countries as well.

### OBJECTIVE

Global deployment of over 1,000GW of solar generation capacity and mobilisation of investment of over US$ 1000 billion into solar energy by 2030.

### RECENT INITIATIVES

- **World Solar Bank:** dedicated financing window for solar energy projects across the members of ISA.
- **One Sun One World One Grid**: Interconnected green grid that will enable solar energy generation in regions with high potential and facilitate its evacuation to demand centers.
- **First World Solar Technology Summit (WSTS):** deliberate on the way forward for increasing access to new technologies.

## ►RENEWABLE PURCHASE OBLIGATION (RPO)

- **What is it?** DISCOMs required to purchase certain percentage of electricity from various renewable energy sources.
- **Framework for RPOs?** Laid down under Electricity Act, 2003 and National Tariff Policy 2016
- **Types of RPOs:** Solar RPO and Non-Solar RPO. Recently, Government declared that procurement of power from large Hydropower Projects (more than 25 MW) and Ocean Energy would be considered as Non-Solar RPO.
- **Who lays down the Targets for RPOs?** Annual Targets laid down by State Electricity Regulatory Commissions (SERCs). Long term targets laid down by Ministry of Power.
- **Present Targets:** Long Term target to be met by 2022. Total RPO: 21% (Solar RPO: 10.5% + Non-Solar RPO: 10.5%)
- **Renewable Energy Certificates (RECs):** DISCOMs that exceed their RPO obligations can sell RECs to other DISCOMs that fail to meet RPO target. 1 REC is equal to 1 Mwh.

## ►GREEN TERM AHEAD MARKET (GTAM)

Pan-India portal to enable purchasers and sellers of renewable energy to do purchase/sell electricity for a short-term purpose in the open market.

**Benefits:** Presently, the generators of the Renewable energy rely on long term Power Purchase Agreements (PPAs) with the DISCOMs to sell the electricity. GTAM would enable power generators to sell the electricity to various bulk consumers such as Industries, DISCOMs etc. for a short period of time without getting into PPAs. It is considered to be world's first exclusive product which has been designed for the benefit of Renewable energy.

## ►NATURAL GAS BASED ECONOMY

India's energy mix is dominated by **coal and oil which account for 86% of the electricity generation**. The share of cleaner fuel, **Natural Gas is quite lower at 6%.** In this regard, the Government has been promoting Gas Based economy to increase the **share of gas in the energy mix to 15% by 2025**.

**About Natural Gas Grid:** Development of Natural Gas pipelines across India. These pipelines have been authorized by Petroleum and Natural Gas Regulatory Board (PNGRB).

**Why Natural Gas?** Environment friendly, safer and cheaper fuel

## ►INDIA'S FIRST GAS TRADING HUB

- **Indian Gas Exchange Limited (IGX)**: India's first Natural Gas trading platform which provides a national level market to all participants for trading in gas. IGX facilitates automated trading where multiple buyers and sellers can trade for physical delivery of natural gas.
- **How will it work?** Allow buyers and sellers of natural gas to trade both in the spot market and in the forward market for imported natural gas across three hubs —Dahej and Hazira in Gujarat, and Kakinada in Andhra Pradesh.
- **Will it cover both Imported and Domestically produced Natural Gas**? As of now, the Gas Trading Hub covers the trading of only the imported Natural Gas. The price of domestically produced natural gas will continue to be fixed by the Government.
- **Regulation of Trading:** At present there is no statutory authority to regulate trade / transactions happening on the IGX platform. The Petroleum and Natural Gas Regulatory Board (PNGRB) is in the process to draft the regulation for Natural gas trading hub / natural gas exchange in India.

**Major Gas Hubs of the World:** The world's biggest natural gas hub is the Henry Hub in the U.S. state of Louisiana. In Europe, Britain's National Balancing Point (NBP) and the Dutch Title Transfer Facility (TTF) have emerged as the main natural gas hubs.

## ►UDAY SCHEME

The state-owned power distribution companies (DISCOMs) have been accumulating huge losses leading to increase in NPAs.

Under the scheme, States should take over 75% of the DISCOM debt. The governments will then issue 'UDAY bonds' to banks and other financial institutions to raise money to pay off the banks.

The remaining 25 per cent debt will be dealt within one of the two ways

- Conversion into lower interest rate loans by the lending banks
- Funded by money raised through DISCOM bonds backed by State guarantee.

In return for the bailout, the DISCOMs have been given target dates (2017 to 2019) by which they will have to meet efficiency parameters such as reduction in power lost through transmission, theft and faulty metering, installing smart meters etc.

**Note:** The UDAY Bonds cannot be included as G-Secs under the mandatory SLR requirements. Further, the Borrowings of the state through the issuance of UDAY Bonds would not be considered as part of Fiscal Deficit of the state.

## ►PM UJJWALA YOJANA

- **Objective**: Free LPG Connection to the Households
- **Eligible beneficiaries**: Adult woman member of a BPL family identified through the Socio-Economic Caste Census (SECC).
- **Benefits**: Deposit-free LPG connection with financial assistance of Rs 1,600 per connection by the Centre.
- **Implementation Agency**: Ministry of Petroleum and Natural Gas.

## ►ENERGY EFFICIENCY INITIATIVES IN INDIA

**Legal and Institutional Framework**: The Energy Conservation Act (EC Act) has set up Bureau of Energy Efficiency (BEE) as the statutory body. Further, the Energy Efficiency Services Limited (EESL) is a joint venture of 4 Public sector enterprises. It implements a number of energy efficiency schemes in India.

**INITIATIVES OF THE BUREAU OF ENERGY EFFICIENCY (BEE):**

- **Standards and Labelling:** Provide the consumer an informed choice about the energy saving and thereby the cost saving potential products such as Room Air Conditioners, Fluorescent Tube Lights, Frost Free Refrigerators etc.
- **Energy Conservation Building Codes (ECBC):** ECBC sets minimum energy standards for new commercial buildings having a connected load of 100kW or contract demand of 120 KVA and above.
- **Green Rating for Integrated Habitat Assessment (GRIHA)**: rating tool that helps people assesses the performance of their building against certain nationally acceptable benchmarks of accepted energy and environmental principles.
- **National Mission for Enhanced Energy Efficiency (NMEEE)**: Aims to strengthen the market for energy efficiency by creating conducive regulatory and policy regime. It is being jointly implemented by Bureau of Energy Efficiency and Energy Efficiency Services Limited EESL.

**COMPONENTS OF NMEEE:**

- **Perform, Achieve and Trade (PAT):** Industries in various sectors have been mandated to reduce their specific energy consumption (SEC) (energy used per unit of production) to a specific target based on their current levels of energy efficiency. The units which are able to achieve SEC level that are lower than their targets can receive energy savings certificates (ESCerts) for their excess savings. The ESCerts could be traded on the Power Exchanges and bought by other units under PAT who can use them to meet their compliance requirements.
- **MARKET TRANSFORMATION FOR ENERGY EFFICIENCY (MTEE):** Under MTEE, two programmes have been developed i.e., **Bachat Lamp Yojana (BLY**) and **Super-Efficient Equipment Programme (SEEP)**. Under Bachat Lamp Yojana (BLY), incandescent bulbs are to be replaced by CFLs. In the next phase of BLY, BEE will promote use of LED lights. **Super-Efficient Equipment Programme (SEEP)** is a program designed to bring accelerated development of super-efficient appliances by providing financial stimulus.

**INITIATIVES OF ENERGY EFFICIENCY SERVICES LIMITED (EESL):**

- **UJALA SCHEME: UNNAT JYOTI BY AFFORDABLE LEDS FOR ALL**: It involves distribution of the energy efficient LED bulbs to the consumers.
- **Street Lighting National Programme (SLNP):** Under the programme, EESL replaces the conventional streetlights with LEDs at its own costs.
- **Atal Jyoti Yojana (AJAY)**: To illuminate dark regions through establishment of solar streetlights.

# SECTION 17

# LABOUR, SKILLS AND EMPLOYMENT

## ►KEY TERMS RELATED TO EMPLOYMENT

- **Labour Force**: It includes all the people who are presently employed or are searching for jobs.
- **Workforce**: It includes all the people who are presently employed.
- **Unemployment Rate**= (Labour Force - Work Force)/Labour Force * 100
- **Labour Force Participation Rate (LFPR)** = (Labour Force/ Working Age Population) * 100
- **Employment-to-Population ratio (EPR)**: (Workforce/ Working Age Population) * 100
- **Worker Population Ratio (WPR)**: Number of persons employed per thousand persons.

## ►APPROACHES TO MEASURE EMPLOYMENT/ UNEMPLOYMENT

In the labour force surveys, the activity status of a person is determined on the basis of the activities pursued by the person during certain specified reference period.

**Usual Status Approach:** Reference period is last 365 days (1 year). Person is categorized as "Employed" if he/she is employed for a major part of the year.

**Current Weekly Status**: Reference period is last 7 days (1 week). Person is categorized as "Employed" if he/she is employed for at least 1 hour on any day during the last week.

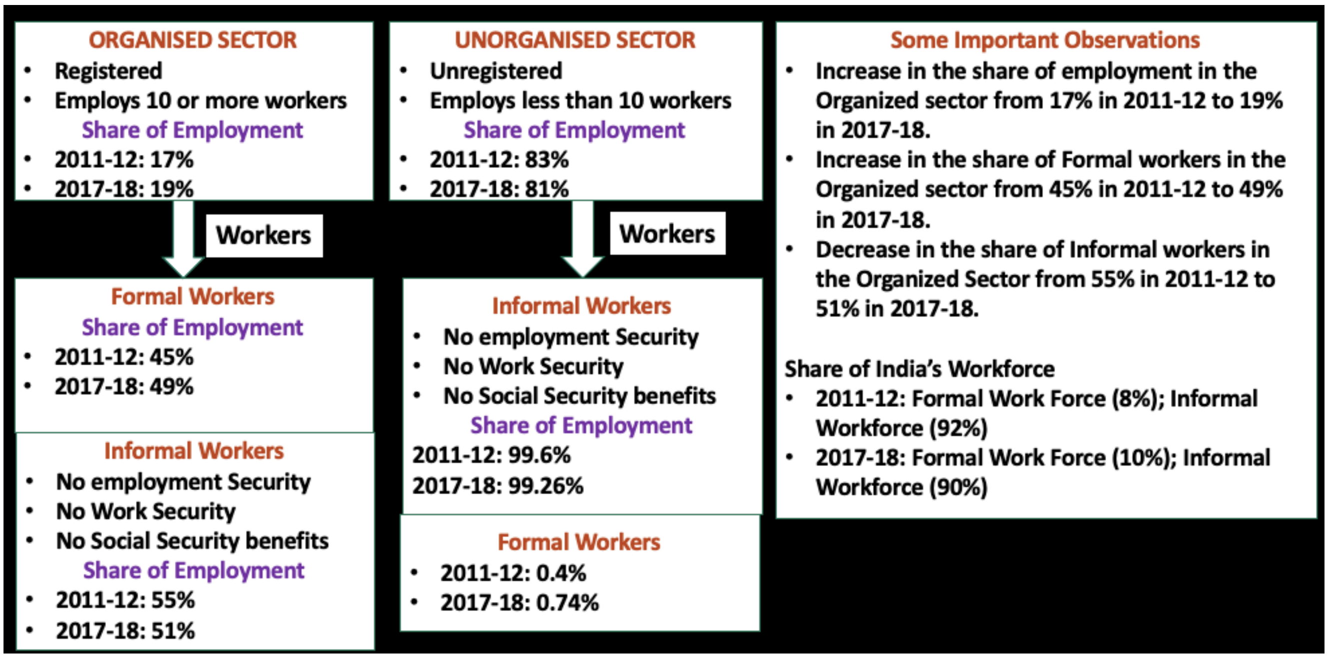
## ►OFFICIAL EMPLOYMENT STATISTICS REPORTS

**Payroll Reporting:** Published by National Statistical Office (NSO). Measures employment related statistics in the formal sector using information on the number of subscribers who have joined social security schemes - Employees' Provident Fund (EPF) Scheme, the Employees' State Insurance (ESI) Scheme and the National Pension Scheme (NPS).

**Quarterly Employment Survey Report:** Published by Labour Bureau, Ministry of Labour and Employment. Measures employment situation in selected non-farm Industrial sectors. Covers 8 major sectors- Manufacturing, Construction, Trade, Transport, Education etc.

**Periodic Labour Force Survey(PLFS) Report:** Published by the National Statistical Office (NSO). Replaced the earlier quinquennial (5-year) Employment-Unemployment Surveys (EUS) surveys in India. It involves quarterly employment survey in Urban areas and Annual Survey in the Rural Areas.

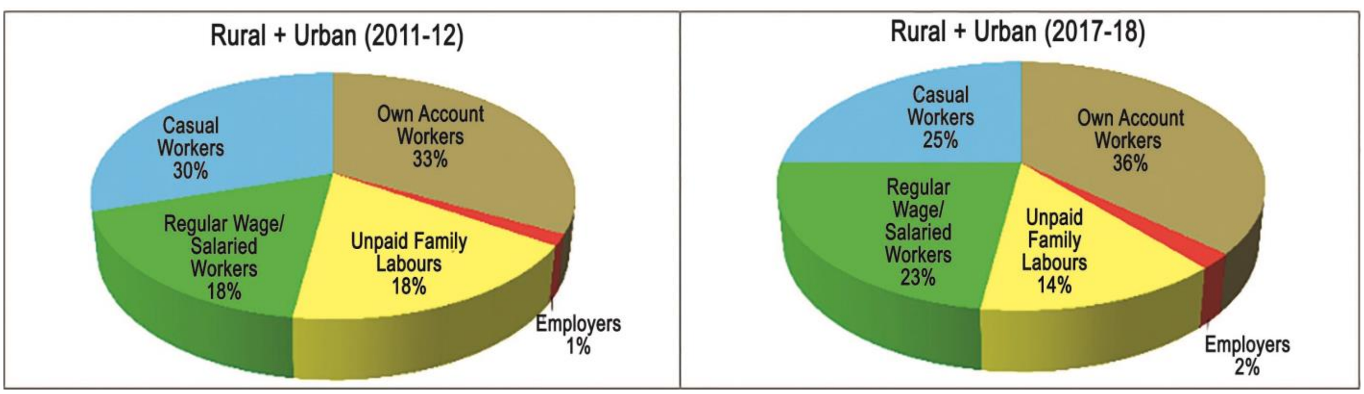
## ►STATUS OF EMPLOYMENT IN INDIA




## ►DIFFERENT CATEGORIES OF WORKERS

The NSO data classifies the workers on the basis of employment status into three categories i.e., self-employed workers; regular wage/salaried employees; and casual labourers.

**Self-employed category**: Consists of employers, own account workers and unpaid family labour. Includes those who work for themselves and do not sell their labour power to anyone else in return for wage. Own account workers operate their own enterprises without hiring labour while employers hire labourers.



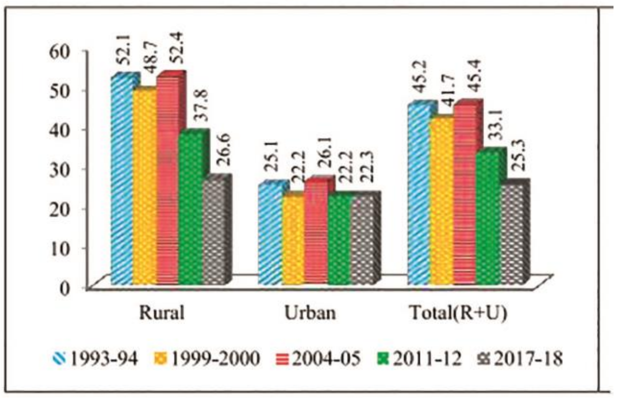
**IMPORTANT OBSERVATIONS**

**Share of different categories:** Self-employed (52%); Casual Workers (25%); Regular wage (23%)

**Largest share:** Own account workers account for the largest share of workers (36%) followed by casual workers (25%) and Regular wage/Salaried workers (23%)

## ►FEMALE PARTICIPATION IN LABOUR MARKET

Figure : Female Labour Force Participation Rate (ps + ss, 15-59 ages) by Location (per cent)




**Important Observations:**

- Labour Force Participation Rate in 2017-18: Total- 49.8%; Male- 75%; Female- 25.3%.
- Female LPFR in Rural Areas (26.6%) higher as compared to Urban Areas (22.3%)
- Decline in the total Female LPFR from 45.2% in 1993-94 to 25.3% in 2017-18.
- Decline in Female LPFR sharper in Rural areas (from 52% in 1993-94 to 26.6% in 2017-18) as compared to Urban areas (from 25.1% in 1993-94 to 22.3% in 2017-18).

## ►EMPLOYMENT ELASTICITY

Employment Elasticity is a measure of the percentage change in employment associated with a 1 percentage point change in economic growth. The employment elasticity indicates the ability of an economy to generate employment opportunities for its population as per cent of its growth (development) process.

- Employment elasticity of 1 denotes that employment grows at the same rate as economic growth.
- Elasticity of 0 denotes that employment does not grow at all, regardless of economic growth.
- Negative employment elasticity denotes that employment shrinks as the economy grows.

**Note:** In India, the employment elasticity in agriculture and manufacturing between 2004-05 and 2009-10 has been negative.

## ►LABOUR WELFARE SCHEMES IN INDIA

**EMPLOYEES' PROVIDENT FUND (EPF)**

**What is it?:** EPF is a social security scheme aimed at salaried individuals run by EPFO which comes under the labour ministry.

**Coverage:** Organizations that employ 20 people or more need to offer EPF benefits to their employees.

**Is it Compulsory?:** Only those who earn up to Rs 15,000 a month have to contribute 12% of their basic salary plus dearness allowance to EPF. The employer contributes an equal percentage (12%) to the corpus out of which 3.67% goes to the EPF and the rest 8.33% goes towards employees' pension scheme (EPS). For those who earn above the threshold of Rs 15,000, contribution to EPF is optional.

**Taxation on EPF:** The EPF falls under the exempt-exempt and exempt tax (EET) regime. This implies that the annual contribution made by the employee is tax deductible up to Rs 1.5 lakh under Section 80C. The interest earned on it is also exempt. Further, there is no tax on the accumulated amount when it is withdrawn.

**Pradhan Mantri Rozgar Protsahan Yojana (PMRPY):** Under this scheme, the Government is paying 12 per cent of employer contribution to EPFO in respect of the *new employees drawing salary up to Rs 15,000 per month for the first three years of their employment*. The scheme has ended on 31st March 2019.

**ATMANIRBHAR BHARAT ROJGAR YOJANA (ABRY)**

A new scheme to incentivize job creation during COVID-19 recovery has been launched. The scheme will be effective from October 1, 2020 and operational till 30th June 2021.

**ELIGIBILITY CRITERIA FOR EMPLOYEES:**

- any new employee joining employment in EPFO registered establishments on monthly wages less than Rs.15,000
- EPF members drawing monthly wage of less than Rs.15,000 who made exit from employment during COVID Pandemic between 1st March 2020 to 30th September 2020 and is employed on or after 1st October 2020.

**BENEFITS TO BE GIVEN BY CENTRE**

- Central Govt. to provide subsidy for two years in respect of new eligible employees engaged on or after 1st October 2020 at following scale:
- Establishments employing up to 1000 employees: Employee's contributions (12% of Wages) & Employer's contributions (12% of wages) totalling 24% of wages.
- Establishments employing more than 1000 employees: Only Employee's EPF contributions (12% of EPF wages).

**Note:** The subsidy support to get credited upfront in Aadhaar seeded EPFO Account (UAN) of eligible new employee.

**EMPLOYEES' STATE INSURANCE (ESI)**

Integrated social security scheme tailored to provide socio-economic protection to the workers in the organized sector and their dependents, in contingencies, such as Sickness, Maternity and Death or Disablement due to an employment injury or occupational hazard. The wage ceiling is Rs.21000/- per month.

**PRADHAN MANTRI SHRAM YOGI MAAN-DHAAN**

**What is it?** : Voluntary and contributory pension scheme--> 50:50 contribution by subscriber and central Government.

**Eligibility:** Unorganised Workers--> Less than Rs 15,000 monthly salary and in age group 18-40 years.

**Minimum Assured Pension**: Rs 3000/- per month after attaining the age of 60 years.

**Family Pension**: Death of Subscriber --> 50% of the pension to the spouse

**Contribution by Subscriber**: Depends upon age of entry.

**Ministry**: Labour and Employment

**ATAL PENSION YOJANA**

**What is it?**: Guaranteed pension of Rs.1000 to Rs.5000 (depending upon contribution) receivable at the age of 60 years.

**Eligibility**: Primarily focussed on Unorganised workers ( But any Indian Citizen in the age-group 18 to 40 years can join through their savings bank account or post office savings bank account)

**Government Contribution**: 50% of total prescribed contribution up to Rs 1000 per annum. 2 Conditions:

1. Available only for a period of 5 years.
2. Subscribers should not be Income tax payers

**Ministry:** Ministry of Finance

## ►SKILLING INDIA- POLICIES AND INITIATIVES

**Present Status:** PLFS Report → only 13% of workforce received training (11%- Informal Training, 2%- Formal Training)

People in working age-group (20-59 years) → Expected to increase from 50% (2011) to 59% (2041) → Need to skill the work force to reap demographic dividend.

**National Skill Development Mission:** Converge, coordinate, implement and monitor skilling activities through institutional structure

**Chart: Institutional Framework of NSDM**

| Key institutional Mechanisms | Functions |
|---|---|
| **Governing Council**<br>Chair: Prime Minister | • Provide overall guidance and policy direction<br>• Decide on Sub-Missions in high priority aras<br>• Review overall progress and development of Mission activities<br>• Overlook convergence of all skill development initiatives/schemes across Central Ministries/Departments with Mission objectives. |
| **Steering Committee**<br>Chair: Minister, SDE | • Ensure implementation as per Government Council directions<br>• Set targets and approve annual Mission Plan<br>• Review overall progress of Mission activities on a quarterly basis |
| **Mission Directrate (Executive Committee)**<br>Chair: Secretary, SDE | • Implement, monitor Mission activities<br>• Coordinate implementation of Governing Council & Steering Committee decisions<br>• Coordinate State efforts and submissions<br>• Coordinate Sub-Missions. |
| **NDSA/N5DC/DGT** | **State Skill Development Missions** |

**National Skill Development Agency:** Quality Assurance and policy research body. Evaluate existing schemes to improve their efficacy and suggest improvements; Ensure skilling needs of marginalised sections are taken care of etc.

**National Skill Development Corporation:** PPP to promote skill development: Government (49%); Private Sector (51%) Financing of schemes such as Pradhan Mantri Kaushal Vikas Yojana (PMKVY), Pradhan Mantri Kaushal Kendra (PMKK) etc.

**Pradhan Mantri Kaushal Vikas Yojana (PMKVY):** Objective: Skill 1 crore people over the four years (2016-2020)

**Components:** (a) Short-term Training at training centres affiliated and accredited by NSDC and (b) Recognition of Prior learning: Issuing Skill certificates to the people with existing skill set.

**Pradhan Mantri Kaushal Kendras:** Establish state-of-art Model District training centres in every district of India. Strategy: Provide soft loan up to Rs 70 lakhs to create training infrastructure.

**Udaan:** Special skill development scheme for Youths in Jammu and Kashmir. Financed by Ministry of Home affairs.

**Pradhan Mantri Yuva Yojana:** Entrepreneurship training and Education programmes in institutes of higher learning and Entrepreneurship development centres (EDCs).

**National Skill Development Fund**: Set up by Government to receive contributions from Government and Non-Government agencies for skilling. Money spent by NSDC for building skills.

## ►APPRENTICESHIP TRAINING

Apprenticeship is regulated in India by Apprentices Act, 1961.

### SALIENT FEATURES

- All the establishments having work force (regular and contract employees) of 40 or more are mandated to engage apprentices undertake Apprenticeship Programmes in a range from 2.5% -10% of their workforce (including contractual employees) every year.
- For establishments having a workforce between 6 and 40, engagement of apprentices is optional. Establishments have a workforce of 5 or less are not permitted to engage apprentices.
- National Apprenticeship Promotion Scheme has been launched to promote apprenticeship training and incentivize employers who wish to engage apprentices. Under the scheme, there is 25% of reimbursement of prescribed stipend and sharing of cost of basic training.

### RECENT CHANGES IN APPRENTICESHIP RULES

- Minimum stipend amount that will be paid to trade apprentices will be based on qualification. The amount can range anywhere between INR 5000 per month to INR 9000 per month from now onwards.
- Size-limit of an establishment with a mandatory obligation to engage apprentices on an optional basis has been lowered from 40 to 30.

## ►LABOUR REFORMS IN INDIA

### CODE ON WAGES, 2019

Amalgamates 4 wages and payment related labour laws viz; the Payment of Wages Act, 1936, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965 and the Equal Remuneration Act, 1976.

### SALIENT FEATURES:

- Statutory right for minimum wages and timely payment of wages to all workers whether in organized or unorganized sector. Method of fixation of minimum wage rates simplified. Factors to be taken into account are types of skills and geographical location as against the present system of wage being fixed employment-wise.
- Number of minimum wage rate would be around 200 in the entire country as against 10000, at present.
- Revision of minimum wages in every 5 years.
- A statutory concept of 'Floor Wage' introduced.

### INDUSTRIAL RELATIONS (IR) CODE, 2020

Provides for the recognition of trade unions, notice periods for strikes and lockouts, standing orders, and resolution of industrial disputes. Subsumes and replaces three labour laws: Industrial Disputes Act, 1947; the Trade Unions Act, 1926; and the Industrial Employment (Standing Orders) Act, 1946.

**Provisions on Fixed Term Employment:** Refers to workers employed for a fixed duration based on a contract signed between the worker and the employer.

| Feature | Fixed Term Employee | Permanent Employee | Contact Labour |
|---|---|---|---|
| **Type of employment** | • Employment under written contract. | • Employment directly under a written contract. | • Engaged in an establishment through a contractor or agency. |

| | | | |
|---|---|---|---|
| | • No contractor or agency is involved,<br>• On the payroll of the establishment. | • On the payroll of the establishment | • Not on the payroll of the establishment. |
| **Term** | • Stipulated fixed term.<br>• Employment lapses on completion of term, unless renewed. | • Employed on a permanent basis<br>• Notice must be given for termination of employment- | Based on terms negotiated with the contractor |
| **Nature of work** | Not specified. | Hired for routine work. | Employment may be prohibited in certain cases, e.g., if similar work is carried out by regular workmen. |

**Applicability of Standing Orders:** All industrial establishment with 300 workers or more must prepare standing orders on the matters related to: (i) classification of workers, (ii) manner of informing workers about work hours, holidays, paydays, and wage rates, (iii) termination of employment, and (iv) grievance redressal mechanisms for workers.

**Closure and Lay-off:** Prior permission will be required for establishments with at least 300 workers (Earlier 100 workers)

**Strikes and Lockouts:** Prior notice of 14 days before a strike or lock-out

**Power to Exempt Industries:** Provides the government with the power to exempt any new industrial establishment or class of establishment from any or all of its provisions if it is in "Public Interest".

## SOCIAL SECURITY CODE, 2020

Provide social security benefits such as Provident Fund, Insurance etc. to the workers. It seeks to replaces nine laws related to social security. These include the Employees' Provident Fund Act, 1952, the Maternity Benefit Act, 1961, and the Unorganised Workers' Social Security Act, 2008.

**Social Security Entitlements:** Coverage of Employees State Insurance Corporation (ESIC) has been extended pan India to all establishments employing 10 or more employees as against notified districts/ areas. Envisages extension of benefits to the employees working in establishments with less than 10 employees on voluntary basis and on mandatory basis through notification by the Central Government

**Expanded Coverage of Workers:** Provisions for registration of various categories of workers- Unorganised, Gig Workers and Platform workers. Gig workers refer to workers outside the traditional employer-employee relationship. Platform workers are those who access organisations or individuals through an online platform and provide services or solve specific problems.

**Social security for Gig Workers:** Small contribution from aggregators between one to two per cent of turnover subject to limit of five per cent payable to gig and platform workers has been introduced.

**Dedicated Fund:** Social Security Fund is proposed to be established to formulate schemes for social security to the workers of unorganised sector.

## OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS CODE 2020

Regulate health and safety conditions of workers. It subsumes and replaces 13 labour laws relating to safety, health and working conditions. These laws include: Factories Act, 1948; Mines Act, 1952; Dock Workers Act, 1986; Contract Labour Act, 1970; and Inter-State Migrant Workers Act, 1979.

**Threshold for Coverage of Establishments:** Defines a factory as any premises where manufacturing process is carried out and it employs more than: (i) 20 workers, if the process is carried out using power, or (ii) 40 workers, if it is carried out

**Power to Exempt Industries:** Empowers the Government to exempt any new factory from the provisions of the Code in order to create more economic activity and employment.

**Benefits for Inter-State Migrants:** Form of option to avail PDS either in Native State or state of employment, Insurance and Provident Fund Benefits. Create a database of Inter-state Migrant Workers

SECTION 18

# POVERTY AND INCLUSIVE GROWTH

## ►IMPORTANT TERMS RELATED TO POVERTY

A person is said to be poor, if he is unable to meet the basic needs. The World bank defines extreme poverty as living on less than $ 1.90 per day.

**Absolute poverty:** - A person is said to be absolutely poor if he is unable to meet his basic needs.

**Relative poverty:** - A person is said to be relatively poor if his daily expenditure is lower than the average expenditure in the country.

**Head count** :- It refers to the proportion of the people living BPL.

**Poverty line:**- It refers to the minimum expenditures to be incurred by a person in order to meet his basic needs in India. The poverty line is fixed at Rs 27 in rural area and Rs 32 in urban areas.

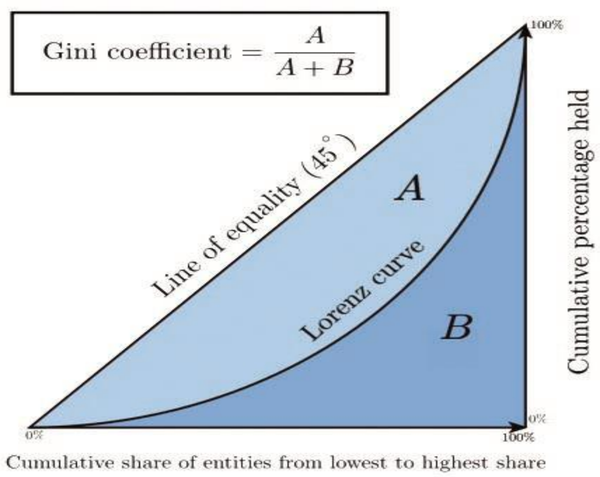
**Poverty gap Index (PGI):**_The PGI measures the intensity of poverty in an economy. Measures the extent to which individuals on average fall below the poverty line.

## ►LORENZ CURVE AND GINI COEFFICIENT

Lorenz curve shows the percentage of total income earned by cumulative percentage of the population.

In a perfectly equal society, the 10% of the population would earn 10% of the cumulative income. Similarly, 25% of the population would earn 25% of the cumulative income. Hence, as shown in the figure, in a perfectly equal society, the line inclined at 45° is called as "Line of Perfect Equality".

As inequality increases, the Lorenz curve deviates from the line of equality and shows that income gets concentrated in few sections of the society.




Gini coefficient is defined as A/(A+B), where A is the area between Line of Perfect Equality and Lorenz Curve and B is area between Lorenz Curve and X-Axis (As shown in the figure)

If A=0 (i.e., Lorenz Curve lies along the line of Perfect Equality), then Gini-Coefficient (A/A+B) = 0, which denotes Perfect Equality.

If B=0 (i.e., Lorenz Curve lies along X), then Gini-Coefficient (A/A+B) = 1, which denotes Perfect Inequality. Thus, as Gini-Coefficient increases, the inequality in the country increases

## ►HDI Vs HCI

| DIFFERENCE BETWEEN HUMAN DEVELOPMENT INDEX (HDI) AND HUMAN CAPITAL INDEX (HCI) | |
|---|---|
| HUMAN DEVELOPMENT INDEX (HDI) | HUMAN CAPITAL INDEX |
| → Measured by UNDP | → Measured by World Bank |
| • The Human Development Index (HDI) is a **summary measure of average achievement** in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living.<br>• Thus, it measures the present level of Human Development | • It measures the amount of human capital that a child born today can expect to attain by age 18.<br>• Thus, it is more of a potential or future level of Human Development expected from investment in Education and Health. |
| **3 Parameters:**<br>• **Life Expectancy Index:** Measured by Life Expectancy at birth<br>• **Education Index:** Measured by Expected Years of Schooling and Mean Years of Schooling<br>• **Standard of Living:** Measured by Per Capita Income | **3 Parameters:**<br>• **Survival:** Measured by under 5 mortality.<br>• **Expected years of Quality-adjusted school:** Measured by both Quantity and Quality of Education<br>• **Health environment:** Measured by Adult Survival Rate and Rate of stunting of Children under the age 5 |

**Note:**

1. India's rank on HDI in 2019: 131. In 2018, it was 129
2. In terms of average annual HDI growth rate between 2010-2019, India is ranked at 3rd place behind Bangladesh and Myanmar.
3. India's rank on HCI in 2020: 116th. Value: 0.49

## ►PLANETARY PRESSURES-ADJUSTED HDI (PHDI)

**Details**: Experimental index that adjusts the Human Development Index (HDI) for planetary pressures. The PHDI discounts the HDI for pressures on the planet to reflect a concern for intergenerational inequality.

**Measurement:** PHDI is the level of human development adjusted by carbon dioxide emissions per person (production-based) and material footprint per capita to account for the excessive human pressure on the planet.

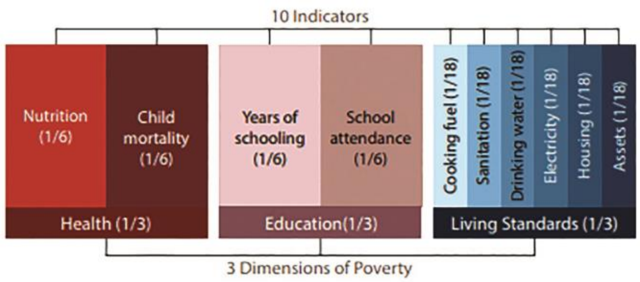
**Interpretation of Values:** In an ideal scenario where there are no pressures on the planet, the PHDI equals the HDI. However, as pressures increase, the PHDI falls below the HDI. In this sense, the PHDI measures the level of human development when planetary pressures are considered.

## ►MULTI-DIMENSIONAL POVERTY INDEX (MPI)

**Details:** Released by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI). Released at the High-

Level Political Forum (HLPF) on Sustainable Development of the United Nations in July, every year.

**Measurement:** MPI assesses poverty at the individual level. If someone is deprived in a third or more of ten (weighted) indicators, the global index identifies them as 'MPI poor', and the intensity of their poverty is measured by the percentage of deprivations they are experiencing.




**INDIA'S PERFORMANCE ON MPI 2020**

India is 62nd among 107 countries with an MPI score of 0.123 and 27.91% headcount ratio. Neighbouring countries - Sri Lanka (25th), Bhutan (68th), Nepal (65th), Bangladesh (58th), China (30th), Myanmar (69th) and Pakistan (73rd)

## ►GLOBAL HUNGER INDEX (GHI)

Jointly published by Concern Worldwide and Welthungerhilfe.

**INDICATORS:**

- **UNDERNOURISHMENT:** the share of the population that is undernourished (that is, whose caloric intake is insufficient).
- **CHILD WASTING:** the share of children under the age of five who are wasted (that is, who have low weight for their height, reflecting acute undernutrition)
- **CHILD STUNTING:** the share of children under the age of five who are stunted (that is, who have low height for their age, reflecting chronic undernutrition); and
- **CHILD MORTALITY:** the mortality rate of children under the age of five.

**Score:** 100-point scale where 0 is the best possible score (no hunger) and 100 is the worst.

**India's performance on GHI 2020**: 94th rank out of 107 countries. India falls in "Serious" category.

## ►ENVIRONMENTAL KUZNETS CURVE HYPOTHESIS

Economic development initially leads to a deterioration in the environment, but after a certain level of economic growth, a society begins to improve its relationship with the environment and levels of environmental degradation reduces. From a very simplistic viewpoint, it can suggest that economic growth is good for the environment.

**Note:**

**Kuznets curve:** Relationship between economic growth and inequality. It is inverted U shaped meaning that as initially economic growth leads to greater inequality, followed later by the reduction of inequality.

## ►INNOVATION ECOSYSTEM IN INDIA

India entered the top 50 innovating countries for the first time in 2020 since the inception of the Global Innovation Index (GII) in 2007. However, the Economic Survey 2020-21 has raised number of concerns with R&D ecosystem in India.

**Lower Expenditure:** The Investments in R&D measured in terms of Gross Expenditure on R&D (GERD) have shown a consistently increasing trend over the years. The GERD has more than tripled in the last decade Rs. 24,000 crores in 2004-05 to Rs 1.04 lakh crores in 2016-17. However, as percentage of GDP, GERD has remained stagnant at around 0.7% of India's GDP. It is much lower as compared to other countries- China (2.1%); USA (2.8%); South Korea (4.2%); Israel (4.3%) etc.

**Lower Share of Private Sector Investment:** The major share of GERD (0.7% of GDP) is incurred by the Public Sector (0.4%). The share of private sector is hardly around 0.3% of GDP.

**Problems with the Government's Expenditure on R&D:** Most of the GERD is incurred by the Central Government and the share of state government is quite marginal.

**Lower number of Patents filed by Residents:** The lower expenditure on R&D has in turn led to India's poor ranking on international indices such as International IP Index, Global Innovation Index and Global Competitiveness Report.

## ►BARE NECESSITIES INDEX

The economic survey 2020-21 has constructed a Bare Necessities Index (BNI), which is a composite index of bare necessities. It uses the data from the National Sample Survey Office national surveys in 2018 and 2012 and National Family Health Surveys.

The index covers 5 dimensions of basic needs- Water, Sanitation, Housing, Micro-environment and Other Facilities.

India's Performance: Access to basic necessities have improved across all States from 2012 to 2018.Access to bare necessities is the highest in the States such as Kerala, Punjab, Haryana and Gujarat while it is the lowest in Odisha, Jharkhand, West Bengal and Tripura.

## ►SDG INDIA INDEX

Developed by NITI Aayog in collaboration with the Ministry of Statistics and Programme Implementation (MoSPI), United Nations in India, and Global Green Growth Institute.

The 2019 Index spans 16 out of 17 SDGs with a qualitative assessment on Goal 17. This marks an improvement over the 2018 Index, which covered only 13 goals.

If a State/UT achieves a score of 100, it signifies it has achieved the 2030 national targets. The higher the score of a State/UT, the closer it is towards achieving the targets. Classification criteria based on SDG India Index score is as follows: Aspirant: 0–49; Performer: 50–64; Front Runner: 65–99; Achiever: 100

**INDIA'S PERFORMANCE**

- India's composite score has improved from 57 in 2018 to 60 in 2019, thereby showing noticeable progress.
- All three states that were in the 'Aspirant' category (with score/s in the range of 0–49)—Uttar Pradesh, Bihar and Assam—have graduated to the 'Performer' category (50–64). Thus, presently, there are no states in the Aspirant category.
- Top Performing States: Kerala, HP, Andhra Pradesh, Telangana and Tamil Nadu.
- Bottom ranked States: Bihar, Jharkhand, Arunachal Pradesh, Meghalaya and UP.
- Top Performing UTs: Chandigarh, Puducherry, Dadra and Nagar Haveli.

## ►TERMS RELATED TO DEMOGRAPHY

**Fertility Rate**: It refers to the average number of children born or likely to be born to a woman in her lifetime.

**Replacement level Fertility**: The Fertility rate at which the Population would be able to replace itself from one-generation to next. It is calculated as 2.1.

- If the fertility rate is more than replacement level fertility, then a country would see a positive population growth rate.
- If the Fertility rate is equal to replacement level fertility, then a country would see zero population growth rate.
- If the fertility rate is less than replacement level fertility, then a country would see declining population growth rate.

**Double Dependency:** Moderate child dependency and relatively high old-age dependency reflect above or near replacement fertility and declining mortality.

## ►CHANGING AGE-COMPOSITION STRUCTURE IN INDIA

The average population growth rates in India have reduced from 2.5% (1971-81) to 1.3% (2011-16). This decrease is mainly on account of decline in the fertility rates from 4.5 (1971) to 2.3 (2016).

Going forward, it is expected that the population growth rate would further reduce to less than 1% by the end of 2041. The Fertility rate is expected to reduce to 1.6-1.7, which is considered to be below the replacement level fertility.

Hence, the decline in the fertility rate accompanies by the decline in the population growth rates is set to alter the age-composition structure in India as shown below:

| Population (Age-Group) | 2011 | 2041 |
|---|---|---|
| 0-19 | 41% | 25% |
| 20-59 | 51% | 59% |
| Greater than 60 | 8% | 16% |

The Demographic Dividend in India is set to peak by the end of 2041 when the share of working-age population would increase to 59%. Beyond 2041, demographic dividend would start tapering. Hence, India has a small window of opportunity of next 2 decades to optimally utilize the demographic dividend.

## ►SON-META PREFERENCE

The Economic Survey 2017-18 defines "Son-Meta Preference" as tendencies among Indian parents who are opting to continue having children until they have a son or desired number of sons.

The survey finds that there is decreased tendency among the parents to opt for sex selective abortion. This has contributed for betterment of female sex ratio. However, the son meta preference has added 21 million girls, who are termed as "unwanted girls" by the economic survey.

A son "meta" preference – even though it does not lead to sex-selective abortion – may nevertheless be detrimental to female children because it may lead to fewer resources devoted to them. A different indicator in the form of sex ratio of the last child (SRLC) is used to detect such a "meta" preference for a son. A preference for sons will manifest itself in the SRLC being heavily skewed in favor of boys.

# SECTION 19

# PLANNING IN INDIA

## ►SALIENT FEATURES OF FIVE YEAR PLANS

| FIVE YEAR PLAN | FOCUS/ OBJECTIVE |
|---|---|
| **First FYP (1951-56)** | • Influx of refugees, severe food shortage & mounting inflation confronted the country at the onset of the first five-year Plan<br>• Focused on agriculture- Land Reforms and Irrigation Projects (Bhakra Nangal, Damodar Valley Corporation etc.); Community development Programme (1952)<br>• Based on Harold- Domar Model |
| **Second FYP (1956-61)** | • Mahalanobis Plan Focussed on (a) rapid industrialization- heavy & basic industries (b) Import Substitution<br>• Iron and Steel Plants set up with support of foreign technology at Rourkela, Durgapur and Bhilai<br>• Industrial Policy 1956 was based on establishment of a socialistic pattern of society as the goal of economic policy. |
| **Third FYP (1961-66)** | • Objective: 'Self-reliant' and 'Self-generating' economy. Agriculture sector was given top priority.<br>• Unsuccessful: Chinese aggression (1962), Indo-Pak war (1965), severe drought 1965-66<br>• Failure of Third Plan led to Devaluation of Rupee. |
| **Three Annual Plans (1966-69)** | • Failure of third Five year Plan led to the declaration of "Plan Holiday";<br>• Initiation of Green Revolution |
| **Fourth Five Year Plan (1969-1974)** | • Need for Identification and development of Backward Areas- Programmes such as Drought Prone Area Programme (DPAP), Desert Development Prog (DDP) etc.<br>• Nationalisation of 14 Banks in 1969; |
| **Fifth FYP (1974-78)** | • Objective: 'Removal of poverty' (Garibi Hatao) and 'Attainment of self reliance'<br>• Promulgation of emergency in 1975; Implementation of Prime Ministers 20 Point Programme<br>• The plan was terminated in 1978 by the Janata Party. |
| **Rolling Plans (1978-80)** | • Two Sixth Plans: Rolling Plan by Janata Party (1978-80) and Sixth FYP by Indira Gandhi Government (1980-85)<br>• Formulated by the Janata Party. Focused on Employment Creation |
| **Sixth Five Year Plan (1980-85)** | • Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment<br>• Programmes: Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self-employment (TRYSEM), National Rural Employment Programme (NREP) etc. |

| | |
|---|---|
| | • Nationalisation of 6 Banks |
| **Seventh Five Year Plan (1985-1990)** | • Focus on 'food, work & productivity'<br>• Economy recorded 6% growth rate against the targeted 5% and thus struggled out of<br>• The "Hindu Rate of Growth". |
| **Eighth FYP (1992-97)** | • Worsening Balance of Payment position, rising debt burden , widening budget deficits, recession in industry and inflation were the key issues during the launch of the plan.<br>• Introduction of LPG Reforms |

## ►DIFFERENCE BETWEEN PLANNING COMMISSION AND NITI AAYOG

| CRITERIA | PLANNING COMMISSION | NITI AAYOG |
|---|---|---|
| **Composition** | • **PM:** Chairperson<br>• **Deputy Chairperson:** De-facto Executive Head<br>• Finance Minister and Minister for Planning<br>• Ministers nominated by PM | **Governing Council:**<br>• **PM:** Chairperson<br>• Vice Chairperson<br>• CMs of all the States<br>• CMs of UTs - Delhi and Puducherry<br>• Lt. Governor of A&N Islands<br>• 4 Union Ministers as Ex-officio Members<br>• Union Ministers as Special Invitees |
| **Nature of Planning** | **Imperative Planning**<br>Five Year Plans | **Indicative Planning**<br>15 Year Vision; 7 Year Strategy; 3 Year Action Agenda |
| **Power of allocation of Finances** | Yes | No |
| **Role of States** | Limited to the approval of Plans as part of NDC | More enhanced Role. |
| **Enhanced Role** | N/A | Think Tank; Systems Reform Commission |

## ►IMPORTANT INITIATIVES OF NITI AAYOG

- **Sustainable Action for Transforming Human Capital (SATH):** Aimed at initiating transformation in two key social sectors—education and health, by hand-holding States
- **Ek Bharat Shrestha Bharat:** It was conceptualized to make our country united, strong and promote excellence in all walks of life by means of long-term inter-state engagements through cultural exchanges and education.
- A**spirational Districts Programme:** Special initiative to rapidly transform 115 identified districts that have shown relatively lesser progress in key social areas and have emerged as pockets of under-development, thereby posing a challenge to ensure balanced regional development. The broad contours of the programme are Convergence (of Central & State Schemes), Collaboration (of Central, State level 'Prabhari' Officers & District Collectors), and Competition among districts driven by a mass Movement.
- **NITI Forum for North East:** It is the first ever regional forum constituted by NITI Aayog with representation from all the NE States and the concerned Central Ministries/Departments.
- **Island Development Agency (IDA):** The IDA was set up in June 2017 under the Chairmanship of the Home Minister of India, with the CEO, NITI Aayog as the Convener. It undertakes reviews on the progress relating to holistic development of identified islands.
- **'SAMAVESH'**, - a major initiative aimed at networking and partnership with knowledge and research institutions using a hub and spoke model was launched.
- A**tal Innovation Mission:** Promote innovation and entrepreneurship in the country.
- **Important Indices**: NITI Aayog has developed the 'Healthy States, Progressive India' Report also known as the 'Health Index' in February 2018. The Composite Water Management Index was also launched in June 2018. The 'School Education Quality Index (SEQI)', 'SDG India Index' and the 'Digital Transformation Index' (DTI) are other important initiatives of NITI Aayog.

# SECTION 20

# REPORTS & COMMITTEES

## ►REPORTS

| | | |
|---|---|---|
| 1. | • World Trade Outlook Report<br>• World Trade Report<br>• World Trade Statistical Review | World Trade Organisation |
| 2. | • World Economic Outlook<br>• Global Financial Stability Report<br>• Fiscal Monitor<br>• External Sector Report<br>• Global Housing Watch (Global Real House Price Index) | International Monetary Fund (IMF) |
| 3. | • World Development Report<br>• Ease of Doing Business Report<br>• State of Trends of Carbon Pricing<br>• South Asia Economic Focus<br>• Migration and Development Brief (tracks remittances)<br>• Global Economic Prospects Report<br>• Poverty and Shared Prosperity Report | World Bank |

| | | |
|---|---|---|
| 4. | Human Development Report | UNDP |
| 5. | The Global Risks Report<br>Global Competitiveness Report<br>Future of Jobs Report<br>Global gender gap report | World Economic Forum |
| 6. | Social Institutions and Gender Index (SIGI) | OECD |
| 7. | Global Food Policy Report | IFPRI |
| 8. | • World Intellectual Property Indicators Report<br>• World Intellectual Property Report | WIPO |
| 9. | Global Innovation Index | Released jointly by WIPO, Cornell University and INSEAD |
| 10. | World Talent Ranking | International Institute for Management Development (Switzerland) |
| 11. | • Inclusive Internet Index<br>• Democracy Index<br>• Climate Change Resilience Index<br>• Global Liveability Index<br>• Global Microscope<br>• Blue Peace Index<br>• Safe Cities Index | Economist Intelligence Unit |
| 12. | • The State of Food and Agriculture<br>• The State of Food Security and Nutrition in the World<br>• The State of World Fisheries and Aquaculture<br>• The State of World's Forests<br>• The State of Agricultural Commodity Markets | Food and Agriculture Organisation |
| 13. | Industrial Development Report 2020 | UNIDO (United Nations Industrial Development Organisation) |
| 14. | • Trade and Development Report<br>• World Investment Report<br>• Digital Economy Report<br>• Review of Maritime Transport Report<br>• Technology and Innovation Report<br>• Commodities and Development Report | UNCTAD |
| 15. | • World Employment and Social Outlook Report<br>• World Employment and Social Outlook: Trends<br>• Global Wage Report<br>• World Social Protection Report | International Labour Organisation |
| 16. | Damocles Index (Volatility in Exchange Rates) | Nomura |
| 17 | Global Unicorn List | Hurun Research Institute |
| 18 | State of Food security and Nutrition in world Report | FAO, WHO, UNICEF and World Food Programme |

## ►COMMITTEES

| | | |
|---|---|---|
| 1 | Dalwai Committee | Doubling Farmers' Income |
| 2. | U K Sinha committee | Development of MSME sectors |
| 3. | Tapan Ray | Committee on Core Investment Companies |
| 4. | Bimal Jalan Committee | RBI's Economic Capital Framework |
| 5. | Urjit Patel Committee | Review of Monetary Policy Framework |
| 6. | Nachiket Mor Committee | Differentiated Banks in India- Payment and Small Finance Banks |
| 7. | Usha Thorat | Offshore Ruppee Markets |
| 8. | Nandan Nilekani | Deepening of Digital Payments |
| 9. | Y M Deosthalee | Public Credit Registry for India |
| 10 | Surjit Bhalla | HLAG on Trade and Policy |
| 11 | Injeti Srinivas | • Committee to review competition law<br>• Committee to review provisions related to Corporate Social Responsibility<br>• Committee to review of penal provisions of Companies Law |
| 12 | Subhash Chandra Garg | • Committee on Virtual Currencies<br>• Committee to regulate on fintech |
| 13 | Baba Kalyani | Review of Special Economic Zones. |
| 14. | Ramesh Chand | Revision of Wholesale Price Index |
| 15 | K V Kamath Committee | Restructuring of loans impacted by COVID-19 |

# SECTION 21

# MCQs

# ANSWER KEY

**Q1.** A drastic increase in the velocity of money is necessarily associated with which among the following?
1. Increase in the Nominal GDP growth rate.
2. Increase in the absolute amount of money in circulation.
3. Increase in rate of Inflation.

Select the correct answer using the code given below:
(a) 1 only (b) 1 and 2 only
(c) 2 and 3 only (d) 1 and 3 only

**Q2.** Which among the following can be associated with the Liquidity Trap in an Economy?
1. Lower rate of Inflation
2. Higher Domestic Savings
3. Decrease in GDP growth rate

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

**Q3.** A Positive Real Rate of Interest is associated with which among the following?
(a) Higher savings and Lower Inflation
(b) Lower Savings and Higher Inflation
(c) Lower savings and Lower Investment
(d) Higher savings and Higher Investment

**Q4.** Which among the following components is/are considered to be part of Gross Capital Formation (GCF)?
1. Changes in Stock Inventories
2. Intellectual Property Rights such as R&D, Software etc.
3. Increment in Livestock and Plantation

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

**Q5.** Investment facilitation agreement, sometimes seen in the news, is related to which of the following?
(a) Multilateral Investment Guarantee Agency of World Bank
(b) United Nations Conference on Trade and Development
(c) Asian Infrastructure Investment Bank (AIIB)

(d) World trade organization

**Q6.** Consider a typical scenario:
You need to travel to office. While checking the fares on different ride sharing platforms, you get to know that Uber Fares are much higher than fares on Ola. Hence, you decide to travel to your office by booking an Ola Cab.
In the above scenario, the price elasticity of demand can be considered as

(a) Perfectly Elastic (b) Perfectly Inelastic
(c) Relatively Inelastic (d) Relatively Elastic

**Q7.** Which among the following steps is/are not likely to be taken by the Government/RBI to promote economic growth?

1. Adopt Calibrated Tightening Monetary policy stance
2. Adopt Counter-cyclical Fiscal Policy
3. Decrease Repo Rates and MSF
4. Decrease Reverse Repo

Select the correct answer using the code given below:
(a) 1 only (b) 1 and 2 only
(c) 2, 3 and 4 only (d) 1, 3 and 4 only

**Q8.** With reference to Strategic Disinvestment, consider the following statements:

1. It involves transfer of Government's shares to a Strategic private sector or public Sector company along with management control.
2. The Strategic partner must compulsorily hold at least 51% of the ownership upon strategic disinvestment.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q9.** Consider the following statements:

1. The Fiscal Deficit has consistently increased in the last decade.
2. The effective Revenue Deficit has been eliminated in 2019-20.
3. A higher share of Fiscal Deficit is used for financing Revenue Expenditure in India.

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

**Q10.** Which among the following best describes the concept of "Patent Box Regime"?
(a) Income tax exemptions on Research and Development
(b) Lower tax rate for the income generated from the Patents
(c) Exemptions on the patents for agricultural technologies under WTO's Amber Box
(d) Exemptions on the patents for the Vaccines for pandemic diseases.

**Q11.** Which among the following is/are likely to be associated with Full rupee convertibility on Capital account transactions?

1. Lower exchange rate volatility
2. Outflow of Domestic Savings
3. Replacement of Dollar by Rupee as International Currency
4. Doing away with the need to maintain Forex Reserves
5. Easier Access to Foreign capital

Select the correct answer using the code given below:
(a) 1 and 2 only (b) 1, 3 and 4 only
(c) 3, 4 and 5 only (d) 2 and 5 only

**Q12.** Which among the following best describes the term "SOFR" in the banking sector?
(a) New tool of the RBI to inject liquidity into Economy
(b) New tool used in Money market for Inter-bank borrowing and lending
(c) New Replacement for LIBOR
(d) New tool to reduce Asset-Liability mismatch of NBFCs.

**Q13.** Which among the following can be considered as Pro-Cyclical Fiscal policy?

1. Increase in Government's expenditure during Recession
2. Increase in Government's expenditure during Economic Boom
3. Decrease in Government's expenditure during Recession
4. Decrease in Government's expenditure during Economic Boom

Select the correct answer using the code given below:
(a) 1 and 2 only (b) 2 and 3 only
(c) 1 and 4 only (d) 3 and 4 only

**Q14.** A particular country has a very high value of Negative Interest rate growth differential (IRGD). What does it denote?

1. Higher capacity to repay loans.
2. Lower Debt Sustainability
3. Enhanced capacity to provide Fiscal Stimulus

Select the correct answer using the code given below:
(a) 1 only (b) 2 only
(c) 1 and 3 only (d) 2 and 3 only

**Q15.** Which among the following best describes the Greenspan-Guidotti rule?
(a) A country's forex reserves should be equal to its total external debt

(b) A country's forex reserves should be equal to long-term external debt
(c) A country's forex reserves should be equal to short-term external debt
(d) A country's forex reserves should be equal to its total internal debt

**Q16.** Which among the following payment systems are presently operated by the Reserve Bank of India (RBI)?
1. Real Time Gross Settlement (RTGS)
2. National Electronics Fund Transfer (NEFT)
3. TReDS Platform
4. Immediate Payment Service (IMPS)

Select the correct answer using the code given below:
(a) 1 and 2 only (b) 1, 2 and 4 only
(c) 2 and 3 only (d) 1, 2, 3 and 4

**Q17.** Which among the following best describes the concept of "Paradox of Thrift"?
(a) Increase in Investment leads to decrease in employment creation.
(b) Increase in Savings leads to increase in Investment and GDP growth.
(c) Decrease in Investment leads to decrease in Savings.
(d) Increase in Savings leads to decrease in GDP Growth.

**Q18.** With reference to Negotiable Warehousing Receipts (NWRs), consider the following statements:
1. The farmers can use Warehouse Receipt as collateral for short-term borrowing to obtain working capital.
2. The Warehousing Development and Regulatory Authority functions under the Ministry of Agriculture and Farmers' welfare.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q19.** With reference to Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020, consider the following statements:
1. This act seeks to abolish the APMCs set up by the States and give freedom to the farmers to sell their produce anywhere within India.
2. No Market fee to be imposed on the sale of agricultural produce under this act.
3. It provides for a dispute resolution mechanism in the form of conciliation Board to be set up by Sub-Divisional Magistrate at the district level.

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

**Q20.** Which among the following sources of Renewable energy come under the policy of Renewable Purchase Obligation (RPO) in India?
1. Small Nuclear Power Plants
2. Small Hydro-power Projects (less than 25 MW)
3. Large Hydro-power projects (More than 25 MW)
4. Ocean Energy

Select the correct answer using the code given below:
(a) 2 only (b) 1 and 4 only
(c) 1, 2 and 4 only (d) 2, 3 and 4 only

**Q21.** Consider the following statements:
1. A country is considered to face economic recession only when it registers negative GDP growth rate for an entire financial year.
2. India has recently faced GDP contraction for the first time since 1991 LPG reforms.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q22.** If the Net International Investment Position (NIIP) of a country is negative, what would it denote?
(a) Net inflow of all foreign investments in a particular year is positive.
(b) Net inflow of FDI into a country for particular year is positive.
(c) It denotes that a country is a net International Debtor
(d) It denotes that a country is a net International Creditor

**Q23.** Which among the following would occur if the fertility rate in a country is lower than the replacement level fertility?
(a) Sudden decrease in the Population.
(b) Stagnant population growth rate
(c) Decrease in the Population in the long run.
(d) Increase in the population but at lower growth rate.

**Q24.** Which among the following statements can be considered as the best argument to promote Human Development in a country?
(a) Human Development would lead to increase in the GDP growth rate.
(b) Human Development would promote political development and strengthen democratic values.
(c) Human Development enhances the ability of the people to make their own choices.
(d) Human Development would promote inclusive and balanced growth and development.

**Q25.** Which of the following correctly explains agri-voltaic farming system?

(a) Farming based on power generated from solar energy.
(b) Farming based on crops which use C4 mechanism of photosynthesis and respond with higher growth rates in warm climates.
(c) Farming of crops which glow in the night.
(d) Farming of crops and solar power generation in the same stretch of land.

**Q26.** Consider the following statements:
1. India is a net exporter of steel for the last 5 years.
2. India is the third largest producer of steel after China and Japan.
3. India is the largest producer of sponge iron.

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

**Q27.** Minimum Support Price has been announced by the Ministry of Tribal Affairs for which of the following Minor Forest Produce (MFP)?
1. Sandalwood flowers
2. Bamboo shoots
3. Tree moss
4. Teak wood
5. Mustard
6. Sal leaves
7. Black rice

Select the correct answer using the code given below:
(a) 1,2,3,4 and 5 only
(b) 1, 2,3,5,6 and 7 only
(c) 2,3,5,6 and 7 only
(d) 1,4,5,6 and 7 only

**Q28.** Consider the following statements:
1. In last five years total annual food grain production has been more in Kharif than Rabi season.
2. In last five years total annual pulses production has been more in Rabi than in Kharif season.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q29.** Consider the following statements related to the Gini Coefficient:
1. The Gini Coefficient measures the extent of income inequality in a country.
2. Higher the value of Gini Coefficient, lower would be the inequality in the country.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q30.** Who among the following is the Chairman of the National Committee on Trade Facilitation?
(a) The Prime Minister
(b) The Cabinet Secretary
(c) The Finance Minister
(d) None of the above.

**Q31.** Which of the following sectors are the 'champions sectors' under the Production-Linked Incentive (PLI) Scheme?
1. Advanced chemistry cell (ACC) battery
2. Electronic/technology products
3. Pharmaceuticals drugs
4. Food products

Select the correct answer using the code given below:
(a) 1 and 4 only (b) 2 and 3 only
(c) 1 and 2 only (d) 1, 2, 3 and 4

**Q32.** The Logistics Performance Index (LPI) is published by which of the following organizations?
(a) The International Monetary Fund
(b) The World Bank
(c) The Organization for Economic Co-operation and Development
(d) The World Trade Organization

**Q33.** Which of the following statements are correct?
1. The Dedicated Freight Corridors aim at the reduction in the unit cost of transportation with higher speed of freight trains and better turnaround of wagons.
2. The Trade Infrastructure for Export Scheme aims to assist the creation of appropriate infrastructure for the growth of exports from the states.
3. The Multi-Modal Logistics Parks shall act as the hubs for freight movement, enabling freight aggregation, distribution and multi-modal transportation.

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

**Q34.** Which of the following statements is/are correct about the Consumer Price Index for Industrial Workers (CPI-IW)?
1. The CPI-IW measures changes in the retail prices of a fixed basket of goods and services, being consumed by an average working-class family.
2. It is compiled and disseminated by the Ministry of Finance.

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

**Q35.** Which of the following components are ***not*** included in Core Inflation?
1. Food 2. Fuel
3. Services

Select the correct answer using the code given below:

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

**Q36.** Which of the following statements is/are correct about the Essential Commodities (Amendment) Act, 2020?

1. It provides that the foodstuffs, including cereals, pulses, potatoes, onions, edible oil seeds and oils shall only be regulated under extraordinary circumstances, which may include war, famine and natural calamity of grave nature.
2. It provides that any action on imposing stock limit would be based on the price trigger, such as 100% increase in the retail price of the horticultural produce.

Select the correct answer using the code given below:

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

**Q37.** The OSP Regulations, recently in the news, pertain to which of the following sectors?

(a) E-commerce retail industry
(b) Business Process Outsourcing (BPO) industry
(c) Tourism industry
(d) Textile industry

**Q38.** Consider the following pairs:

1. The World Investment Report: The World Bank
2. The World Tourism Barometer: The World Economic Forum
3. The Travel and Tourism Competitiveness Index: The United Nations World Tourism Organization

Which of the pairs given above is/are correctly matched?

(a) 1 and 2 only (b) 2 and 3 only
(c) 1 and 3 only (d) None of the above.

**Q39.** Consider the following statements about the agriculture exports:

1. Marine products have remained the largest commodity of agriculture exports from India during the last 5 years.
2. Basmati rice is the second most exported agricultural commodity from India.

Which of the statements given above is/are correct?

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

**Q41.** With reference to the National Bank for Financing Infrastructure and Development (NaBFID), proposed in the Union Budget 2021-22, consider the following statements:

1. The NaBFID is the first ever Development Bank to be set up in India.
2. The NaBFID would be financed by both the government and the private sector in equal proportion.

Which of the statements given above is/are correct?

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

**Q42.** The "MITRA" Scheme, launched in the Union Budget 2021-22, deals with which of the following?

(a) Upgradation of testing infrastructure in healthcare
(b) Promotion of Mega Investment Textiles Parks
(c) Scheme to boost income levels of the farmers
(d) Handholding support to the entrepreneurs in the MSME sector

**Q43.** With reference to the National Infrastructure Pipeline, consider the following statements:

1. The National Infrastructure Pipeline would be financed by the centre, the states, as well as the private sector.
2. The energy sector accounts for the highest share of the funding under the National Infrastructure Pipeline.

Which of the statements given above is/are correct?

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

**Q44.** With reference to the Infrastructure Investment Trusts (InvITs), consider the following statements:

1. The InvITs pool money from the investors to invest in various infrastructure projects, such as roads, railways, ports etc.
2. The InvITs cannot invest money in the already completed infrastructure projects.
3. The InvITs are regulated by the Securities and Exchange Board of India (SEBI).

Which of the statements given above is/are correct?

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

**Q45.** Which of the following sectors have been categorized as "Strategic Sectors" in the newly unveiled new "Public Sector Enterprise" Policy?

1. Banking and Insurance
2. Transport and Telecommunications
3. Petroleum and Coal.

Select the correct answer using the code given below:

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

**Q46.** Consider the following statements related to the SVAMITVA Scheme:

1. This Scheme seeks to map the rural areas, using the drone technology and issue Property Cards to the rural households.

2. This Scheme is implemented by the Ministry of Rural Development.

Which of the statements given above is/are correct?

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

**Q47.** With reference to the Rural Infrastructure Development Fund (RIDF), consider the following statements:

1. The RIDF is funded by the banks through their shortfall in the Priority Sector Lending.
2. This Fund is managed by the RBI.

Which of the statements given above is/are correct?

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

**Q48.** Consider the following statements about the new definition of the MSME:

1. The new definition of the MSME takes into account the investment made by the industries, based on the original price of the investment made by the industry.
2. The exports of the MSMEs are not accounted in the turnover of the MSMEs for the classification of the MSMEs.
3. The definition of the MSME is notified under the provisions of the Micro, Small and Medium Enterprises Development Act, 2006.

Which of the statements given above are correct?

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

**Q49.** Consider the following statements about the Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020:

1. A farming agreement cannot be entered for sale, lease or raising of any permanent structure in the land of the farmer.
2. If a farmer fails to honour his commitment as per the farming agreement, recovery can be initiated against the land of the farmer.
3. The Block Development Officer will function as a Sub-Divisional Authority for deciding the disputes under the farming agreements.

Which of the statements given above is/are correct?

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

**Q50.** Which of the following statements is/are correct about the 'One Sun One World One Grid' Initiative?

1. The UNFCCC has launched the 'One Sun One World One Grid' Initiative.
2. The Initiative aims to create an interconnected green grid that will enable solar energy generation in the regions with high potential and facilitate its evacuation to the demand centres.

Select the correct answer using the code given below:

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

**Q51.** With respect to Operation Greens, consider the following statements:

1. Operation Greens seeks to check the volatility in the prices of the perishable commodities, including tomato, onion and potato (TOP).
2. The scheme is implemented by the Ministry of Consumer Affairs, Food and Public Distribution.

Which of the statements given above is/are correct?

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

**Q52.** The Alternative Mechanism, which has been entrusted to take the decisions related to the strategic disinvestment of the PSUs, is headed by whom of the following?

(a) The Prime Minister
(b) The Finance Minister
(c) The Secretary, the Department of Investment and Public Asset Management (DIPAM)
(d) The CEO, NITI Aayog

**Q53.** With reference to the Agriculture Infrastructure and Development Cess, consider the following statements:

1. This cess would be imposed both on excise duty and customs duty on certain specified products.
2. Unlike other cesses, the proceeds from the Agriculture Infrastructure and Development Cess will be distributed among the states on the basis of the recommendations of the 15th Finance Commission.

Which of the statements given above is/are correct?

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

**Q54.** Which of the following statements are correct about the 14th Finance Commission?

1. It recommended that tax devolution should be the primary route for transfer of the resources to the states.
2. It has recommended distribution of grants to the states for local bodies using the 2011 population data.
3. The Commission has adopted the previous Commission's vis-à-vis recommendation of the principles governing grants-in-aid to the states by the centre.

Select the correct answer using the code given below:

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

**Q55.** Which of the following statements are correct?

1. A carbon tax is the core policy for reducing and eventually eliminating the use of fossil fuels, whose combustion is destabilizing and destroying our climate.
2. India has committed to 40% of electricity capacity being from non-fossil fuels by 2040.
3. India has committed to lowering the ratio of emissions to the GDP by one-third from the 2005 levels.

Select the correct answer using the code given below:

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

**Q56.** Which of the following statements is/are correct?

1. A balanced budget multiplier measures the changes in the aggregate output, when the government changes its spending and taxes at an equivalent rate.
2. In a closed economy, a multiplier is equal to one, which means that the multiplier effect of a change in tax offsets everything except the initial production.

Select the correct answer using the code given below:

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

**Q57.** The Stiglitz Report is related to which of the following?

(a) Global financial crisis (2007-2008)
(b) ASEAN countries financial crisis (1997-1998)
(c) Capital account convertibility
(d) Banking reforms in India

**Q58.** Consider the following statements about the Financial Stability and Development Council (FSDC):

1. The Union Finance Minister is the Chairperson of the FSDC.
2. The Secretary of the Department of Economic Affairs, under the Ministry of Finance, is the Chairperson of the Sub-Committee of the FSDC.

Which of the statements given above is/are correct?

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

**Q59.** Consider the following statements about the Priority Sector Lending:

1. The Small Finance Banks, the Payments Banks and the Rural Co-operative Banks have to follow the Priority Sector Lending targets of the RBI.
2. Loans for education, start-ups and export credit are classified as Priority Sector.
3. The banks which fail to achieve their Priority Sector Targets can contribute to the Rural Infrastructure Development Fund, created under the NABARD.

Which of the statements given above is/are correct?

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

**Q60.** Consider the following statements about 'deposit insurance' in India:

1. Deposit insurance in India is provided by a statutory body, known as the Deposit Insurance and Credit Guarantee Corporation (DICGC).
2. The DICGC is a wholly owned subsidiary of the RBI.
3. Deposits in the Co-operative Banks and the NBFCs are not covered under the DICGC.

Which of the statements given above is/are correct?

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

**Q61.** Consider the following statements about the Lead Bank Scheme:

1. Only the Public Sector Banks can be assigned the role of a Lead Bank in a district.
2. It is a scheme of the Ministry of Finance.
3. The District Collector is the Chairperson of the District Consultative Committee formed for the Lead Bank Scheme.

Which of the statements given above is/are correct?

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

**Q62.** The Human Capital Index is published by which of the following organizations?

(a) The South Asian Association for Regional Cooperation
(b) The World Bank
(c) The International Monetary Fund
(d) The Asian Development Bank

**Q63.** Consider the following statements about the 'Open Market Operations':

1. The Open Market Operations allow the central banks great flexibility in the timing and volume of monetary operations.
2. They affect the money supply and related financial measures through their impact on the reserve base of the banking system.

Which of the statements given above is/are correct?

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

**Q64.** Which of the following best describes "base effect" in the context of economy?

(a) It is the impact of strong manufacturing base in the growth of the economy.

(b) It is the impact of the basic, and health and education infrastructure in the economic growth.
(c) It is the impact of the price levels of the previous year on the calculation of the inflation rate.
(d) None of the above.

**Q65.** Consider the following statements:
1. The Cash Management Bills are used by the Government of India for maturities less than three months.
2. The Treasury Bills are the instruments used by the Government of India for more than one year.
3. The G-Sec is a tradable debt instrument issued by the Central or the State Government.
4. The State Governments in India do not issue short term debt instruments.

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

**Q66.** Consider the following statements about gas pricing in India:
1. Domestically produced gas prices are determined by the market mechanism in India only.
2. The Hydrocarbon Exploration and Licensing Policy gives marketing and pricing freedom for crude oil and natural gas produced.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q67.** Consider the following statements about oil and gas pipelines in India:
1. The Petroleum and Natural Gas Regulatory Board (PNGRB) grants the authorization for the development of oil and gas pipelines in India.
2. The tariff of petroleum and petroleum product pipelines is determined under the Petroleum and Natural Gas Regulatory Board.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q68.** Consider the following statements about Seed Certification in India:
1. Seed Certification in India is done by the Central Seed Certification Board, under the Ministry of Agriculture and Farmers' Welfare.
2. Seed Certification is done under the provisions of the Protection of Plant Variety and Farmers' Rights Act, 2001 (The PPV & FR Act, 2001).
3. Seeds for all agricultural commodities produced in India are eligible for certification in India.
4. Seed Certification is compulsory in India.

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

**Q69.** Consider the following statements:
1. The production of cotton in India has nearly doubled in the last 20 years.
2. The production of jute in India has been growing in the last 10 years.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q70.** Consider the following statements about the RoDTEP Scheme:
1. All exports goods are covered under the Scheme.
2. Under the Scheme, embedded central, state and local duties/taxes that were not being refunded, would be refunded.
3. The Ministry of Commerce and Industry will implement the Scheme.

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

**Q71.** Consider the following statements about the Corporate Bonds:
1. The Corporate Bonds are debt securities.
2. A Corporate Bond gives an ownership interest in the issuing company.
3. They are issued by the public corporations only.

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

**Q72.** Consider the following statements about the National Statistical Commission:
1. It is a statutory body constituted under the Ministry of Statistics and Programme Implementation.
2. The Chief Statistician of India will be the Chairperson of the body.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q73.** Consider the following statements about the Regional Rural Banks (RRBs):
1. The Regional Rural Banks (RRBs) are the financial institutions which ensure adequate credit for agriculture and other rural sectors.
2. The RRBs were set up on the basis of the recommendations of the Narasimham Working Group.
3. The first Regional Rural Bank was the "Prathama Grameen Bank".
4. The RRBs are under the ambit of Priority Sector Lending at par with the commercial banks.

Which of the statements given above are correct?

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

**Q74.** Consider the following statements about the Imported Inflation:

1. Imported Inflation is the rise in prices due to an increase in the costs of the imported products.
2. Imported Inflation is caused by a decline in the value of a country's currency.
3. The RBI takes 'Imported Inflation' into account in policymaking.

Which of the statements given above are correct?

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

**Q75.** Consider the following statements about the Inflation Indexed Bonds (IIBs):

1. The Inflation Indexed Bond (IIB) is a Bond issued by the Sovereign.
2. It provides the investor a constant return, irrespective of the level of inflation in the economy.
3. The IIBs are not eligible for the Statutory Liquidity Ratio (SLR) status.
4. The IIBs can be traded in the secondary market.

Which of the statements given above are correct?

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

**Q76.** Consider the following statements:

1. Fiscal Consolidation refers to the policies undertaken by the governments to reduce their deficits and accumulation of debt stock.
2. The state governments can enact their own Fiscal Responsibility Legislations.
3. So far, no state has enacted the Fiscal Responsibility Legislation.

Which of the statements given above are correct?

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

**Q77.** Consider the following statements about the National Agriculture Market (e-NAM):

1. The National Agriculture Market (NAM) is a Pan-India electronic trading portal.
2. It is implemented by the Small Farmers Agribusiness Consortium (SFAC).
3. e-NAM is designed and implemented to benefit all the stakeholders.
4. It is completely funded by the Central Government.

Which of the statements given above are correct?

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

**Q78.** Consider the following statements about the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):

1. The state governments have no powers to make rules for the effective implementation of MGNREGA.
2. It is implemented in all rural districts of the country.
3. MGNREGA is a bottom-up, demand-driven, self-selecting and rights-based programme.

Which of the statements given above are correct?

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

**Q79.** Consider the following statements:

1. The Securities and Exchange Board of India (SEBI) was set up in 1988 and was given statutory recognition in 1992.
2. Capital market refers to the market for short to medium-term funds for investment purposes.
3. BSE is the largest stock market in the country.

Which of the statements given above is/are correct?

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

**Q80.** Which of the following are covered under the non-tax revenues while calculating the Fiscal Deficit?

1. Interest receipts
2. Dividends and profits
3. External grants
4. Union excise duties
5. GST

Select the correct answer using the code given below:

(a) 1, 2 and 3 only (b) 2, 3 and 5 only
(c) 1, 4 and 5 only (d) 1, 2, 3, 4 and 5

**Q81.** Consider the following statements about the Fiscal Responsibility and Budget Management Act (The FRBM Act), 2003:

1. The FRBM Act aims to introduce transparency in India's fiscal management systems.
2. The targets of fiscal deficits and revenue could not be exceeded at any cost.
3. The FRBM Act made it mandatory for the government to place the Fiscal Policy Strategy Statement in the Parliament annually.

Which of the statements given above are correct?

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

**Q82.** Consider the following pairs:

| S.N. | WTO's Box | Provision |
|---|---|---|
| 1. | Amber Box | Nearly all domestic support measures, considered to distort production and trade (with some |

| | | |
|---|---|---|
| | | exceptions), fall into the Amber Box. |
| 2. | Green Box | Any support that would normally be in the Amber Box, is placed in the Green Box, if the support also requires the farmers to limit production. |

Which of the pairs given above is/are correctly matched?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q83.** Consider the following statements about the Integrated Management of Public Distribution System:
1. The scheme allows a person to claim the benefits of subsidized food grains across the country.
2. It is a scheme implemented by the Ministry of Agriculture and Farmers' Welfare.
3. It is compulsory for all the states to implement the scheme.

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

**Q84.** Consider the following statements about NEFT:
1. NEFT is a payment mechanism owned and operated by the National Payments Corporation of India.
2. NEFT transactions are settled in real time.
3. A person having no bank account can remit funds through NEFT to a beneficiary having a bank account.

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

**Q.85)** Consider the following statements about New Umbrella Entities:
1. They will be provided license by the Ministry of Finance.
2. No FDI is allowed in the NUE.
3. They will focus on providing innovative payment solutions.

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

**Q86.** Consider the following statements about Pharmaceutical Pricing in India:
1. National Pharmaceutical Pricing Authority (NPPA) regulates the prices of pharmaceutical products and medical devices in India.
2. According to the Drug Price Control Order, prices of all drugs in India can be increased based on Wholesale Price Index

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q87.** Which of the following statements correctly describes the meaning of Fiduciary Money?
(a) Money deposited by the public with the banks.
(b) Money which is accepted for payment because of its backing by the government.
(c) Money which is accepted for payment because of the trust between the parties.
(d) Money whose value is not derived from any intrinsic value.

**Q88.** Consider the following statements related to the Scheduled Banks in India:
1. They are listed under the Second Schedule to the RBI Act, 1934.
2. They need to have a minimum paid-up capital of Rs. 1,000 crore.
3. All the Cooperative Banks and the Regional Rural Banks (RRBs) are categorized under the Scheduled Banks.

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

**Q89.** Which of the following are the eligible instruments that can be maintained by the banks to fulfil their Statutory Liquidity Ratio (SLR) requirements?
1. Treasury Bills
2. Dated Securities of the Government
3. State Development Loans
4. Recapitalization Bonds

Select the correct answer using the code given below:
(a) 1 and 2 only (b) 1, 2 and 3 only
(c) 1, 2 and 4 only (d) 1, 2, 3 and 4

**Q90.** Consider the following statements related to the Standing Deposit Facility (SDF):
1. The SDF enables the RBI to inject liquidity into the economy, without accepting the G-Secs as collateral from the banks.
2. This tool has been introduced through an amendment to the RBI Act, 1934.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q91.** Which of the following financial instruments are used by the government to borrow money in order to address its temporary mismatches in its cash balances?
1. Ways and Means Advances (WMA)
2. Cash Management Bills (CMB)
3. Treasury Bills

Select the correct answer using the code given below:

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

**Q92.** Which of the following best describes the concept of "Special Mention Account (SMA)" introduced by the RBI?
(a) NPA of more than Rs. 500 crore.
(b) Loans that have defaulted for a period of less than 90 days.
(c) NPA of more than Rs. 1,000 crore.
(d) NPA that has undergone restructuring.

**Q93.** Consider the following statements about the First Five-Year Plan:
1. It was based on the Harrod-Domar Model.
2. The Plan focussed on rapid industrialization-heavy and basic industries.
3. Its target growth was 3.6%.

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

**Q94.** Which of the following factors led to the failure of the Third Five-Year Plan?
1. Chinese aggression
2. Severe drought
3. Indo-Pakistan War
4. Political instability

Select the correct answer using the code given below:
(a) 1, 2 and 3 only (b) 1, 2 and 4 only
(c) 2 and 4 only (d) 1, 2, 3 and 4

**Q95.** Under which of the following Five-Year Plans, the objective of Garibi Hatao (Removal of poverty) was proposed?
(a) Fourth Five-Year Plan
(b) Fifth Five-Year Plan
(c) Sixth Five-Year Plan
(d) Seventh Five-Year Plan

**Q96.** Which of the following account for the highest share of Internal Debt of the government?
(a) Treasury Bills
(b) Dated Securities
(c) Cash Management Bills (CMBs)
(d) Securities against the National Small Savings Fund (NSSF)

**Q97.** Which of the following Central taxes form part of the Central Divisible Pool of taxes for the Finance Commission?
1. Corporate Tax
2. Income Tax
3. Integrated GST
4. Surcharge/Cess collected by the Centre

Select the correct answer using the code given below:
(a) 1 and 2 only
(b) 1, 2 and 3 only
(c) 1, 2 and 4 only
(d) 1, 2, 3 and 4

**Q98.** With reference to the Public Account of India, consider the following statements:
1. The Public Account of India includes Provident Funds, small savings collections; income of the government set apart for expenditure on specific objects, like road development, primary education etc.
2. No Parliamentary approval is required to withdraw any money from the Public Account of India.

Which of the statements given above is/are correct?
(a) 1 only (b) 2 only
(c) Both 1 and 2 (d) Neither 1 nor 2

**Q99.** Which of the following components is/are deducted from the Gross Tax Revenue to calculate the Net Tax Revenue of the Central Government?
1. States' share of taxes
2. Transfer to the National Disaster Response Fund
3. Recoveries of loans/advances to the states

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

**Q100.** Consider the following statements about the Balance of Trade:
1. The Balance of Trade is the difference in value over a period of time between a country's imports and exports of goods and service.
2. It is always expressed in US dollars ($).
3. China is a trade surplus country.

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

## ANSWER KEY

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1.** | d | **23.** | c | **45.** | d | **67.** | c | **89.** | b |
| **2.** | d | **24.** | c | **46.** | a | **68.** | d | **90.** | b |
| **3.** | a | **25.** | d | **47.** | a | **69.** | a | **91.** | d |
| **4.** | d | **26.** | a | **48.** | b | **70.** | a | **92.** | b |
| **5.** | d | **27.** | c | **49.** | a | **71.** | a | **93.** | a |
| **6.** | d | **28.** | b | **50.** | b | **72.** | d | **94.** | a |
| **7.** | a | **29.** | a | **51.** | a | **73.** | d | **95.** | b |
| **8.** | a | **30.** | b | **52.** | b | **74.** | d | **96.** | b |
| **9.** | b | **31.** | d | **53.** | a | **75.** | c | **97.** | a |
| **10.** | b | **32.** | b | **54.** | a | **76.** | a | **98.** | a |
| **11.** | d | **33.** | d | **55.** | b | **77.** | d | **99.** | b |
| **12.** | c | **34.** | a | **56.** | c | **78.** | b | **100.** | b |
| **13.** | b | **35.** | c | **57.** | a | **79.** | a | | |
| **14.** | c | **36.** | c | **58.** | a | **80.** | a | | |
| **15.** | c | **37.** | b | **59.** | b | **81.** | c | | |
| **16.** | a | **38.** | d | **60.** | d | **82.** | a | | |
| **17.** | d | **39.** | c | **61.** | b | **83.** | a | | |
| **18.** | a | **40.** | d | **62.** | b | **84.** | b | | |
| **19.** | c | **41.** | d | **63.** | c | **85.** | c | | |
| **20.** | d | **42.** | b | **64.** | c | **86.** | a | | |
| **21.** | b | **43.** | c | **65.** | b | **87.** | c | | |
| **22.** | c | **44.** | c | **66.** | b | **88.** | a | | |