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STANDING EXTERNAL ADVISORY COMMITTEE (SEAC)

Context:

The Reserve Bank of India (RBI) has set up a five-member committee – called the Standing External Advisory Committee (SEAC) – for evaluating applications for universal banks and small finance banks.

Relevance:

GS-III: Indian Economy (Economic Development of India, Macroeconomics, Banking and NBFCs)

Dimensions of the Article:

1. About the Standing External Advisory Committee (SEAC)
2. Background on Setting up of SEAC
3. What are Universal Banks?
4. What are Small Finance Banks (SFBs)?

About the Standing External Advisory Committee (SEAC)

- The Standing External Advisory Committee (SEAC) comprising eminent persons with experience in banking, financial sector and other relevant areas, will evaluate the applications thereafter.
- The SEAC has a three-year tenure.
- The SEAC will evaluate the applications for universal banks and SFBs after the RBI evaluates them first to ensure prima facie eligibility of the applicants.
- The secretarial support to the committee would be provided by RBI's Department of Regulation.

Background on Setting up of SEAC

- An internal working group of the RBI, proposed an overhaul of the licensing policy for private banks in 2020 and suggested allowing large corporate and industrial houses to float banks in India after suitable amendments to the Banking Regulation Act.
- Although several large corporate houses had applied for a banking license in the past, the regulator had rejected these proposals.
- Eminent economists have criticised the proposal to allow corporate houses to float banking entities, saying it will lead to "connected lending" which, according to them, is "invariably disastrous".

What are Universal Banks?

- Universal Banks are those banks which undertake multiple financial activities under one roof, thereby creating a financial supermarket (like: commercial banks, Financial Institutions, Non-Banking Financial Companies (NBFCs)).
- Universal Banks focus on leveraging their large branch network and offer a wide range of services under a single brand name/Bank's name.
- According to the guidelines on on-tap licensing of universal banks issued in August 2016, resident individuals and professionals having 10 years of experience in banking and finance at a senior level are eligible to promote universal banks.
- However, large industrial houses are excluded as eligible entities but are permitted to invest in the banks up to 10%.
- A non-operative financial holding company (NOFHC) has been made non-mandatory in case of promoters being individuals or standalone promoting/converting entities who/which do not have other group entities. NOFHC means a non-deposit taking NBFC.

What are Small Finance Banks (SFBs)?

- Small Finance Banks (SFBs) are the financial institutions which provide financial services to the unserved and unbanked region of the country.
- SFBs primarily undertake basic banking activities of acceptance of deposits and lending to small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own funds, such as the distribution of mutual fund units, insurance products, pension products, etc.
- The small finance bank can also become an Authorised Dealer in foreign exchange business for its clients' requirements.

EPF CAP RAISED BY FM, DISCUSSING GST ON FUEL

Context:

- Finance Minister of India said that the Centre is ready to consider bringing fuel under the Goods and Services Tax regime if the States bring up the issue at the GST Council.
- The Minister also introduced 127 amendments to the Finance Bill, 2021, which was passed by the Lok Sabha which included an income tax break for the proposed development finance institution to fund infrastructure and a tweak in the proposed tax provisions for employees' provident fund (EPF) contributions.

Relevance:

GS-III: Indian Economy (Economic Development of India, Macroeconomics- Taxation)

Dimensions of the Article:

1. About the Changes in EPF Tax
2. Bringing Fuel under GST
3. Impact of bringing Fuel under GST
4. Current Pricing of Petrol and Diesel

About the Changes in EPF Tax

- The government has also introduced an amendment in the Budget proposal to tax income on employee contributions of more than Rs. 2.5 lakh a year into Provident Fund accounts.
- The FM said that they intend to raise this limit to Rs. 5 lakhs in those cases, and only in those cases where there is no contribution by the employer in the EPF account.

Bringing Fuel under GST

- Economists have said that bringing petrol and diesel under the goods and services tax is an unfinished agenda of the GST framework and getting the prices under the new indirect taxes framework can help.
- Centre and states are loathing to bring crude oil products under the GST regime as sales tax/VAT (value added tax) on petroleum products is a major source of own tax revenue for them.
- Thus, there is lack of political will to bring crude under the ambit of GST.
- At present, states choose to levy a combination of ad valorem tax, cess, extra VAT/surcharge based on their needs and these taxes are imposed after taking into account the crude price, the transportation charge, the dealer commission and the flat excise duty imposed by the Centre.

Impact of bringing Fuel under GST

- A growth in the consumption – diesel going up 15 per cent and petrol by 10 per cent – has been used to assess the Rs 1 lakh crore fiscal impact of getting petroleum prices under GST.
- States, which have the highest share of tax revenues at present, will be the biggest losers if the system shifts to GST.
- However, such a move will help consumers pay up to Rs 30 less per liter of fuel. This is because he highest slab under the existing GST rates is 28%. Even if petrol and diesel were to be taxed at the highest rate, the post-tax price will be much lower than what it is currently.

Loss of autonomy

- Once petrol and diesel are subsumed within the GST, both the Centre and states will have to give away the current autonomy they enjoy with these taxes which serve twin purposes of counter-cyclical interventions in the realm of both politics and economy.
- For example, both the Centre and the states increased taxes on petrol and diesel to compensate for revenue loss during the lockdown.
- The central taxes on petrol and diesel are a fixed amount per litre rather than a fraction of the base price, which is how GST is levied currently.
- Also, the current regime allows individual state governments to change their taxes – poll bound Assam has reduced taxes on petrol-diesel – a leeway which will not exist once they are subsumed within GST, as taxes will have to be uniform across the country.

Current Pricing of Petrol and Diesel

- As per the latest (as of March 2021) price-build of petrol and diesel: State taxes had a smaller contribution to the retail price than central taxes.
- While the state Value Added Tax (VAT) was just over 10 and 20 rupees, on diesel and petrol respectively, the union excise duties for both petrol and diesel exceeded 30 Rs.
- **These headline numbers suggest that the centre is a bigger beneficiary of tax incomes from the sale of petrol and diesel.**
- This is because FFC's earmarked share of states in centre's revenues applies to what is called the divisible pool of taxes, which excludes cess and other forms of special taxes. Overtime, the weight of cess and other such non-sharable taxes has been increasing in the centre's gross tax revenue. This, in practice, has meant that the share of states in gross total revenue of the centre has never reached 41% and in fact gone down overtime.

BANKRUPTCY COURTS AWAIT A FLOOD OF DEFAULT FILINGS

Context:

In order to provide relief to Covid-19 pandemic-hit companies, the government temporarily suspended the initiation of corporate insolvency resolution processes in 2020.

The government is expecting a flurry of default cases in the National Company Law Tribunal (NCLT) now and preparing a framework so that the lender and the borrower could settle the matter outside the tribunal.

Relevance:

GS-III: Indian Economy (Economic Development of India, Macroeconomics, NPAs)

Dimensions of the Article:

1. National Company Law Tribunal (NCLT)
2. What is the need for intervention to resolve mounting NPAs?

3. What is the government doing regarding surge of NPAs?
4. What can be done for better resolution?
5. National Company Law Appellate Tribunal (NCLAT)
6. Differences between NCLT and NCLAT

National Company Law Tribunal (NCLT)

- The National Company Law Tribunal is a quasi-judicial body in India that adjudicates issues relating to Indian companies.
- The tribunal was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India.
- Hence, NCLT is a Statutory Body.
- All proceedings under the Companies Act, including proceedings relating to arbitration, compromise, arrangements and reconstruction and winding up of companies shall be disposed of by the National Company Law Tribunal.
- The National Company Law Tribunal is the adjudicating authority for insolvency resolution process of companies and limited liability partnerships under the Insolvency and Bankruptcy Code, 2016.
- No criminal court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Tribunal or the Appellate Tribunal is empowered to determine by or under this Act or any other law for the time being in force and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act or any other law for the time being in force, by the Tribunal or the Appellate Tribunal.

What is the need for intervention to resolve mounting NPAs?

- According to the latest Financial Stability Report (FSR) of the Reserve Bank of India (RBI), the gross NPA ratio of all scheduled commercial banks may increase from 7.5% in September 2020 to 13.5% by September 2021 in a baseline scenario and may escalate to almost 15% under a severe stress scenario.
- Delays in disposal of IBC cases were having an adverse impact on efforts by banks and financial institution to recover non-performing assets.
- According to the officials, the number of total pending cases in the National Company Law Tribunal (NCLT) has mounted to over 20 thousand.

What is the government doing regarding surge of NPAs?

- Lenders are free to initiate new insolvency and bankruptcy proceedings against financially stressed companies as the one-year moratorium period has ended and as per the law, the moratorium, cannot be extended beyond one year.
- In order to reduce the burden on the NCLT, the government is working to provide a framework to save small and medium firms from the lengthy legal hassles.
- The framework will have a provision of pre-pack mechanism, which can be used by lenders and investors to resolve the matter amicably.

What can be done for better resolution?

- Government should look to expedite bringing provisions around pre-pack which can facilitate consensual resolution of case between corporate debtor and lenders.
- The government needs to enhance the entire NCLT infrastructure and simplify admission procedures so that stressed companies referred to the NCLT can be resolved faster.

National Company Law Appellate Tribunal (NCLAT)

- The National Company Law Appellate Tribunal (NCLAT) is a tribunal which was formed by the Central Government of India under Section 410 of the Companies Act, 2013.
- Hence, NCLAT is also a Statutory Body.
- The tribunal is responsible for hearing appeals from the orders of National Company Law Tribunal(s) (NCLT), starting on 1 June, 2016.
- The tribunal also hears appeals from orders issued by the Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.
- It also hears appeals from any direction issued, decision made, or order passed by the Competition Commission of India.

Differences between NCLT and NCLAT

- NCLT makes the judgement on the insolvency resolution proceedings. NCLAT makes judgement on the decisions made by the NCLT.
- NCLT is the primary Tribunal and NCLAT is the appellate tribunal.
- NCLT analyzes the evidences that are presented by the insolvent debtor or their creditors. NCLAT analyzes the decisions that are made by the NCLT.

DOUBLING DOWN ON A RESILIENT INDIA

Context:

Google, Facebook, Walmart, Samsung, Foxconn, and Silver Lake have been just a handful of the firms that made big ticket bets on India in 2020.

Due to this, even though India experienced one of the world's sharpest economic contractions, it also saw the fastest growth in Foreign Direct Investment (FDI) inflows among all the major economies in 2020.

Relevance:

GS-III: Indian Economy (External Sector, Economic Growth and Development)

Mains Questions:

What are the reasons for the increase in Foreign Direct Investment (FDI) inflows into India during the COVID-19 Pandemic? Discuss the potential of the Indian market and how it can be leveraged to increase FDIs. (10 Marks)

Dimensions of the Article:

1. What is Foreign direct investment (FDI)?
2. About India's FDI inflows in 2020
3. Reasons for the Increase in FDI inflows towards the end of 2020
4. Adapting to the Indian market
5. Indian Opportunity
6. Conclusion

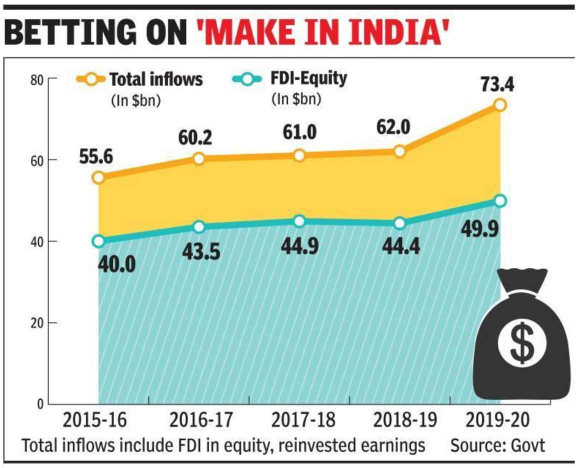
What is Foreign direct investment (FDI)?

- It is an investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest.

- Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country.
- Foreign direct investment can be made by expanding one's business into a foreign country or by becoming the owner of a company in another country.

About India's FDI inflows in 2020

- India has attracted highest ever foreign direct investment (FDI) inflows at over $65 billion during the first nine months of financial year 2020-21.
- Compared to the same period in 2019, the FDI inflows flows were 22 per cent higher during April-December 2020.
- Total inflows registered a year-on-year growth of 24 per cent in December compared to December 2019.
- **FDI inflows have constantly grown since August 2020 on a yearly basis; it recorded a substantial growth of more than 80% in the month of November 2020.**



- It was an unexpected outcome that India could emerge as a leading destination for FDI.
- However, it needs to be taken into account that India's latest FDI totals still lags behind the highest tallies in other markets such as China and Brazil. Also, a significant share of India's FDI inflows arose from foreign investments directed solely at Reliance Jio.

Reasons for the Increase in FDI inflows towards the end of 2020

- In 2020, schemes like production-linked incentive (PLI) scheme for electronics manufacturing, have been notified to attract foreign investments.
- In 2019, the Central Government amended FDI Policy 2017, to permit 100% FDI under automatic route in coal mining activities.
- Further, the government permitted 26% FDI in digital sector which has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along with technology uptake provides great market opportunity for a foreign investor.
- FDI in manufacturing was already under the 100% automatic route, however in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route provided it is undertaken through a legitimate contract.

- In March 2020, Government permitted non-resident Indians (NRIs) to acquire up to 100% stake in Air India, and such moves have resulted in foreign investors indicating interest in the government's moves to allow private train operations and bid out airports.

Adapting to the Indian market

- India remains a complex and challenging place to do business even after 30 years since its economy was liberalised.
- Frequent shifts in the policy landscape and persistent market access barriers are standard complaints levied against India by the business community.
- "Aatmanirbhar Bharat", "Make in India" and similar push to build a "self-reliant" India has also rattled investors and smaller companies that lack the resources to navigate on-the-ground hurdles.
- However, leading corporate investors recognise that doing business in India or any emerging market for that matter comes with inherent risks but that adaptation in approach is critical to success.
- Most importantly, they have the vision to understand that these are risks worth taking given the scale of the "*Indian Opportunity".*

Indian Opportunity

Market size

- What India offers through its nearly 1.4 billion people and their growing purchasing power is uniquely valuable for multinationals with global ambitions. No other country outside of China has a market that houses nearly one in six people on the planet and a rising middle class of 600 million.

Shifting Geopolitics

- Rising U.S.-China competition is redefining the global landscape for investment and manufacturing, forcing multinationals to rethink their footprints and production hubs.
- Countries such as Vietnam have capitalised on this opportunity to great effect, but India is finally getting serious about attracting large-scale production and exports.

Rising Digitalization

- Cheap mobile data have powered a revolution across India's digital economy and connected an estimated 700 million Indians to the Internet.
- Domestic Indian companies have also demonstrated their ability to innovate and deliver high quality services at scale, and the partnerships and FDI flows linking multinationals and Indian tech firms will continue to unlock shared market opportunities for years to come.

Resilience shown during the Pandemic

- India has managed the pandemic better than many of its western peers and restored economic activity even before implementing a mass vaccination programme.
- These are remarkable developments, and yet they speak to India's underlying resilience even in the face of historic challenges.

Conclusion

- Successful companies unlock opportunities in the Indian market by placing shared value creation at the heart of their business strategy.
- This is because unlocking opportunities in the Indian market cannot take the form of a one-way wealth transfer, and companies should not expect a warm welcome without continuously demonstrating their commitment to India.

Companies will have to

1. Build enduring partnerships and lasting relationships,
2. Invest in Indian talent,
3. Align products with Indian tastes, and
4. Tackle the hardest problems faced by Indians.

For leading companies with global ambitions and a willingness to make big bets, the rewards of investing in the Indian market are substantial and well worth pursuing.

INDIA DOES NOT SHINE WHEN ONLY SOME GLEAM

Context:

The novel coronavirus pandemic had exposed the precariousness of lives of the common people and the emerging universal truth is that economic inequality is rising sharply in all countries.

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Planning usage and Mobilisation of resources, Inclusive growth and issues therein)

Mains Questions:

Any new architecture of economic growth required to create better lives for the majority after the pandemic, needs to begin from the ground-level. Discuss. (10 Marks)

Dimensions of the Article:

1. Global indices
2. Inequality in India exposed by the pandemic
3. Challenges compounding inequality in India
4. Ideas for new framework

Global indices

The World Happiness Report:

- Released by: United Nations Sustainable Development Solutions Network
- India's rank: **144 out of 153.** The first five ranks go to Finland, Denmark, Switzerland, Iceland and Norway, respectively.
- Criteria: well-being; positive emotions; supplemental life; circumstances and social environment; inequalities; unemployment; low incomes; discrimination; GDP per capita; life expectancy; freedom; generosity and absence of corruption.

Global Hunger Index (GHI) 2020:

- Released by: Welthungerhilfe (Germany based) and Concern Worldwide (Irish NGO)
- India's rank: **94th out of the 107 countries.** India is ranked lower than neighbours such as Bangladesh (75) and Pakistan (88).
- Criteria: undernourished as a percentage of the population, child wasting, child stunting, child mortality

Oxfam – Commitment to Reducing Inequality (CRI) Index 2020

- India was ranked 129 among 158 countries overall, in the 2020 Commitment to Reducing Inequality (CRI) Index.
- As per the index, India is among the world's worst-performing countries in tackling inequality going into the pandemic.
- India's health budget is the world's fourth-lowest and only half of the population has access to even the most basic healthcare services, and more than 70% of health spending is being met by people themselves, one of the highest levels in the world.

Inequality in India exposed by the pandemic

- India's top 10% of the population holds 74.3% of the total national wealth of India's richest 1% of the population hold 42.5% of national wealth while the bottom 50%, the majority of the population, owns a mere 2.8%
- Wealth inequality in India is rising with the Gini wealth coefficient having risen to 83.2% in 2019 from 81.2% in 2008.
- In India, one of the most distinctive forms of social inequity come within the spheres of gender and caste, where, people coming from the marginalized sections of these social categories, are directly impacted in terms of their opportunities, access to livelihood, education and health facilities.

Challenges compounding inequality in India

1. **Poverty:** Despite lifting 271 million people out of poverty between 2005-15, India still remains home to 28 per cent of the world's poor, as per the Human Development Report. Though severe poverty is less, vulnerability towards poverty is quite high.
2. **Smaller Incomes:** While unemployment is under control in India, smaller incomes have resulted in a higher dominance of working poor, lower share of skilled workforce and lack of old-age security.
3. **Education:** In terms of Education, inequality in India is more than that in the South Asian region and the world. Indian girls attend school for a shorter period than the regional average.

Ideas for new framework

- India urgently needs a new strategy for growth, founded on new pillars, such as broader progress measures.
- GDP does not account for vital environmental and social conditions that contribute to human well-being and the sustainability of the planet and these factors are ignored as externalities by economists.
- The analysis of sources of well-being leads to the conclusion that the universal solution for improving well-being is for local communities to work together to find their own solutions within their countries, and in their villages and towns.
- The central idea of the inclusive growth includes sharing of fruits of socio-economic development with all sections of the society. As a result, moving towards inclusive growth directly ensures both equality and equity in the long-term growth.
- Until the incomes of all rise, India will be a poor country from the perspective of the majority of its citizens, no matter how large its GDP, therefore, Indian economy must grow to create more incomes for its billion-plus citizens.
- Governments must adopt strong anti-inequality policies on public services, tax and labour rights, to significantly reduce the gap between rich and poor. Governments, international institutions and other stakeholders should work together to rapidly improve data on inequality and related policies, and to accurately and regularly monitor progress in reducing inequality.

4% INFLATION TARGET RETAINED FOR 2021-26 RBI'S RATE PANEL

Context:

The Government of India has decided to retain the inflation target of 4%, with a tolerance band of +/- 2 percentage points for the Monetary Policy Committee of the Reserve Bank of India (RBI) for 2021-2026.

Relevance:

GS-III: Indian Economy (Economic Development of India, Macroeconomics, Monetary Policy, Inflation)

Dimensions of the Article:

1. India's decision regarding maintenance of Inflation rate at 4%
2. Monetary Policy Committee (MPC)
3. How does the MPC target inflation?
4. How is Inflation Controlled?
5. What is Inflation targeting?
6. How is Inflation Targeting done?
    - Advantages of Inflation Targeting
    - Disadvantages of Inflation Targeting

India's decision regarding maintenance of Inflation rate at 4%

- In 2016 itself, the central government mandated he RBI to keep the retail inflation at 4% with a margin of 2% on either side for a five-year period (i.e., till March 2021) to control the price rise.
- The central bank and the government agreed in 2015 on a policy framework that stipulated a primary objective of ensuring price stability while keeping in mind the objective of growth.
- The Flexible Inflation Target (FIT) was adopted in 2016. The Reserve Bank of India Act, 1934 was amended to provide a statutory basis for a FTI framework.
- The amended Act provides for the inflation target to be set by the Government, in consultation with the RBI, once every five years.
- Now, the inflation target for the period 1st April, 2021 to 31st March, 2026 under the Reserve Bank of India Act 1934 has been kept at the same level as was for previous 5 years.

Monetary Policy Committee (MPC)

- The Monetary Policy Committee of India is responsible for fixing the benchmark interest rate in India.
- The meetings of the Monetary Policy Committee are held at least 4 times a year and it publishes its decisions after each such meeting.
- The committee comprises six members – three officials of the Reserve Bank of India and three external members nominated by the Government of India.
- They need to observe a "silent period" seven days before and after the rate decision for "utmost confidentiality".
- The Governor of Reserve Bank of India is the chairperson ex officio of the committee.
- The Reserve Bank of India Act, 1934 was amended by Finance Act (India), 2016 to constitute MPC which will bring more transparency and accountability in fixing India's Monetary Policy.
- The monetary policy are published after every meeting with each member explaining his opinions.

- The committee is answerable to the Government of India if the inflation exceeds the range prescribed for three consecutive months.
- Key decisions pertaining to benchmark interest rates used to be taken by the Governor of Reserve Bank of India alone prior to the establishment of the committee.
- The Governor of RBI is appointed and can be disqualified by the Government anytime.

How does the MPC target inflation?

- Every two months, the Reserve Bank's MPC has a review meeting where they discuss the likely inflation and growth estimates over the coming months.
- Based on this review, the MPC targets inflation using the policy rate, or the repo rate. When inflation is higher than the inflation target set by the central bank, then the MPC must increase the repo rate. On the other hand, when the actual inflation is lower than the target, the MPC could decrease the repo rate. The
- MPC looks at consumer price inflation (CPI) as the inflation target that it must keep between 2% and 6%.

How is Inflation Controlled?

There are broadly two ways of controlling inflation in an economy:

1. Monetary measures and
2. Fiscal measures

Monetary Measures

- The most important and commonly used method to control inflation is monetary policy of the Central Bank (RBI in India).
- Most central banks use high interest rates as the traditional way to fight or prevent inflation.

Monetary measures used to control inflation include:

1. Bank Rate Policy
2. Cash Reserve Ratio and
3. Open Market Operations.

Fiscal Measures

- Fiscal measures to control inflation include taxation, government expenditure and public borrowings.
- The government can also take some protectionist measures (such as banning the export of essential items such as pulses, cereals and oils to support the domestic consumption, encourage imports by lowering duties on import items etc.).

What is Inflation targeting?

Inflation targeting is basically a monetary policy system wherein the central bank of a country (RBI in India) has a specific target inflation rate for the medium-term and publicizes this rate.

How is Inflation Targeting done?

- Inflation targeting is done by raising or lowering interest rates based on above-target or below-target inflation, respectively.
- The conventional wisdom is that raising interest rates usually cools the economy to rein in inflation; lowering interest rates usually accelerates the economy, thereby boosting inflation.

Advantages of Inflation Targeting

- Inflation targeting allows monetary policy to "focus on domestic considerations and to respond to shocks to the domestic economy", which is not possible under a fixed-exchange-rate system.
- Transparency is another key benefit of inflation targeting. Central banks in developed countries that have successfully implemented inflation targeting tend to "maintain regular channels of communication with the public".
- An explicit numerical inflation target increases a central bank's accountability, and thus it is less likely that the central bank falls prey to the time-inconsistency trap. This accountability is especially significant because even countries with weak institutions can build public support for an independent central bank.

Disadvantages of Inflation Targeting

- There is a propensity of inflation targeting to neglect output shocks by focusing solely on the price level.
- Leading economists argue that inflation targeting would maintain or enhance the transparency associated with a system based on stated targets, while restoring the balance missing from a monetary policy based solely on the goal of price stability, thus neglecting other factors of an economy as well.

UNESCAP REPORT ON INDIA'S ECONOMIC OUTPUT IN 2021

Context:

'Economic and Social Survey of Asia and the Pacific 2021' was released by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) with the focus on the COVID-19 pandemic's impact.

Relevance:

GS-III: Indian Economy (Economic Growth and Development in India), GS-II: International Relations (Important International organizations and their reports)

Dimensions of the Article:

1. About UNESCAP
2. About the Economic and Social Survey of Asia and the Pacific
3. Highlights of the 'Economic and Social Survey of Asia and the Pacific 2021: Towards post-Covid-19 resilient economies'
4. What is a K-shaped recovery?
5. Way Forwards

About UNESCAP

- The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) is **the regional development arm of the United Nations** for the Asia-Pacific region.
- UNESCAP **is headquartered in Bangkok, Thailand.**
- It was **established in 1947** has **53 Member States and 9 Associate Members from Asia-Pacific Region including India.** In addition to countries in Asia and the Pacific, the commission's members include **France, the Netherlands, the United Kingdom and the United States.**
- It was established in order to increase economic activity in Asia and the Far East, as well as to foster economic relations between the region and other areas of the world.
- The commission works to address some of the greatest challenges facing the region through results-oriented projects, technical assistance and capacity building to member states along with providing a

forum for its member states to promote regional cooperation and collective action in pursuit of the 2030 Agenda for Sustainable Development.

About the Economic and Social Survey of Asia and the Pacific

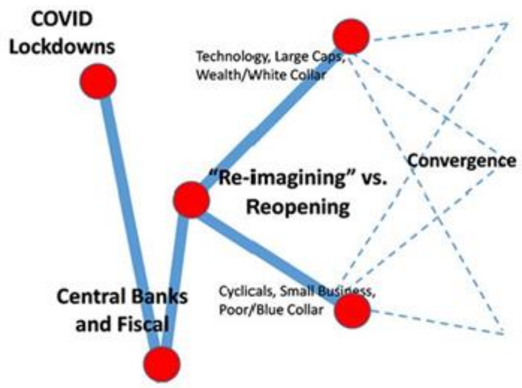
- The Economic and Social Survey of Asia and the Pacific is published annually since 1947 and hence, it is the **oldest United Nations report on the Asia and Pacific region's progress.**
- The Survey monitors regional progress, provides cutting-edge analyses and guides policy discussion on the current and emerging socio-economic issues and policy challenges to support inclusive and sustainable development in the region.

Highlights of the 'Economic and Social Survey of Asia and the Pacific 2021: Towards post-Covid-19 resilient economies'

- India is estimated to record an economic growth of 7% in 2021-22, over a contraction of 7.7% witnessed in the previous fiscal on account of the pandemic's impact on normal business activity.
- Unfortunately, India's 2021 economic output is expected to remain below the 2019 level, as India entered the pandemic with already subdued GDP (Gross Domestic Product) growth and investment.
- Maintaining low borrowing costs and Keeping non-performing loans in check are the two major challenges for India on its path to faster economic recovery.
- China's swift and effective response to Covid-19 enabled it to become the only major economy worldwide to achieve a positive annual economic growth rate in 2020.
- On an average, developing Asia-Pacific economies are expected to grow 5.9% in 2021 and 5% in 2022.
- The prospect of a K-shaped recovery, characterized by uneven post-pandemic recovery across countries and widened inequality gaps within countries, is highlighted as a primary policy challenge.

What is a K-shaped recovery?

- A K-shaped recovery happens when different sections of an economy recover at starkly different rates.
- A K-shaped recovery leads to changes in the structure of the economy or the broader society as economic outcomes and relations are fundamentally changed before and after the recession.
- This type of recovery is called K-shaped because the path of different parts of the economy when charted together may diverge, resembling the two arms of the Roman letter "K."



Way Forwards

- For a more robust and inclusive recovery, the report calls for a more synchronised Covid-19 vaccination programme across countries. There is a need to leverage regional cooperation.
- It recommends that fiscal and monetary support should be sustained, as premature tightening could increase long-term scars.

- Continuity in policy support is a must and recovery policy packages should focus on building resilience and investing in the 2030 Agenda for Sustainable Development.
- To deal with various economic and non-economic shocks, a more integrated risk management approach to planning and policymaking is needed.

STILL NO RECOGNITION OF THE THIRD TIER

Context:

Unlike the previous Finance Commissions, the Fifteenth Finance Commission was in the background of the COVID-19 pandemic which reinforced the significance of local governments, gram sabha and other participatory institutions in containing the crisis and delivering social protection in India.

Relevance:

GS-II: Polity and Governance (Constitutional Provisions, Structure of Government, Fiscal federalism), GS-III: Indian Economy (Economic Development and Growth, Fiscal policy, Devolution and Appropriation of taxes)

Mains Questions:

In the Context of the 15th Finance Commissions recommendations, to what extent does it address the goal of fiscally empowering local governments to deliver territorial equity? (10 marks)

Dimensions of the Article:

1. What is fiscal federalism?
2. Recent development related to fiscal federalism?
3. Challenges to fiscal federalism in India:
4. About Finance Commission of India
5. Fifteenth Finance Commission
6. Positive Aspects of the XVFC's recommendations w.r.t. LSGs
7. Lacunae in the XVFC's recommendations w.r.t. LSGs and the trends

What is fiscal federalism?

Fiscal federalism is financial relationship between centre and states, it deals with the division of governmental functions and financial relations among levels of government.

Structure of fiscal federalism in India:

The Seventh Schedule to the constitution of India defines and specifies allocation of powers and functions between Union & States. It contains three lists; i.e., 1) Union List, 2) State List and 3) Concurrent List.

1. Union list: The Union Government or Parliament of India has exclusive power to legislate on matters relating to these items.
2. State list: The respective state governments have exclusive power to legislate on matters relating to these items.
3. Concurrent list: This includes items which are under joint domain of the Union as well as the respective States

4. Article 268 to 293 in Part XII deal with the financial relations.

Recent development related to fiscal federalism?

Three landmark changes in union-state fiscal relations since 2015-16 have been:

1. The abolition of the Planning Commission in January 2015 and the subsequent creation of the NITI Aayog.
2. Fundamental changes in the system of revenue transfers from the centre to the states by providing higher tax devolution to the states from the fiscal year 2015-16 onwards based on the recommendations of the Fourteenth Finance Commission (14th FC).
3. The Constitutional amendment to introduce the Goods and Services Tax (GST) and the establishment of the GST Council for the central and state governments to deliberate and jointly take decisions.

Finance commission of India: The Finance Commission is a Constitutionally mandated body that is at the centre of fiscal federalism. Set up under Article 280 of the Constitution, its core responsibility is to evaluate the state of finances of the Union and State Governments, recommend the sharing of taxes between them, lay down the principles determining the distribution of these taxes among States.

Challenges to fiscal federalism in India:

Horizontal imbalances

- The horizontal imbalances arise because of differing levels of attainment by the states due to differential growth rates and their developmental status in terms of the state of social or infrastructure capital. However, Replacing the Planning Commission with NITI Aayog has reduced the policy outreach of government by relying only on single instrument of fiscal federalism i.e. Finance commission. This approach if not reviewed can lead to a serious problem of increasing regional and sub regional inequalities.

Vertical Imbalances

- Vertical imbalance arises due to the fiscal asymmetry in powers of taxation vested with the different levels of government in relation to their expenditure responsibilities prescribed by the constitution.
- Central Government collects around 60% of the total taxes, while its expenditure responsibility (for carrying out its constitutionally mandated responsibility such as defence, etc.) is only 40% of the total public expenditure.
- Such vertical imbalances are even sharper in the case of the third tier consisting of elected local bodies and panchayats.
- Vertical imbalances can adversely affect India's urbanization, the quality of local public goods and thus further aggravating the negative externalities for the environment and climate change.

Restructuring the fiscal federalism

India's Fiscal Federalism needs to be restructured around the four pillars namely Finance Commission, NITI Aayog, GST and decentralization in order to eliminate the inadequacies of vertical and horizontal imbalances.

1. **Finance commission:** it should be relieved from the dual task of dealing with provision of basic public goods and services and capital deficits. It should be confined to focussing on removal of basic public goods imbalance
2. **NITI Aayog:** it should deal with infrastructure and capital deficit.
3. **Decentralisation** can serve as the third pillars of the new fiscal federalism by strengthening local finances and state finance commission.
4. **GST** should be simplified in its structure and can serve as the fourth pillar of our fiscal federalism, by ensuring.

About Finance Commission of India

- The Finance Commission (FC) is constituted by the President of India every fifth year under Article 280 of the Constitution.
- Finance Commission is a constitutional body.
- It was formed to define the financial relations between the central government of India and the individual state governments.
- FC determines the method and formula for distributing the tax proceeds between the Centre and states, and among the states.
- The Finance Commission also decides the share of taxes and grants to be given to the local bodies in states. This part of tax proceeds is called Finance Commission Grants, which is a part of the Union budget.
- The Finance Commission (Miscellaneous Provisions) Act, 1951 additionally defines the terms of qualification, appointment and disqualification, the term, eligibility and powers of the Finance Commission.
- The Finance Commission consists of a chairman and four other members, who are appointed by the President of India.
- There have been fifteen commissions to date, the most recent was constituted in 2017.

Fifteenth Finance Commission

- The Fifteenth Finance Commission (XV-FC or 15-FC) is an Indian Finance Commission constituted in November 2017 and is to give recommendations for devolution of taxes and other fiscal matters for five fiscal years, commencing 2020-04-01.
- The main tasks of the commission were to "strengthen cooperative federalism, improve the quality of public spending and help protect fiscal stability".

Positive Aspects of the XVFC's recommendations w.r.t. LSGs

Higher vertical devolution

- The vertical devolution recommended to local governments is raised remarkably high.
- From a measly share of 0.78% of the divisible pool with an absolute sum of Rs. 10,000 crores by the Eleventh Commission, the Fifteenth Finance Commission raised it to 4.23% with a reasonably estimated amount of Rs. 4.3 lakh Crores.
- Compared with the Fourteenth Finance Commission there is a 52% increase in the vertical share.
- All the Commissions since the Eleventh Commission have tied specific items of expenditure to local grants and the Fifteenth Finance Commission has raised this share to 60% and linked them to drinking water, rainwater harvesting, sanitation and other national priorities in the spirit of cooperative federalism.

Entry-level criterion

- An important recommendation of the Fifteenth Finance Commission is the entry-level criterion to avail the union local grant (except health grant) by local governments (strictly speaking, it is performance-linked).
- For panchayats, the condition is online submission of annual accounts for the previous year and audited accounts for the year before. For urban local governments, two more conditions are specified.

- Although Finance Commissions, from the Eleventh to the Fourteenth, have recommended measures to standardise the accounting system and update the auditing of accounts, the progress made has been halting. Therefore, the entry-level criteria of the Fifteenth Finance Commission are timely.

Lacunae in the XVFC's recommendations w.r.t. LSGs and the trends

Vertical devolution

- It reduced the performance-based grant to just ₹8,000 crore — and that too for building new cities, leaving out the Panchayati Raj Institutions (PRIs) altogether.
- The performance-linked grants thoughtfully introduced by the Thirteenth Finance Commission earmarked 35% of local grants specifying six conditions for panchayats and nine for urban local governments and covered a wide range of reforms.
- The Fourteenth Finance Commission, however, cut the performance grant share to 10% for gram panchayats and 20% to municipalities with the conditionality that all local governments will have to show improvements in own source revenue.
- Municipalities are additionally required to publish service level benchmarks for basic services. The transformative potential in designing performance-linked conditionalities for improving the quality of decentralised governance in the context of indifferent states is missed.

Entry-level criterion

- Although the XVFC recommended entry-level criterion to avail the union local grant (except health grant) for panchayats and urban local governments, it is not clear why gram panchayats (especially the affluent and semi-urban categories) are left out from this.

Lack of reliable data

- The Twelfth Finance Commission did not publish any local fiscal data.
- The Thirteenth Finance Commission published data online and some researchers did use them. Unlike the previous Commissions, the Fourteenth Finance Commission conducted a sample survey covering (15%) gram panchayats, (30%) block panchayats and all district panchayats besides (30%) municipalities, presumably to ensure quality in canvassing data.
- The results too were not published. Interestingly, neither the Fifteenth Finance Commission nor the earlier counterparts took pains to examine how and where the financial reporting system has failed.

Equalization principle

- The Fifteenth Finance Commission claims that it seeks to achieve the "desirable objective of evenly balancing the union and the states". It is not clear why there is no recognition of the third tier in this balancing act.
- Although the Fifteenth Finance Commission outlines nine guiding principles as the basis of its recommendation to local governments, there is no integrated approach (in contrast to the recommendations of the Thirteenth Finance Commission).
- That the tasks of the Union Finance Commission were broadened as part of the decentralisation reforms (280(3) (bb) and (c)) is a firm recognition of the organic link of public finance with the development process at all tiers of government. Although the Fifteenth Finance Commission stresses the need to implement the equalisation principle, it is virtually silent when it comes to the local governments.

Criteria used

- It is equally important to note that in the criteria used by the Fifteenth Finance Commission for determining the distribution of grant to States for local governments, it employed population (2011

Census) with 90% and area 10% weightage the same criteria followed by the Fourteenth Finance Commission.

- While this ensures continuity, equity and efficiency criteria are sidelined. Equity is the foundational rationale of a federation.
- Abandoning tax effort criterion incentivises dependency, inefficiency and non-accountability.

RE-EXAMINING THE EPF TAX RULES

Context:

An important announcement regarding provident fund has been made in the Union Budget 2021 by Finance Minister that interest on employee contributions to provident fund of over Rs 2.5 lakh per annum would be taxed, starting from April 1, 2021.

Relevance:

GS-III: Indian Economy (Economic development and growth, Government Policies and Initiatives, Issues with the design and implementation of policies)

Mains Questions:

In the context of the recent changes made in the Union Budget 2021, what are the reasons for taxing Interest Income on Provident Fund (PF) Contributions? How does this move help to promote equity amongst PF Contributors? (10 Marks)

Dimensions of the Article:

1. What is Employee Provident Fund (EPF)?
2. Employees Provident Fund Organisation (EPFO)
3. Understanding the recent Proposed Tax on Income from PF
4. Reasons for Taxing Interest Income on PF Contributions

What is Employee Provident Fund (EPF)?

- Employee Provident Fund (EPF) is a retirement savings scheme that the government of India has mandated for all salaried employees.
- **In simple words, it is a savings platform provided by the government to help the employees build a corpus for post-retirement life.**
- EPF is the main scheme under the **Employees' Provident Funds and Miscellaneous Provisions Act, 1952.**
- The funds deducted from the salary as PF goes to the PF account, which is maintained by the Employee Provident Fund Organization (EPFO).
- The Employee Provident Fund is open for employees of both the Public and Private Sectors.
- All organizations in India that have more than 20 employees, as per law, is mandated to register with EPFO.
- Both employer and employee contribute 12% of an employee's monthly salary (basic wages plus dearness allowance) to the Employees' Provident Fund (EPF) scheme.
- EPF scheme is mandatory for employees who draw a basic wage of Rs. 15,000 per month.
- This savings scheme offers tax exemption under Section 80C of the Income Tax Act.

Employees Provident Fund Organisation (EPFO)

- EPFO is a **Statutory Body**, formed by the Employees' Provident Fund and Miscellaneous Provisions Act, 1952.
- EPFO is under Union Ministry of Labour & Employment.
- The EPFO has the dual role of being the enforcement agency to oversee the implementation of the EPF & MP Act and as a service provider for the covered beneficiaries throughout the country.
- The EPF interest rate is declared every year by the EPFO.
- EPFO assists the Central Board in administering a compulsory contributory Provident Fund Scheme, a Pension Scheme and an Insurance Scheme for the workforce engaged in the organized sector in India.
- It is also the **nodal agency for implementing Bilateral Social Security Agreements** with other countries on a reciprocal basis.
- The schemes cover Indian workers as well as International workers (for countries with which bilateral agreements have been signed.
- The EPFO's apex decision making body is the Central Boad of Trustees (CBT).

Understanding the recent Proposed Tax on Income from PF

- Only interest income on annual PF deposits of over Rs 2.5 lakh will be taxed. – If the aggregate contribution to EPF and Gratuity and the voluntary contributions to EPF exceeds Rs 2.5 lakh, the interest income on that will be taxed at the marginal tax rate in which the income of the individual falls.
- The move is aimed at taxing high-value depositors in the Employees Provident Fund.
- As per the new norm, government's decision only applies to the employees' side of contribution.
- The big-ticket money which comes into the fund and gets tax benefit as well as assured about 8% returns that would come under the tax ambit.
- The interest income on the additional contribution of a year will get taxed every year. This means that if an individual's annual contribution to PF in FY22 is Rs. 10 lakhs, the interest income on Rs 7.5 lakh will get taxed not only for FY22 but also for all subsequent years.

Reasons for Taxing Interest Income on PF Contributions

- The government has defended its decision, saying that many people put huge sums of money annually towards EPF and earn interest income from it without having to pay any tax. An anomaly is created due to this, according to the finance minister.
- The government has found instances where some employees are contributing huge amounts to these funds and are getting the benefit of tax exemption at all stages – contribution, interest accumulation and withdrawal.
- Since any tax exemption is provided through taxpayers' money, it was unfair to allow High Networth Individuals (HNIs – people with investable assets above a certain figure) depositing large sums in EPF to earn an assured interest (under EPFO) and tax-free income together.
- Earlier, the government had capped the contributions by employers into employee welfare schemes like the EPF or the National Pension Scheme or a superannuation plan, at Rs. 7.5 lakh a year.
- However, government as well as private sector employees are allowed to make voluntary contributions over and above the statutory deductions into the general provident fund (available only for government employees) or EPF (available for government as well as private sector employees).
- Of an estimated 4.5 crore EPF accounts, about 0.27% members had an average corpus of Rs. 5.92 crore and were earning over Rs. 50 lakh a year as "tax-free assured interest". This is a misuse of the welfare scheme aiming to promote savings and provide social security to lower- and middle-income groups of employees.

INDIA ASKS STATE REFINERS TO REVIEW OIL IMPORT CONTRACTS

Context:

Amid tensions with Saudi Arabia over oil production cuts, India has asked its State refiners to review contracts they enter into for buying crude oil from the Middle East nation and negotiate more favourable terms.

Relevance:

GS-III: Indian Economy (International Trade, Mobilization of Resources, Growth and Development of Indian Economy)

Dimensions of the Article:

1. Background to the Tensions with Saudi Arabia regarding oil imports
2. Issues with OPEC Producers
3. About Organization of the Petroleum Exporting Countries (OPEC)
4. India and Oil Imports
5. Diversifying India's Oil Imports

Background to the Tensions with Saudi Arabia regarding oil imports

- When oil prices started to rise in February 2021, India wanted Saudi Arabia to relax output controls but the Kindgom ignored its calls.
- Saudi Arabia and other OPEC (Organization of the Petroleum Exporting Countries) producers have been the mainstay suppliers of crude oil for India. But their terms have often been loaded against the buyers.
- OPEC is a permanent intergovernmental organization of 13 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member countries.
- This has led to the Indian government now pressing for diversification of the supply base.
- Keen to break producers' cartel dictating pricing and contractual terms, the government has told Indian Oil Corporation (IOC), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limted (HPCL) to look for oil supplies from outside the Middle East region and use collective bargaining power to get favourable terms.

Issues with OPEC Producers

- Indian firms buy two-third of their purchases on term or fixed annual contracts.
- These term contracts provide assured supplies of the contracted quantity but the pricing and other terms favour only the supplier.
- The buyer has to indicate at least six weeks in advance of their intention to lift quantity out of the annual term contract in any month and has to pay an average official price announced by the producer.
- While buyers have an obligation to lift all of the contracted quantity, Saudi Arabia and other producers have the option to reduce supplies in case OPEC decides to keep production artificially lower to boost prices.

About Organization of the Petroleum Exporting Countries (OPEC)

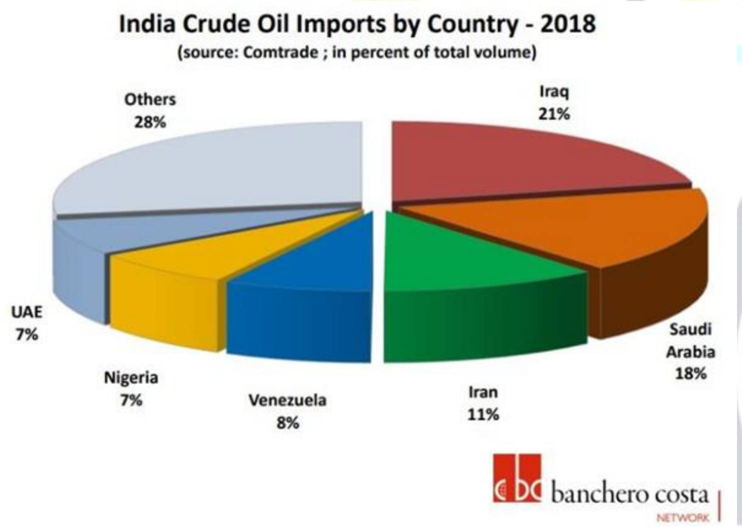
- The Organization of the Petroleum Exporting Countries is an intergovernmental organization of 14 nations, founded in 1960 in Baghdad by the first five members (Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela), and headquartered since 1965 in Vienna, Austria.
- As of 2018, the 14 member countries accounted for an estimated 44 percent of global oil production and almost 82% of the world's "proven" oil reserves, giving OPEC a major influence on global oil prices

that were previously determined by the so-called "Seven Sisters" grouping of multinational oil companies.

- The stated mission of the organization is to "coordinate and unify the petroleum policies of its member countries and ensure the stabilization of oil markets, in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry."

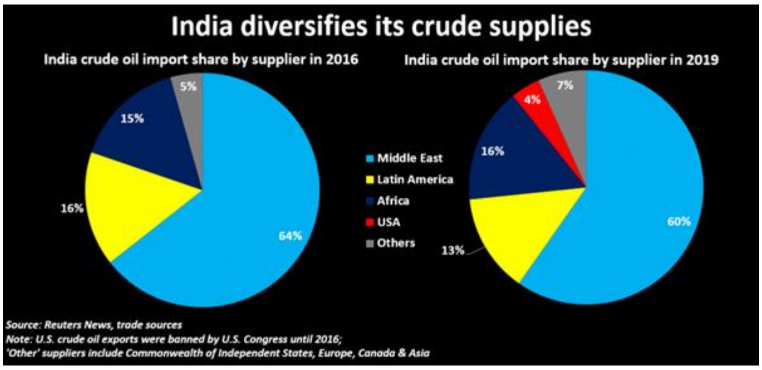
India and Oil Imports

- India is heavily dependent on crude oil and LNG imports with over 82% import dependence for crude oil and more than 45% for natural gas/LNG.
- India generated more than 35 million tons of petroleum products from indigenous crude oil production whereas the consumption of petroleum products is more than 200 million tons. Similarly, India generated 30 bcm natural gas locally against the consumption of almost 60 bcm (double).
- LNG price is linked to the prevailing crude oil price in global markets.
- India is the third biggest oil importer after US and China in 2018 and expected to occupy second place surpassing the US in 2019.



Diversifying India's Oil Imports

- India's imports of Middle Eastern oil plunged to a four-year low in 2019.
- India imports about almost 85% of its oil needs and traditionally relies on the Middle East for the majority of its supplies, however, the region's share of India's crude shrank to 60% in 2019.
- The reason being: a record output from the United States and countries like Russia offered opportunities for importers to tap other sources.



Way Forward

- India needs pricing flexibility as well as the certainty of supply even during times when production falls due to any reason. Besides, choice of time of supply and flexibility on quantity (ability to reduce or increase) is what India should be looking at.
- Indian refiners can look to reduce the quantity they buy through term contracts and instead buy more from the spot or current market. Buying from the spot market would ensure that India can take advantage of any fall in prices on any day and book quantities.
- State-owned refineries have also been asked to coordinate buying and also explore joint strategy with private refiners such as Reliance Industries and Nayara Energy.

DELAY IN CBDT APPOINTMENTS RAISES CONCERNS

Context:

- A delay in appointing members of the Central Board of Direct Taxes (CBDT), the apex body of the Income Tax Department, is puzzling the entire revenue service and tax bureaucracy.
- The Committee of Secretaries (CoS) shortlisted names for CBDT members, however, there appears to be no progress in the appointment process, and the government appears to be in a wait-and-watch mode.

Relevance:

Prelims, GS-III: Indian Economy (Taxation, Organizations and Bodies set up for taxation)

Dimensions of the Article:

1. About Central Board of Direct Taxes (CBDT)
2. Composition of CBDT
3. Functions of CBDT:

About Central Board of Direct Taxes (CBDT)

- The Central Board of Direct Taxes (CBDT) is a Statutory Body functioning under the Central Board of Revenue Act, 1963.
- It is official Financial action task force unit.
- CBDT is a part of the Department of Revenue in the Ministry of Finance, Government of India.

Composition of CBDT

The CBDT Chairman and Members of CBDT are selected from Indian Revenue Service (IRS), a premier civil service of India, whose members constitute the top management of Income Tax Department.

The Central Board of Direct Taxes consists of a Chairman, and six members that deal with the following:

1. Income Tax & Revenue
2. Administration
3. Legislation & Computerization

4. Audit and Judicial
5. Investigation
6. Transaction Processing System (TPS) & System

Functions of CBDT:

- CBDT is responsible for administration of the direct tax laws through Income Tax Department.
- The officials of the Board in their ex-officio capacity also function as a Division of the Ministry dealing with matters relating to levy and collection of direct taxes.
- CBDT provides essential inputs for policy and planning of direct taxes in India as well.

1. It deals with matters related to levying and collecting Direct Taxes.
2. Formulation of various policies.
3. Supervision of the entire Income Tax Department
4. Suggests legislative changes in Direct Tax Enactments
5. Suggests changes in tax rates
6. Proposes changes in the taxation structure in line with the Government policies.

GOVT. AMENDS INSOLVENCY LAW THROUGH ORDINANCE

Context:

The government has amended the insolvency law to provide for a pre-packaged resolution process for micro, small and medium enterprises.

Relevance:

GS-III: Indian Economy (Development and Growth of Indian Economy, Banking Sector and NBFCs, NPAs)

Dimensions of the Article:

1. About the Ordinance passed by the Government
2. Insolvency and Bankruptcy Code (Amendment) Bill, 2020
3. Objectives of IBC
4. What is Insolvency and Bankruptcy?
5. Process of resolution of Insolvency

About the Ordinance passed by the Government

- An ordinance was promulgated to amend the Insolvency and Bankruptcy Code (IBC) on April 4, according to a notification.
- The latest move comes less than two weeks after the suspension of certain IBC provisions ended.
- The suspension — wherein fresh insolvency proceedings were not allowed for a year starting from March 25, 2020 — was implemented amid the coronavirus pandemic disrupting economic activities.

Provisions of the Ordinance

- As per the ordinance, it is considered necessary to urgently address the specific requirements of Micro, Small and Medium Enterprises (MSMEs) relating to the resolution of their insolvency, due to the unique nature of their businesses and simpler corporate structures.

- According to the ordinance, it is considered expedient to provide an efficient alternative insolvency resolution process MSMEs to ensure a quicker, cost-effective and value maximising outcomes for all stakeholders, in a manner which is least disruptive to the continuity of their businesses and which preserves jobs.

Insolvency and Bankruptcy Code (Amendment) Bill, 2020

- The bill seeks to remove bottlenecks and streamline the corporate insolvency resolution process. It aims to provide protection to new owners of a loan defaulter company against prosecution for misdeeds of previous owners. The latest changes pertain to various sections of the IBC as well as introduction of a new section.
- The IBC, which came into force in 2016, has already been amended thrice.
- Stressing that the government is "very responsive" and has been talking to the industry, she assured the House that amendments to the IBC are not being "unthinkingly done".
- The Bill replaces an ordinance.
- The amendments were earlier introduced as ordinances. Now after the Parliament session begun the ordinance was introduced as bill. And the bill has now been passed as an act in the parliament. The amendment aims to protect the successful bidders of insolvent companies from risk of criminal proceedings. The criminal proceedings may be expected from previous promoters of the company.
- The Ordinances are laws promulgated the President of India. The President issues ordinance on recommendation of Council of Ministers. An ordinance shall be issued only when the Parliament is not in session.

Objectives of IBC

1. To consolidate and amend all existing insolvency laws in India.
2. To simplify and expedite the Insolvency and Bankruptcy Proceedings in India.
3. To protect the interest of creditors including stakeholders in a company.
4. To revive the company in a time-bound manner.
5. To promote entrepreneurship.
6. To get the necessary relief to the creditors and consequently increase the credit supply in the economy.
7. To work out a new and timely recovery procedure to be adopted by the banks, financial institutions or individuals.
8. To set up an Insolvency and Bankruptcy Board of India.
9. Maximization of the value of assets of corporate persons.

What is Insolvency and Bankruptcy?

- Insolvency is a financial status: your debts are greater than the fair market value of your assets & you're unable to pay your debts as they generally become due.
- Bankruptcy is a legal status: it's a legal procedure whereupon an insolvent person files for protection from her creditors so that they cannot commence or continue legal proceedings (like a wage garnishment) against her to recover their debts.

Process of resolution of Insolvency

1. If the adjudicating authority accepts the Insolvency resolution process initiated by any of the stakeholders of the firm: firm/debtors/creditors/employees., then – an Insolvency resolution professional (IP) is appointed.

2. The power of the management and the board of the firm is transferred to the committee of creditors (CoC) and they act through the IP.
3. The IP has to decide whether to revive the company (insolvency resolution) or liquidate it (liquidation).
4. If they decide to revive, they have to find someone willing to buy the firm.
5. The creditors also have to accept a significant reduction in debt. The reduction is known as a haircut.
6. They invite open bids from the interested parties to buy the firm.
7. They choose the party with the best resolution plan, that is acceptable to the majority of the creditors (75 % in CoC), to take over the management of the firm.

RBI'S MPC KEEPS POLICY RATES UNCHANGED

Context:

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) voted unanimously to leave the policy repo rate unchanged at 4%.

Relevance:

GS-III: Indian Economy (Economic Growth and Development in India, Monetary Policy)

Dimensions of the Article:

1. Instruments of Monetary Policy
2. RBI's MPC decision
3. Highlights of what was said by the RBI Governor

Instruments of Monetary Policy

There are several direct and indirect instruments that are used for implementing monetary policy.

1. **Repo Rate:** The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).
2. **Reverse Repo Rate:** The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.
3. **Liquidity Adjustment Facility (LAF):** The LAF consists of overnight as well as term repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine-tuning variable rate repo auctions of range of tenors. The aim of term repo is to help develop the inter-bank term money market, which in turn can set market based benchmarks for pricing of loans and deposits, and hence improve transmission of monetary policy. The Reserve Bank also conducts variable interest rate reverse repo auctions, as necessitated under the market conditions.
4. **Marginal Standing Facility (MSF):** A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
5. **Corridor:** The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
6. **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

7. **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.

8. **Statutory Liquidity Ratio (SLR):** The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

9. **Open Market Operations (OMOs):** These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.

10. **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.

RBI's MPC decision

- The marginal standing facility (MSF) rate and the bank rate remain unchanged at 4.25% and the reverse repo rate stands unchanged at 3.35%.
- Taking various factors into consideration, the projection of real GDP growth for 2021-22 has been retained at 10.5% consisting of 26.2% in Q1; 8.3% in Q2; 5.4% in Q3; and 6.2% in Q4.
- The RBI Governor said that while headline inflation at 5.0% in February 2021 remained within the tolerance band, some underlying constituents were testing the upper tolerance level.
- Taking into consideration various factors, RBI has revised the projection for CPI inflation to 5.0% in Q4: 2020-21; 5.2 % in Q1:2021-22; 5.2% in Q2; 4.4% in Q3; and 5.1% in Q4, with risks broadly balanced.

Highlights of what was said by the RBI Governor

- The RBI Governor said that the focus must now be on containing the spread of the virus as well as on economic revival — consolidating the gains achieved so far and sustaining the impulses of growth in the new financial year (2021-22).
- The RBI Governor said that the juxtaposition of high frequency lead and coincident indicators reveals that economic activity is normalising in spite of the surge in infections.
- Drawing on its experience in the previous year, the RBI, for the year 2021-22, has decided to put in place a secondary market G-sec acquisition programme (G-SAP 1.0) under which the RBI will commit upfront to a specific amount of open market purchases of government securities with a view to enabling a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions.

MOODY'S ON INDIA'S PUBLIC DEBT LEVEL

Context:

Moody's Investors Service said that India's public debt level is among the highest in emerging economies with a quantitative easing programme underway, while its debt affordability is among the weakest.

Relevance:

GS-III: Indian Economy (Economic Growth and Development in India)

Dimensions of the Article:

1. What are Emerging markets/economies?
2. What is Public Debt?
3. Is Public Debt good or bad?
4. Trends in India's Public Debt
5. Highlights of Moody's report

What are Emerging markets/economies?

- An emerging market/country/economy is a market that has some characteristics of a developed market, but does not fully meet its standards.
- This includes markets that may become developed markets in the future or were in the past.
- The nine largest emerging and developing economies by either nominal or PPP-adjusted GDP are 4 of the 5 BRICS countries (Brazil, Russia, India and China) along with Indonesia, South Korea, Mexico, Saudi Arabia and Turkey.

What is Public Debt?

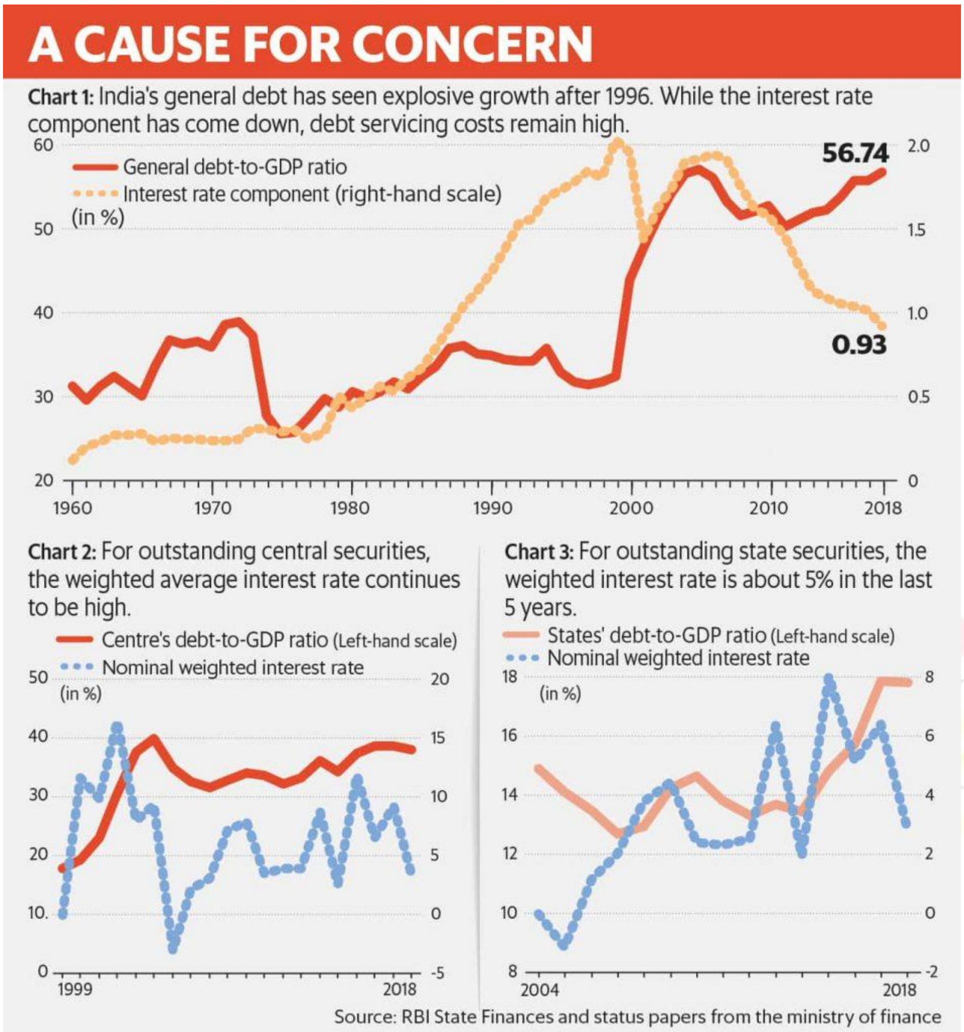
- The public debt is how much a country owes to lenders outside of itself.
- The term "public debt" is often used interchangeably with the term sovereign debt and these lenders to the country can include individuals, businesses, and even other governments.
- Public debt usually only refers to national debt and it is the accumulation of annual budget deficits (A nation's deficit affects its debt and vice-versa).
- Also, if interest rates go up on the public debt, they will also rise for all private debt.
- Public debt is different from External debt – External Debt is the amount owed to foreign investors by both the government and the private sector and Public debt does impact external debt.

Is Public Debt good or bad?

- In the short run, public debt is a good way for countries to get extra funds to invest in their economic growth.
- Public debt is a safe way for foreigners to invest in a country's growth by buying government bonds – much safer than Foreign Direct Investment.
- However, when Governments tend to take on too much debt because the benefits are making them popular with voters, investors usually start demanding a higher interest rate (wanting more return for the greater risk as the country is more likely to default on its debt).
- If the country keeps spending by borrowing, then its bonds will lose their value and ratings and as interest rates rise, it becomes more expensive for a country to refinance its existing debt. In time, income has to go toward debt repayment, and less toward government services.

Trends in India's Public Debt

- Till 1972, India's general debt—for the Centre and states—rose steadily to about 39% of gross domestic product (GDP) and then fell sharply in 1974.
- After 1996, it saw explosive growth, reaching 57% in 2005.
- In 2018, general debt was approximately 57% of GDP.



Should India be worried?

- A 2020 research paper argues that the pandemic has depressed real interest rates despite ballooning government debts in the industrial world.
- Lower interest rates mean countries are less constrained by fiscal space.
- Large fiscal expansions can thus improve fiscal sustainability by raising GDP more than they raise debt and interest payments.
- For example: Despite a ballooning US federal debt/GDP ratio from below 50% in 2000 to about 100% in 2020, federal interest payments in the US as a percentage of GDP in the last 10 years have hovered between 1% and 2%.
- In simple words: in a world of low interest rates, advanced economies can run limited primary deficits and still keep their public debt stable.
- However, because interest rates are falling, this does not mean that debt servicing costs are going down due to rising debt.
- Also, high levels of public debt in India have historically been associated with fiscal dominance, and more uncertainty and volatility in the economy. Therefore, there are good reasons for India to worry about its public debt.

Highlights of Moody's report

- Most of the 11 emerging markets, except Chile, have weak government effectiveness, suggesting potential risks executing fiscal reforms or consolidation plans.

- Debt affordability varies widely, with Ghana and India rated the weakest.
- With the exception of the Philippines, Indonesia and Ghana, most emerging market central banks have not yet announced maximum purchases nor a clear time frame for their programs, hence, there is a risk that central banks will not taper these programs once they fulfil their primary objectives unless they are supported by strong fiscal policy frameworks.
- The report warned that depending on recovery prospects and future debt servicing costs, high debt levels may become unsustainable for the more vulnerable economies.

WPI INFLATION QUICKENS TO A RECORD 7.4%

Context:

Inflation based on the Wholesale Price Index (WPI) accelerated in March 2021 to a record 7.4%, a surge that is expected to feed into higher retail prices in the near term.

Relevance:

GS-III: Indian Economy (Macroeconomics, Inflation, Monetary Policy)

Dimensions of the Article:

1. What is Inflation?
2. What is Wholesale Price Index (WPI)?
3. What is Consumer Price Index (CPI)?
4. Differences between WPI Vs CPI

What is Inflation?

- Inflation refers to the consistent rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc. Inflation measures the average price change in a basket of commodities and services over time.
- A moderate level of inflation is required in the economy to ensure that production is promoted. Excess Inflation is indicative of the decrease in the purchasing power of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- In India, inflation is primarily measured by two main indices — WPI (Wholesale Price Index) and CPI (Consumer Price Index) which measure wholesale and retail-level price changes, respectively.

What is Wholesale Price Index (WPI)?

- Wholesale Price Index (WPI) measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses.
- **WPI is published by the Office of Economic Adviser, Ministry of Commerce and Industry.**
- It is the most widely used inflation indicator in India and it is used for macro-level policy making.
- The weightage given in WPI is consistent with the structure of the economy: manufactured goods (64) > primary articles (23) > fuel and power (13)
- WPI for manufactured goods is released monthly, for the other two (Primary Article and Fuel and power) it is released weekly.
- It is worth noting that many commodities have two sets of prices. One is the retail price which the consumer actually pays. The other is the wholesale price, the price at which goods are traded in bulk. These two may differ in value because of the margin kept by traders.
- Major criticism for this index is that the general public does not buy products at wholesale price.

- **The base year of All-India WPI has been revised from 2004-05 to 2011-12 in 2017.** Revision in 2010 led to more items, wider coverage, more quotations helping in disseminating more realistic and reliable data,facilitating better DM and policy intervention.

What is Consumer Price Index (CPI)?

- Consumer Price Index (CPI) measures price changes from the perspective of a retail buyer.
- **CPI is released by the National Statistical Office (NSO).**
- **Base Year for CPI is 2012** and the Monetary Policy Committee (MPC) uses CPI data to control inflation.
- The CPI calculates the difference in the price of commodities and services such as food, medical care, education, electronics etc, which Indian consumers buy for use.
- The CPI has several sub-groups including food and beverages, fuel and light, housing and clothing, bedding and footwear.

Four types of CPI are as follows:

1. CPI for Industrial Workers (IW).
2. CPI for Agricultural Labourer (AL).
3. CPI for Rural Labourer (RL).
4. CPI (Rural/Urban/Combined).

Of these, CPI for Industrial Workers (IW), CPI for Agricultural Labourer (AL) and CPI for Rural Labourer (RL) are compiled by the Labour Bureau in the Ministry of Labour and Employment.

CPI (Rural/Urban/Combined) is compiled by the National Statistical Office (NSO) in the Ministry of Statistics and Programme Implementation.

Differences between WPI Vs CPI

Basis For Comparison	Wholesale Price Index (WPI)	Consumer Price Index (CPI)
Meaning	WPI, amounts to the average change in prices of commodities at the wholesale level	CPI, indicates the average change in the prices of commodities, at the retail level.
Published by	Office of Economic Advisor (Ministry of Commerce & Industry)	Central Statistics Office (Ministry of Statistics and Programme Implementation)
Measures prices of	Goods only	Goods and Services both
Measurement of Inflation	The first stage of the transaction	The final stage of the transaction
Prices paid by	Manufacturers and wholesalers	Consumers
How many items covered	697 (Primary, fuel & power and manufactured products)	448(Rural Basket) 460 (Urban Basket)
What type of items covered	Manufacturing inputs and intermediate goods like minerals, machinery basic metals etc.	Education, communication, transportation, recreation, apparel, foods and beverages, housing and medical care
Base year	2011-12	2012

Used by	Only a few countries including India	157 countries
Data released on	Primary articles, fuel, and power (Weekly basis) & overall (monthly basis since 2012)	Monthly basis

RUPEE LOGS SIXTH STRAIGHT SESSION OF LOSS

Context:

The Indian Rupee fell for the sixth straight session and depreciated to a nine-month low of 75.4 against the USD, it is one of the biggest losers among the emerging market currencies.

Relevance:

GS-III: Indian Economy (Macroeconomics, Monetary Policy, Fiscal Policy, Capital Market)

Dimensions of the Article:

1. Understanding Currency Depreciation and the Factors
2. Reasons for the Decline of the rupee
3. Intervention to Control Depreciation of the Rupee

Understanding Currency Depreciation and the Factors

Currency depreciation is a fall in the value of a currency in a floating exchange rate system where market forces (based on demand and supply of a currency) determine the value of a currency.

Some of the factors that influence the value of a currency are:

1. Inflation
2. Interest rates
3. Trade deficit
4. Macroeconomic policies
5. Equity market

Currency depreciation increases a country's export activity as its products and services become cheaper to buy.

Reasons for the Decline of the rupee

- Rising Covid-19 cases have emerged as a key concern and as several states are now considering more stringent lockdown measures, market participants are concerned over delay in the recovery of the economy, which was hit hard in 2020-21 by the pandemic.
- The strengthening of USD in line with expectations of better growth in the US economy, has also put pressure on the Rupee.
- RBI's announcement of Government Securities Acquisition Programme (G-SAP) programme to infuse liquidity has also put additional pressure on the Rupee. – This is being read as a sort of quantitative easing policy the global central banks had followed, in which the RBI will support the government's elevated borrowing programme through infusion of liquidity.
- Another factor that is putting additional pressure is the decreasing support of the Foreign Portfolio Investors (FPIs), who pumped huge inflows into Indian equity markets between October 2020 and February 2021.

Currency movement against USD

	Mar 22	Mar 22	Change Since Mar 22
Turkish New Lira	7.80	8.14	4.36
Indian Rupee	**72.38**	**75.42**	**4.20**
Brazilian Real*	5.51	5.73	3.99
Russian Ruble	74.77	77.20	3.25
Thai Baht	30.87	31.59	2.33

Impact of Depreciating Rupee

- Depreciating rupee will adversely affect those who are: Importing from outside, seeking foreign education, travelling abroad, investing abroad, seeking medical treatment abroad etc.
- However, those who are exporting from India, receiving remittances from Non-Resident Indians (NRI) and Foreigners who travel to India will be benefitted.

Intervention to Control Depreciation of the Rupee

- The RBI intervenes in the currency market to support the rupee as a weak domestic unit can increase a country's import bill.
- The RBI can intervene directly in the currency market by buying and selling dollars.
- If the RBI wishes to increase the rupee value, then it can sell dollars and when it needs to bring down rupee value, it can buy dollars.
- The RBI can also influence the value of rupee by the way of monetary policy.
- RBI can adjust the repo rate (the rate at which RBI lends to banks) and the liquidity ratio (the portion of money banks are required to invest in government bonds) to control rupee.

U.S. TREASURY KEEPS INDIA ON CURRENCY WATCH LIST

Context:

India is one of the 11 countries on the U.S. Treasury's 'Monitoring List' with regard to their currency practices, according to the April 2021 edition of the semi-annual report, the first from the Biden administration. India was on the list in the December 2020 report as well.

Relevance:

GS-III: Indian Economy, GS-II: International Relations (Foreign policies that affect India's Interests)

Dimensions of the Article:

1. About the recent designation by U.S.
2. Currency Manipulator Designation by the U.S.

3. Back to basics: How does Currency Manipulation work?

About the recent designation by U.S.

The report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, which is submitted to the U.S. Congress, reviews currency practices of the U.S.'s 20 biggest trading partners.

Three criteria are used to review partners:

1. A significant (at least $20 billion) bilateral trade surplus,
2. A material current account surplus, and
3. A 'persistent one-sided intervention' in forex markets.

India met two of the three criteria —

1. The trade surplus criterion and
2. The "persistent, one-sided intervention" criterion, according to the U.S Treasury Department.

The other 10 countries on the list with India that merit "close attention to their currency practices" according to the U.S. Treasury are China, Japan, Korea, Germany, Ireland, Italy, Malaysia, Singapore, Thailand, and Mexico. All of these, except Ireland and Mexico, were on the December 2020 list.

Currency Manipulator Designation by the U.S.

- Currency manipulator is a designation applied by United States government authorities, such as the United States Department of the Treasury, to countries that engage in what is called "unfair currency practices" that give them a trade advantage.
- Such practices may be currency intervention or monetary policy in which a central bank buys or sells foreign currency in exchange for domestic currency, generally with the intention of influencing the exchange rate and commercial policy.
- Policymakers may have different reasons for currency intervention, such as controlling inflation, maintaining international competitiveness, or financial stability.
- In many cases, the central bank weakens its own currency to subsidize exports and raise the price of imports, sometimes by as much as 30-40%, and it is thereby a method of protectionism.
- The Treasury's goal is to focus attention on those nations whose bilateral trade is most significant to the US economy and whose policies are the most material for the global economy.

Back to basics: How does Currency Manipulation work?

- Let's take China as an example for a country that manipulates its currency to gain an unfair advantage.
- We can first consider the fact that – the value of China's exports in goods annually surpasses the amount it imports from the rest of the world – (China's global trade surplus for the first 11 months of 2020 is $460 billion, up by more than 20% in comparison to 2019.)
- In the normal Scenario – when China exports a particular good (say "X") to the U.S., it receives payment for the goods in Dollars which the U.S. firms importing "X" use, and upon conversion at the current exchange rate, the Chinese exporters receive the amount in Yuan.
- Now, if China intervenes by releasing more Yuan into the exchange market by buying Dollars, the value of Yuan drops (its exchange rate weakens, so now one receives more Yuan for a Dollar on exchange).
- In such a scenario, the Chinese Exporters can now price their product "X" lower in terms of Dollars in comparison to domestic sellers and sell "X" in the U.S. while receiving the same or higher amount in Yuan upon conversion.

- This gives the Chinese exporters an unfair advantage against the domestic competitors in the U.S. and hence capturing the market driven by demand for Chinese goods which are now priced competitively.
- The reduced value of Yuan will affect the value of goods Imported to China from other countries as well (i.e., now that the value of Yuan is lower, Chinese importers have to pay more for the goods that they import from U.S. or other exporters).
- However, the negative impact (losses) on imports are much lesser considering the fact established earlier that China exports more than it imports, and the protectionist action of manufacturing essential goods within China help in reducing the import bill.

COVID-19 IMPACTS 82% OF SMALL BUSINESSES: SURVEY

Context:

A recent survey has showed that more than 82% of businesses have suffered a negative impact on account of COVID-19 and 70% expect it will take almost a year for demand to recover to pre-pandemic levels.

Relevance:

GS-III: Indian Economy (Growth & Development of Indian Economy)

Dimensions of the Article:

1. Highlights of the Survey
2. Problems Faced by MSMEs in India
3. Problem Aggravated due to Covid-19

Highlights of the Survey

- More than 82% of businesses have suffered a negative impact on account of COVID-19 and 70% expect it will take almost a year for demand to recover to pre-pandemic levels.
- About 60% of the companies surveyed said that they would require more support measures, including government initiatives, to withstand the adverse impact.
- Market access (42%), improving overall productivity (37%) and access to more finance (34%) were cited as the three key challenges that were most likely to hinder small businesses' recovery.
- The data indicated that about 95% of firms were impacted in April 2020 when the nationwide lockdown was imposed. Even with progressive unlocking, 70% of businesses remained disrupted till August 2020 and 40% till the end of February 2021.

Problems Faced by MSMEs in India

- Being out of the formal network, the MSMEs do not have to maintain accounts, pay taxes or adhere to regulatory norms etc., which brings down their costs. But in a time of crisis, it also constrains a government's ability to help them.
- Most of the MSME funding comes from informal sources and it explains why the Reserve Bank of India's efforts to push more liquidity towards the MSMEs have had a limited impact. Also, the government has launched schemes in this regard.
- Further, banks dither from extending loans to MSMEs due to the high ratio of bad loans.
- According to a 2018 report by the International Finance Corporation (part of the World Bank), the formal banking system supplies less than one-third (or about Rs 11 lakh crore) of the MSME credit need that it can potentially fund.

- Delays in Payments to MSMEs is one of the biggest reasons for financial turmoil in the MSME sector. MSMEs face delays in payment from their buyers which also includes the government. It also faces delays in GST refunds.

Problem Aggravated due to Covid-19

1. **Declining Revenues:** MSMEs are already struggling — in terms of declining revenues and capacity utilisation — in the lead-up to the Covid-19 crisis.
2. **Unavailability of Cash:** The total lockdown has raised an issue of the existence of MSMEs primarily due to unavailability of cash which subsequently will result in the job losses.
3. **Lack of Labour Availability:** The return of migrant labourers will create an issue of lack of labour availability.
4. **Loan Against Collateral:** Loans to MSMEs are mostly given against property (as collateral) but in times of crisis, property values fall and that inhibits the extension of new loans.
5. **Steps Taken:** To ease the firms' financial distress during this period, the Reserve bank of India has announced several measures such as a moratorium on term loans, and easier working capital financing. Some public sector banks have also opened up emergency credit lines for businesses.

RUPEE WEAKNESS AND WAYS AND MEANS CREDIT

Context:

- Reserve Bank of India is intent on preventing any further depreciation in the currency as the surge in COVID-19 cases hits jobs and growth.
- The rupee has already lost 2.6% against the dollar so far in April 2021, putting it on the cusp of marking its worst month since the pandemic hit the country early last year.
- The Reserve Bank of India (RBI) decided to continue with the existing interim Ways and Means Advances (WMA) scheme limit of ₹51,560 crore for all States/ UTs shall for six months i.e., up to September 30, given the prevalence of COVID-19.

Relevance:

GS-III: Indian Economy (Fiscal Policy, Growth & Development of Indian Economy, Issues Relating to Economic Development in India)

Dimensions of the Article:

1. About depreciating Rupee
2. What is WMA?
3. What is Ways and Means Advances limit?
4. Types of WMAs and Interest rates
5. Importance and advantages of higher Ways and Means Advances

About depreciating Rupee

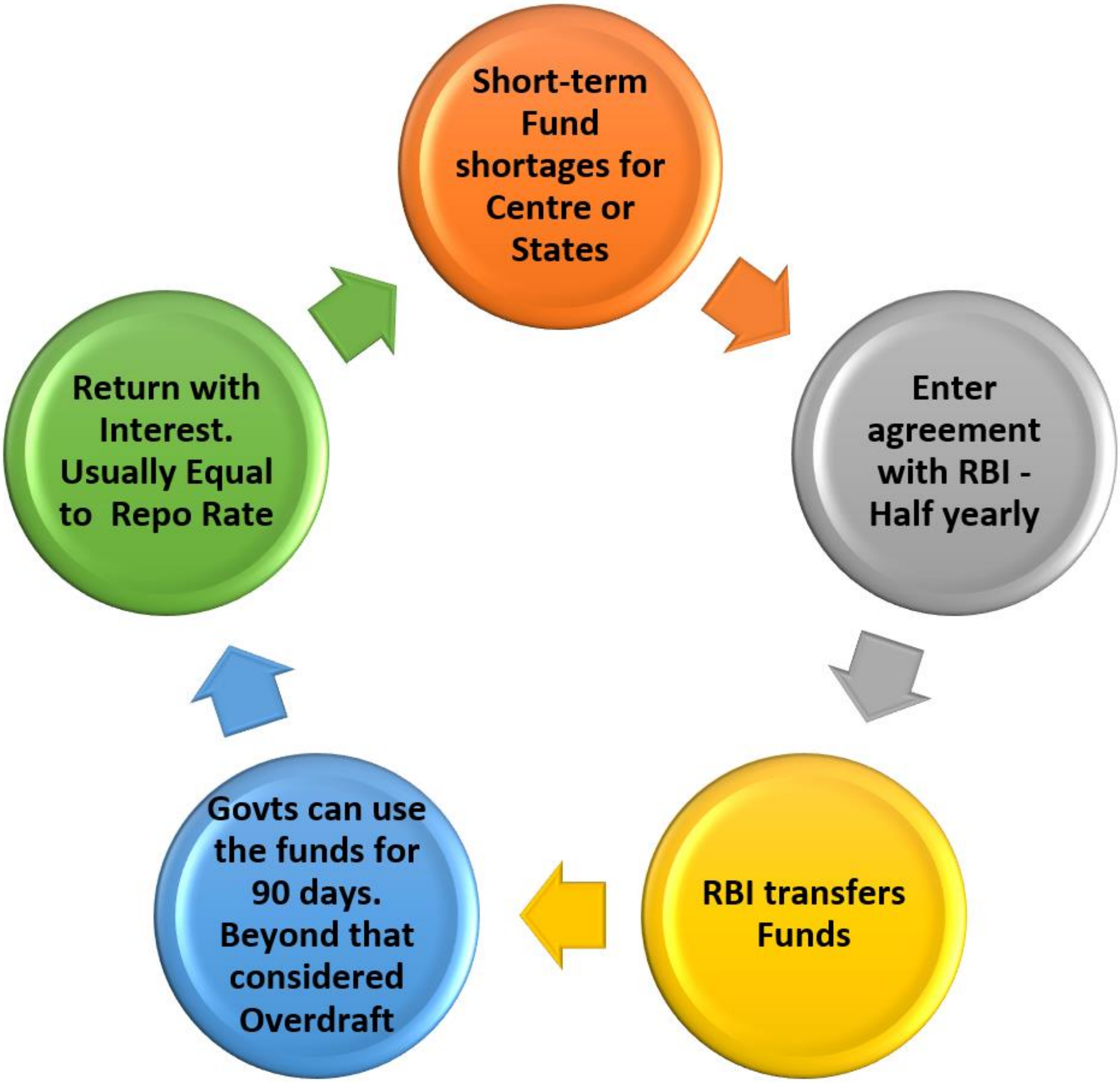
- INR is likely to trade with a depreciating bias on the back of a stronger dollar, relatively weaker emerging market or EM currencies, muted EM inflows and rising COVID-19 cases in India.
- The rupee closed at 75.01 to the dollar, and traders said they expect it to stay in the 74.50 to 76.00 range against the greenback in the near-term.
- The RBI has committed to buying ₹1 trillion worth bonds in the April-June period in its effort to temper the rise in bond yields to help the government borrow its budgeted ₹12.06 trillion from the market at low interest rates.

- It said it would do more going forward, and this would be alongside its regular open market bond purchases and special open market operations — the simultaneous sale and purchase of government securities over different tenors — the equivalent of the U.S. Operation Twist.
- RBI's policy priority of keeping a lid on G-sec (government bond) yields is more pressing than arresting INR depreciation. A weaker rupee helps exports and the RBI may prefer it.

What is WMA?

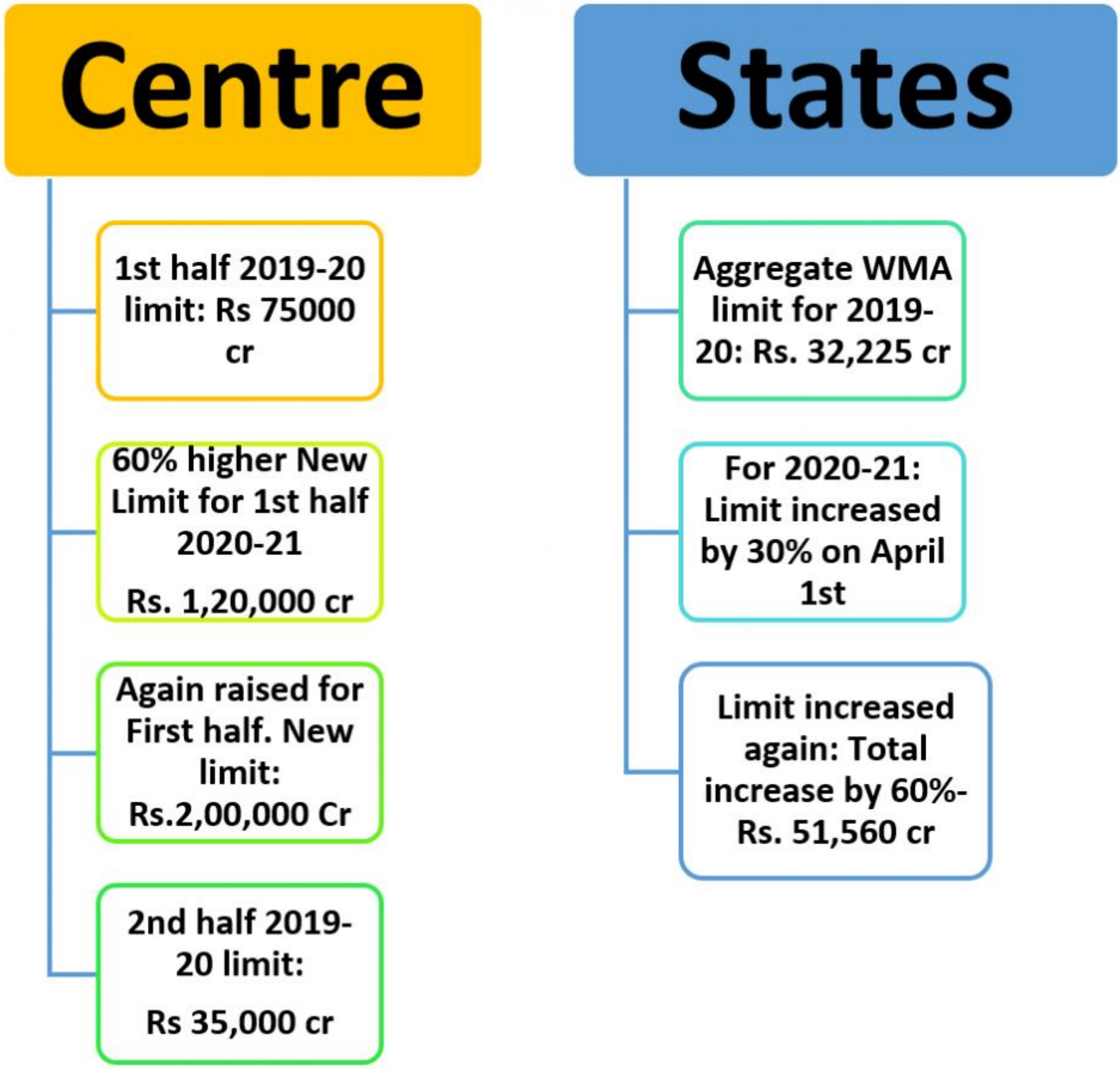
- The Reserve Bank of India (RBI) gives temporary loan facilities to the central and state governments. This loan facility is called Ways and Means Advances (WMA).
- When managing money, we know that cash outflows often overshoot inflows. When businesses face this, they approach banks to get working capital loans. But State governments in India either go for market borrowings by issuing securities or seek short-term funding from the RBI. Such Borrowings through WMA are to be repaid within three months and usually offered at the repo rate.
- In that sense, they aren't a source of finance per se, thus not a part of Fiscal Deficit. Section 17(5) of the RBI Act, 1934 authorises the central bank to lend to the Centre and state governments subject to their being repayable "not later than three months from the date of the making of the advance".

The Ways and Means Advances scheme was introduced in 1997 to meet mismatches in the receipts and payments of the government.

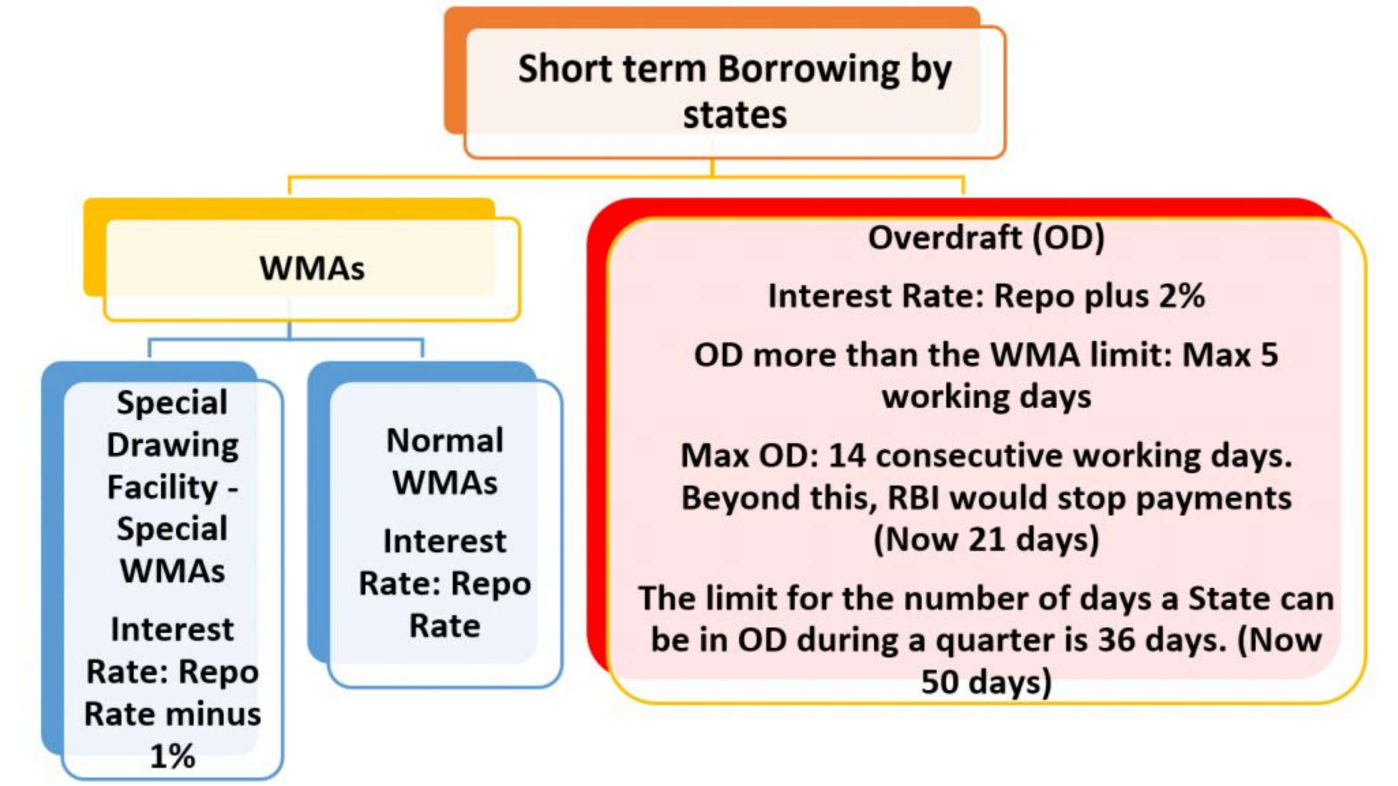


What is Ways and Means Advances limit?

- The limits for Ways and Means Advances are decided by the government and RBI mutually and revised periodically, usually half-yearly.
- There is a State-wise limit for the funds that can be availed via WMA. These limits depend on many factors, including total expenditure, revenue deficit and fiscal position of the State. WMA limits are revised periodically and the previous utilisation rates are considered while determining revised limits.



Types of WMAs and Interest rates



The interest levied for special WMAs are lower than the repo rate due to the backing of government securities.

Importance and advantages of higher Ways and Means Advances

The cash flow problems of State governments, which were already under stress, have been aggravated by the impact of Covid-19. With economic activity at a near standstill, there is hardly any money coming in from GST, petroleum products, liquor, motor vehicles, stamp duty or registration fee. As frontline fighters against Covid-19, many States are in need of immediate and large financial resources to deal with challenges, including medical testing, screening and providing income and food security to the needy.

- Increased WMA limit for States to borrow short-term funds from the RBI provides a financial cushion when there's uncertainty in revenue collections due to stressed economic conditions.
- WMA can be an alternative to raising longer-tenure funds from the markets, issue of State government securities (State development loans) or borrowing from financial institutions for short-term funding.
- WMA funding is much cheaper than borrowings from markets.

WHY INDIA'S OIL AND GAS PRODUCTION IS FALLING?

Context:

- India's crude oil production fell by 5.2 per cent and natural gas production by 8.1 per cent in the FY21.
- While Covid-19 related delays are among the key reasons cited by producers behind lower production, India's crude oil and natural gas production have been falling consistently since 2011-12.
- **India's crude oil and natural gas production have been falling consistently since 2011-12.**

Relevance:

GS-III: Indian Economy (International Trade, Mobilization of Resources, Growth and Development of Indian Economy)

Dimensions of the Article:

1. Reasons for the current Decline in Production

2. Reasons for Less Private Participation
3. Steps taken

Reasons for the current Decline in Production

- Most of India's crude oil and natural gas production comes from ageing wells that have become less productive over time.
- There is no more easy oil and gas available in India and that producers would have to invest in extracting oil and gas using technologically intensive means from more difficult fields such as ultra-deep-water fields.
- Crude oil production in India is dominated by two major state-owned exploration and production companies, Oil and Natural Gas Corporation Limited (ONGC) and Oil India. These companies are the key bidders for hydrocarbon blocks in auctions and were the only successful bidders in the fifth and latest round of auctions under the Open Acreage Licensing Policy (OALP) regime with ONGC bagging seven of the eleven oil and gas blocks on offer and Oil India acquiring rights for the other four.
- India's efforts to attract foreign energy giants into hydrocarbon exploration and production haven't been quite fruitful.
- Mounting pressure due to climate change is prompting oil and gas players to diversify into clean energy.

Impact

- Low domestic production of crude oil and natural gas makes India more reliant on imports. The share of imports as a proportion of overall crude oil consumption in India has risen from 81.8% in FY2012 to 87.6% in FY2020.
- Boosting oil and gas production has also been a key part of the government's Atma Nirbhar Bharat initiative and its goal to boost the use of natural gas in India's primary energy mix from the current 6.2% to 15% by 2030.

Reasons for Less Private Participation

- One of the key reasons cited by experts for low private participation in India's upstream oil and gas sector are delays in the operationalisation of hydrocarbon blocks due to delays in major clearances including environmental clearances and approval by the regulator of field development plans.
- Industry players have been calling for a reduction in the cess on domestically produced crude oil to 10% from the current 20%.
- Internal maximum production levels set by oil and gas majors to address climate change had also lowered interest by oil majors to expand operations in India.

Steps taken

- The government has asked ONGC to boost its investments in explorations and increase tie-ups with foreign players to provide technological support in extracting oil and gas from difficult oil and gas fields.
- The government is also reaching out to major foreign players to convey that the current system of auction and regulation is much more "open and transparent" than before.
- In October 2020 Cabinet Committee on Economic Affairs (CCEA) approved the Policy framework on reforms in the exploration and licensing sector for enhancing domestic exploration and production of oil and gas.
- The NDR was established by the Government in 2017 to assimilate, preserve and upkeep the vast amount of data which could be organized and regulated for use in future exploration and development, besides use by R&D and other educational institutions

- It is an integrated data repository of Exploration and Production (E&P) data of Indian sedimentary basins.
- It replaced the erstwhile New Exploration Licensing Policy (NELP) in 2016 and provides for a single License for exploration and production of conventional as well as non-conventional Hydrocarbon resources; Pricing and Marketing Freedom; reduced rate of royalty for offshore blocks.

WHY IS THE GOVT. TWEAKING THE NPS?

Context:

- PFRDA has recently announced that the National Pension System (NPS) will no longer compel investors to convert 40% of their accumulated retirement corpus into an annuity, as poor yields on annuities and high inflation are translating into negative returns.
- Over the past year, NPS has enormously delivered high returns and there was a drastic difference between February and March return because stock markets crashed in March 2020.

Relevance:

GS-III: Indian Economy (Growth & Development of Indian Economy), GS-II: Social Justice (Government Initiatives, Management and Development of Social Sector)

Dimensions of the Article:

1. Who can join NPS?
2. NPS Benefits
3. The story so far about NPS
4. What overhaul is the PFRDA planning?
5. What prompted this rethink?

Who can join NPS?

Any employee from public, private and even the unorganised sectors can opt for this. Personnel from the armed forces are exempted. The scheme is open to all across industries and locations.

The other eligibility criteria for opening an NPS account:

1. Must be an Indian citizen.
2. Must be between the ages of 18 and 65.
3. Must be KYC compliant.
4. Must not have a pre-existing NPS account.

NPS Benefits

- NPS offers returns higher than traditional instruments like the PPF (Public Provident Fund).
- It offers many investment options to subscribers who also have a say in where their funds are invested.
- The NPS reduces the retirement liabilities of the government.
- If the subscriber has been investing for at least three years, he/she can withdraw up to 25% for certain purposes before retirement (age 60). This withdrawal can be done up to 3 times with a gap of at least 5 years between each withdrawal. These restrictions are only for tier I and not tier II accounts.
- The entire amount cannot be withdrawn by the account-holder on retirement [Changes to be introduced]. As of April 2021, 60% can be withdrawn which has now been made tax-free. The rest 40% has to be kept aside so that the subscriber can receive a regular pension from an insurance firm.

The story so far about NPS

- Started as the New Pension Scheme for government employees in 2004 under a new regulator called the Pension Fund Regulatory and Development Authority (PFRDA), the National Pension System (NPS) has been open for individuals from all walks of life to participate and build a retirement nest-egg.
- Given the dominance of informal employment in India, the Employees' Provident Fund Organisation, which is contingent on a formal employer-employee relationship, only covers a fraction of the workforce.
- The NPS has been gradually growing in size and now manages ₹5.78 lakh crore of savings and 4.24 crore accounts in multiple savings schemes.
- Of these, over 3.02 crore accounts are part of the Atal Pension Yojana (APY), a government-backed scheme for workers in the unorganised sector that assures a fixed pension payout after retirement.
- The rest constitute voluntary savings from private sector employees and self-employed individuals, for whom some significant changes are on the anvil.

What overhaul is the PFRDA planning?

- The law regulating the NPS allows members to withdraw just 60% of their accumulated savings at the time of retirement.
- With the remaining 40%, it is mandatory to buy an annuity product that provides a fixed monthly income to retirees till their demise.
- Members who accumulate up to ₹2 lakh in their NPS account at the time of retirement are exempted from the mandatory annuitisation, and can withdraw the full amount.
- Separately, the regulator has decided that the annuity purchase stipulation for 40% of members' retirement corpus should be dropped altogether. Legislative amendments to this effect are being worked out for Parliament's approval.

What prompted this rethink?

- Falling interest rates and poor returns offered by annuity products had triggered complaints from some members and experts about the compulsory annuitisation clause.
- "If someone opts for a lifetime annuity at retirement with a return of purchase price to the nominee once the person dies, the rates are varying between 5% and 5.5%.
- Since annuities are taxable, deducting the tax and factoring in the inflation means annuities are yielding negative returns".
- With retail inflation running at about 5%-6% over the past year, the returns on annuities are, in fact, negative, even if one does not factor in the tax.
- To avoid forcing people into such an unattractive investment, the regulator has now proposed to give members a choice to retain 40% of their corpus with the NPS fund managers even after retirement.
- This, the PFRDA chief believes, will allow them to get better returns, and these savings can be paid out to members over 15 years through something like the systematic withdrawal plan offered by mutual funds.
- While this change shall need Parliament's nod, the expansion of the annuity-free withdrawal limit from ₹2 lakh to ₹5 lakh is being done immediately.
- "Suppose somebody reached ₹2.1 lakh at retirement, he will get an annuity component of ₹84,000, which, today, will give an income of ₹400 or ₹450 a month — a pittance.
- So, now, we will allow those with savings up to ₹5 lakh to take the entire corpus out if they choose," the PFRDA chief said.

RBI ON CYBERSECURITY NORMS FOR PAYMENT SERVICES

Context:

The Reserve Bank of India (RBI) will soon issue cybersecurity norms for payment service providers (PSPs), following a series of data breaches faced by operators including Mobikwik and payment aggregator JusPay.

Relevance:

GS-III: Indian Economy (Economic Growth and Development in India)

Dimensions of the Article:

1. What is digital payment system?
2. Different digital payment modes in India
3. About cybersecurity norms
4. National Payments Corporation of India (NCPI)

What is digital payment system?

- Digital payment system is a way of payment which is made through digital modes- completely online. No hard cash is involved in digital payments.
- In this system, payer and payee both use digital modes to send and receive money.
- It is also called electronic payment.
- Example- Internet Banking, Debit Cards, Credit Cards, e-Wallets.

Different digital payment modes in India

Cards

- Banking cards offer consumers more security, convenience, and control than any other payment method.
- There are wide variety of cards available – including credit, debit and prepaid.

Internet Banking

- It is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.
- Different types of online financial transactions are: National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS), and Immediate Payment Service (IMPS).

Unstructured Supplementary Service Data (USSD)

- This service allows mobile banking transactions using basic feature mobile phone (dialling *99#), there is no need to have mobile internet data facility for using USSD based mobile banking.
- Key services offered under *99# service include, interbank account to account fund transfer, balance enquiry, mini statement besides host of other services.

Mobile Banking

- Mobile banking is a service provided by a bank that allows its customers to conduct different types of financial transactions remotely using a mobile device.
- It uses software, usually called an app, provided by the banks or financial institution for the purpose. Each Bank provides its own mobile banking App.

Unified Payments Interface (UPI)

- It is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.
- Each Bank provides its own UPI App.

Mobile Wallets

- It is a way to carry cash in digital format. Instead of using physical plastic card to make purchases, we can pay with our smartphone, tablet, or smart watch.
- An individual's account is required to be linked to the digital wallet to load money in it.

Aadhaar Enabled Payment System (AEPS)

- AEPS is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent or Bank Mitra of any bank using the Aadhaar authentication.

About cybersecurity norms

- While the standards for fintech-driven payment services providers will be similar to cyber hygiene norms issued recently for banks and non-banking finance companies, the RBI is quite clear that firms will have to do more than observe the minimum standards to ensure safety as digital transactions gain further traction.
- On cyber frauds, Reserve Bank of India has issued very recently basic guidelines on cyber hygiene and cybersecurity for banks and certain NBFCs.
- Having said that, the minimum standards set by the regulator for the regulated entities are needed, but they would never be enough.
- As digitisation increases in any sphere, payments or otherwise, as people do more and more digital transactions, institutions themselves will have to do more than the minimum standards that regulators set, to deal with any cybersecurity threats.
- Over the next decade, the critical challenge for regulators would be to speed up the absorption of fintech without undermining the financial system's integrity or stability.

'No antitrust norms'

- The National Payments Corporation of India (NPCI) had laid down a framework for a more even distribution of share of third-party app providers in the UPI system, the senior RBI official noted, adding that the regulator was, however, not looking at any antitrust provisions against dominant players at this juncture.
- If UPI is gaining popularity, you will have to think twice about stepping in and controlling the market share of two or three popular apps because that could actually hurt absorption of this tech in the population.

National Payments Corporation of India (NCPI)

- National Payments Corporation of India (NCPI) is an umbrella organisation for all retail payments systems in India.
- It was set up with the guidance and support of the Reserve Bank of India (RBI) and Indian Banks' Association (IBA).

Objectives:

- To consolidate and integrate the existing multiple systems into a nation-wide uniform and standard business process for all retail payment systems.

- To facilitate an affordable payment mechanism to benefit the common man across the country and propel financial inclusion

INFLATION – WHY RBI CONTINUES TO TARGET GDP GROWTH?

Context:

- Rising Covid-19 cases, faltering growth and rising inflation have brought India's central bank to square one, as it was clear to everyone that India's GDP growth rate will plummet when the nationwide lockdown was announced.
- This raises the question – Will the price level in India fall, or rise or rise at a slowing pace or rise at a progressively increasing pace (galloping inflation)?

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Planning usage and Mobilisation of resources, Inclusive growth and issues therein)

Dimensions of the Article:

1. What is Inflation?
2. Types of Inflation based on rate of Increase
3. Other types of Inflation
4. Did the Covid-induced disruption raise prices or deflate them?
5. What is the policy significance of this?

What is Inflation?

- Inflation refers to the consistent rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc. Inflation measures the average price change in a basket of commodities and services over time.
- A moderate level of inflation is required in the economy to ensure that production is promoted. Excess Inflation is indicative of the decrease in the purchasing power of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- In India, inflation is primarily measured by two main indices — WPI (Wholesale Price Index) and CPI (Consumer Price Index) which measure wholesale and retail-level price changes, respectively.

Types of Inflation based on rate of Increase

There are four main types of inflation, categorized by their speed. They are creeping, walking, galloping, and hyperinflation.

I. Creeping Inflation

- Creeping or mild inflation is when prices rise 3% a year or less. According to the Federal Reserve, when prices increase 2% or less, it benefits economic growth.
- This kind of mild inflation makes consumers expect that prices will keep going up. That boosts demand. Consumers buy now to beat higher future prices. That's how mild inflation drives economic expansion.

II. Walking Inflation

- When prices rise by more than 3% but less than 10% per annum (i.e., between 3% and 10% per annum), it is called as Walking Inflation.
- It is harmful to the economy because it heats-up economic growth too fast.

- People start to buy more than they need to avoid tomorrow's much higher prices. This increased buying drives demand even further so that suppliers can't keep up and neither can the wages. As a result, common goods and services are priced out of the reach of most people.

III. Galloping Inflation

- When inflation rises to 10% or more (i.e., prices rise by double- or triple-digit inflation rates like 30% or 400% or 999% per annum), it wreaks absolute havoc on the economy. It is also referred as jumping inflation.
- Money loses value so fast that business and employee income can't keep up with costs and prices.
- Foreign investors avoid the country, depriving it of needed capital. The economy becomes unstable, and government leaders lose credibility.

IV. Hyperinflation

- Hyperinflation refers to a situation where the prices rise at an alarming high rate – i.e., more than 50% a month.
- The prices rise so fast that it becomes very difficult to measure its magnitude. However, in quantitative terms, when prices rise above 1000% per annum (quadruple or four-digit inflation rate), it is termed as Hyperinflation.
- Most examples of hyperinflation occur when governments print money to pay for wars.
- Examples of hyperinflation include Germany in the 1920s, Zimbabwe in the 2000s, and Venezuela in the 2010s.
- During a worst-case scenario of hyperinflation, value of national currency (money) of an affected country reduces almost to zero. Paper money becomes worthless and people start trading either in gold and silver or sometimes even use the old barter system of commerce.

V. Chronic Inflation

- If creeping inflation persist (continues to increase) for a longer period of time then it is often called as Chronic or Secular Inflation.
- Chronic Creeping Inflation can be either Continuous (which remains consistent without any downward movement) or Intermittent (which occurs at regular intervals).
- It is called chronic because if an inflation rate continues to grow for a longer period without any downturn, then it possibly leads to Hyperinflation.

VI. Moderate Inflation

- Concept of Creeping and Walking inflation clubbed together are called Moderate Inflation.
- When prices rise by less than 10% per annum (single digit inflation rate), it is known as Moderate Inflation.
- It is a stable inflation and not a serious economic problem.

VII. Running Inflation

- A rapid acceleration in the rate of rising prices is referred as Running Inflation.
- When prices rise by more than 10% per annum, running inflation occurs.
- Though economists have not suggested a fixed range for measuring running inflation, we may consider price rise between 10% to 20% per annum (double digit inflation rate) as a running inflation.

Other types of Inflation

Stagflation

- Stagflation is when economic growth is stagnant, but there still is price inflation.
- High levels of inflation reduce confidence and increase uncertainty (difficult to predict the future). This reduces investment, increases levels of imports, reduces exports, depreciates the value of the local currency, increases unemployment and reduces economic growth. This increase in prices together with rising unemployment is referred to as "stagflation".

Deflation

- Deflation means a fall in the general level of prices over a period of time. In this case – inflation rate becomes negative
- Deflation is the opposite of inflation. It's when prices fall. It's caused when an asset bubble bursts.
- A reduction in money supply or credit availability is the reason for deflation in most cases

Based on measurement:

Core Inflation

- The core inflation rate measures rising prices in everything except food and energy. This measure of inflation excludes these items because their prices are much more volatile.
- A dynamic consumption basket is considered the basis to obtain core inflation. Some goods and commodities have extremely volatile price movements. Core inflation is calculated using the Consumer Price Index (CPI) by excluding such commodities.

Headline inflation

- Headline inflation is a measure of the total inflation within an economy, including commodities such as food and energy prices (e.g., oil and gas), which tend to be much more volatile and prone to inflationary spikes.
- Headline inflation may not present an accurate picture of an economy's inflationary trend since sector-specific inflationary spikes are unlikely to persist.
- The difference between Headline inflation and Core inflation is that "core inflation" (also non-food-manufacturing or underlying inflation) is calculated from a consumer price index EXCLUDING the volatile food and energy components, whereas "headline inflation" includes such commodities.

Did the Covid-induced disruption raise prices or deflate them?

- The latest Monetary Policy Report of the RBI has a neat chart which shows that, unlike most advanced and emerging economies, India saw prices going out of its central bank's comfort zone.
- In this list, only Turkey performed worse than India in containing price rise.

Table V.3: Inflation Performance

(Per cent)

Country	Inflation Target	Q1:2020	Q2:2020	Q3:2020	Q4:2020	Q1:2021
Advanced Economies						
Canada	1.0-3.0	1.8	0.0	0.2	0.8	1.1
Euro area	2.0	1.1	0.2	0.0	-0.3	1.0
Japan	2.0	0.5	0.1	0.2	-0.8	-0.5
UK	2.0	1.7	0.6	0.6	0.5	0.6
US	2.0	1.7	0.6	1.2	1.2	1.5
Emerging Market Economies						
Brazil	3.75 ± 1.5	3.8	2.1	2.6	4.2	4.9
Russia	4.0	2.4	3.1	3.6	4.4	5.5
India	4.0 ± 2.0	6.7	6.2*	6.9	6.4	4.5
China	-	5.0	2.7	2.3	0.1	-0.3
South Africa	3.0-6.0	4.4	2.4	3.1	3.2	3.1
Indonesia	3.0 ± 1.0	2.9	2.3	1.4	1.6	1.5
Philippines	3.0 ± 1.0	2.7	2.3	2.5	3.1	4.5
Thailand	1.0-3.0	0.4	-2.7	-0.7	-0.4	-0.5
Turkey	5.0	12.1	11.7	11.8	13.5	15.6

*: Data refer to June 2020 only.

Notes: (1) Inflation for the US is in terms of personal consumption expenditure.

(2) Quarterly inflation is the simple average of inflation in each month of the quarter. Q1:2021 is the average of the months for which data are available.

(3) The ECB aims at inflation rates of below, but close to 2%. The Fed adopted 'flexible average inflation targeting' in August 2020 wherein it would allow the inflation rate to go above the target of 2 per cent rate for brief periods to make up for the shortfall from the target in earlier periods. Bank of Canada aims to keep inflation at the 2 per cent mid-point of an inflation control target range of 1-3 per cent.

(4) Brazil's inflation target for 2020 was 4.0 ± 1.5 per cent.

Sources: Central bank websites; and Bloomberg.

What is the policy significance of this?

- India's growth was decelerating before the onset of the Covid pandemic and as such, right through 2019, the RBI was in the mode to cut interest rates and incentivise economic activity.
- For the most part, it did not have to worry much about retail inflation at the time. The RBI doubled down on this resolve when the economy got hit by the Covid pandemic in March-end last year.
- Right through the past financial year — April 2020 to March 2021 — the RBI kept signalling that it would support growth and in doing so allowed the inflation rate to stay out of its mandated range.
- In other words, the RBI accorded primacy to boosting GDP growth instead of meeting its legal requirement of maintaining inflation within the mandated range.
- On paper, the argument was that as and when the economy revives, the RBI would revisit its stance and re-start (in a manner of speaking) targeting inflation instead of growth.
- To be sure, several observers were of the view that the Indian economy had posted a very sharp recovery in the second half of the past financial year — that is from October 2020 to March 2021.

- But by the time the RBI's Monetary Policy Committee met earlier this month — April 5 to 7 — to decide on its policy stance, India was already in the grip of the second Covid wave.
- The daily new caseload had already crossed the previous high and was well past the 1-lakh mark. That meant the RBI was back to square one: Yet again in April, Covid had disrupted India's already iffy growth trajectory and forced the RBI to choose between boosting growth and containing inflation.
- To be sure, not only did retail inflation continue to be high in March 2021 but even the wholesale inflation spiked to over 7%.

GLOBAL MINIMUM CORPORATE TAX RATE: AN IDEA THAT IS WORTH A TRY

Context:

United States Secretary of the Treasury's proposal for global coordination of corporate taxation has huge implications – If the major world economies agree and the U.S. Congress approves the increased tax rates, it would constitute a reversal of the trend in tax policies since the collapse of the Soviet Bloc 30 years back.

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Foreign Trade and related issues, Inclusive growth and issues therein), GS-II: International Relations

Mains Questions:

What is the necessity of a Global Minimum Corporate Tax Rate? Discuss in the light of trends in Corporate tax rates across the globe. (10 marks)

Dimensions of the Article:

1. Trend in Corporate Tax rates globally
2. Base Erosion Profit Shifting (BEPS)
3. The regressive tax structure
4. About the Global Minimum Corporate Tax Rate proposal
5. The necessity of the Global Minimum Corporate Tax according to U.S.

Trend in Corporate Tax rates globally

- When the Soviet Bloc collapsed in 1990, nations in east Europe were badly hit and needed capital infusion to overcome their economic woes. To attract global capital, they cut their tax rates sharply. This resulted in a 'race to the bottom'. Nations in Europe were forced to cut their tax rates one after the other to not only attract capital but also to prevent capital from leaving their shores. This had global implications.
- Nations became short of resources and cut back expenditures on public services and encouraged privatisation. Governments lacked resources for education, health and civic amenities. The developing countries followed suit even though private markets do not cater to the poor. Thus, disparities increased within nations.
- Presently, governments need resources to help people through transfer of incomes, provision of more public services and also prevent business failures. But their resources have been adversely impacted by the economic downturn. Consequently, fiscal deficits have reached record high levels. In the pre-pandemic era, such levels of deficit would have led to the tanking of the stock markets but now they are booming in anticipation of demand being pumped in by these high deficits. The result is a massive increase in inequality between those who have gained in the stock markets and those who have lost employment and incomes.

Base Erosion Profit Shifting (BEPS)

- The world experienced Base Erosion Profit Shifting (BEPS). Namely, companies shifted their profits to low tax jurisdictions, especially, the tax havens. For instance, many of the most profitable companies like Google and Facebook are accused of shifting their profits to Ireland and other tax havens and paying little tax.
- EU has levied fines on Google and Apple for such practices. Former U.S. President Barack Obama in 2009 had said that the U.S. was losing $100 billion in taxes due to such practices.
- Since all the OECD countries have suffered due to cuts in tax rates and BEPS, initiatives have been taken to check these practices. But they will not succeed unless there is agreement among all the countries.
- Any country facing economic adversity can cut its tax rates to attract capital and force others to follow suit.
- **India has also cut its tax rates since the 1990s. Most recently in 2019 the corporation tax rate was cut drastically to match those prevailing in Southeast Asia.** Such cuts have implications for both inequality as well as for funding the schemes for the poor and the quality of public services.

The regressive tax structure

- Another implication of the reductions in direct tax rates has been that governments have increasingly depended on the regressive indirect taxes for revenue generation.
- Value-Added Tax and Goods and Services Tax have been increasingly used to get more revenues. This impacts the less well-off proportionately more and is inflationary.
- Direct taxes tend to lower the post-tax income inequality. The rising inequalities result in shortage of demand in the economy and to its slowing down which then requires more investment and that calls for more concessions to capital.
- However, that does not guarantee revival because investment in response to a tax cut is uncertain. Instead, increased government expenditures are sure to raise demand.

About the Global Minimum Corporate Tax Rate proposal

- The US proposal envisages a 21% minimum corporate tax rate, coupled with cancelling exemptions on income from countries that do not legislate a minimum tax to discourage the shifting of multinational operations and profits overseas.
- The US views a Global Minimum Corporate Tax Rate as an attempt to reverse a "30-year race to the bottom" in which countries have resorted to slashing corporate tax rates to attract multinational corporations (MNCs).
- The proposal for a minimum corporate tax is tailored to address the low effective rates of tax shelled out by some of the world's biggest corporations, including digital giants such as Apple, Alphabet and Facebook, as well as major corporations such as Nike and Starbucks.
- These companies typically rely on complex webs of subsidiaries to hoover profits out of major markets into low-tax countries such as Ireland or Caribbean nations such as the British Virgin Islands or the Bahamas, or to central American nations such as Panama.

The necessity of the Global Minimum Corporate Tax according to U.S.

- The proposal aims to somewhat offset any disadvantages that might arise from the proposed increase in the US corporate tax rate.
- The proposed increase to 28% from 21% would partially reverse the previous cut in tax rates on companies from 35% to 21% by way of a 2017 tax legislation.
- The increase in corporation tax comes at a time when the pandemic is costing governments across the world, and is also timed with the US's push for a USD 2.3 trillion infrastructure upgrade proposal.

- A global compact on this issue, at the time of pandemic, will work well for the US government and for most other countries in western Europe, even as some low-tax European jurisdictions such as the Netherlands, Ireland and Luxembourg and some in the Caribbean rely largely on tax rate arbitrage to attract MNCs.
- The plan to peg a minimum tax on overseas corporate income seeks to potentially make it difficult for corporations to shift earnings offshore.
- However, a global minimum rate would essentially take away a tool that countries use to push policies that suit them. A lower tax rate is a tool they can use to alternatively push economic activity.

WHAT CORPORATE TAX ABUSE COSTS COUNTRIES

Country	Tax lost to corporate tax abuse annually	Effective Tax Rate	Tax loss inflicted on other countries
Singapore	$2,791,252,045	6.15%	$12,221,060,747
Hong Kong	$552,026,614	8.26%	$16,331,010,356
China	$3,732,400,492	18.97%	$20,045,803,268
India	$10,117,529,292	29.73%	$0
BVI	$1,079,398	0.07%	$10,405,615,250
Cayman Is.	$166,760	0.22%	$22,819,899,267
Luxembourg	$551,354,310	1.39%	$9,283,427,114
Netherlands	$935,184,630	5.42%	$26,593,707,934
Ireland	$199,121,037	7.76%	$6,068,846,053
UK	$10,269,722,405	9.72%	$13,671,390,701
US	$49,241,339,280	17.78%	$0
Germany	$24,394,593,521	22.92%	$3,378,296,454

Source: The State of Tax Justice 2020 report

ADB SEES INDIA GROW BY 11%, ADDS CAVEAT

Context:

The Asian Development Bank (ADB) has raised its forecast for India's growth in 2021-22 to 11%, from 8% earlier, even as it warned that failure to control the resurgence of COVID-19 cases including April's exponential jump poses a "considerable downside risk to the recovery".

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Important International Organizations)

Dimensions of the Article:

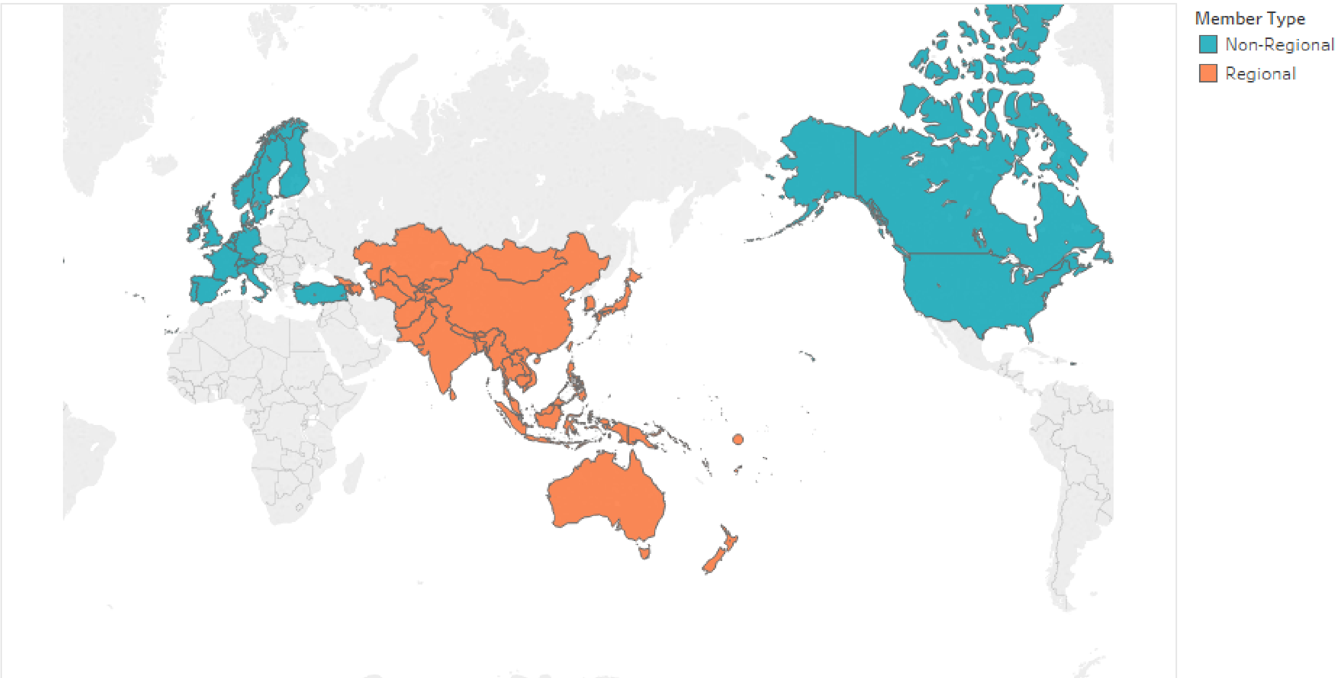
1. About Asian Development Bank (ADB)
2. About the recent assessment of the ADB

About Asian Development Bank (ADB)

- The Asian Development Bank (ADB) is a regional development bank established on 19 December 1966 to promote social and economic development in Asia.
- It is headquartered in the city of Mandaluyong, Metro Manila, Philippines.

- The ADB was modeled closely on the World Bank and an official United Nations Observer.
- Japan holds the largest proportion of shares in ADB followed by the USA, and it has a weighted voting system where votes are distributed in proportion with members' capital subscriptions (just like the World Bank).
- The bank admits the members of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, formerly the Economic Commission for Asia and the Far East or ECAFE) and non-regional developed countries.
- ADB defines itself as a social development organization that is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration.
- ADB aids in reducing poverty through investments in the form of loans, grants and information sharing (in infrastructure, health care services, financial and public administration systems), helping nations prepare for the impact of climate change or better manage their natural resources, as well as other areas.
- ADB is an official United Nations Observer.
- **India was a founding member of the Asian Development Bank (ADB) in 1966 and is now the bank's fourth largest shareholder and top borrower.**

Asian Development Bank Member Countries



About the recent assessment of the ADB

- The ADB cited 2021's 'more targeted' containment measures compared with 2020's 'large-scale' national lockdown and said these would prove 'less costly' to the economy.
- A stimulus-fuelled surge in the U.S., India's largest export market, will support the revival, but a severe second COVID-19 wave is threatening the recovery.
- Asian Development Outlook report projected Indian Economy's growth to moderate to 7% in 2022-23, after a 11% expansion this year.
- ADB sees India's average inflation rate slowing to 5.2% this year from 6.2% last fiscal, and reverting to 4.8% (recorded in 2019-20), over the succeeding 12 months.

INDIA 3RD HIGHEST MILITARY SPENDER: SIPRI REPORT

Context:

Stockholm International Peace Research Institute (SIPRI) recently published the latest data on the military spending across the world – which has increased to USD 1,981 billion in 2020, during Covid-19 pandemic.

Relevance:

GS-III: Internal Security Challenges (Security Challenges & their Management), GS-III: Indian Economy (Budgeting)

Dimensions of the Article:

1. About SIPRI
2. India-Specific Highlights of the SIPRI Report on Military spending
3. General Highlights of the SIPRI report

About SIPRI

- Stockholm International Peace Research Institute (SIPRI) is an independent international think-tank institute dedicated to research into conflict, armaments, arms control and disarmament.
- It was established in 1966 at Stockholm (Sweden).
- It provides data, analysis and recommendations, based on open sources, to policymakers, researchers, media and the interested public.

India-Specific Highlights of the SIPRI Report on Military spending

- India was the third largest military spender in the world in 2020 – The top 2 were the US and China.
- India's military expenditure accounted for almost 4% of the global military expenditure share.
- India's spending since 2019 grew by more than 2% which is largely attributed to India's ongoing conflict with Pakistan and renewed border tension with China.
- India accounted for 9.5% of the total global arms imports during 2016-2020.

Reasons for this Increased Spending

- The continuing military confrontation with China in eastern Ladakh, of course, has led India to make several emergency arms purchases from abroad since the crisis erupted in early May 2020.
- India has to maintain an over 15-lakh strong armed forces because of the two active and unresolved borders with China and Pakistan.
- India's annual military expenditure also includes a huge pension bill for 33-lakh veterans and defence civilians.
- With a weak domestic defence-industrial base, India of course continues to languish in the strategically-vulnerable position of being the world's second-largest arms importer just behind Saudi Arabia.

General Highlights of the SIPRI report

Military spending as a share of Gross Domestic Product (GDP), reached a global average of 2.4% in 2020, up from 2.2% in 2019.

The five biggest spenders in 2020, which together accounted for 62% of global military expenditure were:

1. United States
2. China
3. India
4. Russia
5. United Kingdom.

- Nearly all members of the North Atlantic Treaty Organization (NATO) saw their military burden rise in 2020.
- The countries with the biggest increases in military burden among the top 15 spenders in 2020 were Saudi Arabia, Russia, Israel and US.
- In addition to China, India (USD 72.9 billion), Japan (USD 49.1 billion), South Korea (USD 45.7 billion) and Australia (USD 27.5 billion) were the largest military spenders in the Asia and Oceania region.
- The combined military spending of the 11 Middle Eastern countries for which SIPRI has spending figures decreased by 6.5% in 2020.

RBI REPORT ON GROWTH OF ARCS

Context:

According to a Reserve Bank of India (RBI) report on Asset Reconstruction Companies (ARCs), the growth of the ARC industry has not been consistent over time and not always been synchronous with the trends in non-performing assets (NPAs) of banks and non-banking financial companies (NBFCs).

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. What is an Asset Reconstruction Company?
2. Asset reconstruction and the process
3. Highlights RBI's report on Growth of the ARC Industry
4. Issues with Indian ARCs
5. RBI on the New ARC

What is an Asset Reconstruction Company?

- An asset reconstruction company is a special type of financial institution that buys the debtors of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself.
- The asset reconstruction companies or ARCs are registered under the RBI. Hence, RBI has the power to regulate the ARCs.
- ARCs are regulated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002).
- The ARCs take over a portion of the debts of the bank that qualify to be recognised as Non-Performing Assets. Thus, ARCs are engaged in the business of asset reconstruction or securitization (securitization is the acquisition of financial assets either by way of issuing security receipts to Qualified Buyers or any other means) or both.

- All the rights that were held by the lender (the bank) in respect of the debt would be transferred to the ARC. The required funds to purchase such such debts can be raised from Qualified Buyers.
- The ARC can take over only secured debts which have been classified as a non-performing asset (NPA). In case debentures / bonds remain unpaid, the beneficiary of the securities is required to give a notice of 90 days before it qualifies to be taken over.

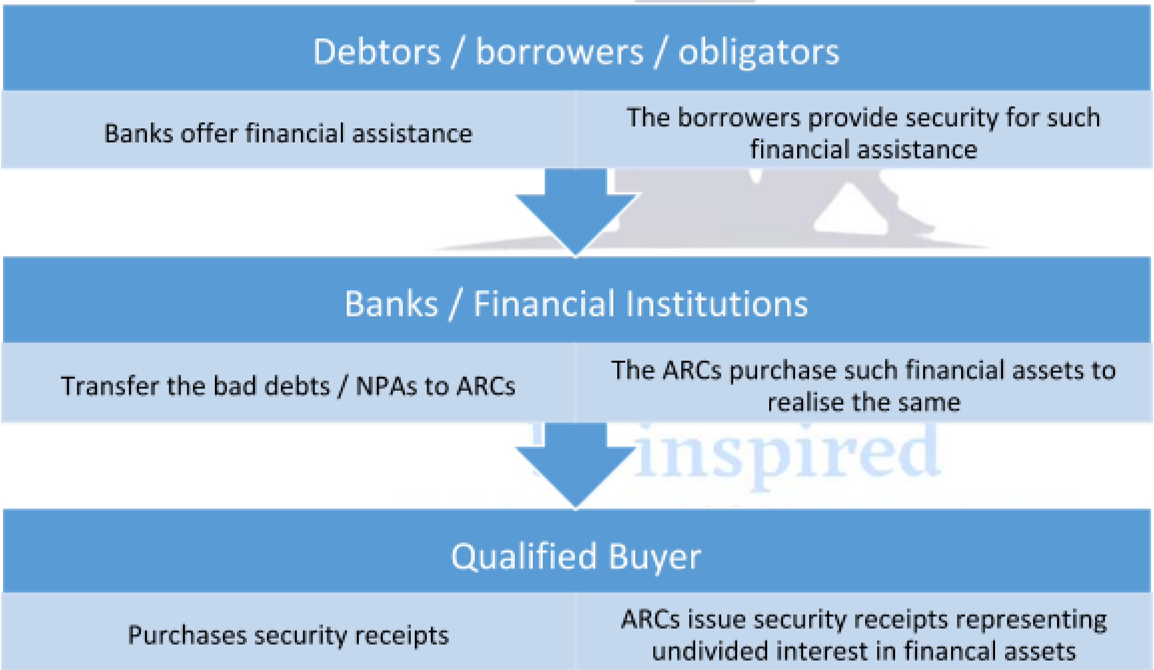
Asset reconstruction and the process

Asset Reconstruction – It is the acquisition of any right or interest of any bank or financial institution in loans, advances granted, debentures, bonds, guarantees or any other credit facility extended by banks for the purpose of its realisation. Such loans, advances, bonds, guarantees and other credit facilities are together known by a term – 'financial assistance'.

Process of Asset Reconstruction

The main intention of acquiring debts / NPAs is to ultimately realise the debts owed by them. However, the process is not a simple one. The ARCs have the following options in this regard:

1. Change or takeover of the management of the business of the borrower.
2. Sale or lease of such business.
3. Rescheduling the payment of debts – offering alternative schemes, arrangements for the payment of the same.
4. Enforcing the security interest offered in accordance with the law.
5. Taking possession of the assets offered as security.
6. Converting a portion of the debt into shares.



Highlights RBI's report on Growth of the ARC Industry

- The ARC industry began with the establishment of the Asset Reconstruction Company India Ltd (ARCIL) in 2003.
- After remaining subdued in the initial years of their inception, a jump was seen in the number of ARCs in 2008, and then in 2016.

- There has been a concentration in the industry in terms of Assets Under Management (AUM) and the Security Receipts (SRs) issued.
- The growth in ARCs' AUM has been largely trendless except for a major spurt in FY14.
- The AUM of ARCs has been on a declining trend when compared with the volume of NPAs of banks and NBFCs, except during the period of high growth in the AUM around 2013-14.
- During 2019-20, asset sales by banks to ARCs declined, which could probably be due to banks opting for other resolution channels such as Insolvency and Bankruptcy Code (IBC) and SARFAESI.

Issues with Indian ARCs

- Indian ARCs have been private sector entities registered with the Reserve Bank. Public sector AMCs in other countries have often enjoyed easy access to government funding or government-backed. The capital constraints have often been highlighted as an area of concern for ARCs in India.
- Despite the regulatory push to broaden, and thereby enhance, the capital base of these companies, they have remained reliant primarily on domestic sources of capital, particularly banks.
- Banks supply NPAs to the ARCs, hold shareholding in these entities and also lend to them, which makes it necessary to monitor if there is a "circuitous movement of funds between banks and these institutions".

RBI on the New ARC

- The movement in asset quality of banks and NBFCs following the Covid-19 pandemic could bring ARCs into greater focus and action.
- The ARC proposed in the Budget will be set up by state-owned and private sector banks, and there will be no equity contribution from the Centre.
- The ARC, which will have an Asset Management Company (AMC) to manage and sell bad assets, will look to resolve stressed assets of Rs. 2-2.5 lakh crore that remain unresolved in around 70 large accounts.
- The introduction of a new ARC for addressing the NPAs of public sector banks may also shape the operations of the existing ARCs.
- There is a definite scope for the entry of a well-capitalised and well-designed entity in the Indian ARC industry. Such an entity will strengthen the asset resolution mechanism further.

A PATENTLY WRONG REGIME: COVID VACCINE

Context:

- In 2020, India and South Africa submitted a joint petition to the World Trade Organization (WTO), requesting a temporary suspension of rules under the 1995 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The request for waiver has, since, found support from more than 100 nations.
- But a small group of states — the U.S., the European Union, the U.K. and Canada among them — continues to block the move. Their reluctance comes despite these countries having already secured the majority of available vaccines, with the stocks that they hold far exceeding the amounts necessary to inoculate the whole of their populations.
- Intellectual property regime has acted as a lethal barrier to the right to access health. Even request for a temporary waiver is not getting accepted.

Relevance:

GS-III: Indian Economy (International Trade, Planning usage and Mobilisation of resources), Intellectual Property Rights

Mains Questions:

Over the last few decades, intellectual property rules have served as a lethal barrier to the right to access healthcare. Discuss in the light of distribution of life-saving drugs in the fight against COVID-19. (10 marks)

Dimensions of the Article:

1. What is a Patent?
2. Patent protection in India (Details are not so important)
3. Blockades in making Vaccines Available everywhere
4. One important waiver: Compulsory licensing
5. Why should waiver be provided?
6. Creating a patent pool – Way Forward

What is a Patent?

- A patent is an exclusive right granted for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem.
- To get a patent, technical information about the invention must be disclosed to the public in a patent application.
- Patent is provided for the period of 20 years. Exclusive rights are only applicable in the country or region in which a patent has been filed and granted, in accordance with the law of that country or region. Patent rights are usually enforced in a court on the initiative of the right owner.
- In India, Patents are provided by Indian Patent Office. Any appeal against the order or violation goes to Intellectual Property Appellate Board.

Justification for patents:

1. People have something of a natural and moral right to claim control over their inventions.
2. Exclusive rights promote invention.
3. Individuals should be allowed to benefit from their labour and merit.
4. Innovation is an expensive activity to undertake.

However, these patents have been taken as a medium to own monopoly.

Patent protection in India (Details are not so important)

- The first legislation in India relating to patents was the Act VI of 1856 – But it was repealed by Act IX of 1857 because it had been enacted without the approval of the British Crown
- Fresh legislation for granting 'exclusive privileges' was introduced in 1 859 as Act XV of 1859.
- In 1872, the Act of 1859 was renamed as "The Patterns and Designs Protection Act" and it was consolidated to provide protection relating to designs.
- The Indian Patents and Designs Act, 1911, (Act II of 1911) replaced all the previous Acts. However, after Independence, it was felt that the Indian Patents & Designs Act, 1911 was not fulfilling its objective.
- Based on the recommendations of a Committee formed by the Indian Government after independence, the 1911 Act was amended in 1950.
- In 1952, an amendment was made to provide compulsory licence in relation to patents in respect of food and medicines, insecticide, germicide or fungicide and a process for producing substance or any invention relating to surgical or curative devices.

- In 1957, the Government of India appointed Justice N. Rajagopala Ayyangar Committee to examine the question of revision of the Patent Law and advise government accordingly and the committee recommended retention of the Patent System, despite its shortcomings. In 1959, the committee objected this regime on ethical grounds.
- India adopted a new Patents Act in 1970 and this led to the rise in generic medicines production in India. The Patents Act of 1970 has Amended a number of times. A new Patent Rules, 2003 was introduced (by replacing the earlier Patents Rules, 1972) since, under the Patents Act 1970 the Central Government is empowered to make rules for implementing the Act and regulating patent administration.

1856

The Act VI of 1856 on protection of inventions based on the British Patent Law of 1852. Certain exclusive privileges granted to inventors of new manufacturers for a period of 14 years.

1859

The Act modified as act XV Patent monopolies called exclusive privileges (making. Selling and using inventions in india and authorizing others to do so for 14 years from date of filing specification).

1872

The Patterns & Designs Protection Act.

1883

The Protection of Inventions Act.

1888

Consolidated as the Inventions & Designs Act.

1911

The Indian Patents & Designs Act.

1999

On march 26, 1999 Patents (Amendment) Act, (1999) came into force from 01-01-1995.

2002

The Patents (Amendment) Act 2002 came into force from 20th may 2003

2005

The Patents (Amendment) Act 2005 effective from 1st january 2005

India and Generic medicines

- India is now the largest generic medicine producer in the world. India's efforts on HIV and Cancer drugs are well appreciated.
- A generic drug is a medication created to be the same as an already marketed brand-name drug in dosage form, safety, strength, route of administration, quality, performance characteristics, and intended use.
- These similarities help to demonstrate bioequivalence, which means that a generic medicine works in the same way and provides the same clinical benefit as the brand-name medicine. In other words, you can take a generic medicine as an equal substitute for its brand-name counterpart.

Blockades in making Vaccines Available everywhere

- Even when approval for marketing of a vaccine/drug is granted, it will be impossible for it to be made instantly available across the world.
- This is because even after approval for commercial production is granted, say, in one country, in order for the product to be available to the rest of the world, approvals will be required in each and every country.
- Then countries will have to gear up for instant manufacturing and marketing of the drug.
- For this to happen, continuous dialogue has to take place among innovators, manufacturers and supply chains.
- This requires massive efforts by private players, governments and international organisations.
- Innovations may be the subject matter of patent applications around the world.

Will patents create roadblocks or is there a solution?

- Governments and international organisations need to arrive at a consensus in advance to ensure that the system is ready.
- Creating hindrances through exclusivity claims, in the wake of a pandemic, will result in dividing countries, corporations and international organisations.
- Under the TRIPS (Trade-Related Aspects of Intellectual Property Rights) regime, there are several tools such as compulsory licensing that are available to ensure access to medicines.

One important waiver: Compulsory licensing

For patents: when the authorities license companies or individuals other than the patent owner to use the rights of the patent — to make, use, sell or import a product under patent (i.e., a patented product or a product made by a patented process) — without the permission of the patent owner. Allowed under the WTO's TRIPS (intellectual property) Agreement provided certain procedures and conditions are fulfilled.

The following conditions should be fulfilled by the applicant:

1. Reasonable requirements of the public with respect to the patented invention have not been satisfied.
2. Patented invention is not available to the public at a reasonably affordable price.
3. Patented invention is not used in India.

Countries would be able to facilitate a free exchange of know-how and technology surrounding the production of vaccines.

Why should waiver be provided?

- Most of the general medicines are produced under the research of Government funding mechanism or donations. For example: 97% of the funding towards the development of the Oxford/AstraZeneca vaccine recently was public money. Then how can they create monopoly on this.

- The cost of innovation or R&D could be easily provided through a one-time payment or prize money rather a long-term patent.

Creating a patent pool – Way Forward

- One method by which aggregation and dissemination of innovative products can be ensured is by creating a patent pool.
- Patent pools are usually effective in aggregating, administering and licensing patents related to specific areas of technology.
- Such pools are usually managed by a central agency and the patents which become part of the pool are readily made available for licensing.
- All countries ought to have the right to implement these innovations without further permission from the patent-holders and without resorting to provisions such as compulsory licensing, state acquisition, etc.'
- Creation of a pool and immediate licensing will ensure that there are hundreds of manufacturers across the world. As a result, vaccines and medicines will be quickly available.
- Pooling of patent resources is also in line with the Doha Declaration on Public Health which is a part of the TRIPS agreement. This declaration recognises the need for taking measures to 'protect public health' and 'promote access to medicines'.
- Public-private partnerships (PPP) need to be scaled up. Creation of the 'PPP-pandemic patent pool' at a global level, to pool all innovations, is the way forward.

INDIA'S GDP TO GROW AT 11% THIS FISCAL, SAYS ADB

Context:

The Indian economy is projected to grow at 11% in the current financial year amid the "strong" vaccine drive, said the Asian Development Bank (ADB) in its report – Asian Development Outlook (ADO) 2021.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

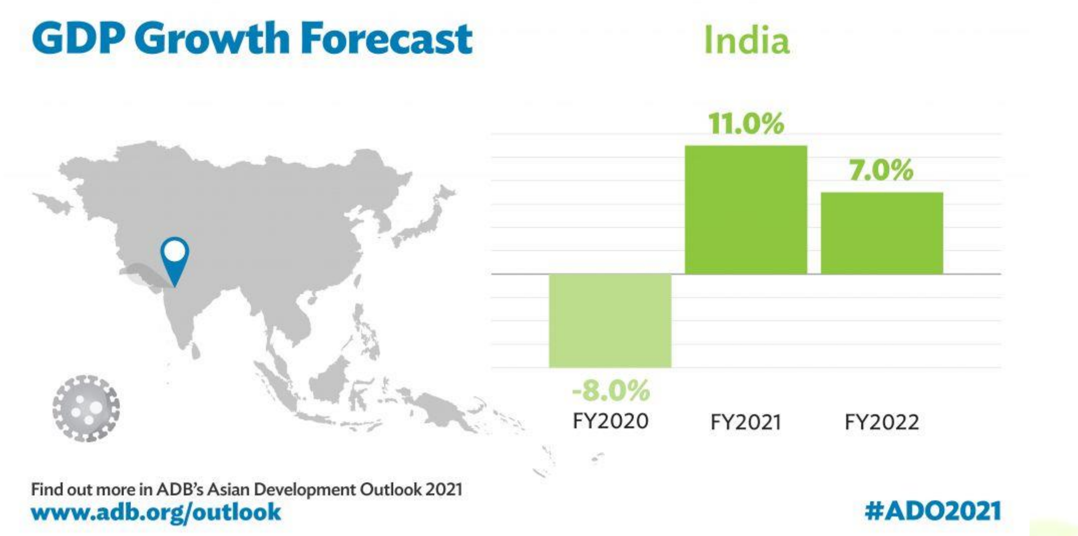
Dimensions of the Article:

1. Highlights of Asian Development Outlook (ADO) 2021
2. ADO 2021 on Impact of the Pandemic
3. About Asian Development Bank (ADB)

Highlights of Asian Development Outlook (ADO) 2021

- India's Gross Domestic Product (GDP) will rebound strongly by 11% in Fiscal Year (FY) 2021-22 due to continued economic recovery boosted by increased public investment, vaccine rollout, and a surge in domestic demand.
- India's economic growth will moderate to 7% in FY 2022-23.
- Indian economy is expected to have contracted by 8% in FY 2020-21 in line with the government's second advance estimate.
- The ADB cited 2021's 'more targeted' containment measures compared with 2020's 'large-scale' national lockdown and said these would prove 'less costly' to the economy.
- A stimulus-fuelled surge in the U.S., India's largest export market, will support the revival, but a severe second COVID-19 wave is threatening the recovery.

- ADB sees India's average inflation rate slowing to 5.2% in 2021 from 6.2% in the last fiscal of 2020, and reverting to 4.8% (recorded in 2019-20), over the succeeding 12 months.



- Developing Asia's economic growth is set to rebound to 7.3% in 2021-22. This follows a 0.2% contraction in 2020.
- Developing Asia comprises 46 members of ADB list on the basis of geographic group- including new industrialized economies, countries in Central Asia, East Asia, South Asia, Southeast Asia and the Pacific. [**India is also a part of Developing Asia**].

ADO 2021 on Impact of the Pandemic

- Pandemic remains the biggest risk for the region (Developing Asia) as potential delays in vaccine rollouts or significant new outbreaks could undermine growth.
- Increasing geopolitical tensions, production bottlenecks, financial turmoil from tightening financial conditions, and long-term scarring like learning losses due to school closures are among other risk factors.

School Closure factor

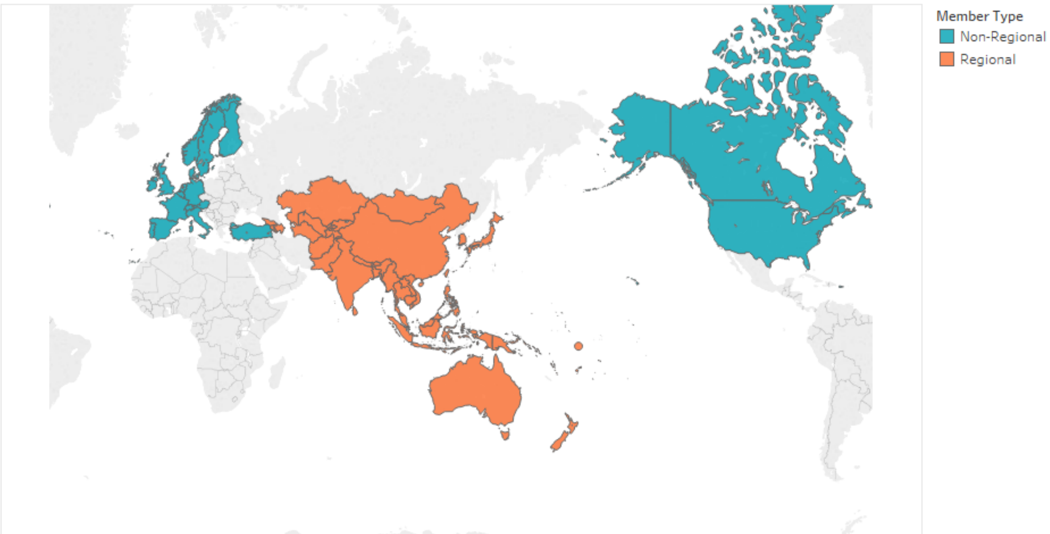
- Countries are using distance learning, but this is only partially effective as many students lack access to computers and the internet.
- These disruptions will affect the skills students acquire and, eventually, their productivity and earnings as future workers.
- Learning losses range from 8% of a year of learning in the Pacific, where schools have mostly stayed open, to 55% in South Asia, where school closures have been longest.
- The present value of students' future earning reductions is estimated at USD 1.25 trillion for developing Asia, equivalent to 5.4% of the region's GDP in 2020.

About Asian Development Bank (ADB)

- The Asian Development Bank (ADB) is a regional development bank established on 19 December 1966 to promote social and economic development in Asia.
- It is headquartered in the city of Mandaluyong, Metro Manila, Philippines.
- The ADB was modeled closely on the World Bank and an official United Nations Observer.

- Japan holds the largest proportion of shares in ADB followed by the USA, and it has a weighted voting system where votes are distributed in proportion with members' capital subscriptions (just like the World Bank).
- The bank admits the members of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP, formerly the Economic Commission for Asia and the Far East or ECAFE) and non-regional developed countries.
- ADB defines itself as a social development organization that is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration.
- ADB aids in reducing poverty through investments in the form of loans, grants and information sharing (in infrastructure, health care services, financial and public administration systems), helping nations prepare for the impact of climate change or better manage their natural resources, as well as other areas.
- ADB is an official United Nations Observer.
- India was a founding member of the Asian Development Bank (ADB) in 1966 and is now the bank's fourth largest shareholder and top borrower.

Asian Development Bank Member Countries



CORE SECTOR OUTPUT UP 6.8% IN MARCH

Context:

Driven by base effect-led uptick in production of natural gas, steel, cement and electricity – the output of eight core sectors grew by 6.8% in March 2021.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. What is Index of Industrial Production (IIP)?
2. What is Base-effect?

What is Index of Industrial Production (IIP)?

- The Index of Industrial Production (IIP) is an index that shows the growth rates in different industry groups of the economy in a fixed period of time.
- It is compiled and published **MONTHLY** by the **National Statistical Office (NSO), Ministry of Statistics and Programme Implementation.**
- **Base Year for IIP is 2011-2012.**
- IIP is a composite indicator that measures the growth rate of industry groups classified under:
- Broad sectors, namely, Mining, Manufacturing, and Electricity.
- Use-based sectors, namely Basic Goods, Capital Goods, and Intermediate Goods

The Eight Core industries of IIP are:

1. Coal
2. Crude Oil
3. Natural Gas
4. Refinery Products
5. Fertilizers
6. Steel
7. Cement
8. Electricity.

Significance of IIP:

- IIP is the only measure on the physical volume of production.
- It is used by government agencies including the Ministry of Finance, the Reserve Bank of India, etc., for policy-making purposes.
- IIP remains extremely relevant for the calculation of the quarterly and advance GDP estimates.

What is Base-effect?

- The base effect is the effect that choosing a different reference point for a comparison between two data points can have on the result of the comparison. This often involves the use of some kind of ratio or index value between two points in a time-series data set, but can also apply to cross-sectional or other types of data.
- Using a different reference or base for comparison can lead to a large variation in ratio or percentage comparisons between data points – hence, base effect can lead to distortion in comparisons and deceptive results, or, if well understood and accounted for, can be used to improve our understanding of data and the underlying processes that generate them.

In the current example of 8 core industries output data: Production of natural gas, steel, cement and electricity jumped 12.3%, 23%, 32.5% and 21.6% in March 2021, as against (-) 15.1%, (-) 21.9%, (-) 25.1% and (-) 8.2% in March 2020, respectively (low base effect).

PMI SERVICES DROPS TO THREE-MONTH LOW IN APRIL

Context:

India's services activity slowed to a three-month low in April 2021, with an escalating second wave of coronavirus pandemic and localized lockdowns across the country forcing services firms to curtail operations.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. What is Purchasing Managers' Index (PMI)?
2. Understanding PMI

What is Purchasing Managers' Index (PMI)?

- The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.
- It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.
- The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors.
- In simple words, Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.
- PMI is a survey-based measure that asks the respondents about changes in their perception about key business variables as compared with the previous month.
- The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors.
- It is calculated separately for the manufacturing and services sectors and then a composite index is also constructed.
- PMI is compiled by IHS Markit for more than 40 economies worldwide – IHS Markit is a global leader in information, analytics and solutions for the major industries and markets that drive economies worldwide.

Understanding PMI

The PMI is a number from 0 to 100.

1. A print above 50 means expansion, while a score below that denotes contraction.

2. A reading at 50 indicates no change.

- If PMI of the previous month is higher than the PMI of the current month, it represents that the economy is contracting.
- It is usually released at the start of every month. It is, therefore, considered a good leading indicator of economic activity.

It is different from the Index of Industrial Production (IIP), which also gauges the level of activity in the economy.

1. IIP covers the broader industrial sector compared to PMI.
2. However, PMI is more dynamic compared to a standard industrial production index.

MFIS FLAG RURAL BORROWER DISTRESS TO RBI

Context:

The pandemic's second wave is affecting rural households far more than 2020, with a large number of microfinance staffers, borrowers and their families hit by COVID-19, impacting many more livelihoods than during the first wave.

The trend, which poses a higher risk of loan delinquencies if the rising infections don't taper off by the end of May along with mobility restrictions, was flagged by microfinance institutions (MFIs) to the Reserve Bank of India Governor.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Banking Sector)

Dimensions of the Article:

1. What are Micro Finance Institutions (MFIs)?
2. Microfinance in India
3. Micro Finance Associated Challenges
4. RBIs flagging of MFI distress signal

What are Micro Finance Institutions (MFIs)?

- Micro finance Institutions, also known as MFIs, a microfinance institution is an organisation that offers financial services to low-income populations.
- Usually, their area of operations of extending small loans are rural areas and among low-income people in urban areas.
- MFIs provide the much-needed aid to the economically underprivileged who would have otherwise been at the mercy of the local moneylender and high interest rates.
- The model had its genesis as a poverty alleviation tool, focused on economic and social upliftment of the marginalised sections through lending of small amounts of money without any collateral to women for income-generating activities.
- Some of the MFIs, that qualify certain criteria and are non-deposit taking entities, come under RBI wings for Non-Banking Financial Company (NBFC) Regulation and supervision. These "Last Mile Financiers" are known as NBFC MFI.
- The objective of covering them under RBI was to make these NBFC MFIs healthy and accountable.

History of Microfinance

- The term “microfinancing” was first used in the 1970s during the development of Grameen Bank of Bangladesh, which was founded by the microfinance pioneer, Muhammad Yunus.
- Since, in the developing countries, a large number of people still depends largely on subsistence farming or basic food trade for their livelihood, therefore, smallholder agriculture in these developing countries has been supported by the significant resources.

Microfinance in India

- SEWA Cooperative Bank was initiated in 1974 in Ahmedabad, Gujarat, by Ela Bhatt which is now one of the first modern-day microfinance institutions of the country.
- The National Bank for Agriculture and Rural Development (NABARD) offered financial services to the unbanked people, especially women and later decided to experiment with a very different model, which is now popularly known as Self-help Groups (SHGs).
- The SHG-Bank linkage programme in India has savings accounts with 7.9 million SHGs and involves the participation of regional rural banks (RRBs), commercial banks and cooperative banks in its operations. The origin of SHGs in India can be traced back to the establishment of the Self-Employed Women’s Association (SEWA) in 1972.
- In 2013, a loan of $144 million was provided by Grameen Capital India to the microfinance groups. Apart from the Grameen Bank, another microfinance organization named Equitas was developed in Tamil Nadu. The Southern and Western states of India are the ones attracting the greatest number of microfinance loans.

Micro Finance Associated Challenges

1. **Inadequate Data:** While overall loan accounts have been increasing the actual impact of these loans on the poverty-level of clients is sketchy as data on the relative poverty-level improvement of MFI clients is fragmented.
2. **Impact of COVID-19:** It has impacted the MFI sector, with collections having taken an initial hit and disbursals yet to observe any meaningful thrust.
3. **Social Objective Overlooked:** In their quest for growth and profitability, the social objective of MFIs—to bring in improvement in the lives of the marginalized sections of the society—seems to have been gradually eroding.
4. **Loans for Conspicuous Consumption:** The proportion of loans utilized for non-income generating purposes could be much higher than what is stipulated by RBI. These loans are short-tenured and given the economic profile of the customers, it is likely that they soon find themselves in the vicious debt trap of having to take another loan to pay off the first.

RBIs flagging of MFI distress signal

- Urging the RBI to grant forbearance for borrowers unable to pay instalments with some flexibility for the MFIs to restructure affected loans, industry representatives observed that while collections had been normal till early April 2021 (in the wake of the gradual recovery) they had slowed down since then.
- A larger proportion of borrowers and their families are affected by the illness, even in rural areas, in contrast to 2020.
- The official said that a significant section of MFI staff working with borrowers had also been infected, triggering fear among employees.
- RBI said that the Governor had discussed the current economic situation and the outlook on potential stress on MFIs’ balance sheets, as well as credit flows to their borrowers.

- ICRA cautioned that MFIs face a 'high risk' perception amid the sharp surge in infections. Though some States have classified the industry as an essential activity, borrowers' cash flows may be affected due to restrictions.

AN ISSUE OF LIVES VERSUS LIVELIHOODS

Context:

- Strict to moderate lockdowns are being imposed again in April 2021, terminating jobs in many an establishment employing large numbers of informal workers.
- Of those employed in the informal category, large numbers include migrants who face a bleak future, with job losses, loss of rented accommodations, a lack of sustainable income and savings to ensure food, transportation back to villages or any other emergency including falling victim to COVID-19 – like they did in March-April of 2020.

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Planning usage and Mobilisation of resources, Inclusive growth and issues therein)

Mains Questions:

In the light of the second wave of Covid-19 in the country, suggest some ways to address the difficult situations faced by India's migrants during the Covid-19 crisis in India. (10 Marks)

Dimensions of the Article:

1. The current situation is a repeat of the crisis in 2020
2. Issues related to internal migration in India
3. Flow and cost of migrant labour
4. No labour safeguards
5. Way Forward

The current situation is a repeat of the crisis in 2020

- Given their bitter experiences in 2020, migrants have already begun their journeys back to villages and the continuing exodus unofficially records figures upward of 4 lakhs (Western Railway) & the Central Railways sent back almost 5 lakh migrants (all from Maharashtra) in the first couple of weeks of April 2021.
- With multiple issues of serious sufferings on account of COVID-19- related distress, the country has less time to discuss the fate of these unwanted migrants on their path of reverse migration, fleeing from centres of livelihood toward dark holes of rural helplessness and poverty.
- Providing a mirror image of the previous tragedy in 2020, the conditions faced by these workers under a 'curfew-to-lockdown' status include the immediate termination of their livelihoods in terms of jobs, access to accommodation and near insolvency.
- There has been no attempt to have an official estimate of such flows, either incoming or reverse.
- The recent official announcement of free ration of 5 kg cereals to 80 crore families is the only sop visible so far.
- The measure of using lockdowns and curfews to save lives is simultaneously also taking away the means of livelihood for the rootless and roofless migrants.

Issues related to internal migration in India

1. **Non-portability of entitlements:** Non-portability of entitlements for migrant labourers (such as the Public Distribution System) which further gets aggravated due to absence of identity documentation.

2. **Absence of reliable data:** The current data structure lacks realistic statistical account of their number and an understanding of the nature of their mobility.

    - Data on internal migration in India is principally drawn from two main sources –Census and the surveys carried out by the National Sample Survey Office. One of the main lacunae of both the Census and NSS surveys is their failure to adequately capture seasonal and/or short-term circular migration.

    - A large majority of migrants hail from historically marginalized groups such as the SCs and STs, which adds an additional layer of vulnerability to their urban experiences.

3. **Exploitation by Employers and Contractors (Middlemen):** Exploitation by Employers and Contractors in the form of Non-payment of wages, physical abuse, accidents. The existing legal machinery is not sensitive to the nature of legal disputes in the unorganized sector.

4. **Lack of Education:** The issue of lack of access to education for children of migrants further aggravates the intergenerational transmission of poverty.

5. **Housing:** Migration and slums are inextricably linked, as labor demand in cities and the resulting rural-to-urban migration creates greater pressures to accommodate more people.

6. **Social Exclusion:** Since the local language and culture is different from that of their region of origin, they also face harassment and political exclusion. Due to migrant's mobile nature, they don't find any place in the manifestos of trade unions.

7. **Stuck in the cycle of poverty:** Most migrants are generationally stuck in a vicious cycle of poverty. (See infographic.)

Flow and cost of migrant labour

- The flow of migrant labour provided a reserve army of cheap labour waiting to be hired at wages which, often, could dip lower than the statutory minimum, especially after meeting the demands of the mediating contractor who arranged for the migration from villages.

- With the formal organised industry employing as many as one half or more of employees with casual or informal status, it proved rather opportune for enterprises in factories, construction sites and other labour-intensive activities to make use of these migrants in their cost-cutting exercises.

- On the whole, the presence of the rural migrants benefited the urban economy by providing cheap labour to manufacturing units and cheap services to households.

- However, these jobs provided did not entail further obligations on the part of the employers or the state, given that the 'footloose' migrants never had any legal status as a working population.

No labour safeguards

- Pieces of legislation, as available, do not provide any evidence of addressing the issue of ensuring some legal safeguards to migrant labourers.

- The Contract Labour (Regulation and Abolition) Act 1970 conferred on casual labour a legal status by providing a mechanism for registration of contractors engaging 20 or more workers.

- While it was never effective, the Occupational Safety, Health and Working Conditions Code, 2020 has replaced all such Acts.

- Seeking, rather ineffectively, to regulate the health and safety conditions of workers in establishments with 10 or more workers, the Code has replaced 13 prevailing labour laws.

- It is thus more than obvious that none of the so-called corrective measures was of any significance in relation to what the migrants have been experiencing today since partial or total lockdowns have been imposed over the last few weeks.

Way Forward

- **Universal food grain distribution:** There are 585 lakh tonnes of grains stored in Food Corporation of India god owns, which could be proactively distributed.
- **Direct cash transfers:** Mechanisms could be evolved to deliver cash directly into the hands of people, instead of routing it through bank accounts.
- **Committee for Coordination:** Inter-state coordination committee could be formed to ensure safe passage of migrants to their villages.
- **Commission to protect wages:** Legal bodies at the central and state levels could be created to protect wages- as there have been claims of non-payment of wages, forced leaves and retrenchments.
- **Mapping of migrant workers:** There is a need to create a database to map migrant workers scattered across the country. Government is planning to map migrant workers which would be first comprehensive exercise to map migrant workers scattered across sectors.

IRDAI PITCHES FOR MODEL INSURANCE VILLAGES

Context:

At a time when the Covid pandemic is raging across the country, the Insurance Regulatory and Development Authority of India(Irdai) has come out with the concept of model insurance villages to cover the entire population in those areas, with the financial support of various institutions like Nabard and CSR funds.

Relevance:

GS-III: Indian Economy (Banking Sector & NBFCs, Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. What is Model Insurance Village (MIV)?
2. Need for Model Insurance Village
3. Insurance Regulatory and Development Authority of India (IRDAI)

What is Model Insurance Village (MIV)?

- The concept of Model Insurance Village (MIV) is a development towards the aim to offer comprehensive insurance protection to all the major insurable risks that villagers are exposed to and make available covers at affordable or subsidised cost.
- In order to make the premium affordable, financial support needs to be explored through NABARD, other institutions, CSR (Corporate Social Responsibility) funds, government support and support from reinsurance companies.
- It may be implemented in a minimum of 500 villages in different districts of the country in the first year and increased to 1,000 villages in the subsequent two years.
- Every general insurance company and reinsurance company accepting general insurance business and having offices in India needs to be involved for piloting the concept.

Need for Model Insurance Village

- According to the Economic Survey for 2020-21, India's insurance penetration, which was at 2.71% in 2001, has steadily increased to 3.76% in 2019, but stayed much below the global average of 7.23%.

- Recently, the Parliament has passed the Insurance Amendment Bill 2021 to increase the foreign direct investment (FDI) limit in the insurance sector to 74% from 49%.

There are various challenges that need to be addressed to increase the penetration of the concept of Insurance in villages such as:

1. Lack of awareness,
2. Limited choice of insurance products,
3. Absence of people-friendly and transparent claim settlement mechanisms, and
4. Weak network of insurance firms.

Insurance Regulatory and Development Authority of India (IRDAI)

- The Insurance Regulatory and Development Authority of India or the IRDAI is the apex body responsible for regulating and developing the insurance industry in India.
- It is an autonomous body. It was established by an act of Parliament known as the Insurance Regulatory and Development Authority Act, 1999. Hence, it is a statutory body.
- The IRDAI is headquartered in Hyderabad in Telangana. Prior to 2001, it was headquartered in New Delhi.

The functions of the IRDA are listed below:

1. Its primary purpose is to protect the rights of the policyholders in India.
2. It gives the registration certificate to insurance companies in the country.
3. It also engages in the renewal, modification, cancellation, etc. of this registration.
4. It also creates regulations to protect policyholders' interests in India.

The Section 4 of the Insurance Regulatory Development Authority (IRDA) Act, 1999 specifies the composition of authority which consists of a 10-member team appointed by the government of India which includes.

1. One chairman
2. Five whole time members
3. Four part time members

RBI STEPS IN TO EASE COVID-19 BURDEN

Context:

With India's economic recovery threatened by the COVID-19 second wave, the Reserve Bank of India stepped in with measures aimed at alleviating any financing constraints for healthcare infrastructure and services, as well as small borrowers who may be facing distress due to a sudden spike in health expenditure.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. Unscheduled Support extended by the RBI
2. Small businesses, MSMEs to get relief
3. Credit Support

Unscheduled Support extended by the RBI

- RBI Governor announced a Term Liquidity Facility of ₹50,000 crore with tenor of up to three years, at the repo rate, to ease access to credit for providers of emergency health services.
- Under the scheme, banks will provide fresh lending support to a wide range of entities, including vaccine manufacturers, importers/suppliers of vaccines and priority medical devices, hospitals/dispensaries, pathology labs, manufacturers and suppliers of oxygen and ventilators, and logistics firms.
- These loans will continue to be classified under priority sector till repayment or maturity, whichever is earlier.

Small businesses, MSMEs to get relief

- As part of a "comprehensive targeted policy response", the RBI also unveiled schemes to provide credit relief to individual and MSME borrowers impacted by the pandemic.
- The RBI also announced measures to protect small and medium businesses and individual borrowers from the adverse impact of the intense second wave of COVID-19 buffeting the country.
- RBI unveiled a Resolution Framework 2.0 for COVID-related stressed assets of individuals, small businesses and MSMEs and also expressed the central bank's resolve to do everything at its command to 'save human lives and restore livelihoods through all means possible'.
- Considering that the resurgence of the pandemic had made these categories of borrowers most vulnerable, the RBI said those with aggregate exposure of up to ₹25 crore, who had not availed restructuring under any of the earlier restructuring frameworks (including under last year's resolution framework), and whose loans were classified as 'standard' as on March 31, 2021, were eligible for restructuring under the proposed framework.

Credit Support

- To provide further support to small business units, micro and small industries, and other unorganised sector entities adversely affected during the current wave of the pandemic, the RBI decided to conduct special three-year long-term repo operations (SLTRO) of ₹10,000 crore at the repo rate for Small Finance Banks.
- The SFBs would be able to deploy these funds for fresh lending of up to ₹10 lakh per borrower.
- In view of the fresh challenges brought on by the pandemic and to address the emergent liquidity position of smaller MFIs, SFBs are now being permitted to reckon fresh lending to smaller MFIs (with asset size of up to ₹500 crore) for onlending to individual borrowers as priority sector lending.
- To enable the State governments to better manage their fiscal situation in terms of their cash flows and market borrowings, maximum number of days of overdraft (OD) in a quarter is being increased from 36 to 50 days and the number of consecutive days of OD from 14 to 21 days.

COVID IMPACT: AVG. MONTHLY INCOME FOR WORKERS DROPS

Context:

According to 'State of Working India 2021: One Year of Covid-19', a report brought out annually by Azim Premji University's Centre for Sustainable Employment, Bengaluru – the COVID-19 pandemic has substantially increased informality in employment, leading to a decline in earnings for the majority of workers, and consequent increase in poverty in the country.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. Findings of the Report
2. The Covid-connect

Findings of the Report

- Regarding employment, the report notes that 100 million jobs were lost nationwide during the April-May 2020 lockdown.
- Though most of these workers had found employment by June 2020, about 15 million remained out of work.
- As for income, for an average household of four members, the monthly per capita income in Oct 2020 (less than 500 Rs.) was still below its level in Jan 2020 (less than 6000 Rs).

Table 2: Monthly earnings fell for all workers irrespective of employment type

Employment Arrangement	2019	2020	Change in earnings (%)
Casual/Daily wage worker	₹9,135	₹7,965	-13
Self-employed	₹15,831	₹12,955	-18
Temporary salaried	₹11,422	₹9,441	-17
Permanent salaried	₹29,226	₹27,697	-5
Overall	₹15,210	₹12,625	-17

Sources and notes: Authors' calculations based on CMIE-CPHS. Data are for the months of September-October of 2019 and 2020. Earnings include income from wages and salaries and income from business. Earnings are reported in Jan 2020 prices using rural/urban CPI. See Appendix Section 2 for details.

Exodus into informal sector

- The study found that post-lockdown, nearly half of salaried workers had moved into informal work, either as self-employed (30%), casual wage (10%) or informal salaried (9%).
- The fallback option varied by caste and religion. "General category workers and Hindus were more likely to move into self-employment while marginalised caste workers and Muslims moved into daily wage work".
- Education, health and professional services saw the highest exodus of workers into other sectors, with agriculture, construction and petty trade emerging as the top fallback options.
- For Hindus, agriculture was the major fallback sector, absorbing 10-20% of workers from other sectors, while for Muslims, it was trade, absorbing 20-35% of workers from other sectors.
- Due to the employment and income losses, the labour share of the GDP fell by 5 percentage points, from 32.5% in the second quarter of 2019-20 to 27% in the second quarter of 2020-21.
- Of the decline in income, 90% was due to reduction in earnings, while 10% was due to loss of employment. This means that even though most workers were able to go back to work, they had to settle for lower earnings. Though incomes fell across the board, poor households were hit the hardest. While the poorest 20% of households lost their entire incomes in April-May 2020.

Table 3 : Indebtedness increased, especially among poorer households	Overall	Bottom 25%	Second 25%	Third 25%	Top 25%
Median income in Feb 2020 (₹)	8,500	4,000	7,000	10,000	18,000
Loan amount (₹)	18,000	12,000	15,000	20,000	30,000
Ratio	2.1	3.8	2.1	2	1.4

Sources and notes: Azim Premji University CLIPS (October-November 2020) See Appendix Section 3 for survey details.

The Covid-connect

- Significantly, the study has found a clear correlation between job losses and the COVID-19 case load, with States showing higher case load, such as Uttar Pradesh, Maharashtra, Tamil Nadu, Kerala, and Delhi, "contributing disproportionately to the job losses".
- There was also a correlation between lockdown-related mobility restrictions and losses in earnings. A 10% decline in mobility was associated with 7.5% decline in income.
- Women and younger workers were more affected by the pandemic-related measures. During the lockdown and in the post-lockdown months, 61% of working men remained employed while 7% lost their job and did not return to work. But in the case of women, only 19% remained employed while 47% suffered a permanent job loss.
- Besides women, younger workers were impacted more by the lockdown. About 33% of workers in the 15-24 years age group had failed to regain some form of employment even by December 2020. The corresponding figure for those in the 25-44 years category was 6%.

SC AND HC ON OXYGEN SUPPLY AND GST

Context:

- Oxygen concentrators received as gifts or ordered online from overseas would attract Goods and Services Tax (GST), but the GST rate payable was reduced from 28% to 12% by the Finance Ministry recently.
- The Delhi High Court asked the Centre to drop the GST charged on imports of oxygen concentrators for personal use, just as it has done for donated COVID-19 relief material imports. However, the government's decision was that the maximum possible relief had already been given by reducing the GST rate.
- The Supreme Court highlighted the need for the Union government to start preparations for oxygen allocation to the States, its supply and distribution ahead of a third wave of the COVID-19 pandemic. The court drew the attention of the government to reports that children may be affected in the next wave.

Relevance:

GS-III: Indian Economy (Taxation, GST), GS-II: Polity and Governance (Government Policies and Interventions, Issues arising out of the design and implementation of policies, Judiciary)

Dimensions of the Article:

1. About the Supreme Court's warning regarding a third wave
2. GST Council

3. Recommendations given by the GST Council

About the Supreme Court's warning regarding a third wave

- A Bench of the Supreme Court said the government needed to finalise a formula for allocation, supply and distribution of oxygen in a "scientific manner" ahead of the coming third wave of Covid-19.
- The court said the formula for allocation and distribution of oxygen among the States should be based, among other things, on an "oxygen audit", that is, to determine the actual need of oxygen in a State.
- The court underlined the importance of vaccination, saying that Children are going to be affected in the third wave.
- At one point, the court suggested incentivising young doctors who have completed their courses and young trained nurses to augment the fatigued healthcare professionals who are at the end of their tether.

GST Council

- Goods & Services Tax Council is a Constitutional Body for making recommendations to the Union and State Government on issues related to Goods and Service Tax.
- As per Article 279A (1) of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A.
- The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2016, for introduction of Goods and Services tax in the country was introduced in the Parliament and passed by Rajya Sabha on 3rd August, 2016 and by Lok Sabha on 8th August, 2016.
- GST Council is an apex member committee to modify, reconcile or to procure any law or regulation based on the context of goods and services tax in India.
- The GST council is responsible for any revision or enactment of rule or any rate changes of the goods and services in India.

The council contains the following members:

1. Union Finance Minister (as chairperson)
2. Union Minister of States in charge of revenue or finance (as member)
3. The ministers of states in charge of finance or taxation or other ministers as nominated by each state's government (as member).

GST Council makes recommendations on:

- Taxes, cesses, and surcharges levied by the Centre, States and local bodies which may be subsumed in the GST;
- Goods and services which may be subjected to or exempted from GST;
- Model GST laws, principles of levy, apportionment of IGST and principles that govern the place of supply;
- Threshold limit of turnover below which goods and services may be exempted from GST;
- Rates including floor rates with bands of GST;
- Special rates to raise additional resources during any natural calamity;
- Special provision with respect to Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
- Any other matter relating to the goods and services tax, as the Council may decide.

A LENDING HAND BY THE RBI

Context:

Various measures aimed at alleviating any financing constraint for those impacted, including the health-care sector, State governments and the public were announced by the Reserve Bank of India (RBI) to fight against the second wave of the pandemic.

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Planning usage and Mobilisation of resources, Inclusive growth and issues therein)

Dimensions of the Article:

1. About the Reserve Bank of India (RBI)
2. Functions of Reserve Bank of India
3. About RBI's support through the second wave of Covid-19

About the Reserve Bank of India (RBI)

- The Reserve Bank of India was established in accordance with the provisions of the Reserve Bank of India Act, 1934. Hence, the RBI is a **Statutory Body**.
- The Reserve Bank is fully owned by the Government of India now, since nationalization in 1949. (Originally it was private owned).
- The Reserve Bank's affairs are governed by a central board of directors. The board is appointed/nominated for a period of four years by the Government of India, based on the Reserve Bank of India Act.
- The RBI has both Official Directors and Non-Official Directors. Official Directors (central board of directors) are the Governor along with not more than four Deputy Governors. Ten Directors from various fields and two Government Officials along with four Directors – one each from four local boards (regional) are the Non-Official Directors.

Functions of Reserve Bank of India

Monetary

1. Implementation of monetary policies.
2. Monitoring the monetary policies
3. Ensuring price stability in the country considering the economic growth of the country

Regulatory

1. The RBI determines the comprehensive parameters of banking operations.
2. These methods are responsible for the functioning of the country's banking and financial system. Methods such as:

1. License issuing
2. Liquidity of assets
3. Bank mergers
4. Branch expansion, etc.

Foreign Exchange

1. RBI manages the FOREX Reserves of India.
2. It is responsible for maintaining the value of the Rupee outside the country.
3. It aids foreign trade payment.

Currency

1. The Reserve Bank of India is responsible for providing the public with a sufficient supply of currency notes and coins.
2. The quality of currency notes and coins is also taken care of by the RBI.
3. RBI is in charge of issuing and exchanging of currency and coins.
4. Also, the destruction of currency and coins that are not fit for circulation.

Developmental role

1. Promotional functions that support national objectives are organized by RBI that encourage rural and agricultural economic development.
2. The RBI will regularly issue directives to the commercial banks to lend loans to small-scale industrial units.

About RBI's support through the second wave of Covid-19

- RBI proposed a calibrated response, mooting a Rs. 50,000 crore term liquidity facility to boost credit availability for ramping up COVID-related health-care infrastructure and services.
- RBI urged lenders to expedite lending under this 'priority sector' classified scheme to entities including vaccine manufacturers, hospitals, pathology labs, suppliers of oxygen and ventilators, importers of COVID-related drugs and logistics firms. This scheme would also cover patients requiring treatment, but it remains unclear to those with surging medical facilities will be able avail the facility.
- The RBI has signalled that it is cognisant of the burden on health-care and allied providers by directing the flow of credit to the sector most in focus at the moment.
- RBI's focus on small borrowers including unorganised businesses and MSM enterprises, both through enhanced provision of credit via small finance banks and a fresh resolution framework for existing borrowings, is welcoming. (However, only those borrowers who had not already availed of restructuring assistance and whose loans were 'standard' as on March 31, 2021, would be eligible for fresh resolution lays an onerous burden on those that the RBI itself admits are the 'most vulnerable'.)

WHY RBI WANTS MODERATE BOND YIELDS?

Context:

The yield on the 10-year benchmark 5.85%, 2030 bond fell by 0.62% and closed at 5.978% (compared to 6.01% on the previous day).

The Reserve Bank of India (RBI) had stepped up purchase of government securities under the government securities acquisition programme (G-SAP) which led to the yield on the benchmark 10-year bond falling below 6%.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. What are Bonds?

2. What is Bond Yield?
3. How have bond yields moved recently?
4. Why are bond yields softening?
5. What has been/will be the impact on markets and investors?
6. Why is the RBI keen on keeping yields in check?

What are Bonds?

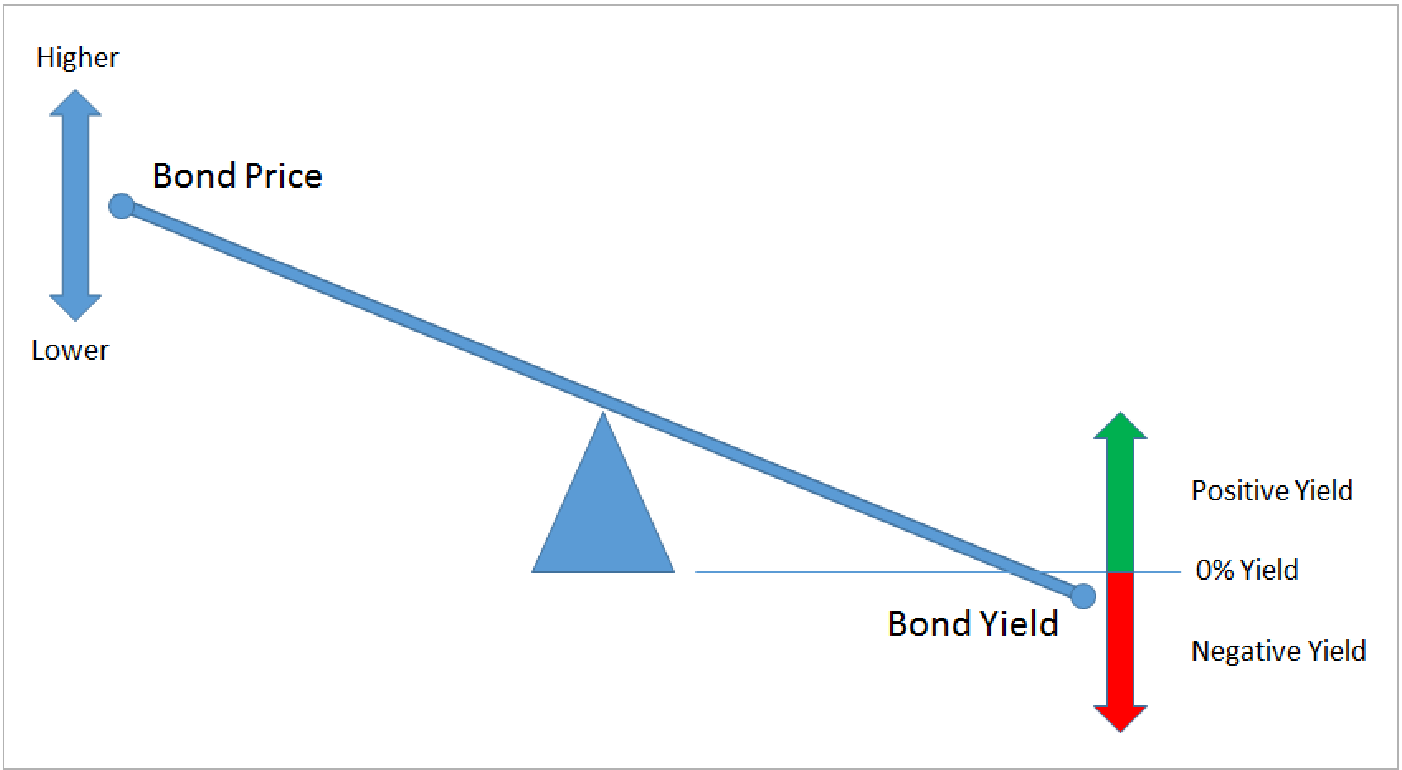
- A bond is like an IOU. The issuer of a bond promises to pay back a fixed amount of money every year until the expiry of the term, at which point the issuer returns the principal amount to the buyer.
- When a government issues such a bond it is called a sovereign bond.
- Governments issue bonds as part of their borrowing programme.
- By purchasing a debt instrument like bond, an investor becomes a creditor to the corporation (or government).
- A bond is a financial security issued by a borrower to avail long term funds.
- Thus, a bond is like a loan: the holder of the bond is the lender (creditor), the issuer of the bond is the borrower (debtor). The primary advantage of being a creditor (by purchasing bonds) is that he has a higher claim on assets than shareholders do. That means, in the case of bankruptcy, a bondholder will get his money back before a shareholder.
- However, the bondholder does not have a share in the profits of a company.

What is Bond Yield?

- Bond yield is the return an investor realizes on a bond.
- The bond yield can be defined in different ways.
- Setting the bond yield equal to its coupon rate is the simplest definition.
- The current yield is a function of the bond's price and its coupon or interest payment, which will be more accurate than the coupon yield if the price of the bond is different than its face value.

As bond prices go down – bond yields go up

- Now, seeing the increased bond yield, more and more buying of the bonds will ensue leading to increased demand of the bonds and we know that increased demand will command a higher price.
- So, an increased demand will propel the bond prices up thereby leading to a reduction in bond yield, which will further lead to reduction in demand.



How have bond yields moved recently?

- The yield on the 10-year benchmark 5.85%, 2030 bond fell by 0.62% and closed at 5.978%. It closed under 6% for the first time since early February 2021.
- In April 2021, the RBI launched G-SAP under which it said it would buy Rs 1 lakh crore worth of bonds in the April-June quarter and since then he 10-year bond has declined 15 basis points from 6.15% in one month.

How is this significant?

- Movements in yields, which depend on trends in interest rates, can result in capital gains or losses for investors. If an individual holds a bond carrying a yield of 6%, a rise in bond yields in the market will bring the price of the bond down. On the other hand, a drop in bond yield below 6% would benefit the investor as the price of the bond will rise, generating capital gains.

Why are bond yields softening?

- The fall in bond yields in India could also be due to a sharp decline in US Treasury yields or the economic uncertainty caused by Covid-19.
- But the most important driver of the bond market was RBI interventions. The announcement of a bond-buying programme – G-SAP — at the start of the month played a crucial role in turning the market sentiment.
- The RBI continued to send strong yield signals by cancelling and devolving government debt auctions. In the last month alone, the RBI cancelled more than Rs 30,000 worth of debt auctions.
- Although part of this amount was offset by availing the green-shoe option (option to accept bids for more than the notified amount of debt auction) in other securities, the decision to buy Rs 35,000 crore worth of bonds in May would help the market absorb a portion of the Rs 1.16 lakh crore market borrowings by the government during the month.

What has been/will be the impact on markets and investors?

- Experts say the structured purchase programme has calmed investors' nerves and reduced the spread between the repo rate and the 10-year government bond yield.
- A decline in yield is also better for the equity markets because money starts flowing out of debt investments to equity investments. That means as bond yields go down, the equity markets tend to outperform by a bigger margin and as bond yields go up equity markets tend to falter.
- In the past 5 years since late 2012, the benchmark 10-year yields are down by almost (- 17%) and have been moving consistently downward, despite occasional hiccups. At the same time, the Nifty is up by nearly 82%.
- It says the yield on bonds is normally used as the risk-free rate when calculating the cost of capital. When bond yields go up, the cost of capital goes up.
- When bond yields go up, it is a signal that corporates will have to pay a higher interest cost on debt. As debt servicing costs go higher, the risk of bankruptcy and default also increases and this typically makes mid-cap and highly leveraged companies vulnerable.

Why is the RBI keen on keeping yields in check?

- The RBI has been aiming to keep yields lower as that reduces borrowing costs for the government while preventing any upward movement in lending rates in the market.
- The RBI wants to keep interest rates steady to kick-start investments. A rise in bond yields will put pressure on interest rates in the banking system which will lead to a hike in lending rates.
- If yields come down, the RBI will be able to bring down the cost of government borrowing for 2021-22, which is set at Rs 12.05 lakh crore.

INDIAN OFFSHORE MODEL TO DOMINATE IT SECTOR

Context:

Analysis said that IT markets are picking up to such a degree that both the U.S. and Europe are running out of critical skills, and with this, offshore and Indian alternatives are increasingly becoming attractive for tech buyers.

Relevance:

GS-III: Industry and Infrastructure (IT Sector), Indian Economy

Dimensions of the Article:

1. About the attractiveness of the Indian Offshore model
2. Service Sector boom in India
3. Has the growth in service sector ensured adequate employment opportunities?

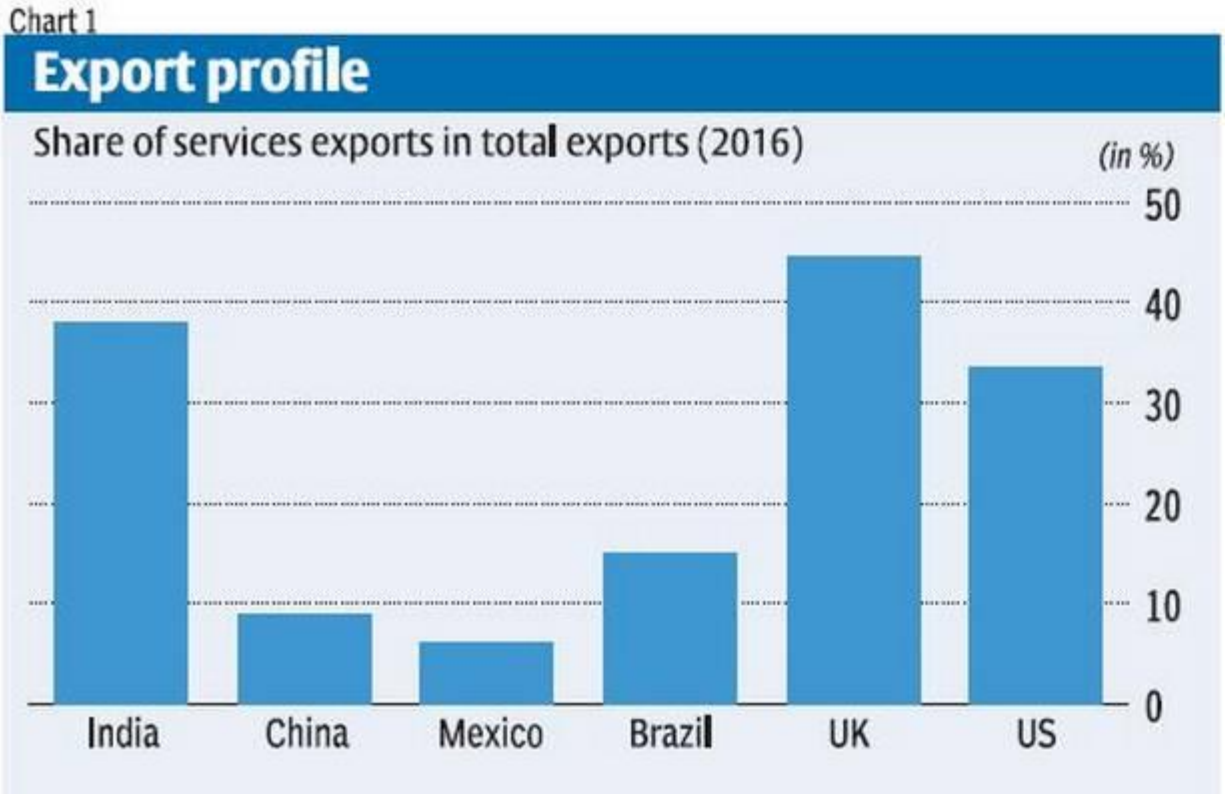
About the attractiveness of the Indian Offshore model

- Typically, offshore accounts for 70-80% of a project while onshore is in the 20-30% range. In the COVID-19 era, markets are seeing a clear 50% reduction in onshore and 5-15% rise in offshore share.
- For all IT work conducted remotely, it makes perfect sense to run it from India and the Indian model will dominate the IT service scene for at least another decade.
- Offshore providers have ended up being 'pandemic winners', seeing quantum growth in revenues and substantial decline in operational cost after the WFH trend kicked in.
- In addition to the skills shortage, the pandemic-induced work-from-home has further raised the openness of global tech buyers to working in a distributed environment, away from onshore (or the client's location).

- There is now some of the most aggressive pricing ever as an impact of the pandemic, with some deals priced as low as $4-6 per hour for IT and business process work.

Service Sector boom in India

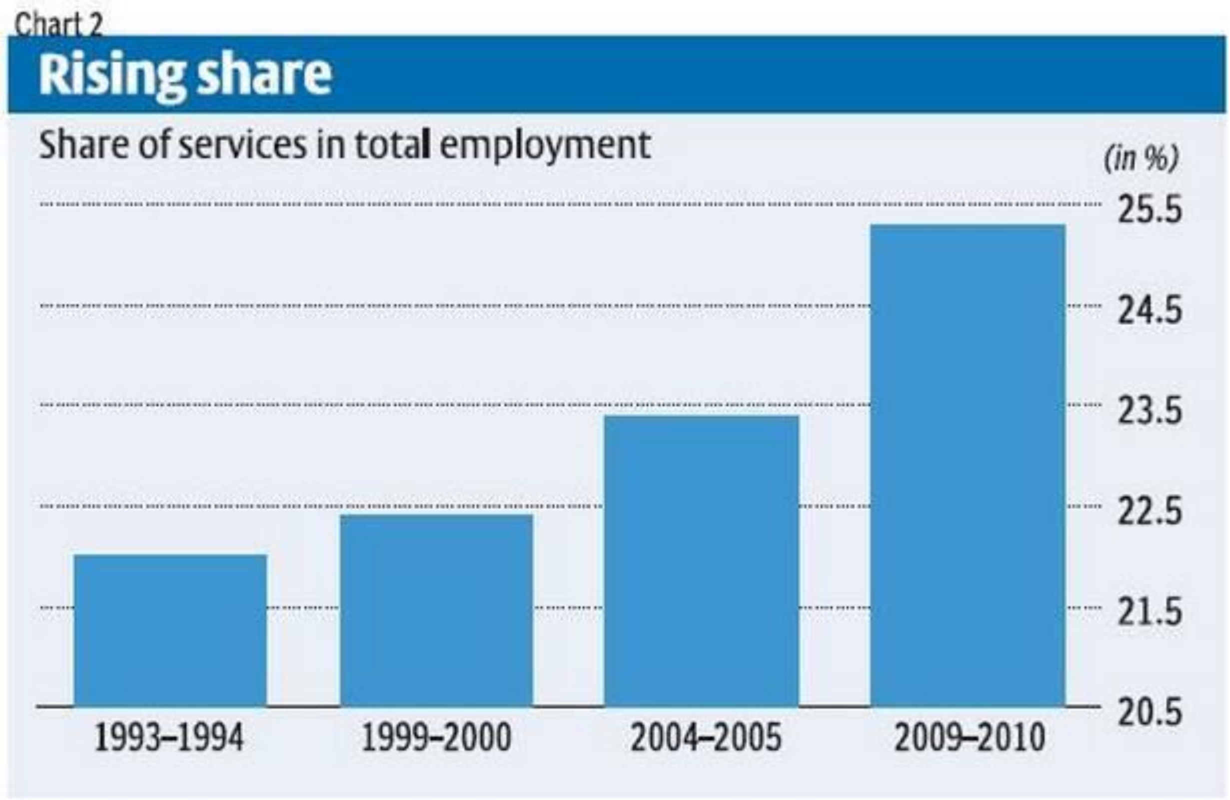
- India's economic growth since the 1990s has largely been on account of an expansion of the services sector, in which exports are seen as having played an important role.
- The rise in the share of services in GDP was particularly sharp after 1996-97.
- In the event, services as a group came to dominate the Indian economy, accounting for more than half its GDP.
- The Economic Survey 2013-14 noted that India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9%, just below China's 10.9%, during the last 11-year period from 2001 to 2012.
- This trend has continued which is shown by gross value added (GVA) from services growing at 8.7% per annum and accounted for 58% of the increase in total GVA between 2011-12 and 2016-17.
- This growth in services has also been accompanied by a significant increase in the exports of services.
- India's success in the services exports area has meant that its share of services in total exports (38%) is much higher than in countries such as China, Mexico and Brazil and close to ratios in the UK and the US.



Has the growth in service sector ensured adequate employment opportunities?

- Despite the presence of unorganised services, the share of the services sector in total employment was relatively low.
- Between 1999-00 and 2004-05, employment in the tertiary sector increased by only 22%, whereas GDP at constant prices contributed by the services sector expanded by 44%.
- Tertiary sector employment in 2009-10 amounted to only 25% of the work force, despite the fact that around 55% of GDP came from this sector.

- Also, NSSO reveals that the share of services in employment increased by far less than the huge increase in its share in GDP.
- India is also unusual in terms of the wide divergence of the shares of the services sector in total gross value added and employment.
- The GVA and employment shares in India were 53 and 29%, as compared with 50 and 42% in China, 60 and 61% in Mexico, and 72 and 69% in Brazil.
- The Economic Survey 2016-17 says that among the top 15 services producer countries, India has the lowest share (28.6%) of total employment in 2016.



NITI AAYOG AND MASTERCARD REPORT ON E-COMMERCE

Context:

NITI Aayog and Mastercard released the 'Connected Commerce: Creating a Roadmap for a Digitally Inclusive Bharat' report on digital financial inclusion in India.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources, Financial Inclusion, Banking Sector)

Dimensions of the Article:

1. What is Digital financial inclusion?
2. Benefits of Digital Financial Inclusion
3. Risks of Digital Financial Inclusion
4. Highlights of the 'Connected Commerce' report
5. Steps taken in India towards Digital Financial Inclusion (DFI)

6. Way forwards suggested by the report

What is Digital financial inclusion?

- Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.
- "Digital financial inclusion (DFI)" can be defined broadly as digital access to and use of formal financial services by excluded and underserved populations. Such services should be suited to customers' needs, and delivered responsibly, at a cost both affordable to customers and sustainable for providers.

The essential components of digital financial inclusion are:

1. **Digital transactional platforms** enable customers to make or receive payments and transfers and to store value electronically through the use of devices that transmit and receive transaction data and connect to a bank or non-bank permitted to store electronic value
2. **Devices** used by the customers can either be digital devices (mobile phones, etc) that transmit information or instruments (payment cards, etc) that connect to a digital device such as a point-of-sale (POS) terminal.
3. **Retail agents that have a digital device** connected to communications infrastructure to transmit and receive transaction details enable customers to convert cash into electronically stored value ("cash-in") and to transform stored value back into cash ("cash-out").
4. **Additional financial services via the digital transactional platform** may be offered by banks and non-banks to the financially excluded and underserved — credit, savings, insurance, and even securities — often relying on digital data to target customers and manage risk.

Benefits of Digital Financial Inclusion

1. Access to formal financial services – payments, transfers, savings, credit, insurance, securities, etc. Migration to account-based services typically expands over time as customers gain familiarity with — and trust in — a digital transactional platform. Government-to-person payments, such as conditional cash transfers, that can enable digital stored-value accounts may provide a path for the financially excluded into the financial system.
2. Typically lower costs of digital transactional platforms — both to the provider and thereby the customer — allow customers to transact locally in irregular, tiny amounts, helping them to manage their characteristically uneven income and expenses.
3. Additional financial services tailored to customers' needs and financial circumstances are made possible by the payment, transfer, and value storage services embedded in the digital transaction platform itself, and the data generated within it.
4. Reduced risks of loss, theft, and other financial crimes posed by cash-based transactions, as well as the reduced costs associated with transacting in cash and using informal providers.
5. It can also promote economic empowerment by enabling asset accumulation and, for women in particular, increasing their economic participation.

Risks of Digital Financial Inclusion

1. Novelty risks for customers due to their lack of familiarity with the products, services, and providers and their resulting vulnerability to exploitation and abuse.
2. Agent-related risks due to the new providers offering services are not subject to the consumer protection provisions that apply to banks and other traditional financial institutions.

3. Digital technology-related risks can cause disrupted service and loss of data, including payment instructions (for example, due to dropped messages), as well as the risk of a privacy or security breach resulting from digital transmittal and storage of data.

Highlights of the 'Connected Commerce' report

- The report identifies challenges in accelerating Digital Financial Inclusion (DFI) in India and provides recommendations for making digital services accessible to its 1.3 billion citizens.
- Lot of effort has been put to attain DFI and much success on the supply side of DFI has been seen (e-governance, the JAM trinity, Goods and Services Tax, Direct Benefit Transfer (DBT) schemes). However, the break in the digital financial flow comes at the last mile, where account holders mostly withdraw cash for their end-use.
- Agriculture, with its allied sectors, provides livelihood to a large section of the Indian population. Over the years, agriculture's contribution to national GDP has declined from 34% in 1983-84 to just 16% in 2018-19. Most agri-techs have not succeeded in digitizing financial transactions for farmers or enabling formal credit at lower rates of interest by leveraging transaction data.
- Micro, Small and Medium Enterprises (MSMEs) have been a key growth driver for the Indian economy. According to a 2020 Report, the category employed some 110 million people, or over 40% of India's non-farm workforce. The lack of proper documentation, bankable collateral, credit history and non-standard financials force them to access informal credit at interest rates that are double of those from formal lenders.
- The surge in digital transactions has increased the risk for possible security breaches, both for consumers and businesses.
- With the onset of the pandemic, there is an increasing need for transit systems to be further integrated with contactless payments in India. Globally, the trend is toward open-loop transit systems, with interoperable payment solutions allowing travelers to switch between different modes of transport with a connected payments network.

Steps taken in India towards Digital Financial Inclusion (DFI)

1. **Jan Dhan-Aadhar-Mobile (JAM) Trinity** – a combination of Aadhaar, Pradhan Mantri Jan-Dhan Yojana (PMJDY), and a surge in mobile communication has reshaped the way citizens access government services.
2. Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) have taken initiatives to promote financial inclusion in rural areas such as **Opening of bank branches in remote areas, Issuing Kisan Credit Cards (KCC), Linkage of self-help groups (SHGs) with banks, Payment Infrastructure Development Fund (PIDF) scheme, etc.**
3. The National Payments Corporation of India (NPCI), digital payments have been made secure, compared to the past with the **strengthening of the Unified Payment Interface (UPI).**
4. The **Aadhar-enabled Payment System (AEPS)** enables an Aadhar Enabled Bank Account (AEBA) to be used at any place and at any time, using micro-ATMs.
5. The Reserve Bank of India has undertaken a project titled **"Project Financial Literacy"** with the objective to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

Way forwards suggested by the report

1. For market players, it is critical to address the gap on the demand side by creating user-friendly digital products and services that encourage the behavioral transition from cash to digital.

2. Strengthening the payment infrastructure to promote a level playing field for Non-Banking Financial Companies (NBFCs) and banks.
3. Digitizing registration and compliance processes and diversifying credit sources to enable growth opportunities for MSMEs.
4. Building information sharing systems, including a ‘fraud repository’, and ensuring that online digital commerce platforms carry warnings to alert consumers to the risk of frauds.
5. Enabling agricultural NBFCs to access low-cost capital and deploy a ‘phygital’ (physical + digital) model for achieving better long-term digital outcomes. Digitizing land records will also provide a major boost to the sector.
6. To make city transit seamlessly accessible to all with minimal crowding and queues, leveraging existing smartphones and contactless cards, and aim for an inclusive, interoperable, and fully open system.

BACK IN THE SHORTAGE ECONOMY: COVID-19 IMPACT

Context:

We have been witnessing shortages of almost everything needed to treat COVID-19 patients: hospital beds, drugs, ventilators and, above all, oxygen. India is once again the focus of global attention, as it was in the mid-1960s when two consecutive years of drought resulted in a severe shortage of food.

Relevance:

GS-III: Indian Economy (Economic Growth and Development, Planning usage and Mobilisation of resources, Inclusive growth and issues therein)

Dimensions of the Article:

1. Crisis in the sixties
2. Lessons from the sixties
3. Health spending and Food security

Crisis in the sixties

- In the mid-1960s two consecutive years of drought resulted in a severe shortage of food in India and we had to turn to the U.S. for assistance. (Help from U.S. did arrive, but grudgingly, as India had not supported the West during the Cold War.)
- The response of the country’s then leadership during the crisis is inspiring Prime Ministers Lal Bahadur Shastri, Indira Gandhi and their cabinet colleagues had stirred the scientific and bureaucratic communities to bring about a quantum leap in food production.
- The Green Revolution stands out in Indian history as a display of extraordinary accountability by the political leadership, combining resolve, humility and intelligence – as at that time no one imagined that India, a byword for a basket case, would be able to feed itself.

Lessons from the sixties

- Unlike the two years of drought that tipped the country into food shortages in the mid-sixties, the need for ramping up the health infrastructure could have been anticipated in March 2020 when a lockdown was announced at very short notice.
- In fact, the medical case for a lockdown was that it would slow the spread of the disease thus avoiding overwhelming the health system and giving time to strengthen the capacity of the health system.
- The lesson from the Green Revolution is that India has recovered from extremely trying crises, under the most adverse of circumstances, in the past. It is entirely possible to replicate this now, but we need sincere and competent leadership.

- Now India has something that it lacked in the mid-sixties, namely, industrial muscle, hence, it should not be too difficult to ramp up hospital beds, ventilators and oxygen supply within a reasonable time.
- An additional feature today, again in contrast to the mid-sixties, is the considerable foreign exchange reserve. Therefore, some crucial medical inputs can be imported, especially vaccines.

Health spending and Food security

- The inter-State variation in the death rate in India is directly related to the extent of health spending in relation to the state domestic product. It is also related to health infrastructure, but less strongly. This is also true for COVID-19-related deaths across South Asia.
- So, to avert a health crisis in the future the States would have to raise the level of spending on health very substantially as, now- on average, States spend only around 5% of their total expenditure on health.
- Even as we struggle against the health emergency, a shortage that we should do everything to avoid is with respect to food. Food prices shot up from April 2020 suggesting that there may have been a disruption of supply due to the lockdown.
- It would be advisable to anticipate a similar disruption following State-level lockdowns now, and take all possible measures to assure the supply chain – especially by taking into consideration that the kharif harvesting operations are set to commence soon.

COMMODITIES IN SUPER CYCLE

Context:

An across-the-board rise in global commodity prices is leading to input cost pressures and is a growing concern, as it is not only expected to have a bearing on cost of infrastructure development in India but also have an impact on the overall inflation, economic recovery and policy making.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. What is a Commodity super cycle?
2. “Commodity supercycle” in the past
3. Current Situation

What is a Commodity super cycle?

- Commodity super cycles are decade-long periods in which commodities trade above their long-term price trend.
- Some market analysts are seeing signs that a new super cycle is beginning in 2021 pointing to a weakening dollar and supportive central banks and fiscal stimulus geared towards infrastructure spending as well as renewable energy.
- To define: A commodity super cycle is a sustained period of abnormally strong demand growth that producers struggle to match, sparking an increase in prices that can last years or in some cases a decade or more.

“Commodity supercycle” in the past

- **2000 – BRIC:** Brazil, Russia, India, and China represented 2.6 billion people in 2000, or about 40% of world population. The idea was that the BRIC countries were on a path of rapid industrialization, which would require an unprecedented amount of raw materials, food and energy commodities.

- The cycle continued for more than 10 years, starting around the turn of the millennium and lasting well into the 2010s.
- The commodities boom began showing signs of slowing when the great financial crisis and the subsequent Euro crisis roiled markets in 2008 and 2011.
- It finally came to a halt when the Chinese economy cooled off in 2015.
- The last supercycle was supported by a steadily eroding U.S. dollar. The currency had been on a depreciating path since the bursting of the dot-com bubble in 2001.
- It touched record low levels just as oil prices hit all-time highs in the summer of 2008. Since then, the U.S. dollar had been appreciating until the onset of Covid-19 in March 2020.

Current Situation

- Steel, the most commonly used input in the construction sector and industries, is at all-time highs, as most metals including base and precious metals prices have increased a lot in the last one year.
- Sugar, corn, coffee, soybean oil, palm oil — have risen sharply in the US commodities market, the effect of which is being seen in the domestic market, too.
- This current scenario of the start of a "Commodity Supercycle" is leading to input cost pressures and is a growing concern, as it is not only expected to have a bearing on cost of infrastructure development in India but also have an impact on the overall inflation, economic recovery and policy making. Higher metal prices will lead to higher Wholesale Price Index (WPI) inflation and so the core inflation may not come down.

To summarize, the new commodity super cycle is resulting from:

1. Recovery in global demand (led by recovery in China and the US)
2. Supply-side constraints
3. Loose monetary policy of global central banks (A monetary policy that lowers interest rates and stimulates borrowing is an expansionary monetary policy or loose monetary policy)
4. Investment in Asset Creation as a result of expectation of increase in inflation

ON THE RISE

Commodity (Unit)	May 1, 2020	May 7, 2021	% Rise
NSE Nifty Metal Index	1700	5500	223
Hot-rolled coil/HRC Steel*	$478	$1519	217
Copper (per pound)	$2.42	$4.83	99
Brent Crude. (Per barrel)	$24.2	$68.27	182

Source: COMEX, National Stock Exchange
**Contract of 20 short tonnes*

WORLD BANK REPORT ON REMITTANCES

Context:

India received over $83 billion in remittances in 2020, a drop of just 0.2% from 2020, despite a pandemic that devastated the world economy, according to a World Bank report – Migration and Development Brief

Relevance:

GS-III: Indian Economy (Important International Institutions and their reports, Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. Highlights of World Bank's Migration and Development Brief
2. World Bank
3. World Bank Group
4. Introduction to the 5 organizations of World Bank Group

Highlights of World Bank's Migration and Development Brief

- India is ranked at the top spot in remittances (Remittance is money sent to another party, usually one in another country; and the sender is typically an immigrant and the recipient a relative back home) received in 2020, a drop of just 0.2 per cent from 2019.
- The report said India's remittances fell by just 0.2% in 2020, with much of the decline due to a 17% drop in remittances from the United Arab Emirates.
- Despite Covid-19, global remittance flows remained resilient in 2020, registering a smaller decline than previously projected.
- China is ranked second in terms of global remittances in 2020, and it is followed by Mexico, the Philippines, Egypt, Pakistan, France and Bangladesh.
- Remittance outflow was the maximum from the United States (USD 68 billion), followed by UAE, Saudi Arabia, Switzerland, Germany, and China.
- Reasons for the Steady Flow of Remittances:
- Fiscal stimulus that resulted in better-than-expected economic conditions in host countries.
- Shift in flows from cash to digital and from informal to formal channels.
- Cyclical movements in oil prices and currency exchange rates.

World Bank

- The World Bank (WB) is an international organization which provides facilities related to "finance, advice and research to developing nations" in order to bolster their economic development.
- It provides loans and grants to the governments of poorer countries for the purpose of pursuing capital projects.
- It comprises two institutions: The International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).
- The World Bank is a component of the World Bank Group.

World Bank Group

- The World Bank Group is an extended family of five international organizations, and the parent organization of the World Bank, the collective name given to the first two listed organizations, the IBRD and the IDA:
    1. International Bank for Reconstruction and Development (IBRD)
    2. International Development Association (IDA)
    3. International Finance Corporation (IFC)
    4. Multilateral Investment Guarantee Agency (MIGA)

5. International Centre for Settlement of Investment Disputes (ICSID)

- With 189 member countries, the World Bank Group is a unique global partnership: five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries.
- The Bank Group works with country governments, the private sector, civil society organizations, regional development banks, think tanks, and other international institutions on issues ranging from climate change, conflict, and food security to education, agriculture, finance, and trade.

Introduction to the 5 organizations of World Bank Group

I – The International Bank for Reconstruction and Development: The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and creditworthy low-income countries.

II – The International Development Association: The International Development Association (IDA) provides interest-free loans — called credits — and grants to governments of the poorest countries. It is called the soft loan window of the World Bank. Together, IBRD and IDA make up the World Bank.

III – The International Finance Corporation: The International Finance Corporation (IFC) is the largest global development institution focused exclusively on the private sector. It helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

IV – The Multilateral Investment Guarantee Agency: The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. MIGA fulfils this mandate by offering political risk insurance (guarantees) to investors and lenders.

V – The International Centre for Settlement of Investment Disputes: The International Centre for Settlement of Investment Disputes (ICSID) provides international facilities for conciliation and arbitration of investment disputes.

USING ALL OPTIONS: ON COVAXIN LICENSING

Context:

- As the second COVID-19 wave continues to ravage the country, it is now clear that universal and swift vaccination is the only way out to mitigate the effects of the pandemic.
- But with only 3% and 10.4% of the total population estimated to have taken the second and a single dose, respectively, the goal of vaccinating a substantial number of people to achieve immunity against SARS-CoV-2 and its variants, remains a tall order for India.
- India has rightly sought (along with South Africa) a temporary waiver of provisions in the **TRIPS Agreement (which allows exceptions to the rights of patent owners by grant of compulsory licences)** to facilitate universal access to COVID-19 vaccines. But the Centre has done nothing to bring vaccines and medicines under a statutory regime in India to allow for wider availability and a diversity of options.

Relevance:

GS-III: Indian Economy (International Trade, Intellectual Property Rights – IPS), GS-II: Social Justice (Health related issues, Government Interventions and Policies, Issues arising out of the design and implementation of Government Policies)

Mains Questions:

What do you understand by Compulsory License? How can the granting of Compulsory Licenses for vaccines by India help in dealing with the Covid-19 crisis? (15 Marks)

Dimensions of the Article:

1. What is a Patent?
2. Compulsory Licenses under Indian Patent Act, 1970
3. Trade-Related Aspects of the Intellectual Property Rights (TRIPS)
4. Steps which Central Government can take during crisis for Compulsory Licence

What is a Patent?

- A patent is an exclusive right granted for an invention, which is a product or a process that provides, in general, a new way of doing something, or offers a new technical solution to a problem.
- To get a patent, technical information about the invention must be disclosed to the public in a patent application.
- Patent is provided for the period of 20 years. Exclusive rights are only applicable in the country or region in which a patent has been filed and granted, in accordance with the law of that country or region. Patent rights are usually enforced in a court on the initiative of the right owner.
- In India, Patents are provided by Indian Patent Office. Any appeal against the order or violation goes to Intellectual Property Appellate Board.
- Patent is granted for inventions which are new or involve an inventive step which did not exist before, which has not existed before and has industrial applications.
- When patent is granted on a particular invention, it means that no other person can either produce or sell for commercial purpose those inventions in the market without the approval of the creator of such invention.
- India grants legal protection to various inventions through **Indian Patents Act, 1970.**

Compulsory Licenses under Indian Patent Act, 1970

- Patents are granted to encourage inventions and to secure that the inventions are worked in India on a commercial scale under Indian Patent Act, 1970.
- However, patents granted do not in any way prohibit Central Government in taking measures to protect public health. Section 84 of Indian Patents Act, 1970 provides for "Compulsory Licencing."
- Compulsory Licencing is allowed so that
    1. the reasonable requirements of the public with respect to the patented invention have not been satisfied, or
    2. and the patented invention is not available to the public at a reasonably affordable price, or
    3. the patented invention is not worked in the territory of India.
- For patents: when the authorities license companies or individuals other than the patent owner to use the rights of the patent — to make, use, sell or import a product under patent (i.e., a patented product or a product made by a patented process) — without the permission of the patent owner. Allowed under the WTO's TRIPS (intellectual property) Agreement provided certain procedures and conditions are fulfilled.
- The following conditions should be fulfilled by the applicant:
    1. Reasonable requirements of the public with respect to the patented invention have not been satisfied.
    2. Patented invention is not available to the public at a reasonably affordable price.
    3. Patented invention is not used in India.

- Countries would be able to facilitate a free exchange of know-how and technology surrounding the production of vaccines.
- In considering the application field under section for compulsory licensing, the Controller shall take into account:
    1. the nature of the invention, the time which has elapsed since the sealing of the patent and the measures already taken by the patentee or any licensee to make full use of the invention.
    2. the ability of the applicant to work the invention to the public advantage.
    3. the capacity of the applicant to undertake the risk in providing capital and working the invention, if the application were granted.
    4. as to whether the applicant has made efforts to obtain a licence from the patentee on reasonable terms and conditions and such efforts have not been successful within a reasonable period as the Controller may deem fit.

Trade-Related Aspects of the Intellectual Property Rights (TRIPS)

- The Trade-Related Aspects of the Intellectual Property Rights (TRIPS) is an international agreement on intellectual property rights.
- It lays down minimum standards for protection and enforcement of intellectual property rights in member countries which are required to promote effective and adequate protection of intellectual property rights with a view to reducing distortions and impediments to international trade.
- The obligations under the TRIPS Agreement relate to provision of minimum standard of protection within the member countries legal systems and practices.
- The Agreement covers most forms of intellectual property including
    1. patents,
    2. copyright,
    3. trademarks,
    4. geographical indications,
    5. industrial designs,
    6. trade secrets, &
    7. exclusionary rights over new plant varieties.
- It came into force in 1995 & is binding on all members of the World Trade Organization (WTO).
- The basic obligation in the area of patents is that, the invention in all branches of technology whether products or processes shall be patentable if they meet the three tests of being new involving an inventive step and being capable of industrial application.

(TRIPS) Agreement allows Compulsory Licensing

- The TRIPS Agreement allows the use of compulsory licences. Compulsory licensing enables a competent government authority to license the use of a patented invention to a third party or government agency without the consent of the patent-holder.
- The TRIPS Agreement sets forth a number of conditions for the granting of compulsory licences. These include:
    1. a case-by-case determination of compulsory licence applications,

2. the need to demonstrate prior (unsuccessful) negotiations with the patent owner for a voluntary licence and
3. the payment of adequate remuneration to the patent holder.

- Where compulsory licences are granted to address a national emergency or other circumstances of extreme urgency – certain requirements are waived in order to hasten the process, such as that for the need to have had prior negotiations obtain a voluntary licence from the patent holder.
- Although the Agreement refers to some of the possible grounds (such as emergency and anticompetitive practices) for issuing compulsory licences, it leaves Members full freedom to stipulate other grounds, such as those related to non-working of patents, public health or public interest.
- The Doha Declaration states that each Member has the right to grant compulsory licences and the freedom to determine the grounds upon which such licences are granted.
- The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) also allows for compulsory licencing of drugs to produce generic version of life saving drugs required to meet public health challenges.
- Thus, CL effectively allows countries to overcome the restriction imposed by patent and make the drugs available at lower price.
- Under CL, government can allow other countries to make, use, sell or import a product under patent without the permission of the patent owner.

Steps which Central Government can take during crisis for Compulsory Licence

- In India, the patent regime is governed by the Patents Act, 1970, Section 92 of which envisages the grant of a compulsory license, in circumstances of national emergency and extreme urgency.
- Once a declaration of national emergency is made, and the relevant patents notified, any person interested in manufacturing the drug can make an application to the Controller General of Patents who can then issue a compulsory license.
- The patentee would be paid a reasonable royalty as fixed by the Controller General of Patents.
- Further, under Section 100 of the Patents Act, the Central Government can authorize certain companies to use any patents for the "purpose of the government".
- Indian companies can begin manufacturing the drugs while negotiating the royalties with the patentees.
- If the Central Government or its authorized company is not able to reach an agreement with the patentee, the High Court has to fix the reasonable royalty that is to be paid to the patentee.
- Another alternative is for the Central Government to acquire the patents under Section 102 from the patentees.
- If the Central Government and the patentee is not able to reach a consensus on the price of the patents, it is up to the High Court to fix the royalty.
- Additionally, under Section 66 of the Patents Act, the Central Government is also entitled to revoke a patent in the public interest.
- The utilization of these flexibilities has also been detailed in the Trade Related Aspects of Intellectual Property Rights Agreement as well.

GOVERNMENT ENHANCES DAP FERTILISER SUBSIDY

Context:

The government has enhanced the subsidy on di-ammonium phosphate or DAP fertilisers in order to retain the selling price for farmers at the current level, following a review meeting on fertiliser prices chaired by Prime Minister.

Recently, the international prices of phosphoric acid, ammonia etc. used in DAP have gone up by 60% to 70%.

Relevance:

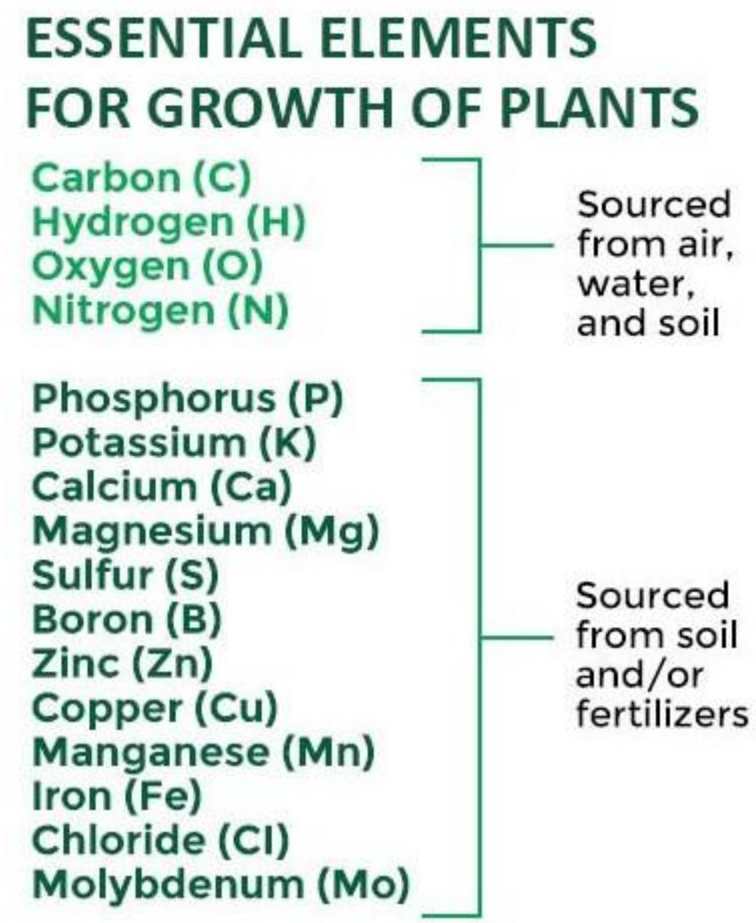
GS-III: Agriculture, GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. About Nutrient-Based Subsidy Regime
2. Issues Related to NBS

About Nutrient-Based Subsidy Regime

- Under the Nutrient-based subsidy (NBS) regime – fertilizers are provided to the farmers at the subsidized rates based on the nutrients (N, P, K & S) contained in these fertilizers.
- Also, the fertilizers which are fortified with secondary and micronutrients such as molybdenum (Mo) and zinc are given additional subsidy.
- Under the Nutrient-based subsidy (NBS) regime, the subsidy on Phosphatic and Potassic (P&K) fertilizers is announced by the Government on an annual basis for each nutrient on a per kg basis – which are determined taking into account the international and domestic prices of P&K fertilizers, exchange rate, inventory level in the country etc.
- NBS policy intends to increase the consumption of P&K fertilizers so that optimum balance (N:P:K= 4:2:1) of NPK fertilization is achieved.
- This would improve soil health and as a result the yield from the crops would increase resulting in enhanced income to the farmers.
- Also, as the government expects rational use of fertilizers, this would also ease off the burden of fertilizer subsidy.
- It is being implemented from April 2010 by the Department of Fertilizers, Ministry of Chemicals & Fertilizers.



Issues Related to NBS

- Urea is left-out in the scheme and hence it remains under price control as NBS has been implemented only in other fertilizers.
- There is an imbalance as the price of fertilizers (other than urea) — which were decontrolled have gone up from 2.5 to four times during the 2010-2020 decade. However, since 2010, the price of urea has increased only by 11%. **This has led to farmers using more urea than before, which has further worsened fertilizer imbalance.**
- Considering that fertilizer subsidy is the second-biggest subsidy after food subsidy, the NBS policy is not only damaging the fiscal health of the economy but also proving detrimental to the soil health of the country.
- Subsidised urea is getting diverted to bulk buyers/traders or even non-agricultural users such as plywood and animal feed makers. It is being smuggled to neighbouring countries like Bangladesh and Nepal.

THE MANY BENEFITS OF AN ECO-TAX IN INDIA

Context:

The COVID-19 pandemic has also forced countries all over the world to rethink climate change and the need for preservation of the environment. Fiscal reforms for managing the environment are important, and India has great potential for revenue generation in this aspect.

Relevance:

GS-III: Environment and Ecology (Steps for Pollution Control, Conservation of the Environment), GS-II Polity and Governance (Government Interventions), GS-III: Indian Economy

Mains Questions:

In the context of the additional burden on India's health sector, discuss the need and benefits of imposing ecotax. (10 Marks)

Dimensions of the Article:

1. Financial impact of the pandemic
2. Consequences of low public expenditure in the health sector
3. Understanding Eco tax / Environment Tax reforms
4. Benefits of Eco-Tax
5. Recently in news: Green Tax

Financial impact of the pandemic

- The second wave of the pandemic has induced lockdowns in several states and brought economic activity to a standstill. This will lead to a lower than estimated economic growth and a subsequent decline in tax revenue. This will lead to a larger than projected fiscal deficit in the current year.
- The fiscal deficit for FY 2020-21 (revised estimates) is projected to be 9.5% of the GDP; for 2021-22, it is pegged at 6.8%.
- The continued focus on fiscal discipline is bound to impact public expenditure which is vital for economic revival and also impact expenditure into the ailing health sector which is crucial in the fight against the pandemic.

Consequences of low public expenditure in the health sector

- The low public expenditure into the health sector results in the lack of adequate and quality public health care facilities, thus leading to the rise of private health care centres. Such a scenario invariably leads to a high out of pocket expenditure for health needs.
- The World Health Organization (WHO) data notes that 17.33% of the population in India made out-of-pocket payments on health exceeding 10% of the total household expenditure or income in 2011.
- This is higher than the global average of 12.67% and also the average for the Southeast Asian region which stands at 16%.
- Similarly, 3.9% of the population in India made more than 25% of out-of-pocket payments on health.
- The Economic Survey of India 2019-20 notes that an increase in public spending from the current level of 1% to 5-3% of GDP, as envisaged in the National Health Policy of 2017, can decrease out-of-pocket expenditure from 65% to 30%.
- The high out of pocket expenditure for health pushes many into poverty. Also, since a lower proportion of disposable income is available for other essentials like food and education, this would also have a long-term impact on the nutritional security and development of children of such families.

Alternative source of Financing and Environment

- Given the critical need for higher public expenditure in the health sector and the fiscal strain imposed by the pandemic, it becomes important to look for alternate sources of health financing in India.
- The COVID-19 pandemic has also forced a rethink on climate change and the need for environmental preservation.
- Environmental tax/Eco-tax is one of the alternative sources of financing to improve the health sector in India.

Understanding Eco tax / Environment Tax reforms

- Environmental tax reforms would mainly involve the following three activities:
    1. Eliminating existing subsidies and taxes that have a harmful impact on the environment.
    2. Restructuring existing taxes in an environmentally supportive manner.
    3. Initiating new environmental taxes.
- For example, in the energy sector, the following reforms may qualify as environmental fiscal reforms:
    1. Correcting the price differential between diesel and petrol.
    2. Differential taxation on vehicles in the transport sector based on fuel efficiency and GPS-based congestion charges.
    3. Taxes on thermal-based powers and tax rebates for renewable energy producers.
    4. Tax on high carbon footprint industries.

Different types of Environmental Regulation

Environmental Regulation can be of the following types:

1. Command and control approach wherein the government places strict regulations on pollutant emissions and there are fines on non-compliance.
2. Economic planning/urban planning approach involves inculcating sustainable management practices in policymaking.
3. Environmental tax (eco tax)/subsidies approach involves either taxing the polluters to disincentivize the use of high carbon footprint processes or products and also providing subsidies to encourage the adoption of green technology.
4. Cap and trade approach involves the government setting limits for emissions and the establishment of carbon trade markets.

India currently focuses majorly on the command-and-control approach in tackling pollution.

Benefits of Eco-Tax

- Environmental taxes help internalise the negative environmental externalities in the overall framework and thus incentivize greener products and processes and disincentivize polluting processes and products. This will reduce environmental pollution, encourage environmental preservation and adoption of an environmentally sustainable approach.
- Tax revenues can be generated through eco taxes by designing them as revenue augmenting.
- The additional revenue so generated can be used for the provision of environmental public goods or directed towards the overall revenue pool to be used in critical social sectors like health. This will help developing countries like India, constrained by limited fiscal space to address critical environmental health issues.
- The augmented revenue from eco tax can finance research and the development of new technologies thus encouraging the rise of new sunrise sectors and new jobs.
- The augmented revenue will also help finance social sectors which will aid in the development process and help reduce poverty.

Caveat

Environmental regulations may have significant costs on the private sector in the form of the high cost of compliance. This could lead to a possible increase in the prices of goods and services. This may disincentivize demand and thus hamper the economic growth of the nation.

Recently in news: Green Tax

In general, a green tax is imposed on the environment polluting goods or activities, to discourage people from anti-ecological behaviour and make them sensitive towards the environment.

What is India's Green Tax on Vehicles?

- A green tax imposition in India is a recent development, and different vehicles are being monitored for emissions, especially at state border areas.
- An ECC (Environmental compensation charge) is imposed on different vehicles, both personal and commercial, depending upon their size.
- The green tax varies from state to state. For instance, in Maharashtra, private vehicles that are more than 15 years old or more and commercial vehicles aged 8 years or more are liable to pay the tax.
- Personal vehicles will be charged a tax at the time of renewal of Registration Certification after 15 years.

More about the Latest Proposal

- The proposal on green tax also includes steeper penalty of up to 50% of road tax for older vehicles registered in some of the highly polluted cities in the country.
- The levy may differ depending on fuel (petrol/diesel) and type of vehicle. The proposal will now go to the States for consultation before it is formally notified.
- It includes 10-25% of road tax on transport vehicles older than eight years at the time of renewal of fitness certificate.
- The proposal on green tax also includes steeper penalty of up to 50% of road tax for older vehicles registered in some of the highly polluted cities in the country.

SC: ON LOANS TO CORPORATE BORROWERS, GUARANTOR BEWARE

Context:

- Supreme Court has ruled that creditors can proceed against promoters of defaulting companies to recover debt if such promoters have given personal guarantees to secure funds.
- This comes six months after the Supreme Court transferred all the cases related to personal insolvency to itself.
- The SC has also said that lenders can also proceed against the promoters of a defaulting company even when the corporate insolvency resolution process of the firm itself has not been completed.

Relevance:

GS-III: Indian Economy (Growth & Development of Indian Economy, Banking Sector & NBFCs)

Dimensions of the Article:

1. What is a personal guarantee?
2. Why does the government want promoters to be more liable?
3. About the recent SC Judgement
4. What did the Supreme Court say about personal insolvency under IBC?

What is a personal guarantee?

- A personal guarantee is most likely to be furnished by a promoter or promoter entity when the banks demand for collateral which equals the risk they are taking by lending to the firm, which may not be doing so well.

- It is different from the collateral that firms give to banks to take loans, as Indian corporate laws say that individuals such as promoters are different from businesses and the two are very separate entities.
- A personal guarantee, therefore, is an assurance from the promoters or promoter group that if the lender allows them the fund, they will be able to turn around the loss-making unit and repay the said loan on time.

Why does the government want promoters to be more liable?

- Bad loans have been a major problem for banks and financial creditors over the past decade. Add to that, promoters had been able to secure funds from banks without the due diligence in most cases because of their past transaction history.

Steps taken in 2019

- In 2019, to put a stop to bad loans, the government introduced the provision which gave banks the power to move application for initiation of insolvency against personal guarantors to corporate debtors. Also, the finance ministry nudged banks to also pursue personal insolvency cases against promoters who had furnished personal guarantees for the loans taken by their firms, which later was not re-payed as per the agreed schedule.
- Both these steps in 2019 were taken to make promoters more liable for their actions and to check the practice of securing monies for a particular project but then diverting it to other projects or works.

About the recent SC Judgement

- The SC Bench was considering a clutch of petitions challenging the government's 2019 notification that made personal guarantors a separate category of individuals who could be proceeded against under the Insolvency and Bankruptcy Code as part of the insolvency proceedings initiated by lenders against defaulting corporate entities.
- The Supreme Court judgment upholding creditors' right to proceed against personal guarantors to loans provided by them to a corporate borrower helps lift the uncertainty over the extent to which banks and other financial lenders can pursue not only the corporate debtor but also the individuals who had furnished personal guarantees to enable the flow of credit to the company they had stood surety for.
- This ought to be of significant consequence to the financial system, already under a mountain of bad loans, by helping expedite the resolution of such stressed assets.
- In dismissing the petitions, the judges made clear that the government was right in "carving out personal guarantors as a separate species of individuals", given the "intimate connection between such individuals and corporate entities to whom they stood guarantee".
- Banks now stand a real chance of recovering substantially more from the resolution of a stressed corporate entity, as in most cases it has been the relatively affluent promoters who have been standing as individual personal guarantors for the loans extended to the companies they promoted.

What did the Supreme Court say about personal insolvency under IBC?

- The Supreme Court said that mere approval of a resolution plan for a debt-laden company does not automatically discharge a promoter from their liability in lieu of the personal guarantee they had given to secure the funding for the company.
- Since personal guarantees from promoters are a kind of assurance to lenders that the monies being borrowed will be returned, the apex court has said that under the contract of guarantee, the liability of the promoter will be over and above the liabilities of the company.
- Since lenders are, in most cases, forced to take a haircut on their pending dues when a resolution plan is approved for a debt-laden company, the ruling by the Supreme Court allows them to pursue promoters for additional recovery of debt.

DEFLATING INDIA'S COVID BLACK MARKET BOOM

Context:

With the second wave of infections and the rise in COVID-19 positive cases in India, the necessity for integral medicines, hospital beds and oxygen supplies has gone up incrementally. In such a situation, the boom in black-market sale of essential needs such as medicines and oxygen tanks has emerged as most reprehensible is the brazen attempt by profiteers in filling the supply gap following the desperation of many patients and families.

Relevance:

GS-III: Indian Economy (Mobilization of Resources), GS-II: Polity and Governance (Important aspects of governance, Issues with transparency and accountability)

Mains Questions:

In the context of flourishing black markets during the Covid-19 pandemic, what are the existing provisions related to the control of such black-market networks? Suggest measures to handle black-market issues during such circumstances. (15 marks)

Dimensions of the Article:

1. What is a Black Market?
2. Flourishing black market during the Covid-19 pandemic
3. Reason: The Pressure
4. Legal regime in India to tackle Black Market (especially in wake of Covid-19)
5. Administrative Shortfall or Exceptional Circumstances?
6. Way Forward

What is a Black Market?

- A black market is an economic activity that takes place outside government-sanctioned channels. Black market transactions usually occur "under the table" to let participants avoid government price controls or taxes.
- The goods and services offered in a black market can be illegal, meaning their purchase and sale are prohibited by law, or they can be legal but transacted to avoid taxes.
- Traditionally, black market activity was conducted in cash, one of its defining aspects. This was done in order to avoid creating any paper trail. With the rise of the Internet, many black market transactions are now done online, such as on the dark web, and often conducted with digital currencies.
- Black markets can have a negative impact on the economy because the activity is not reported and taxes are not collected on the transactions.
- The black market's many drawbacks include the risk of fraud, the possibility of violence, and being saddled with counterfeit goods or adulterated products, which is especially dangerous in the case of medications.
- Black markets do provide some benefits, such as creating jobs for those who may not be able to find employment in traditional markets and allowing access to medicine and healthcare to those individuals that might not have had access otherwise.
- Sometimes, a black market is the only choice for procuring goods in certain situations for certain people.

Flourishing black market during the Covid-19 pandemic

- The desperate need for vital medical supplies has forced many hapless citizens to pay more than the market price to procure these medicines.
- There are reports of many having been tricked into believing fire extinguishers to be oxygen cylinders and saline water bottles to be remdesivir vials after parting with huge sums of money.
- However, clamping down on these cases and the culprits is dependent on having an efficient multi-dimensional preventive model rather than a control mechanism that functions much after the damage has been already done.
- In India, the distribution of remdesivir in the States is mostly controlled by the local governments, while decisions about oxygen supplies to the States are predominantly decided by Union bodies. Yet, citizens have been approaching alien sources to procure medical supplies.

Examples

- In 2020 a racket of selling fake and spurious tocilizumab injections in Surat and Ahmedabad was unearthed by the Gujarat Food and Drugs Control Administration. Things do not seem to have improved even after a year in 2021.
- Recently, the police in Ahmedabad arrested a few people for preparing fake remdesivir vials for sale using a mixture of glucose and salt and affixing them with fake brand labels.
- In Mumbai's drug black market, citizens have had to pay huge amounts ranging from 35,000 and 50,000 rupees for remdesivir vials.
- In Kanpur, Uttar Pradesh, a racket to market oxygen cylinders in the black market was uncovered after raids on a godown.

Reason: The Pressure

- A major reason behind why many are in the situation they are facing is because administrative organisations are being overwhelmed and helpline numbers inundated with calls and difficult to connect to.
- Even if citizens are fortunate enough to have their requests entered in records, they may not be able to procure the products they need due to the inadequacy of resources or probably not receiving a closure communication from helplines, which keeps them at a loose end without knowing where else to go and what else to do.
- This inaccessibility, a redundant and long communication process flow, and a delay in rendering responses are what have affected the reliability of these helplines as far as people are concerned.
- Any market, black or otherwise, is a dynamic hemisphere which is consumer-driven. There is public demand for what the products these black markets or rackets have to offer and which is why they thrive.
- Alleged hospital bed-booking scams, the unnecessary hoarding of COVID-19 essentials by the elite, and possible VIP culture practices have contributed to the erosion of trust.
- These elements have all combined to force the public to look elsewhere for sources beyond the probability of the government rendering them assistance.

Legal regime in India to tackle Black Market (especially in wake of Covid-19)

1. The **Essential Commodities Act of 1955,** is for the control of production, supply, and distribution of certain commodities. The Act does not deal with the term "black marketing" but section 7 prescribes for penalty on violation of government notification issued under section 3. Schedule to the Act includes "drugs" as essential commodity.
2. **Prevention of Black-marketing and Maintenance of Supplies of Essential Commodities Act, 1980**, was enacted but did not provide for definition of black marketing. Section 3(1) provides that authorities

have power to detain a person "with a view to preventing him from acting in any manner prejudicial to the maintenance of supplies of commodities essential to the community it is necessary so to do, make an order directing that such person be detained".

3. **The National Security Act of 1980** under Section 3(2) gives similar power to the Central Government or the State Government, if the act is in any manner prejudicial to the security of the State, apart from being prejudicial to the maintenance of Public order or to the maintenance of supplies and services essential to the community. The phrase "acting in any manner prejudicial to the maintenance of supplies of commodities essential to the community" has been addressed by the Supreme Court in several cases while deciding on the validity of detention orders passed under the Act.

4. In order to more effectively deal with persons indulging in hoarding and black-marketing and profiteering in essential commodities, the Central Government enacted the **Essential Commodities (Special Provisions) Act, 1981.** Special provisions by way of amendment to the principal Act were made for a temporary period providing summary trial of offences under the Essential Commodities Act, constitution of special courts, enhancement of sentence and making the offences as cognizable and non bailable and providing for stricter provisions for grant of bail.

Administrative Shortfall or Exceptional Circumstances?

- Despite a robust legal regime on paper, the Indian administration has struggled with the issue of "Hoarding" and "Black Marketing" since the pandemic has started, be it manufacture and sale of fake sanitizers and masks or scarce Medicines and Oxygen supplies.
- According to reports, over 300 FIRs have been registered alleging hoarding and black-marketing.
- While some gain traction in public discourse, other instances get lost in the myriad. However, it is a folly to think such instances are limited to India.
- As reported on Interpol's website, under Operation Pangea XIII in March of 2020, counterfeit facemasks, substandard hand sanitizers and unauthorized antiviral medication were all seized, by the police, customs, and health regulatory authorities from 90 countries in a collective action against the illicit online sale of medicines and medical products. This exercise has resulted in over 120 arrests worldwide.

Way Forward

- Court directions such as the ones regarding the supply of Oxygen and more stringent laws and proactive approach at the central level towards curbing such unethical and illegal activities, is need of the hour.
- Appropriate orders/directions should be issued limiting MRP of all necessary medicines and equipment at the earliest possible.
- What is required is, for the government to deal with each of the issues at an individual level by issuing orders, circulars or notifications, even if time bound, to ensure that the prevalent law is appropriately enforced and wherever there exists a void in the price control mechanism, the same should be taken care of at the earliest.
- Apart from increasing the gulf between have and have nots, black marketing and hoarding are directly proportional to social loss and at a time of global pandemic it indirectly adds to emotional loss too.

HOW VEHICLE TRACKING COULD CURB TAX EVASION?

Context:

In a move that is expected to help curb tax evasion, Goods and Services Tax (GST) authorities will now be able to track real-time data of commercial vehicle (CV) movement on highways by integration of the e-way bill (EWB) system with FASTag and RFID.

Relevance:

GS-II: Polity and Governance (Transparency & Accountability Measures, Government Policies & Interventions), GS-III: Indian Economy

Dimensions of the Article:

1. What are e-way bills?
2. About FASTag
3. About RFID Technology
4. What is the new system involving GST, EWB, FASTag and RFID?

What are e-way bills?

- Under the indirect tax regime, e-way bills have been made mandatory for inter-state transportation of goods valued over Rs 50,000 from April 2018, with exemption to precious item such as gold. On an average, 25 lakh goods vehicle movements from more than 800 tolls are reported on a daily basis to the e-way bill system.
- About 180 crore e-way bills were generated in three years from 2018 to 2021. Of this, only 7 crore bills were verified by tax officers. In the 2020-21 fiscal, 61.68 crore e-way bills were generated, of which 2.27 crore were picked up for verification.
- The top five states which generated the maximum number of e-way bills for inter-state movement of goods are Gujarat, Maharashtra, Haryana, Tamil Nadu and Karnataka.

About FASTag

- FASTag is an electronic toll collection system in India, operated by the National Highway Authority of India (NHAI).
- It employs Radio Frequency Identification (RFID) technology for making toll payments directly from the prepaid or savings account linked to it or directly toll owner.
- As per NHAI, FASTag has unlimited validity. 7.5% cashback offers were also provided to promote the use of FASTag.
- Dedicated Lanes at some Toll plazas have been built for FASTag.

Advantages of Using FASTag

- Digital transaction makes it easier to collect toll fees.
- Congestion in Toll plazas will reduce.
- Non-stop movement at the highways will reduce Fuel consumption and even pollution.
- The Effort in Managing toll gates is reduced as the system is more automated.
- There will also be reduced paper wastage (in the form of tokens/receipts)
- This will be a unifying system as FASTags are not specific to the state or region and work all over India.

Problems with FASTag

- Technical issues and glitches are possible which makes the system susceptible to false charges or other such issues.
- All the toll booths are yet to be made FASTag compatible and this has not necessarily reduced the congestion issue yet.
- The RFID technology is not failproof and can be misused by duplication or other "hacks".

- The FASTags sold by banks have to be recharged from the same bank, as they are not Bank Neutral (unless you buy it directly from NHAI).

About RFID Technology

- Radio Frequency Identification (RFID) uses radio waves to communicate between two objects: a reader and a tag. RFID communication is the same as two-way radio communication in the sense that information is transmitted or received via a radio wave at a specific frequency.
- Passive tags collect energy from a nearby RFID reader's interrogating radio waves. Active tags have a local power source such as a battery and may operate at hundreds of meters from the RFID reader.

RFID applications apart from usage in Toll collection:

- Self-checkins at Libraries / rental services as well as retail premises.
- Livestock Management and pet identification.
- Building Security – secure access controls, documentation and passports.
- Airports – for baggage tracking and tracing/locating.
- SMART home controls – systems to manage home/business energy consumption/production.
- Seismic Sensing – such as locating gas lines and temperature sensing (geophysical).
- Environmental – Energy, Ozone & Pollution measuring equipment.

What is the new system involving GST, EWB, FASTag and RFID?

- **The integration of e-way bill, RFID and FASTag will enable tax officers to undertake live vigilance in respect of EWB compliances by businesses and will aid in preventing revenue leakage by real-time identification of cases of recycling and/or non-generation of EWBs.**
- Tax officers can now access reports about vehicles that have passed the selected tolls without e-way bills in the past few minutes. They can also view details of vehicles carrying critical commodities specific to the state that have passed the selected toll.
- Further, tax authorities can view details of any suspicious vehicles and vehicles of e-way bills generated by suspicious taxpayer GST identification numbers (GSTINs) that have passed the selected toll on a near real-time basis.
- Officers can use these reports while conducting vigilance and make the vigilance activity more effective. Moreover, officers of the audit and enforcement wing can use these reports to identify fraudulent transactions like bill trading, recycling of e-way bills.
- From 2021, RFID/FASTag has been integrated with the e-way bill system and a transporter is required to have a radio-frequency identification (RFID) tag in his vehicle and details of the e-way bill generated for goods being carried by the vehicles are uploaded into the RFID system.
- When a vehicle passes the RFID tag reader on the highway, the details fed into the device get uploaded on the government portal. The information is later used by revenue authorities to validate the supplies made by a GST registered person.

SECOND WAVE THREAT, EXEMPT MICRO ENTERPRISES FROM GST

Context:

- According to a survey, more than half of start-ups and MSMEs are likely to either scale down operations, sell off, or completely shut down from June-December 2021, after being hit hard by the second wave of the Covid-19 pandemic.

- The Consortium of Indian Associations (CIA) has urged the Centre to increase the turnover threshold limit for micro enterprises to facilitate their exemption from the Goods and Services Tax (GST).

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. MSMEs in India
2. About the threat to start-ups and MSMEs
3. Measures that can give some hope to the MSME sector
4. About the request to exempt micro enterprises from GST

MSMEs in India

- MSME stands for Micro, Small, and Medium Enterprises which are small sized entities, defined in terms of their **size of investment in plant and machinery/equipment along with THE NEW CRITERION OF ANNUAL TURNOVER.**
    1. As per the revised definition, any firm with investment up to Rs 1 crore and turnover under Rs 5 crore will be classified as "micro".
    2. A company with investment up to Rs 10 crore and turnover up to Rs 50 crore will be classified as "small".
    3. A firm with investment up to Rs 50 crore and turnover under Rs 250 crore will be classified as "medium".
- According to the Annual Report of the Department of MSMEs (2018-19), there are more than 6 crore MSMEs in the country.
- **99.5% of all MSMEs fall in the micro category.** Small and medium MSMEs are predominantly present in urban India whereas, micro enterprises are equally distributed over rural and urban India.
- Around 51% of MSMEs are situated in rural India and 49% of them are situated in urban India.
- Both rural and urban MSMEs together employ over 11 crore people but 55% of the employment happens in the urban MSMEs.
- **The gender ratio among employees is largely consistent across the board at roughly 80% male and 20% female.**

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

1. **Difference between definition of manufacturing and service-based MSMEs removed.**
2. **Threshold limit to define an enterprise as an MSME increased.**
3. **Turnover added as another criteria to define MSMEs, besides investment scale.**

About the threat to start-ups and MSMEs

- Hit hard by the second wave of the pandemic, about 59% of start-ups and MSMEs are likely to either scale down operations, sell off, or completely shut in the six months from June – December 2021.
- More than 35% of the surveyed start-ups and MSMEs said they would scale down their operation.
- About 15% said they might shut down and 8% said they would sell off their business.
- Only 22% of start-ups and MSMEs see growth in their business during this period.
- 33% of small businesses said they had only less than a month of cash remaining, whereas 8% were already out of funds.
- About 37% said they had funds for 1-3 months, 22% have more than 3 months of runway and 11% said they had it for more than 6 months.

Measures that can give some hope to the MSME sector

Why assemble in India, when we can Make-in-India?

Now could be the right time for the Government to roll out sops to MSMEs that manufacture locally. The Government eMarketplace (GeM) could be of great use to suppliers looking for purchasers and vice versa. Investing in online infrastructure while also encouraging small businesses to source locally could help improve manufacturing while also cutting on our import costs.

Delay MSME loan repayments or extend tenures

As the RBI pumps in more cash into the banking sector, deferring or relieving the MSMEs of loan repayments could come as a welcome move. Most businesses are looking for financial support from the government and doing this can help them cope with cash flow problems. Relaxing bad loan norms could also be a saving move for this sector.

Inventory management for exporters

Businesses that are into exports could use some help with inventory management. In the Union Budget 2020, Sitharaman proposed building warehouses at block/taluk level. If the government could allot subsidised warehousing to exporters while figuring out the supply chain side of things, it could potentially help support the economy.

About the request to exempt micro enterprises from GST

- The second wave has wiped out more than 40% of MSMEs involved in various sectors.
- According to the Consortium of Indian Associations (CIA): the need of the hour is to save micro enterprises from the hassle and help them to survive the present crisis by increasing the turnover threshold limit to ₹5 crore for FY22.
- The Consortium of Indian Associations (CIA) has urged that COVID-related materials such as hand sanitisers, masks, medicines, oxygen cylinders, medical treatments and PPE kits must be exempted from all forms of GST, both for input and output.
- The CIA also urged the Centre to increase the turnover threshold limit for micro enterprises to facilitate their exemption from the Goods and Services Tax (GST).

SC ON COMPLETE REGISTRATION OF UNORGANIZED WORKERS

Context:

The Supreme Court asked the Centre and states to complete the registration of unorganised workers, who had to return to their native villages after the Covid-induced national lockdown last year, "as early as possible" so that they "are able to reap the benefit of different" welfare schemes.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Employment), GS-II: Social Justice (Issues related to Poverty, Government Policies & Interventions)

Dimensions of the Article:

1. Migrants in India
2. Causes of internal migration in India
3. Types of informal employment in India:
4. SC's observations on need of registration of unorganized workers
5. Code on Social Security Bill, 2020:
6. Way Forwards to improve the condition of unorganized sector workers

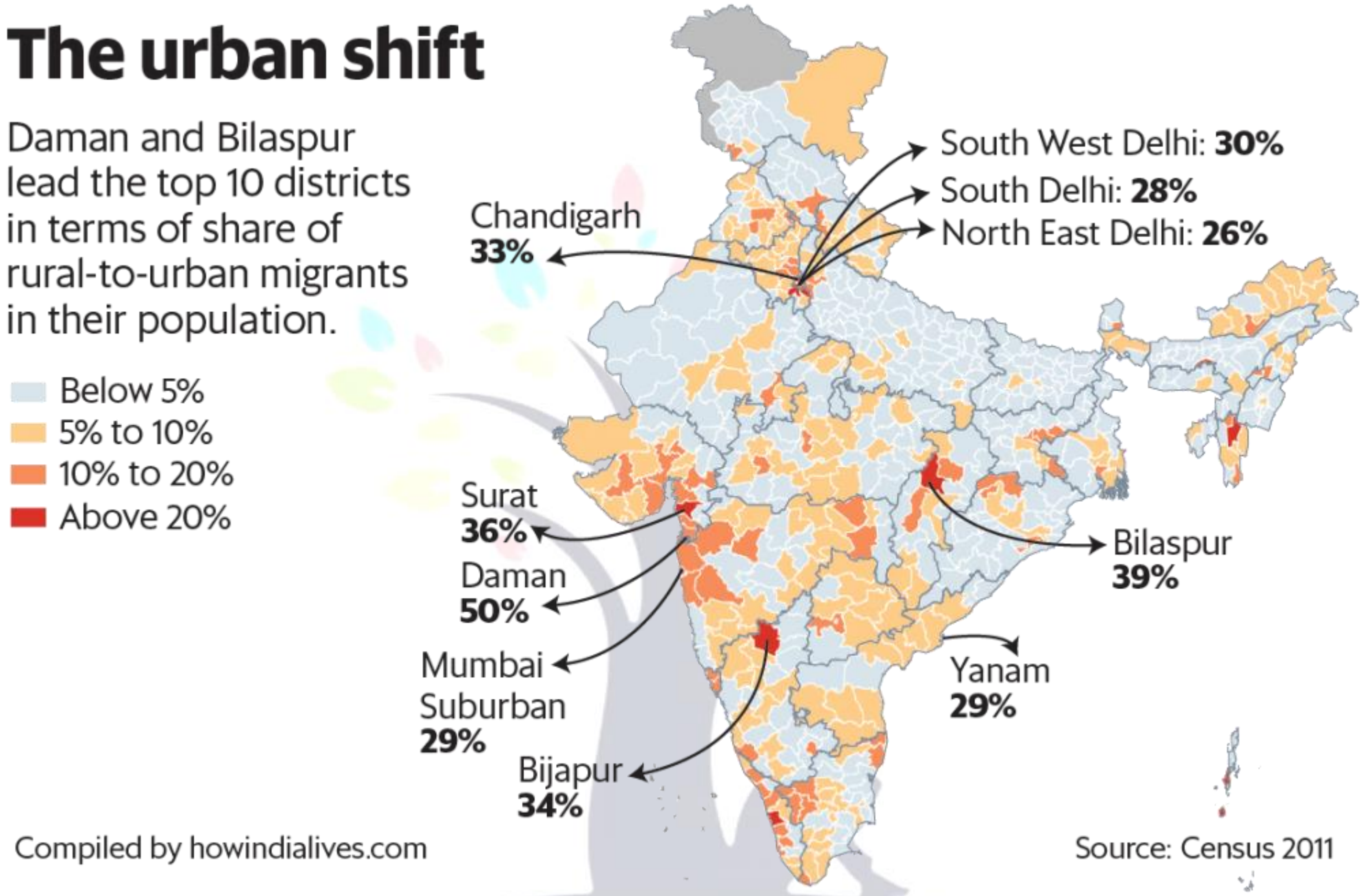
Migrants in India

What is Migration?

Human migration involves the movement of people from one place to another with intentions of settling, permanently or temporarily, at a new location (geographic region).

Migrants in India

- The Census defines a migrant as a person residing in a place other than his/her place of birth (Place of Birth definition) or one who has changed his/ her usual place of residence to another place (change in usual place of residence or UPR definition).
- The number of internal migrants in India was 450 million as per the most recent 2011 census.
- Seasonal Migrants: Economic Survey of India 2017 estimates that there are 139 million seasonal or circular migrants in the country.



Causes of internal migration in India

1. **Unemployment in hinterland:** An increasing number of people do not find sufficient economic opportunities in rural areas and move instead to towns and cities.
2. **Marriage:** It is a common driver of internal migration in India, especially among women.
3. **Pull-factor from cities:** Due to better employment opportunities, livelihood facilities etc cities of Mumbai, Delhi, and Kolkata are the largest destinations for internal migrants in India.

Types of informal employment in India:

The Indian Economy is characterized by the existence of a vast majority of informal or unorganized labour employment. The Ministry of Labour, Government of India, has categorized the unorganized labour force under 4 groups in terms of Occupation, nature of employment, especially distressed categories and service categories.

1. **In terms of Occupation:** Small and marginal farmers, landless agricultural laborers, share croppers, those engaged in animal husbandry etc. come under this category.
2. **In terms of Nature of Employment:** Attached agricultural labourers, bonded labourers, migrant workers, contract and casual labourers come under this.

3. **In terms of Specially distressed categories:** Toddy tappers, scavenger, Carriers of head loads, Drivers of animal driven vehicles, Loaders and unloaders come under this category.
4. **In terms of Specially distressed categories:** Toddy tappers, scavenger, Carriers of head loads, Drivers of animal driven vehicles, Loaders and unloaders come under this category.

SC's observations on need of registration of unorganized workers

- The Supreme Court has asked states and Union territories to keep a record of the returning migrant labourers, including details about their skills, place of their earlier employment, etc so that the administration can extend necessary help to them.
- The SC said that there should be a common national database for all organised workers situated in different states.
- The SC highlighted that the process initiated by the Ministry of Labour and Employment for creating a National Database for Unorganised Workers should be completed with collaboration and coordination of the States. It may serve registration for extending different schemes by the States and Center.
- The SC also said that there should be a suitable mechanism to monitor and supervise whether the benefits of the welfare schemes reach the beneficiaries which may be from grassroot levels to higher authorities with names and places of beneficiaries.
- In addition, the stranded migrant workers throughout the country should be provided dry ration under the AtmaNirbhar Bharat Scheme or any other scheme found suitable by the Centre and the states.

Code on Social Security Bill, 2020:

Way Forwards to improve the condition of unorganized sector workers

- **Credit facilities** to be made available to make initial investment and for further expansion for the informal workers.
- The government should evolve a mechanism to listen to the grievances and the **grievances should be redressed periodically** to the informal labours.
- **More importance must be given to the female in family** also to improve the status of female agricultural labours.
- Normally women agricultural labourers receive lower wage than the men even in doing identical jobs, although there is constitutional backing in the form of **equal wage for equal work**. The Government must effectively enforce the concerned Act.
- **Co-operation of agricultural labourers in the local self-governing institution** must be extended in order to provide representations to this section.
- In order to eliminate these socio-economic and cultural barriers, **female children and women should be educated** through formal and non-formal channels. The voluntary agencies have also got a significant role to play in this regard.
- **Vending rights on space to the vendors** ultimately increases his/ her accountability on space and its surrounding environment. By this means they would maintain health and hygiene.

NEW INSURANCE SECTOR FDI RULES SET

Context:

- The government expects foreign direct investment to pick up pace in the insurance sector, as most regulations have been amended to give effect to 74 per cent FDI limit.
- With the government defining the management and control criteria for Indian insurance companies through a gazette notification, the Finance Ministry expects the sector to be a key recipient of foreign capital.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources, Capital Market)

Dimensions of the Article:

1. About the new rules for Increased FDI in Insurance Sector
2. Benefits of the new rules
3. About Insurance Regulatory and Development Authority of India (IRDAI)

About the new rules for Increased FDI in Insurance Sector

- Parliament had passed the Insurance Amendment Bill 2021 to increase the FDI limit in the insurance sector to 74% from 49%.
- The Ministry of Finance has notified 'Indian Insurance Companies (Foreign Investment) Amendment Rules, 2021'.
- Management Persons to be Resident Indian Citizens: For an Indian insurance company having foreign investment – majority of its directors, key management persons, and at least one among the chairperson of its Board, its managing director and its chief executive officer – will be a resident Indian citizen.
- According to the notification Total foreign investment would mean the sum of both direct and indirect foreign investment. Direct investment by a foreigner will be called Foreign Direct Investment, while investment by an Indian company (which is owned or controlled by foreigners) into another Indian entity is considered as Indirect Foreign Investment.

Benefits of the new rules

- The increase in foreign ownership to 74% can result in inclusion of global best practices in terms of insurance products going forward. It will also help in bringing down the cost of insurance products in India.
- It is good for Indian Promoters, it will let them keep control of management and board, the additional capital inflow will help them with funds to push for growth.
- It will benefit small insurance players or the ones where the sponsors don't have the ability to put in more capital and hence it will benefit in strengthening them and increasing competition across the industry.
- It is likely to help local private insurers grow fast and expand their presence across India, which has one of the lowest insurance penetration levels globally.

About Insurance Regulatory and Development Authority of India (IRDAI)

- The Insurance Regulatory and Development Authority of India or the IRDAI is the apex body responsible for regulating and developing the insurance industry in India.
- It is an **autonomous body** established by an act of Parliament known as the **Insurance Regulatory and Development Authority Act, 1999.** Hence, it is a **Statutory Body.**
- The IRDAI is headquartered in Hyderabad in Telangana. Prior to 2001, it was headquartered in New Delhi.
- Functions of IRDAI:
    1. Its primary purpose is to protect the rights of the policyholders in India.
    2. It gives the registration certificate to insurance companies in the country.

3. It also engages in the renewal, modification, cancellation, etc. of this registration.
4. It also creates regulations to protect policyholders' interests in India.

- Composition of IRDA
    - The Insurance Regulatory Development Authority (IRDA) Act, 1999 specifies the composition of authority which consists of 10-member team appointed by the government of India which includes.
    - One chairman
    - Five whole time members
    - Four part time members

RBI ANNUAL REPORT FOR 2020-21

Context:

RBI said in its Annual Report for 2020-21 that while the economy has not moderated to the extent during the first wave, the surrounding uncertainties can act as a deterrent in the immediate period.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy)

Dimensions of the Article:

1. Highlights of the RBI's Annual Report for 2020-21

Highlights of the RBI's Annual Report for 2020-21

- Gain from foreign exchange transactions rose from just under 30,000 Crore Rs. to more than Rs 50,000 crore in 2020-21
- The RBI transferred almost Rs. 100,000 crores to the government which is likely to boost the government's finances
- RBI has been able to transfer a higher amount to the government as surplus this year following a sharp fall in provisions (drop in expenditure was on account of a lower provision) and gains from foreign exchange transactions during the year ended March 2021.
- The rupee strengthened by 3.5% against the US dollar (at end-March 2021 over end-March 2020) but underperformed vis-a-vis other Asian countries during 2020-21.
- Bank frauds of Rs.1 lakh and more fell by 25% in value to Rs.1.38 trillion in the year 2020-21 with the number of such cases also seeing a decline of 15% during the year.
- The Covid-19 pandemic increased the proliferation of digital modes of payments.
- Various initiatives such as an innovation hub, a regulatory sandbox and offline payment solutions are underway to ensure that in the digital ecosystem, India maintains its position as a leader.
- The RBI is also in the process of extending the geo-tagging framework put in place to capture location of bank branches and ATMs to cover payment system touch points, enabling accurate capture of their location across the country.
- The RBI will ensure a comfortable level of liquidity in the system during 2021- 22 in alignment with the stance of monetary policy.
- Monetary transmission refers to the process by which a central bank's monetary policy signals (like repo rate) are passed on, through the financial system to influence the businesses and households.

- As the vaccination drive picks up and cases of infections fall, a sharp turnaround in growth is likely, supported by strong favourable base effects.

43RD GST COUNCIL MEETING

Context:

The Goods and Services Tax (GST) Council led by Finance Minister, in its first meeting of the financial year 2021-22, decided to exempt IGST on import of free COVID-related supplies till August 31.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Taxation)

Dimensions of the Article:

1. GST Council
2. Highlights of the 43rd Goods and Services Tax (GST) Council meeting
3. Inverted Duty Structure under GST

GST Council: Click Here to read about GST, GST Council, and Issues with GST Council through the Pandemic.

Highlights of the 43rd Goods and Services Tax (GST) Council meeting

- The GST Council decided to exempt IGST on import of free COVID-related supplies till August 31 and also put Amphotericin B, a key medicine for the treatment of black fungus, in the list of items exempted from IGST.
- Exemptions will be granted to the import of relief items even if they have been purchased as long as they are meant for donations to state governments. Earlier, Integrated Goods & Services Tax (IGST) exemption was granted only free of cost imports.
- A Group of Ministers (GoM) will be formed quickly, who will submit a report to examine the need for further reductions and decide on any new rates in exemptions.
- Same as 2020, the GST Council felt that this is not the appropriate time for a correction in Inversion duty, so this remains where it is.
- The Annual Return Filing will continue to be optional for 2020-21, for the small taxpayers with turnover less than Rs 2 crore. The Law Committee will look into issues involving Quarterly Return Filing and Quarterly Payment, the modalities need to be worked out.
- The GST compensation cess has the same formula as the one in 2020 to be adopted in 2021 as well. The rough estimate is that the centre will have to borrow Rs 1.58 lakh crore and pass it on to states.
- Separately, reducing GST rates on two-wheelers and bringing natural gas into the ambit of GST were also reportedly on the agenda.

GST Amnesty Scheme

The GST Amnesty Scheme was announced, which will provide relief to small taxpayers and the amnesty scheme has been recommended for reducing late fees. It is likely to benefit around 89 per cent of GST taxpayers. They can file pending returns, avail benefits of the scheme, with reduced late fees.

Inverted Duty Structure under GST

- The term 'Inverted Tax Structure' refers to a situation where the rate of tax on inputs purchased (i.e., GST rate paid on inputs received) is more than the rate of tax on outward supplies (i.e., GST rate payable on sales).
- A registered person may claim a refund of unutilised Input Tax Credit (ITC).

- The ITC on account of inverted tax structure can be claimed at the end of any tax period where the credit has accumulated on account of the rate of tax on inputs being higher than the rate of tax on output supplies. A tax period is a period for which a return is required to be furnished.

US SETS, THEN SUSPENDS TARIFFS OVER DIGITAL TAXES

Context:

The United States government announced further suspension of punitive tariffs for six months on India, Austria, Italy, Spain, Turkey, and the United Kingdom while it continues to resolve the digital services taxes investigation amid the ongoing multilateral negotiations at the OECD and in the G20 process.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Taxation, International Trade), GS-II: International Relations

Dimensions of the Article:

1. What is Digital Services Tax (DST)?
2. How does India tax Digital Businesses?
3. Advantages of Imposing Digital Tax
4. Disadvantages of imposing Digital Tax
5. Issues with the Existing Taxation systems for taxing Digital Services
6. What are the Issues with India's DST that is taken by the USTR?
7. About the recent US move regarding suspension of tarrifs

What is Digital Services Tax (DST)?

- Digital Services Tax (DST) is a tax levied on revenues that certain companies generate from providing certain digital services.
- The digital businesses include both the digital-only brands that focus on virtual commodities and services and the services traditional market players use for transforming their businesses with digital technologies.
- Virtual commodities include downloaded software, website applications and digital assets like eBooks, image files, audio clips/audio files, movies or digital files.
- Digital services include those provided by social media companies, collaborative platforms etc.

How does India tax Digital Businesses?

- India has been making use of an 'equalisation levy' to level the playing field for the domestic and the foreign players on the virtual platform.
- While the domestic businesses are subject to the Income Tax Act, their foreign counterparts are exempted from its provisions. Hence they enjoy an advantage over the domestic firms. This is what the levy seeks to equalize.
- Equalisation levy was first introduced in 2016 at the rate of 6%. However, this was only limited to advertisements online.
- It is noted that this is a transaction-based tax, as opposed to a tax on earnings. This is to ensure that India doesn't violate its international obligations.
- It was introduced based on the recommendations of the Committee on Taxation of E-Commerce.

- In 2018, the Finance Act introduced the Significant Economic Presence concept to IT Act of 1961. It incorporates a digital nexus to tax the profits of foreign businesses, based on its revenues and local user-base. This is yet to come into force.
- Currently, India too is involved in the talks to bring in a revamped framework for taxing digital businesses as the international taxation principles being used in the present are outdated (formulated in the 1920s).

Advantages of Imposing Digital Tax

- Tech giants like Google, Facebook, Amazon etc., which have a huge consumer base in developing countries like India will not be able to avoid taxation by shifting their offices to low-tax regimes.
- If the law prevents profit shifts, the countries from which the cross-border digital companies' profit will be able to stop losing corporate tax revenue.
- Digital tax will ensure a level playing field for both domestic and foreign players. In the absence of such a law, the goods and services provided by firms based in a foreign country would get taxed less and hence have a significant competitive advantage over the domestic firms.
- It seeks to create a clear international tax system with improved transparency and certainty for businesses and security for national tax revenues.

Disadvantages of imposing Digital Tax

- Taxing the gross revenues instead of the firm's profits is problematic.
- The move to bring in digital tax would hurt trade ties with the US.
- It may harm start-ups– especially during their initial expansion stages.
- There is a risk of 'double taxation' when shifting from a 'country-of-establishment' principle to a 'country-of-destination' principle.
- These platforms and broker service providers would pass on the burden of tax to the end consumers or the sellers. This will affect their affordability and popularity.
- The government had opted for low taxation on digital businesses to promote innovation. Increasing taxes may impede global economic and technological advancement.
- Compliance with the transparency guidelines would bring in additional cost burdens on the businesses.

Issues with the Existing Taxation systems for taxing Digital Services

- The sine qua non for taxing any person in India is either he should be resident of India, or the income should accrue or arise in India or deemed to accrue or arise in India i.e., the source of income should be from India.
- Residence-based and source-based are the two criteria to tax a person. Residence-based is largely followed by the developed nations whereas the source-based principle is largely followed by the developing nations.
- India is following basically residence-based taxation; however, foreign companies are taxed in accordance with source taxation and domestic companies are taxed on residence principle.
- The rules of the Income-tax Act 1961 are very clear for taxation of domestic companies, but the rules to tax MNCs having only digital presence are not as clear as that of domestic companies.

Permanent Establishment (PE) determination issue

- To tax foreign or any entity, there needs to be two essential things: one is the jurisdiction over the entity to be taxed and the second is taxable income. Jurisdiction is established through the Permanent Establishment (PE) and taxable income is as per the tax slabs under the Income-tax act 1961.

- With the advent of digital markets/ digital economy the concept of PE has undergone drastic change.
- With the rise of digital economic activities, the conventional PE definition (brick & mortar definition) has blurred and now, the companies have significant economic presence without even having a single asset in the source state.
- Digital businesses have three unique characteristics which are not considered by the current Tax regimes:
    1. They offer services by having limited or no physical presence. Example: Facebook, Twitter etc.
    2. They are highly dependent on intellectual property assets that are typically located in or can be shifted to a low-tax jurisdiction
    3. They can increase the value to their goods and services through highly engaged 'user participation' from other countries.

What are the Issues with India's DST that is taken by the USTR?

- The US is probing the 2% Digital Services Tax (DST) that India adopted in 2020.
- The tax applies only to non-resident companies with annual revenues over $267,000, and covers online sales of goods & services to persons in India.
- Further, equalisation levy at 6% has been in force since 2016 on payment exceeding Rs. 1 lakh a year to a non-resident service provider for online advertisements.
- This is applicable for e-commerce companies that are sourcing revenue from Indian customers without having significant presence in the particular country.
- It is argued that India's equalisation levy is complex and ambiguous which includes the possibility of double taxation.
- Further, India continues to be on the 'Priority Watch List' of USTR for lack of adequate Intellectual Property (IP) rights protection and enforcement.
- In India's case, the probe could potentially affect the outcome of a bilateral trade deal that India has been looking to forge with the US.

About the recent US move regarding suspension of tarrifs

- The US is focused on finding a multilateral solution to a range of key issues related to international taxation, including the US's concerns with digital services taxes.
- The suspension came after the conclusion of a year-long investigation into taxes which the US has stated are against tech companies like Apple, Amazon, Google and Facebook.
- In January 2021, following investigations, the USTR determined that the digital services taxes adopted by Austria, India, Italy, Spain, Turkey, and the UK discriminated against US digital firms.
- The US announced 25 per cent tariffs on over $2-billion imports from these six countries, but then immediately suspended the duties to allow time for international negotiations.
- In case of India, USTR's proposed course of action includes additional tariffs of up to 25 per cent ad valorem on an aggregate level of trade that would collect duties on goods of India in the range of the amount of DST that India is expected to collect from US firms.

UNION CABINET APPROVES MODEL TENANCY ACT

Context:

The Union Cabinet approved the Model Tenancy Act, a move that will help overhaul the legal framework with respect to rental housing across the country.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy)

Dimensions of the Article:

1. What is the Model Tenancy Act?
2. About the latest approval by the Union Cabinet

What is the Model Tenancy Act?

- Model Tenancy Act, 2019, a tenancy law in India, was designed to rebuild tenancy market seeking to replace archaic rental laws of India and to solve housing availability deficit.
- The Act seeks to penalize recalcitrant tenants for refusing to move out of their rental properties after the agreed-upon rental period expires. The landlord will be able to claim double of the monthly rent for two months and four times of the monthly rent after that as compensation.
- The Act stipulates that a landlord cannot refuse to provide essential utilities and access to common facilities. This has been a fairly common grouse of tenants in the past.
- The landlord will also not be able to increase the rent without giving at least three months' notice to the tenant, and cannot increase rent in the middle of a rental term.
- In order to bring transparency, fix accountability and promote fairness in the rental housing segment, the policy proposes setting up of a rent authority.
- The Act will help in achieving the target of "Housing for All by 2022".

About the latest approval by the Union Cabinet

- Approved act will help in rebuilding legal framework on rental housing in India which in turn boost overall growth.
- Act was passed with the aim of creating a vibrant, sustainable and inclusive rental housing market.
- It will help in creating adequate rental housing stock for all income groups and address the issue of homelessness.
- It will enable institutionalisation of rental housing by shifting it towards formal market.
- It seeks to facilitate unlocking of vacant houses for rental housing purposes and give a fillip to private participation in rental housing as a business model. This will help in addressing huge housing shortage.

WHAT EXPLAINS THE SURGE IN FDI INFLOWS?

Context:

Total foreign direct investment (FDI) inflow in 2020-21 is $81.7 billion, up 10% over the previous year 2020, reported a recent Ministry of Commerce and Industry press release.

Relevance:

GS-III: Indian Economy (Growth & Development of Indian Economy, Mobilization of Resources, Capital Market)

Dimensions of the Article:

1. About Foreign Direct Investment
2. FDI Routes in India
3. About the Current surge in FDI Inflows

About Foreign Direct Investment

- Foreign Direct Investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a Foreign Portfolio Investment by a notion of direct control.
- FDI may be made either "inorganically" by buying a company in the target country or "organically" by expanding the operations of an existing business in that country.
- Broadly, FDI includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intra company loans". In a narrow sense, it refers just to building a new facility, and lasting management interest.

FDI in India

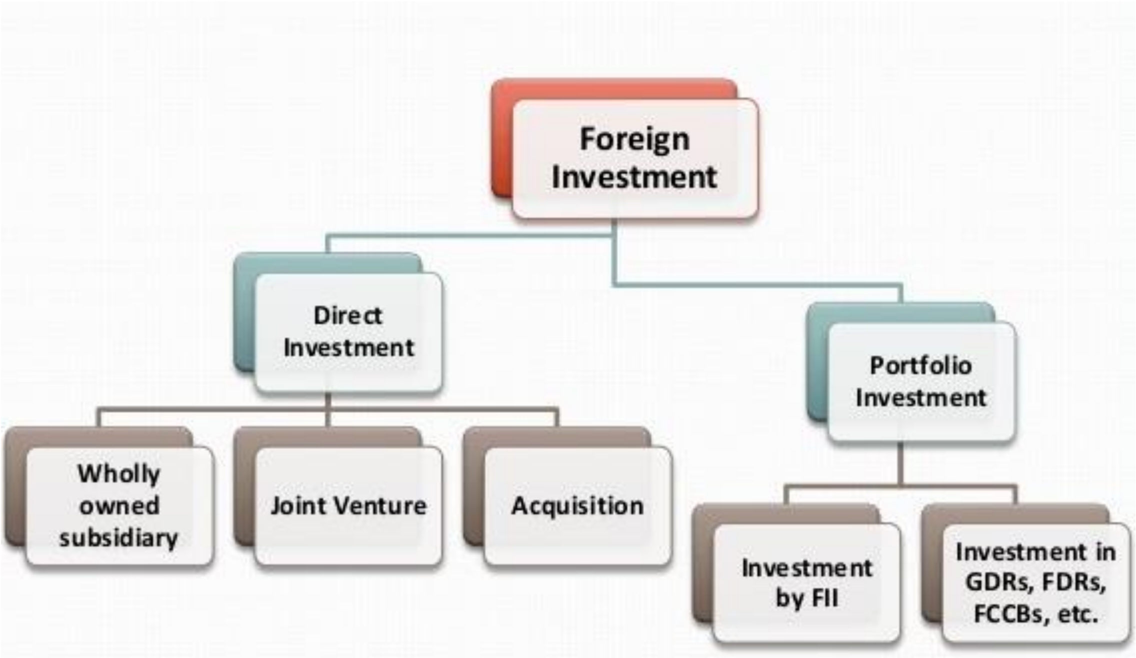
- Foreign Direct Investment (FDI) is a major driver of economic growth and an important source of non-debt finance for the economic development of India.
- It has been the endeavor of the Government to put in place an enabling and investor friendly FDI policy. The intent all this while has been to make the FDI policy more investor friendly and remove the policy bottlenecks that have been hindering the investment inflows into the country.
- The steps taken in this direction during the last six years have borne fruit as is evident from the ever-increasing volumes of FDI inflows being received into the country. Continuing on the path of FDI liberalization and simplification, Government has carried out FDI reforms across various sectors.

FDI Routes in India

- Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then FM Manmohan Singh.
- There are three routes through which FDI flows into India. They are described in the following table:

Category 1	Category 2	Category 3
100% FDI permitted through Automatic Route	Up to 100% FDI permitted through Government Route	Up to 100% FDI permitted through Automatic + Government Route

- Automatic route: By this route, FDI is allowed without prior approval by Government or RBI.
- Government route: Prior approval by the government is needed via this route. The application needs to be made through Foreign Investment Facilitation Portal, which will facilitate the single-window clearance of FDI application under Approval Route.



Global Depository Receipts – GDR

Foreign Depository Receipts – FDR

Foreign Currency Convertible Bonds – FCCB

Foreign institutional investors – FII

About the Current surge in FDI Inflows

- Total foreign direct investment (FDI) inflow in 2020-21 is $81.7 billion, up 10% over the FDI in 2020.
- It further added, "Measures taken by the Government on the fronts of Foreign Direct Investment (FDI) policy reforms, investment facilitation and ease of doing business have resulted in increased FDI inflows into the country."

What accounts for gross inflow?

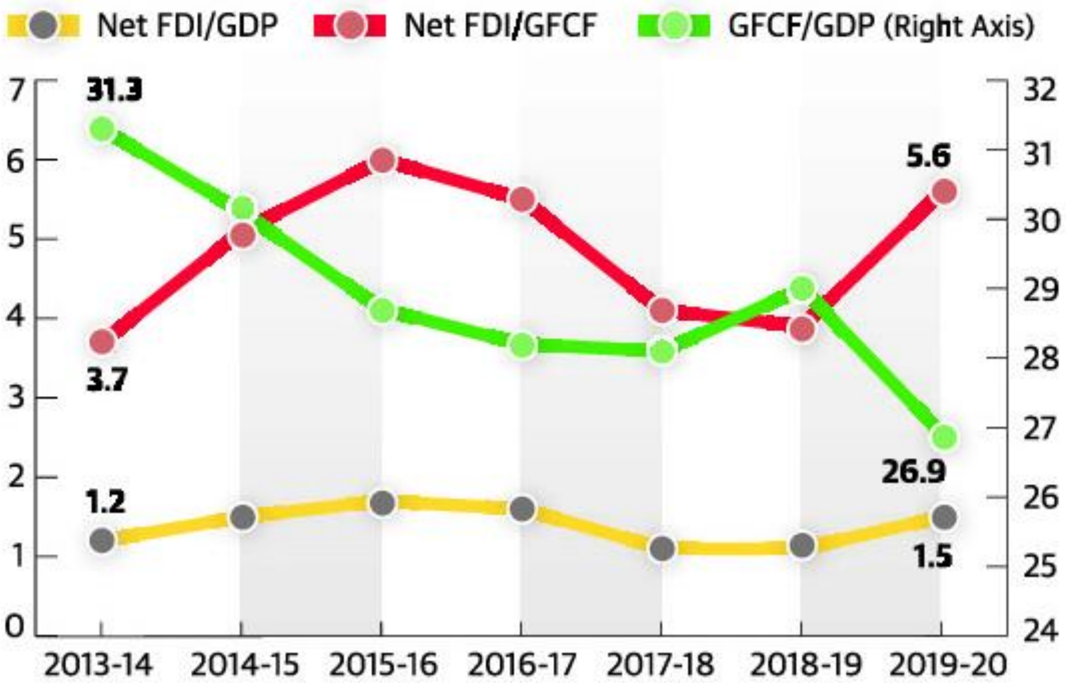
- "Gross inflows/gross investment" in the RBI report is the same as "total FDI inflow" in the press release, identical to the Commerce Ministry's estimate.
- The gross inflow consists of:
  - Direct investment to India
  - Repatriation/disinvestment

Foreign investment into India

Item No	No Investment category	2019-20	2020-21	Growth rate (%)
1	Gross inflows/Gross Investments (Items 3+5)	74,390	81,721	**9.9**
2	Foreign Investment Inflow (Items 4+7)	44,417	80,209	**80.6**
3	Direct investment to India (items 4+6)	56,006	54,665	**-2.4**
4	Net Foreign direct investment (Items 3-6)	43,013	43,366	**0.8**
5	Repatriation/Disinvestment	18,384	27,056	**47.2**
6	FDI by India (Outward FDI)	12,993	11,299	**-13.0**
7	Net Portfolio investment	1,403	36,843	**2526.0**
7.1	(of which) Foreign Institutional Investors (FIIs)	552	38,097	**6801.6**

Source: Reserve Bank of India Bulletin, May 2021, Table No. 34

Net FDI as ratios of GDP and fixed investment



Source: RBI Handbook on Indian Economy, 2020. Note: All figures are at current prices, as in the current series of National Accounts.

- The disaggregation shows that "direct investment to India" has declined by 2.4%.
- Hence, an increase of 47% in "repatriation/disinvestment" entirely accounts for the rise in the gross inflows. In other words, there is a wide gap between gross FDI inflow and direct investment to India.
- Similarly, measured on a net basis (that is, "direct investment to India" net of "FDI by India" or, outward FDI from India), direct investment to India has barely risen (0.8%) in 2020-21 over the previous year 2020.
- The reason for the headline number of 10% rise in gross inflow entirely on account of "Net Portfolio Investment", shooting up from $1.4 billion in 2019-20 to $36.8 billion in 2020-2021. (That is a whopping 2,526% rise.)
- Further, within the net portfolio investment, foreign institutional investment (FIIs) has boomed by an astounding 6,800% to $38 billion in 2020-21, from a mere half a billion dollars in 2019-2020.
- FDI inflow, in theory, is supposed to bring in additional capital to augment potential output (taking managerial control/stake). In contrast, foreign portfolio investment, as the name suggests, is short-term investment in domestic capital (equity and debt) markets to realise better financial returns (that is, higher dividend/interest rate plus capital gains). But the conceptual distinctions have blurred in official reporting, showing an outsized role of FDI and its growth in India.
- Thus, the surge in total FDI inflow during the pandemic year is entirely explained by booming short-term FIIs in the capital market – and not adding to fixed investment and employment creation.

WHY OIL PRICES ARE RISING? IMPACT ON INDIA

Context:

Crude oil prices have hit a two-year high with Brent crude rising above the $71 per barrel mark on May 2021, hitting the highest level since May 2019 as key oil-producing countries announced that they would adhere to plans entailing a gradual increase in crude oil production.

Relevance:

GS-III: Indian Economy (International Trade, Mobilization of Resources, Growth and Development of Indian Economy), GS-III: Industry and Infrastructure

Dimensions of the Article:

1. Why are crude oil prices rising?
2. How are high crude oil prices impact India?
3. India and Oil Imports

Why are crude oil prices rising?

- Crude oil prices have been rising steadily since the beginning of 2021 when Brent Crude was trading at about $52 per barrel buoyed both by hopes of improving demand due to economic recoveries across geographies as well as supply cuts by key oil-producing countries.
- The Organisation of Petroleum Exporting Countries extended supply cuts made in 2020 when crude oil prices had reached a low of under $19 per barrel through the first five months of 2021.
- Saudi Arabia notably made an additional voluntary production cut of 1 million barrels per day between February and April 2021 of which only 250,000 barrels of production has been restored in May and 750,000 barrels of production is set to be restored over June and July 2021.
- Experts have noted however that the gradual withdrawal of cuts is unlikely to have any significant impact on prices as demand for petroleum products increases as demand increases spurred by increasing economic activity.

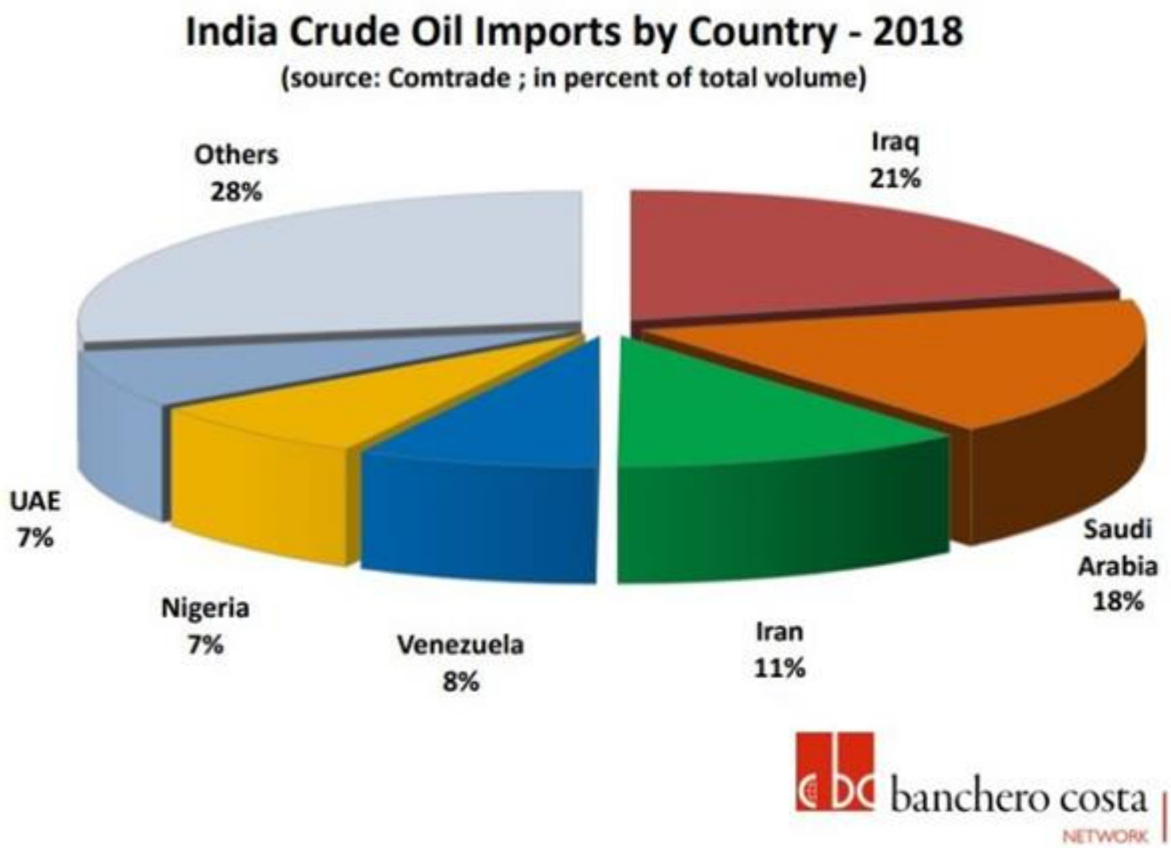
- A potential breakthrough in international efforts for a new Iran nuclear deal which would see international sanctions on Iranian oil removed would also not have a major impact on oil prices according to OPEC which expects that any increase in crude oil production from Iran would happen gradually and would not destabilise crude oil prices.

How are high crude oil prices impact India?

- Rising crude oil prices have contributed to petrol and diesel prices rising to record high levels across the country.
- The price of petrol has been hiked by Rs 10.8 per litre since the beginning of the year while the price of diesel has been hiked by Rs 11.5 per litre in the same time period.
- Officials at oil marketing companies have however noted that even current record-high prices are lower than what refiners should be charging in line with international prices and that prices are set to rise further unless there is a cut on levies on autofuels or a fall in crude oil prices.
- The prices of petrol and diesel are benchmarked to a 15-day rolling average of the international prices of the petroleum products.

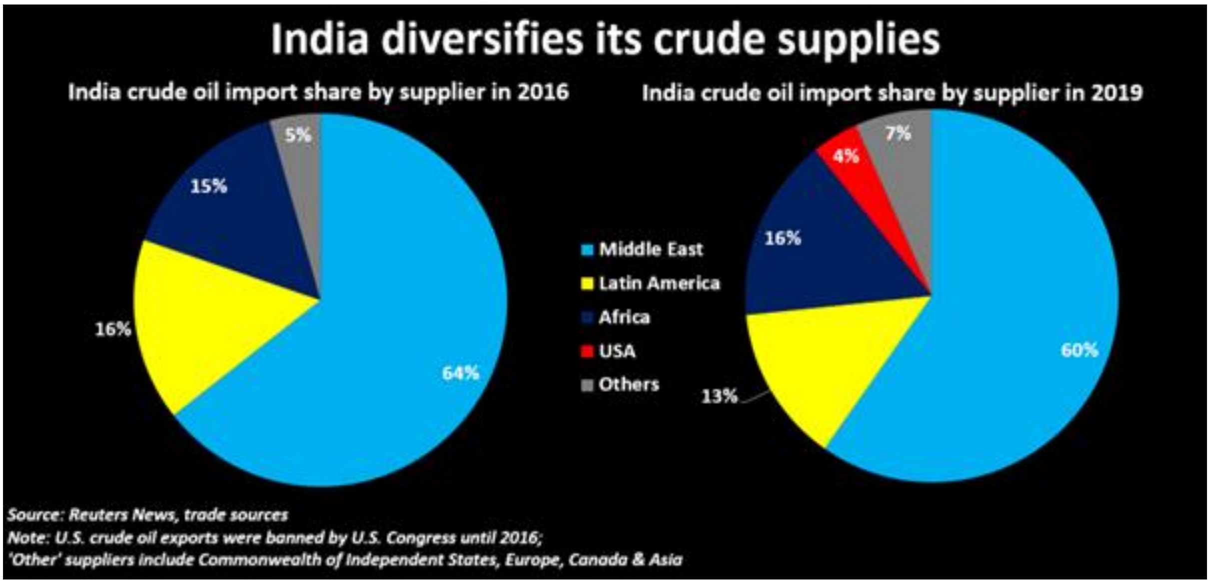
India and Oil Imports

- India is heavily dependent on crude oil and LNG imports with over 82% import dependence for crude oil and more than 45% for natural gas/LNG.
- India generated more than 35 million tons of petroleum products from indigenous crude oil production whereas the consumption of petroleum products is more than 200 million tons. Similarly, India generated 30 bcm natural gas locally against the consumption of almost 60 bcm (double).
- LNG price is linked to the prevailing crude oil price in global markets.
- India is the third biggest oil importer after US and China in 2018 and expected to occupy second place surpassing the US in 2019.



Diversifying India's Oil Imports

- India's imports of Middle Eastern oil plunged to a four-year low in 2019.
- India imports about almost 85% of its oil needs and traditionally relies on the Middle East for the majority of its supplies, however, the region's share of India's crude shrank to 60% in 2019.
- The reason being: a record output from the United States and countries like Russia offered opportunities for importers to tap other sources.



WORLD EMPLOYMENT AND SOCIAL OUTLOOK: TRENDS 2021

Context:

International Labour Organisation (ILO) has released the World Employment and Social Outlook: Trends (WESO) report 2021 which shows that Global unemployment is expected to be at 205 million in 2022, surpassing the 2019 level of 187 million.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Important International Institutions and their reports, Employment)

Dimensions of the Article:

1. International Labour Organization (ILO)
2. Highlights of the World Employment and Social Outlook: Trends (WESO) report 2021
3. Employment in the Indian Economy

International Labour Organization (ILO)

- The International Labour Organization (ILO) is a United Nations agency whose mandate is to advance social justice and promote decent work by setting international labour standards.
- It was the first specialised agency of the UN.
- The ILO has 187 member states: 186 of the 193 UN member states plus the Cook Islands are members of the ILO.
- In 1969, the ILO received the Nobel Peace Prize for improving fraternity and peace among nations, pursuing decent work and justice for workers, and providing technical assistance to other developing nations.

ILO's Tripartite Structure:

- Unlike other United Nations specialized agencies, the International Labour Organization has a tripartite governing structure that brings together governments, employers, and workers of 187 member States, to set labour standards, develop policies and devise programmes promoting decent work for all women and men.
- The tripartite structure is unique to the ILO where representatives from the government, employers and employees openly debate and create labour standards.
- The structure is intended to ensure the views of all three groups are reflected in ILO labour standards, policies, and programmes, though governments have twice as many representatives as the other two groups.

The Functions of the ILO

- Creation of coordinated policies and programs, directed at solving social and labour issues.
- Adoption of international labour standards in the form of conventions and recommendations and control over their implementation.
- Assistance to member-states in solving social and labour problems.
- Human rights protection (the right to work, freedom of association, collective negotiations, protection against forced labour, protection against discrimination, etc.).
- Research and publication of works on social and labour issues.

Objectives of the ILO

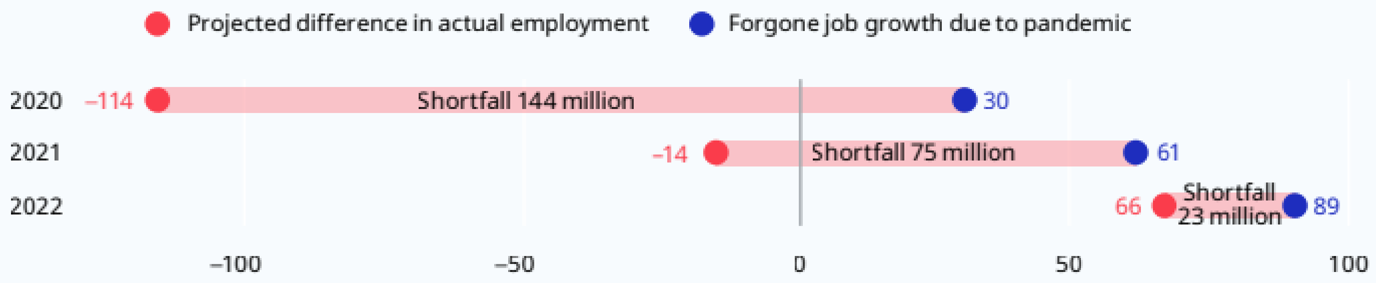
- To promote and realize standards and fundamental principles and rights at work.
- To create greater opportunities for women and men to secure decent employment.

- To enhance the coverage and effectiveness of social protection for all.
- To strengthen tripartism and social dialogue.

Highlights of the World Employment and Social Outlook: Trends (WESO) report 2021

- The Covid-19 Pandemic has pushed over 100 million more workers into poverty worldwide. The world would be 75 million jobs short at the end of this year compared to if the pandemic had not occurred.
- Relative to 2019, an estimated additional 108 million workers are now extremely or moderately poor, meaning that they and their family members are having to live on less than USD 3.20 per day (It is the World Bank poverty line for lower-middle-income countries) in purchasing power parity terms.
- The sharp increase in poverty rates is due to lost working hours as economies went into lockdown, outright job losses, and a decline in access to good quality jobs.
- Five years of progress towards the eradication of working poverty have been undone, as working poverty rates have now reverted to those of 2015.
- The pandemic has exacerbated existing inequalities in the labour market, with lower-skilled workers, women, young people or migrants among the most affected.
- In 2020, 8.8% of global working hours were lost compared to the fourth quarter of 2019 — the equivalent of 255 million full-time jobs.
- While the situation has improved, global working hours have far from bounced back, and the world will still be short the equivalent of 100 million full-time jobs by the end of 2021.
- Unemployment rate of 6.3% this year (2020-21), falling to 5.7% next year (2021-22) but still up on the pre-pandemic rate of 5.4% in 2019.

Pandemic-induced global shortfall in jobs, relative to 2019 (millions)



Note: The red dots denote the projected difference in actual employment relative to 2019. The blue dots denote the development that would have been expected had there been no pandemic, hence showing forgone employment growth. The numbers inside the bars refer to the total pandemic-induced shortfall in jobs in a given year (that is, the shortfall due to the combination of actual employment losses and forgone employment growth).

Employment in the Indian Economy

- In 2012, there were around 487 million workers in India, the second largest after China.
- In 2018 reports show: Close to 81% of all employed persons in India make a living by working in the informal sector, with only 6.5% in the formal sector and 0.8% in the household sector.
- Among the five South Asian countries, informalisation of labour is the highest in India and Nepal (90.7%), with Bangladesh (48.9%), Sri Lanka (60.6%) and Pakistan (77.6%) doing much better on this front.
- Over 94 percent of India's working population is part of the unorganised sector.

- Employment in India is multifaceted. There are people who are permanently unemployed; and there are people who are temporarily employed or temporarily unemployed (known as seasonal unemployment/employment), and in addition there is disguised unemployment – which in simple terms is the condition where a task that requires only 5 workers to handle it, is being handled by 12 workers.
- Agriculture, dairy, horticulture and related occupations alone employ 43 percent of labour in India. However, Agriculture and the allied sectors contribute only to 14.6% of India's GDP!

NO CHANGE IN RBI'S VIEW ON CRYPTOCURRENCIES

Context:

RBI Governor Shaktikanta Das made it clear that the central bank's view on cryptocurrencies like Bitcoin remains unchanged and it continues to have "major concerns" on the volatile instruments.

Relevance:

GS-III: Indian Economy (Banking, Money, Monetary Policy), GS-III: Science and Technology (Developments in Science and Technology, Application of Technology in Daily life, Blockchain technology)

Dimensions of the Article:

1. What are cryptocurrencies?
2. How are they different from actual currency?
3. How do cryptocurrencies derive their value?
4. RBI's views on Cryptocurrency

What are cryptocurrencies?

- Cryptocurrencies are e-currencies that are based on decentralized technology and operate on a distributed public ledger called the blockchain.
- Blockchain records all transactions updated and held by currency holders.
- The technology allows people to make payments and store money digitally without having to use their names or a financial intermediary such as banks.
- Cryptocurrency units such as Bitcoin are created through a 'mining' process which involves using a computer to solve numerical problems that generate coins.
- Bitcoin was one of the first cryptocurrencies to be launched and was created in 2009.

How are they different from actual currency?

- The Main difference is that unlike actual currencies cryptocurrencies are not issued by Governments.
- Actual money is created or printed by the government which has a monopoly in terms of issuing currency. Central banks across the world issue paper notes and therefore create money and assign paper notes their value.
- Money created through this process derives its value via government fiat, which is why the paper currency is also called fiat currency.
- In the case of cryptocurrencies, the process of creating the currency is not monopolized as anyone can create it through the mining process.

How do cryptocurrencies derive their value?

- Any currency has its value if it can be exchanged for goods or services and if it is a store of value (it can maintain purchasing power over time).

- Cryptocurrencies, in contrast to fiat currencies, derive their value from exchanges.
- The extent of involvement of the community in terms of demand and supply of cryptocurrencies helps determine their value.

RBI's views on Cryptocurrency

- The Reserve Bank of India (RBI) informed the Supreme Court that dealing in cryptocurrency will encourage illegal transactions.
- According to the RBI, Cryptocurrencies are "a stateless digital currency" in which encryption techniques are used for trading and these 'currencies' operate independently of a Central bank, rendering it immune from government interference.
- An interdisciplinary committee headed by secretary of economic affairs Subhash Garg was set-up in 2017 to examine virtual currencies and recommend the regulatory framework for crypto currencies.
- The RBI had already issued a circular prohibiting use of these virtual currencies.

BANKS TO SHIFT RS. 89,000 CRORE NPAS TO NARCL

Context:

Banks have identified about 22 bad loans worth ₹89,000 crore to be transferred to the National Asset Reconstruction Company Ltd. (NARCL) in the initial phase.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, NPAs)

Dimensions of the Article:

1. What is an Asset Reconstruction Company?
2. What are Bad Banks?
3. National Asset Reconstruction Company Ltd (NARCL)
4. Highlights RBI's report on Growth of the ARC Industry
5. Issues with Indian ARCs

What is an Asset Reconstruction Company?

- An asset reconstruction company is a special type of financial institution that buys the debtors of the bank at a mutually agreed value and attempts to recover the debts or associated securities by itself.
- The asset reconstruction companies or ARCs are registered under the RBI. Hence, RBI has the power to regulate the ARCs.
- ARCs are regulated under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act, 2002).
- The ARCs take over a portion of the debts of the bank that qualify to be recognised as Non-Performing Assets. Thus, ARCs are engaged in the business of asset reconstruction or securitization (securitization is the acquisition of financial assets either by way of issuing security receipts to Qualified Buyers or any other means) or both.
- All the rights that were held by the lender (the bank) in respect of the debt would be transferred to the ARC. The required funds to purchase such such debts can be raised from Qualified Buyers.

- The ARC can take over only secured debts which have been classified as a non-performing asset (NPA). In case debentures / bonds remain unpaid, the beneficiary of the securities is required to give a notice of 90 days before it qualifies to be taken over.

What are Bad Banks?

- A Bad Bank (usually set up as a government-backed bad bank) is technically an asset reconstruction company (ARC) or an asset management company.
- Bad banks are typically set up in times of crisis when long-standing financial institutions are trying to recuperate their reputations and wallets.

How does it work?

- A bad bank buys the bad loans and other illiquid holdings of other banks and financial institutions, which clears their balance sheet.
- A bad bank structure may also assume the risky assets of a group of financial institutions, instead of a single bank.
- The bad bank is not involved in lending and taking deposits, but helps commercial banks clean up their balance sheets and resolve bad loans.

National Asset Reconstruction Company Ltd (NARCL)

- National Asset Reconstruction Company Ltd (NARCL) is the name coined for the bad bank announced in the Budget 2021-22.
- The new entity is being created in collaboration with both public and private sector banks.
- NARCL will take over identified bad loans of lenders and the lead bank with offer in hand of NARCL will go for a 'Swiss Challenge', where other asset reconstruction players will be invited to better the offer made by a chosen bidder for finding higher valuation of an NPA on sale. The company will pick up those assets that are 100 per cent provided for by the lenders.
- The biggest advantage of NARCL would be aggregation of identified NPAs (non-performing assets). This is expected to be more efficient in recovery as it will step into the shoes of multiple lenders who currently have different compulsions when it comes to resolving a bad loan.
- After enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act in 2002, regulatory guidelines for ARCs were issued in 2003 to enable development of this sector and to facilitate smooth functioning of companies such as NARCL.

Highlights RBI's report on Growth of the ARC Industry

- The ARC industry began with the establishment of the Asset Reconstruction Company India Ltd (ARCIL) in 2003.
- After remaining subdued in the initial years of their inception, a jump was seen in the number of ARCs in 2008, and then in 2016.
- There has been a concentration in the industry in terms of Assets Under Management (AUM) and the Security Receipts (SRs) issued.
- The growth in ARCs' AUM has been largely trendless except for a major spurt in FY14.
- The AUM of ARCs has been on a declining trend when compared with the volume of NPAs of banks and NBFCs, except during the period of high growth in the AUM around 2013-14.
- During 2019-20, asset sales by banks to ARCs declined, which could probably be due to banks opting for other resolution channels such as Insolvency and Bankruptcy Code (IBC) and SARFAESI.

Issues with Indian ARCs

- Indian ARCs have been private sector entities registered with the Reserve Bank. Public sector AMCs in other countries have often enjoyed easy access to government funding or government-backed. The capital constraints have often been highlighted as an area of concern for ARCs in India.
- Despite the regulatory push to broaden, and thereby enhance, the capital base of these companies, they have remained reliant primarily on domestic sources of capital, particularly banks.
- Banks supply NPAs to the ARCs, hold shareholding in these entities and also lend to them, which makes it necessary to monitor if there is a "circuitous movement of funds between banks and these institutions".

CORPORATISATION OF ORDNANCE FACTORY BOARD (OFB)

Context:

Addressing a long pending reform, the Union Cabinet approved a plan to corporatise the Ordnance Factory Board (OFB), which has 41 factories, into seven fully government owned corporate entities on the lines of Defence Public Sector Undertakings (DPSU).

Relevance:

GS-III: Indian Economy (Privatization and Commercialization, Fiscal Policy, Budgeting), GS-III: Industry and Infrastructure

Dimensions of the Article:

1. Basics: What is Public Sector and Private Sector?
2. What is Privatization?
3. What is Corporatization?
4. Privatization and Corporatization in the Economic Survey 2020, Volume 1 Chapter 9
5. Lack of traction for privatisation in India
6. Ordnance Factory Board (OFB)
7. About the Current Major decision regarding OFB

Basics: What is Public Sector and Private Sector?

- In general, two main sectors compose an economy: the public sector and the private sector. Government agencies generally run operations and industries within the public sector.
- Enterprises not run by the government comprise the private sector. Private companies include the majority of firms in the consumer discretionary, consumer staples, finance, information technology, industrial, real estate, materials, and healthcare sectors.

What is Privatization?

- Privatization occurs when a government-owned business, operation, or property becomes owned by a private, non-government party.
- Note: This is NOT to be Confused with "corporate privatization" that describes the transition of a company from being publicly traded to becoming privately held.
- It generally helps governments save money and increase efficiency, where private companies can move goods quicker and more efficiently.
- Privatization is considered to bring more efficiency and objectivity to the company, something that a government company is not concerned about. India went for privatization in the historic reforms budget of 1991, also known as 'New Economic Policy or LPG policy'.

- Critics of privatization suggest that basic services, such as education, shouldn't be subject to market forces.

What is Corporatization?

- Corporatization refers to the restructuring or transformation of a state-owned asset or organization into a corporation. These organizations typically have a board of directors, management, and shareholders.
- However, unlike publicly traded companies, the government is the company's only shareholder, and the shares in the company are not publicly traded.
- The main goal of corporatization is to allow the government to retain ownership of the company while allowing the company to run as efficiently as its private counterparts. Government departments are often inefficient due to internal bureaucratic conventions.
- Additionally, the government may consider that joining the private sector might improve a company's performance. If this is the case, the government might conduct an offering on the stock market to divest the organization.

Privatization and Corporatization in the Economic Survey 2020, Volume 1 Chapter 9

Evolution of Disinvestment Policy in India

- The liberalization reforms undertaken in 1991 ushered in an increased demand for privatization/ disinvestment of PSUs.
- In the initial phase, this was done through the sale of a minority stake in bundles through auction. This was followed by a separate sale for each company in the following years, a method popularly adopted till 1999-2000.
- India adopted strategic sale as a policy measure in 1999-2000 with the sale of a substantial portion of government shareholding in identified Central PSEs (CPSEs) up to 50% or more, along with transfer of management control. This was started with the sale of 74 % of the Government's equity in Modern Food Industries Limited (MFIL).
- Thereafter, 12 PSUs (including four subsidiaries of PSUs), and 17 hotels of Indian Tourism Development Corporation (ITDC) were sold to private investors along with transfer of management control by the Government.
- Another major shift in disinvestment policy was made in 2004-05 when it was decided that the government may "dilute its equity and raise resources to meet the social needs of the people", a distinct departure from strategic sales.
- Department of Investment and Public Asset Management (DIPAM) has laid down comprehensive guidelines on "Capital Restructuring of CPSEs" in May 2016 by addressing various aspects, such as payment of dividends, buyback of shares, issues of bonus shares and splitting of shares.

Privatization in 2019

- In November 2019, India launched its biggest privatization drive in more than a decade. An "in-principle" approval was accorded to reduce the government of India's paid-up share capital below 51% in select Central Public Sector Enterprises (CPSEs).
- Among the selected CPSEs, strategic disinvestment of the Government's shareholding of 53.29% in Bharat Petroleum Corporation Ltd (BPCL) was approved which led to an increase in value of shareholders' equity of BPCL by INR 33,000 crore when compared to its peer Hindustan Petroleum Corporation Limited (HPCL) and this reflects an increase in the overall value from anticipated gains from consequent improvements in the efficiency of BPCL when compared to HPCL which will continue to be under Government control.

Lack of traction for privatisation in India

- **Typically, privatisation policy in India has been motivated by the need to raise resources in tough fiscal conditions. This is evident in the choice of the word 'disinvestment', as opposed to 'privatisation', which implies that the ownership and management of companies or assets move to private hands.**
- In sectors such as defence and national security, which could be the termed 'strategic', the government may continue to play a role. However, in areas where there are private players and where there is already a competitive market (such as steel, pharmaceuticals), or where the market has a few dominant players but is regulated (such as telecom), it makes sense for the government to exit.
- Past efforts at privatisation through strategic sales — when it was attempted by the first NDA government in the early 2000s — have faced several hurdles. One reason is endless litigation, sometimes by the labour unions, and sometimes on account of valuation of government assets and the prices at which they were sold.
- Concerns on valuation have also got officials in charge of privatisation tangled in legal battles, even well past their retirements. This has made civil servants risk-averse and unwilling to sign off on any sale at any price.

Ordnance Factory Board (OFB)

- Ordnance Factory Board (OFB) consisting of the Indian Ordnance Factories is a Government agency under the control of department of defence production (DDP) Ministry of Defence (MoD), Government of India.
- **OFB is the world's largest government-operated production organisation, and the oldest organisation in India.**
- It is engaged in research, development, production, testing, marketing and logistics of a product range in the areas of air, land and sea systems.
- OFB comprises forty-one ordnance factories, nine training institutes, three regional marketing centres and four regional controllerates of safety, which are spread all across the country.
- OFB is the 35th largest defence equipment manufacturer in the world, 2nd largest in Asia, and the largest in India.
- Ordnance Factory Board predates all the other organisations like the Indian Army and the Indian Railways by over a century. The first Indian ordnance factory can trace its origins back to the year 1712 when the Dutch Ostend Company established a Gun Powder Factory in Ichhapur.
- The Indian Ordnance Factories have not only supported India through the wars, but played an important role in building India with the advancement of technology and have ushered the Industrial Revolution in India starting with the first modern steel plant of India much before Tata Steel, first modern electric textile mill of India, first chemical industries such as smokeless propellant plants of India, established the first engineering colleges of India as its training schools, played key role in the founding of research and industrial organisations like ISRO, DRDO, BDL, BEL, BEML and SAIL.

About the Current Major decision regarding OFB

- This restructuring is aimed at transforming the ordnance factories into productive and profitable assets, deepening specialisation in the product range, enhancing competitiveness, improving quality and achieving cost efficiency.
- Currently, the Kolkata headquartered OFB functions as a department under the Department of Defence Production. There have been several recommendations by high-level committees in the past for corporatising it to improve efficiency and accountability.
- All employees of the OFB (Group A, B and C) belonging to the production units would be transferred to the corporate entities on deemed deputation initially for a period of two years without altering their service conditions as Central government employees.

- The 41 factories would be subsumed into seven corporate entities based on the type of manufacturing.
- The new structure would also help in overcoming various shortcomings in the existing system of the OFB by eliminating inefficient supply chains and provide these companies incentive to become competitive and exploring new opportunities in the market, including exports.

WORLD COMPETITIVENESS YEARBOOK (WCY) 2021

Context:

India maintained its 43rd rank on the World Competitiveness Index 2021, compiled by the Institute for Management Development (IMD).

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Inclusive Growth)

Dimensions of the Article:

1. World Competitiveness Yearbook (WCY)
2. Highlights of World Competitiveness Index 2021
3. How the countries performed in World Competitiveness Index 2021?
4. India's Performance World Competitiveness Index 2021

World Competitiveness Yearbook (WCY)

- The World Competitiveness Index is a comprehensive annual report and worldwide reference point on the competitiveness of countries.
- WCY was first published in 1989 and is compiled by the Institute for Management Development (IMD).
- It provides extensive coverage of 64 economies.
- It measures the prosperity and competitiveness of countries by examining four factors (334 competitiveness criteria):
    1. Economic performance
    2. Government efficiency
    3. Business efficiency
    4. Infrastructure

Highlights of World Competitiveness Index 2021

- The report notes that qualities such as investment in innovation, digitalisation, welfare benefits and leadership, resulting in social cohesion have helped countries better weather the crisis and thus ranked higher in competitiveness.
- The top-performing economies are characterised by varying degrees of investment in innovation, supportive public policy and diversified economic activities.
- The report stated that strength in these areas prior to the pandemic allowed these economies to address the economic implications of the crisis more effectively.
- Further, it said that the competitive economies succeeded in transitioning to a remote work routine while also allowing remote learning. It added that addressing unemployment has been fundamental.
- The report also pointed out that the countries that ensured the effectiveness of key public spending, such as public finance, tax policy and business legislation, are seen as essential policies to relieve the pressure on the economies hit by COVID-19.

How the countries performed in World Competitiveness Index 2021?

- Switzerland topped the 2021 rankings, followed by Sweden at 2nd place.
- While Denmark moved one spot down to the 3rd rank, the Netherlands retained its 4th place and Singapore slipped to the 5th place from its top ranking in 2020.
- The Top-performing Asian economies were:
    1. Singapore (5th)
    2. Hong Kong (7th)
    3. Taiwan (8th)
    4. China (16th)
- BRICS Nations Ranking:
    1. China (16th)
    2. India (43rd)
    3. Russia (45th
    4. Brazil (57th)
    5. South Africa (62nd)

IMD World Competitiveness Ranking 2021

Top 10

Overall		Economic Performance	Government Efficiency	Business Efficiency	Infrastructure
1	Switzerland	7	2	5	1
2	Sweden	16	9	2	2
3	Denmark	17	7	1	3
4	Netherlands	2	12	4	7
5	Singapore	1	5	9	11
6	Norway	25	4	6	4
7	Hong Kong SAR	30	1	3	16
8	Taiwan, China	6	8	7	14
9	UAE	9	3	8	28
10	USA	5	28	10	6

- The qualities such as investment in innovation, digitalisation, welfare benefits, diversified economic activities, supportive public policy and leadership, resulting in social cohesion have helped countries better manage the crisis and thus ranking higher in competitiveness.
- Competitive economies succeeded in transitioning to a remote work routine while also allowing remote learning.

- **The effectiveness of key public spending, such as public finance, tax policy and business legislation, are seen to relieve the pressure on the economies hit by the Covid-19.**

India's Performance World Competitiveness Index 2021

India's overall ranking in World Competitiveness Index

2017	2018	2019	2020	2021
45	44	43	43	43

India's performance based on these four factors in past 5 years

Factors	2017	2018	2019	2020	2021
Economic Performance	18	21	24	37	37
Government Efficiency	48	50	46	50	46
Business Efficiency	29	29	30	32	32
Infrastructure	60	56	55	49	49

- According to IMD, India has maintained its position for the past three years but in 2021, it showed significant improvements in government efficiency and this can be a result of relatively stable public finances despite difficulties brought by the pandemic.
- It can also be a result of the positive feedbacks registered among Indian business executives with respect to the support and subsidies provided by the government to the private companies.
- Among the four indices used, India's ranking in government efficiency increased to 46 from 50 a year ago, while its ranking in other parameters such as economic performance (37th), business efficiency (32th) and infrastructure (49) remained the same.
- Improvements in Government Efficiency was seen mostly due to relatively stable public finances. Despite difficulties brought by the pandemic, in 2020, the government deficit stayed at 7%. The Government also provided support and subsidies to the private companies.
- India's strengths lie in investments in telecoms (1st), mobile telephone costs (1st), ICT services exports (3rd), remuneration in services professions (4th) and terms of trade index (5th).
- India's performance is the worst in sub-indices such as broadband subscribers (64th), exposure to particulate pollution (64th), human development index (64th), GDP per capita (63rd) and foreign currency reserves per capita (62nd) among others.

RECOVERY TAKES MORE THAN REFORMS

Context:

- The most recent growth estimates of the National Statistical Office show that after a steep contraction in the first quarter of 2020, growth accelerated steadily afterwards. This would have assured a recovery had we not experienced the second wave of the pandemic that came with the current financial year 2021.
- Overlapping State-level lockdowns that started in April 2021 is lasting for almost as long the nationwide lockdown of 2020, hence, output may well have contracted in the beginning of 2021. So, though recovery will eventually come, it could be W-shaped rather than V-shaped.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Macroeconomics Theories)

Mains Questions:

"Public spending is key for economic recovery in India post the economic setback caused by the lockdowns to control the spread of the Covid-19 Pandemic." Discuss and suggest reforms along conventional macroeconomic lines. (15 Marks)

Dimensions of the Article:

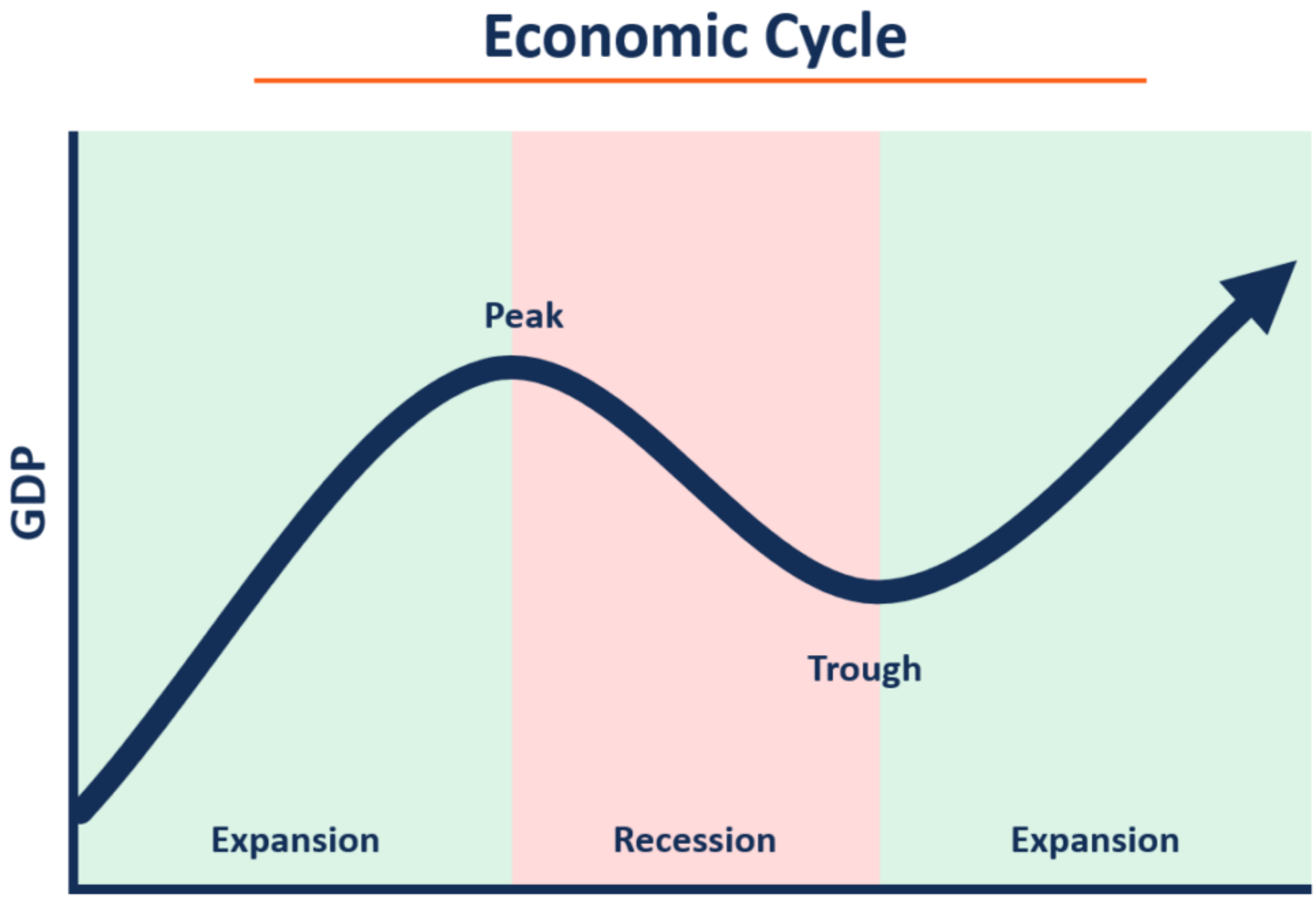
1. What is economic cycle and its stages?
2. What is Fiscal Policy?
3. Cyclicality of the fiscal policy
    1. What is pro-cyclical fiscal policy?
    2. What is counter-cyclical fiscal policy?
4. Basics of Reforms for Countering Economic Slowdown
5. The Current Situation and Steps that were taken
6. Public spending is the key
7. MMT vs Conventional debate for Raising Money for Public Spending
    1. Conventional Macro-economics
    2. Modern Monetary Theory (MMT)
8. Concern of Hyperinflation by the lines of MMT and the arguments

What is economic cycle and its stages?

- The economic cycle is the fluctuating state of an economy from periods of economic expansion and contraction. It is usually measured with the Gross Domestic Product (GDP) of a country or region. Other economic factors, such as employment rates, consumer spending, and interest rates, can also be used to determine the stage of the economic cycle.
- The economic cycle is also known as the business cycle, and it is the fluctuating state of a market-based economy. An economy is a term that describes a set of production and consumption activities that determine how resources ought to be allocated. Supply and demand pressures influence the economy through different variables, such as global economic conditions, trade balances, productivity, inflation rates, interest rates, and exchange rates. The variables, in aggregate, shape the economy and the state of the economic cycle.

Stages of Economic cycle

1. **Expansion:** During the expansion phase, an economy will experience strong growth, and interest rates will generally be lower but will begin to increase as the expansion matures. The overall production level increases, and inflation rates begin to rise as the expansion matures.
2. **The Peak:** The peak is reached when the growth of an economy reaches a plateau or maximum rate. It is usually characterized by higher inflation that needs to be corrected.
3. **Recession:** According to National Bureau of Economic Research (NBER) in the United States "During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year".
4. **The Trough:** The trough is characterized as a low point in the economy from which it can re-enter an expansionary phase.



What is Fiscal Policy?

- Fiscal policy deals with the government policy concerning changes in the taxation and expenditure overheads and components, while Monetary policy, deals with the changes in the factors and instruments that affect the supply of money in the economy and the rate of interest.
- Fiscal policy is result of several component policies or mix of policy instruments. These include, policy on taxation, subsidy, welfare expenditure, etc; investment or disinvestment strategies; and debt or surplus management.
- Fiscal policy is an important constituent of the overall economic framework of a country and is therefore intimately linked with its general economic policy strategy.'

Cyclicality of the fiscal policy

- Cyclicality of the fiscal policy simply refers to a change in direction of government expenditure and taxes based on economic conditions. These pertain to decisions by policymakers based on the fluctuations in economic growth.
- There are two types of cyclical fiscal policies – counter-cyclical and pro-cyclical.

What is pro-cyclical fiscal policy?

- In a pro-cyclical fiscal policy, the government reinforces the business cycle by being expansionary during good times and contractionary during recessions. Pursuing a pro-cyclical fiscal policy is generally regarded as dangerous. It could raise macroeconomic volatility, depress investment in real and human capital, hamper growth and harm the poor, say economists.

What is counter-cyclical fiscal policy?

- Counter-cyclical fiscal policy refers to the steps taken by the government that go against the direction of the economic or business cycle.

- Thus, in a recession or slowdown, the government increases expenditure and reduces taxes to create a demand that can drive an economic boom. The survey gives a colourful example of ancient Indian kings building palaces during droughts to drive home this point. On the other hand, during a boom in the economy, counter-cyclical fiscal policy aims at raising taxes and cutting public expenditure to control inflation and debt.

How does counter-cyclical fiscal policy work?

- An expansion in government expenditure cushions the contraction in output by offsetting the decline in consumption and investment.
- Higher government spending builds confidence in tough times. Through this policy, governments are able to show their commitment to sound fiscal management, said the survey.
- This in turn gives confidence to the private sector that the economy will not fluctuate too much. It helps businessmen overcome risk aversion and brings animal spirits in the economy.

Basics of Reforms for Countering Economic Slowdown

- Since 1991, the term 'reforms' has been used to mean both policy changes that remove restrictions on private sector activity in certain areas and those that increase profits in existing lines of production.
- Thus, to counter the economic slowdown, we need two-pronged strategy
    - Increase the Private sector Investment
    - Adoption of Counter cyclical fiscal policy by the Government.

The Current Situation and Steps that were taken

- Recent examples of increasing the private sector investment include allowing greater private sector participation in defence as part of the Atmanirbhar Bharat Abhiyaan launched in 2020, liberalization of FDI norms in a number of sectors such as Defence, Insurance, Coal Mining etc., and also the New Public Sector Enterprise policy introduced by the government.
- Presently for the private sector, entry into a new area or undertaking investment in an existing activity may not appear profitable given their expectation of the state of the economy in the near future, upon which their revenue will depend.
- In February 2021, believing that the peak of the epidemic had been crossed, the government reverted to its principal macroeconomic pre-occupation, namely **fiscal consolidation or the paring down of the fiscal deficit.** Accordingly, it raised its budgeted expenditure in 2021 by less than 1% of the 2020 Budget.
- The onset of the second wave of COVID-19 in April 2021 has thrown the economic policy calculations of the government out of gear and as economy had contracted in 2020-21 itself, with a possible further contraction of the economy, to continue with the frigid fiscal stance would be disastrous.

Public spending is the key

- Raising public spending is one of the moves left for bringing on a recovery, but it requires us to accept a higher than budgeted deficit.
- India's public debt is low by comparison with the OECD countries, and debt financing remains an option.
- Even if money financing is adopted, it need not cause accelerating inflation as some predict. Experience in India suggests otherwise. However, studies do show that any economic expansion would be inflationary if the production of food does not respond adequately. The focus must be on the food supply and not the money supply.

MMT vs Conventional debate for Raising Money for Public Spending

- Presently, the Government borrows money from the market (Banks, Financial Institutions etc.) through the issuance of Government securities (G-Secs) such as Treasury Bills and dated Securities.
- However, if the Government borrows the same money from the RBI by issuing the G-Secs, it is referred to as Monetization of Deficit.
- Presently, such monetization of deficit is taking place in India indirectly through the Open Market Operations.

Conventional Macro-economics

- According to this view, the Government should impose the taxes and use the same taxes in order to meet its various expenses such as Education, Health, Infrastructure etc.
- The Government should try to meet its expenses entirely from its taxes. It should not unnecessarily resort to borrowings. Even if it has to borrow money, it has to borrow money from the Market and not the Central Bank.
- At the same time, there should be limit on the overall borrowings of the Government. The higher borrowings can have an adverse impact on the economy; hence, the Government has to keep its Fiscal Deficit and Public Debt under control.

Modern Monetary Theory (MMT)

- The Modern Monetary theory says that households and private sector cannot create their own money and hence there is a possibility that they can run out of money and default on their loan obligations – but a government is a sovereign entity that has the power of printing currency notes (power of creating its own money) and since, it can create money whenever it wants to, it can never default on its repayment obligation.
- So, this theory suggests that the Central Bank of the Country should print the currency notes whenever the Government needs money. The Government should then use this borrowed money to spend on certain productive assets which can lead to increase in employment opportunities and GDP growth rate.

Concern of Hyperinflation by the lines of MMT and the arguments

- Historically, when countries have simply printed money it leads to periods of rising prices — there's too many resources chasing too few goods. Often, this means every day goods become unaffordable for ordinary citizens as the wages they earn quickly become worthless.
- In a famous instance known as "hyperinflation" in Germany during the 1920s, citizens were pictured taking wheelbarrows full of cash to shops to pay for basic goods. Spiralling prices then were more to do with the punishing reparations payments than money printing but it illustrates the problem.
- In Zimbabwe during the 2000s, monthly inflation reached as high as 80 billion percent according to some estimates, due to the policy of rapidly printing more money. The local currency was eventually abandoned in favour of the US dollar

MMT Arguments

- Increase in the Public Debt should not be a cause of concern since the Central Bank can print the currency notes and repay back its debt obligations. For example, post the 2008 Global Financial crisis, some of the developed economies have continued to borrow money in order to fund their stimulus packages without worrying about the higher Public Debt. A case in point is Japan. The Public debt in Japan has increased to almost 250% of its GDP. Yet, the higher borrowings have not led to higher inflation rates.
- The borrowed money should be used in the productive assets such as creation of infrastructure, boosting employment opportunities etc. This would ensure that the increased demand in the economy is met by increased supply. In order words, the money should be spent in such a way that it leads to increase in both demand and supply.

- The Government has to use the tool of tax rates in order to keep inflation under control. For example, the tax rates should be reduced during the recession. While, the tax rates should be increased during higher rate of Inflation.

CIA: 88% SMBS YET TO AVAIL ANY STIMULUS PACKAGE BENEFITS

Context:

The findings of a survey conducted by the Consortium of Indian Associations (CIA) show that as many as 88% of self-employed, small and medium businesses (SMB) said they were yet to avail any benefit under the stimulus packages introduced by the Centre while 82% felt the Union and State governments were not taking care of their interests.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy), GS-II: Social Justice (Government's Welfare Schemes)

Dimensions of the Article:

1. SMB (small and medium-sized business or small and midsized business)
2. Predicament of the SMBs in India

SMB (small and medium-sized business or small and midsized business)

- SMB is an abbreviation for small and medium-sized business, sometimes seen as small and midsized business. A business with 100 or fewer employees is generally considered small, while one with 100-999 employees is considered to be medium-sized.
- 'SMBs are critical to our economy as they contribute nearly a third of our GDP and generate employment for millions.
- The ongoing pandemic has impacted SMBs as much as any other segment' but the agility and flexibility in their operations, coupled with the adaptability to changing business environments and customer needs means they can bounce back far more quickly.

Predicament of the SMBs in India

- 73% of SMBs have not made any profit during the last fiscal and 42% were unable to decide on retention of employees, 59% said they reduced/sacked/removed their staff compared witho the pre-COVID period.
- The findings also touched upon the point that the laws relating to land use by industries, especially MSMEs, need a relook as these were not conducive to their growth.

Way Forwards suggested by the CIA

- The findings suggest that the government should adopt a three-pronged approach towards SMBs viz. exempting them from statutory compliances, penal actions and litigation; protecting them from high interest burden, price wars, high cost of raw materials, losing employees, penalties, and late fees and supporting them by giving liberal loans, clearing pending dues, offering moratorium with interest waiver and not declaring NPAs for the sector for a year.
- CIA has proposed that the government amend the Micro, Small and Medium Enterprises Development Act, 2006, to strengthen State facilitation councils.
- CIA has highlighted a series of long term and short-term measures to the Central and State gGovernments to beat the impact of the lockdown on the SMBs.
- It has also proposed to start collecting data of sSelf-employed, MSME businesses in the country from banks. Based on this data, the business type could be correctly classified as traders, professionals,

service providers, exporters, engineering enterprises, etc., as well as employees in them as migrant and formal.

THE RURAL ECONOMY CAN JUMP-START A REVIVAL

Context:

The second wave of the COVID-19 pandemic could be slowly receding with the economy also very gradually getting back to normal. However, the challenge of an economic recovery is far more serious than the health pandemic despite official claims of there being an economic recovery.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Government Policies and Interventions, Inclusive Growth), GS-III: Agriculture

Dimensions of the Article:

1. Understanding the Economic Outlook of India
2. Agriculture, a key driver
3. The rural economy can jump-start a revival
4. Special Support needed for Secondary Agriculture

Understanding the Economic Outlook of India

- Recently, the National Statistical Office (NSO) released the estimates of the Indian Gross Domestic Product (GDP) growth for the fiscal year 2020-21 and its estimate of decline in GDP, at 7.3%, was slightly better than expectation, even though this is a gross underestimate of the reality given the methodological issue of underestimation of the economic distress in the unorganised sector.
- But what makes economic recovery challenging is that this decline followed three years of sharp decline in GDP even before the novel coronavirus pandemic hit the country.
- Economic growth had already decelerated to 4% in 2019-20, less than half from the high of 8.3% in 2016-17.
- Since then, the slowdown in the economy has not only made things worse as far as economic recovery is concerned but also come at a huge cost for a majority of households which have lost jobs and incomes.

Agriculture, a key driver

- Despite the lack of fiscal support, an important contributor to the better-than-expected economic performance was the resilience of the rural economy, particularly the agricultural sector.
- While rural areas were the first point of refuge for a majority of migrants who walked back thousands of kilometres from urban metropolitan areas, agriculture was the only major sector (other than electricity, gas, water supply and other utility services) which reported an increase in Gross Value Added (GVA) in 2020-21.
- The agriculture sector not only provided jobs to returning migrants but also sustained the economy in the rural areas.
- The average growth rate in agriculture GVA in the last five years, at 4.8%, is significantly higher than the GVA growth of the economy as a whole, at 3.6%, in the last five years.

Inadequacy in the sector

- Unlike 2020, the Government has not increased the allocation this year for the National Rural Employment Guarantee Scheme (NREGS).

- For the country as a whole, despite an increase in employment demand in NREGS, the person-days generated in May 2021 was only 65% when compared to May 2020.
- While the free food-grain scheme has been extended this year as well, it does not include pulses as was provided in 2020.
- Similarly, there has not been any cash transfer to vulnerable groups, unlike 2020.
- While real wages have continued to decline with the latest estimates of April 2021 showing a decline in rural non-agricultural wages by 0.9% per annum in the last two years, agricultural wages continue to stagnate.

The rural economy can jump-start a revival

According to Dalwai Panel, Secondary agriculture is defined as cottage Industry that (a) utilises agricultural products as raw material or provides various inputs to agriculture (b) deploys locally available skills to produce goods and services; and (c) can be categorised appropriately as MSME.

Philosophy behind Secondary Agriculture- Harnessing Structural transformation in Rural Areas

- The share of non-farm income in rural areas has increased from 25% in 1970s to 70% in 2015, while the share of employment in non-farm has increased from 23% to 35%.
- The rural areas account for 95% of agricultural output, 50% of Manufacturing and 25% of services sector output.
- The share of rural areas in manufacturing output has doubled in sixty years, without an associated increase in share in the workforce.
- Thus, there is the need to strategically promote the right kind of development in manufacturing and services sectors, that will generate employment.
- Thus, there is the need to strategically promote labour-intensive cottage-based manufacturing and services sectors to support Indian Agriculture, boost employment creation and transform rural areas.

Special Support needed for Secondary Agriculture

Secondary agriculture would need to be promoted by providing enterprise level support, which can be undertaken by initial setting up of a Division on Secondary Agriculture & Enterprises in all three Departments of the Ministry of Agriculture and Farmers' Welfare, and coordinate their efforts through a structured platform.

The following steps can be taken to support secondary agriculture:

- Priority sector status for institutional credit.
- Low-cost skilling and knowledge-based exposure.
- Specialised extension services for enterprises owned by females.
- Priority under rural electrification objectives.
- Fast track procedures to avail benefits under ongoing central sector and centrally supported schemes.
- Geographical Indicator labels to products from village scale secondary production.

HIGHER THRESHOLDS FOR SMALL AND MEDIUM COMPANIES

Context:

The Corporate Affairs Ministry has expanded the turnover and borrowing thresholds for Small and Medium sized Companies (SMC), allowing a larger number of firms to benefit from reporting exemptions under accounting norms.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy), GS-III: Industry and Infrastructure

Dimensions of the Article:

1. Companies (Accounting Standards) Rules, 2021
2. What are the changes in thresholds for SMCs?
3. Impact of these Changes

Click Here to read more about what are SMCs and their predicament

Companies (Accounting Standards) Rules, 2021

- The Ministry of Corporate Affairs has notified the Companies (Accounting Standards) Rules, 2021 which deals with small and medium companies to revise the turnover and borrowing limits and help in making disclosure requirements less onerous.
- The notification has included the revised definition of MSMEs. Under the revised SMC definition, the turnover limit has been increased from Rs 50 crore to not exceeding Rs 250 crore and with enhanced borrowing limits.
- This is in addition to the requirements that such entities should be unlisted companies, which are not banks, financial institutions, or insurance companies.
- Every company, other than companies on which Indian Accounting Standards as notified under Companies (Indian Accounting Standards) Rules, 2015 are applicable, and its auditor(s) shall comply with the Accounting Standards.

What are the changes in thresholds for SMCs?

- The Corporate Affairs Ministry has increased the turnover threshold for SMCs to Rs 250 crore from Rs 50 crore, and the borrowing threshold to Rs 50 crore from Rs 10 crore.
- SMCs are permitted to avail a number of exemptions under the Company (Accounting Standards) Rules 2021 to reduce the complexity of regulatory filings for smaller firms.
- SMC are completely exempted from having to file cash flow statements and provide a segmental break up of their financial performance in mandatory filings.
- SMCs can also avail partial reporting exemptions in areas including reporting on employee benefits obligations such as pensions.
- SMCs are exempted from having to provide a detailed analysis of benefit obligations to employees, but are still required to provide actuarial assumptions used in valuing the company’s obligations to employees.
- SMCs are also exempted from having to report diluted earnings per share in their filings. Diluted earnings per share reflect the per share earnings of a company assuming that all options to convert other securities into shares are exercised.
- SMCs are also allowed to provide an estimated value in use of assets carried on their balance sheets, and are not required to use present value techniques to arrive at the value in use of assets. The value in use of an asset is the present value of future cash flows arising from the continuous use of an asset and from its disposal at the end of its useful life.
- Any SMC which opts to avail of any of the exemptions available to them under the Companies Accounting Rules is required to disclose those which it has utilised in its mandatory filings.

Impact of these Changes

- Experts have noted that the move would promote ease of doing business for the firms that would now be included under the definition of SMC.

- The increase in borrowing threshold from 10 to 50 crores comes as a huge relief considering the difficulties faced by SMCs during the Covid 19 Pandemic.
- The exemption from reporting diluted earnings per share will allow for some amount of alleviation to the adverse impact that the companies might face due to an abnormal drop in profits that are solely an impact of the unfair conditions during the pandemic.
- The Accounting Standards for SMC, which were notified in December 2006 and amended from time to time, are much simpler as compared to Indian Accounting Standards (Ind AS). These accounting standards involve less complexity in its application, including the number of required disclosures being less onerous. Ind AS standards are applied to larger firms, and are largely similar to International Financial Reporting Standards (IFRS) used in most developed jurisdictions.

CHIEF ECONOMIC ADVISER ON GOVT'S DIVESTMENT TARGETS

Context:

India's Chief Economic Adviser has expressed confidence that the ₹1.75-lakh crore disinvestment target of this fiscal will be achieved, with a good part coming from the proposed IPO of insurance behemoth LIC and privatisation of Bharat Petroleum Corporation (BPCL).

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Inclusive growth and issues therein, Budgeting)

Dimensions of the Article:

1. What is Disinvestment?
2. Evolution of Disinvestment Policy in India
3. Privatization in 2019 and onwards
4. Policy of Strategic Disinvestment announced in the Union Budget FY 2021-22
5. What goes outside government control?
6. Issues related to Disinvestment
7. Significance of the disinvestment

What is Disinvestment?

- Disinvestment or divestiture refers to the government selling or liquidating its assets or stakes in PSE (public sector enterprise).
- The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment
- It is done when a PSU start incurring the loss of exchequer.
- Disinvestment proceeds can help the government fund its fiscal deficit.

Evolution of Disinvestment Policy in India

- The liberalization reforms undertaken in 1991 ushered in an increased demand for privatization/ disinvestment of PSUs.
- The new economic policy 1991 indicated that PSUs had shown a very negative rate of return on capital employed due to:
    - Subsidized price policy of public sector undertakings.
    - Under–utilization of capacity

- Problems related to planning and construction of projects.
- Problems of labour, personnel and management and lack of autonomy

- In the initial phase, this was done through the sale of a minority stake in bundles through auction. This was followed by a separate sale for each company in the following years, a method popularly adopted till 1999-2000.
- India adopted strategic sale as a policy measure in 1999-2000 with the sale of a substantial portion of government shareholding in identified Central PSEs (CPSEs) up to 50% or more, along with transfer of management control. This was started with the sale of 74 % of the Government's equity in Modern Food Industries Limited (MFIL).
- Thereafter, 12 PSUs (including four subsidiaries of PSUs), and 17 hotels of Indian Tourism Development Corporation (ITDC) were sold to private investors along with transfer of management control by the Government.
- Another major shift in disinvestment policy was made in 2004-05 when it was decided that the government may "dilute its equity and raise resources to meet the social needs of the people", a distinct departure from strategic sales.
- Department of Investment and Public Asset Management (DIPAM) has laid down comprehensive guidelines on "Capital Restructuring of CPSEs" in May 2016 by addressing various aspects, such as payment of dividends, buyback of shares, issues of bonus shares and splitting of shares.

Privatization in 2019 and onwards

- In November 2019, India launched its biggest privatization drive in more than a decade. An "in-principle" approval was accorded to reduce the government of India's paid-up share capital below 51% in select Central Public Sector Enterprises (CPSEs).
- Among the selected CPSEs, strategic disinvestment of the Government's shareholding of 53.29% in Bharat Petroleum Corporation Ltd (BPCL) was approved which led to an increase in value of shareholders' equity of BPCL by INR 33,000 crore when compared to its peer Hindustan Petroleum Corporation Limited (HPCL) and this reflects an increase in the overall value from anticipated gains from consequent improvements in the efficiency of BPCL when compared to HPCL which will continue to be under Government control.

The Economic Survey 2020 on Govt. Divestment in PSUs

- The Economic Survey 2020 has aggressively pitched for divestment in PSUs by proposing a separate corporate entity wherein the government's stake can be transferred and divested over a period of time.
- The performance of privatized firms, after controlling for other confounding factors using the difference in the performance of peer firms over the same period, improves significantly the following privatization.
- Further, the survey has said privatized entities have performed better than their peers in terms of net worth, profit, return on equity and sales, among others.

Policy of Strategic Disinvestment announced in the Union Budget FY 2021-22

- The government aims at making use of disinvestment proceeds to finance various social sector and developmental programmes and also to infuse private capital, technology and best management practices in Central Government Public Sector Enterprises.
- Union Minister for Finance and Corporate Affairs, while presenting the Union Budget FY 2021-22 in Parliament announced that government has approved a policy of strategic disinvestment of public sector enterprises that will provide a clear roadmap for disinvestment in all non-strategic and strategic sectors.

- Fulfilling the governments' commitment under the AtmaNirbhar Package of coming up with a policy of strategic disinvestment of public sector enterprises, the Minister highlighted the following as its main features:
- Existing CPSEs, Public Sector Banks and Public Sector Insurance Companies to be covered under it.
- Most significant, however, is the new strategic disinvestment policy for public sector enterprises and the promise to privatise two public sector banks and a general insurance company in the year.
- The policy, promised as part of the AtmaNirbhar Bharat package, states the government will exit all businesses in non-strategic sectors, with only a 'bare minimum' presence in four broad sectors.

What goes outside government control?

- **Strategic Sectors identified:** The strategic sectors identified at the time for retaining certain public sector entities within the government's control remain the same in the final policy approved by the

Cabinet. These are atomic energy, space and defence, transport and telecommunications, power, petroleum, coal and other minerals, and lastly, banking, insurance and financial services. While the initial plan was to retain one to four public sector firms in these sectors, this has now been replaced by the phrase "bare minimum presence".

- **Bare Minimum Presence:** Once the government decides what is the bare minimum number of firms it wants to retain, the rest of the firms will be privatised, merged or subsidiarized with other CPSEs, or closed.
- **Non-Strategic Firms:** For all firms in sectors considered non-strategic, privatisation or closure are the only two options being considered. The policy's objective is to minimise the public sector's role and create new investment space for the private sector, in the hope that the infusion of private capital, technology and management practices will contribute to growth and new jobs. The proceeds from the sale of these firms would finance various government-run social sector and developmental programmes.

Issues related to Disinvestment

- It is against the socialist ideology of equal distribution of resources amongst the population.
- It will lead to monopoly and oligopolistic practices by corporates.
- Proceedings of disinvestment had been used to cater the fiscal deficit of the state which would lead unhealthy fiscal consolidation.
- Private ownership does not guarantee the efficiency (Rangarajan Committee 1993).
- Disinvestment exercise had been done by undervaluation of public assets and favoritism bidding, thereby, leading to loss of public exchequers.
- Private ownership might overlook developmental region disparity in order to cut the cost of operation

Significance of the disinvestment

- Trade unionism and political interference often lead to halting of PSUs projects thereby hampering the efficiency in long run.
- Problem of disguised unemployment and outdated skill in PSUs employee are the major cause of inefficiency.
- Private prayers works out of Red Tapism bureaucratic mentality and focus on performance-driven culture and effectiveness (Disinvestment Commission 1996).
- More robust competitive bidding leads to competition in private sectors to participate in PSUs.
- Moreover, it ensuring that product service portfolio remains contemporary by developing/ acquiring technology.

MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES DAY

Context:

Micro, Small and Medium-sized Enterprises (MSMEs) Day is celebrated every year on June 27 to recognise the contribution of these industries in the implementation of the Sustainable Development Goals (SDGs).

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources)

Dimensions of the Article:

1. Understanding MSMEs in India
2. About International MSMEs Day

3. Measures that can give some hope to the MSME sector

Understanding MSMEs in India

- MSME stands for Micro, Small, and Medium Enterprises which are small sized entities, defined in terms of their size of investment in plant and machinery/equipment along with THE NEW CRITERION OF ANNUAL TURNOVER.
    1. As per the revised definition, any firm with investment up to Rs 1 crore and turnover under Rs 5 crore will be classified as "micro".
    2. A company with investment up to Rs 10 crore and turnover up to Rs 50 crore will be classified as "small".
    3. A firm with investment up to Rs 50 crore and turnover under Rs 250 crore will be classified as "medium".

Existing and Revised Definition of MSMEs

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment<Rs. 25 lac	Investment<Rs. 5 cr.	Investment <Rs. 10 cr.
Services Enterprise	Investment<Rs. 10 lac	Investment< Rs. 2 cr.	Investment<Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment< Rs. 1 cr. and Turnover < Rs.5 cr.	Investment< Rs. 10 cr. and Turnover < Rs.50 cr.	Investment< Rs. 20 cr. and Turnover < Rs.100 cr.

1. **Difference between definition of manufacturing and service-based MSMEs removed.**
2. **Threshold limit to define an enterprise as an MSME increased.**
3. **Turnover added as another criteria to define MSMEs, besides investment scale.**

Pointers about MSMEs in India

- According to the Annual Report of the Department of MSMEs (2018-19), there are more than 6 crore MSMEs in the country.
- MSMEs are the growth accelerators of the Indian economy, contributing about 30% of the country's gross domestic product (GDP).

- 99.5% of all MSMEs fall in the micro category. Small and medium MSMEs are predominantly present in urban India whereas, micro enterprises are equally distributed over rural and urban India.
- Around 51% of MSMEs are situated in rural India and 49% of them are situated in urban India.
- Both rural and urban MSMEs together employ over 11 crore people but 55% of the employment happens in the urban MSMEs.
- The gender ratio among employees is largely consistent across the board at roughly 80% male and 20% female.
- In terms of exports, MSMEs are an integral part of the supply chain and contribute about 48% of the overall exports.
- MSMEs also play an important role in employment generation, as they employ about 110 million people across the country.

About International MSMEs Day

- The United Nations (UN) designated 27th June as Micro, Small and Medium-sized Enterprises Day through a resolution passed in the UN General Assembly in 2017.
- The theme for the 2021 International MSMEs day is "MSME 2021: Key to an inclusive and sustainable recovery."
- It has been funded by the 2030 Agenda for Sustainable Development Sub-Fund of the United Nations Peace and Development Fund.
- The UN wants countries to recognise sustainable development goals and create awareness about them.

Measures that can give some hope to the MSME sector

- **Why assemble in India, when we can Make-in-India?:** Now could be the right time for the Government to roll out sops to MSMEs that manufacture locally. The Government eMarketplace (GeM) could be of great use to suppliers looking for purchasers and vice versa. Investing in online infrastructure while also encouraging small businesses to source locally could help improve manufacturing while also cutting on our import costs.
- **Delay MSME loan repayments or extend tenures:** As the RBI pumps in more cash into the banking sector, deferring or relieving the MSMEs of loan repayments could come as a welcome move. Most businesses are looking for financial support from the government and doing this can help them cope with cash flow problems. Relaxing bad loan norms could also be a saving move for this sector.
- **Inventory management for exporters:** Businesses that are into exports could use some help with inventory management. In the Union Budget 2020, Sitharaman proposed building warehouses at block/taluk level. If the government could allot subsidised warehousing to exporters while figuring out the supply chain side of things, it could potentially help support the economy.

INDIA TO TAP IRAN FOR OIL IF PRICES STAY HIGH

Context:

- Ahead of a critical OPEC meeting India's Petroleum and Natural Gas Minister said that India is persuading oil exporting countries to moderate surging oil prices and warned that high prices would push the country to tap alternative petroleum import sources such as Iran.
- India's Finance Minister called for speedier monetisation of oil and gas assets in 2021 and asked Ministries to expedite capital expenditure projects to revitalise the economy after the second wave of COVID-19.

Relevance:

GS-III: Indian Economy (International Trade, Mobilization of Resources, Growth and Development of Indian Economy), GS-III: Industry and Infrastructure

Dimensions of the Article:

1. About India's challenge with increasing oil prices
2. Finance Minister on Handling the strain
3. About Organization of the Petroleum Exporting Countries (OPEC)
4. Way Forward Options for India

Click Here to learn why crude oil prices are rising and what is the impact on India.

About India's challenge with increasing oil prices

- Stressing that inflation was a major challenge for the economy, India's Petroleum and Natural Gas Minister said that India had already exhausted strategic petroleum reserves it had built up in 2020 by taking advantage of lower oil prices.
- Indian Minister also indicated that India would opt for whichever option provided competitive prices within its 'global diplomatic framework', including Iran if the economic sanctions imposed on it by the U.S. were lifted.
- The Minister exuded confidence that the demand for petroleum products would return to pre-pandemic levels by the end of 2021.
- The Organization of Petroleum Exporting Countries and its allies (OPEC+) are expected to discuss a possible easing of supply cuts, amid a rebound in global demand, on July 1 2021.

Finance Minister on Handling the strain

- The Petroleum and Natural Gas Ministry was asked to expedite monetisation of assets as a step to ramp up capex. [Capital expenditures (CAPEX) are major purchases a company makes that are designed to be used over the long term – i.e., for purchases of significant goods or services that will be used to improve a company's performance in the future.]
- While the Budget has provided an outlay of ₹5.54 lakh crore for FY22, the finance minister said public sector enterprises need to complement it with their own steps to ramp up capex.
- The finance minister also asked the Ministry of Housing and Urban Affairs to try to front-load capital spending and facilitate private investment by providing support and removing bottlenecks.

About Organization of the Petroleum Exporting Countries (OPEC)

- The Organization of the Petroleum Exporting Countries is an intergovernmental organization of 14 nations, founded in 1960 in Baghdad by the first five members (Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela), and headquartered since 1965 in Vienna, Austria.
- As of 2018, the 14 member countries accounted for an estimated 44 percent of global oil production and almost 82% of the world's "proven" oil reserves, giving OPEC a major influence on global oil prices that were previously determined by the so-called "Seven Sisters" grouping of multinational oil companies.
- The stated mission of the organization is to "coordinate and unify the petroleum policies of its member countries and ensure the stabilization of oil markets, in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry."

Way Forward Options for India

- India needs pricing flexibility as well as the certainty of supply even during times when production falls due to any reason. Besides, choice of time of supply and flexibility on quantity (ability to reduce or increase) is what India should be looking at.
- Indian refiners can look to reduce the quantity they buy through term contracts and instead buy more from the spot or current market.
- Buying from the spot market would ensure that India can take advantage of any fall in prices on any day and book quantities. It's like the stock market where shares can be brought on a day or time when the prices are low.
- State-owned refineries have also been asked to coordinate buying and also explore joint strategy with private refiners such as Reliance Industries and Nayara Energy.

SRI LANKA 'BANKING ON' $1 BN INDIA SWAP DEAL

Context:

Sri Lanka is "banking on" a $1 billion currency swap from India to meet its debt repayment obligations in 2021 and tide over the current economic crisis, a senior official of the Central Bank of Sri Lanka said.

Relevance:

GS-II: International Relations (India's Neighbors, Foreign Policies and Developments affecting India's Interests), GS-III: Indian Economy

Dimensions of the Article:

1. What is a Currency Swap?
2. How a Currency Swap Works
3. About Sri Lanka's Current position on Debt servicing

What is a Currency Swap?

- A currency swap is a transaction in which two parties exchange an equivalent amount of money with each other but in different currencies.
- The parties are essentially loaning each other money and will repay the amounts at a specified date and exchange rate.
- The purpose of a Currency Swap exercise could be to:
    1. Hedge exposure to exchange-rate risk,
    2. Speculate on the direction of a currency, or
    3. Reduce the cost of borrowing in a foreign currency.

How a Currency Swap Works

In a currency swap, or FX swap, the counter-parties exchange given amounts in the two currencies.

Example for Understanding Currency Swap between 2 countries

- During a Currency Swap deal, say the U.S. might receive 100 million British pounds (GBP), while the U.K. receives $125 million. This implies a GBP/USD exchange rate of 1.25.
- At the end of the agreement, they will swap again at either the original exchange rate or another pre-agreed rate, closing out the deal.
- Central banks and Governments engage in currency swaps with foreign counterparts to meet short term foreign exchange liquidity requirements or to ensure adequate foreign currency to avoid Balance of Payments (BOP) crisis till longer arrangements can be made.

- These swap operations carry no exchange rate or other market risks as transaction terms are set in advance.

About Sri Lanka's Current position on Debt servicing

- For Sri Lanka, Currency Swap is cheaper than borrowing from the market, and a lifeline as it struggles to maintain adequate forex reserves even as repayment of its external debts looms.
- Sri Lanka has already serviced part of its debt in 2021 and is preparing to repay the remaining more than $3 billion debt by the end of 2021.
- With an international sovereign bond maturing soon, a $1 billion repayment is due in July.
- Sri Lanka is expecting a $400 million swap from the Reserve Bank of India in a couple of months through the SAARC facility but the additional $1 billion is going to be crucial for Sri Lanka.
- While official sources in New Delhi earlier indicated that negotiations on the issue were "ongoing", the Indian government is yet to respond to requests of currency swap as well as the 2020 request for a debt freeze, even as bilateral talks have continued at high levels.
- Sri Lanka's gross official reserves currently stand at $4 billion, excluding the "standby" about $1.5 billion swap agreement with the People's Bank of China.
- There is also the Currency Swap deal with Bangladesh that is effectively a loan that Bangladesh will give to Sri Lanka in dollars, with an agreement that the debt will be repaid with interest in Sri Lankan rupees.

WB SUPPORT TO INDIA'S INFORMAL WORKING CLASS

Context:

World Bank said it has approved a USD 500 million (about Rs 3,717.28 crore) loan programme to support India's informal working class to overcome the current pandemic distress.

Relevance:

GS-III: Indian Economy (Inclusive growth, Government Policies and Interventions), GS-II: International Relations (Important International Institutions)

Dimensions of the Article:

1. About India's Informal Workforce
2. Issues with having a majority in the informal sector
3. About the World Bank's Financial Support

[Click Here to read about the World Bank and World Bank Group]

About India's Informal Workforce

- India's estimated 450 million informal workers comprise 90% of its total workforce, with 5-10 million workers added annually. (As per Periodic Labour Force Survey, 2017-18, 90.6 per cent of India's workforce was informally employed.)
- Informal Labour is largely characterized by skills gained outside of a formal education, easy entry, a lack of stable employer-employee relationships, and a small scale of operations.
- The statistics of the ILO report indicates that 95% of the workforce is in the informal sector.
- India's informal sector is the biggest piece in our economy as it employs the vast majority of the workforce accounting for about half of GNP according to Credit Suisse, and the formal sector depends on its goods and services.

- Between 2004-05 and 2017-18, a period when India witnessed rapid economic growth, the share of the informal workforce witnessed only a marginal decline from 93.2 per cent to 90.6 per cent.
- Looking ahead, it is likely that informal employment will increase as workers who lose formal jobs during the COVID crisis try to find or create work (by resorting to self-employment) in the informal economy.
- Further, according to Oxfam's latest global report, out of the total 122 million who lost their jobs in 2020, 75% were lost in the informal sector.

Issues with having a majority in the informal sector

- The informal sector remains unmonitored by the government.
- No official statistics are available representing the true state of the informal sector in particular (and hence the economy as a whole) which makes it difficult for the government to make policies. Unlike the formal economy, the informal sector's components are not included in GDP computations.
- Informal sector workers have no job security, minimal benefits, very low pay, and often face hazardous working conditions.
- There is an expectation of increase in the number of people in informal sector with the issue that about 65-75% (15 million) of Indian youth, that enter the workforce each year are not job-ready or suitably employable.
- In India Restrictive labour laws- which promotes ad hocism and contract hiring in the labour market to circumvent the rigid labour laws.

About the World Bank's Financial Support

- Of the USD 500 million commitment, USD 112.50 million will be financed by its concessionary lending arm International Development Association (IDA) and the rest will be a loan from International Bank for Reconstruction and Development (IBRD).
- States can now access flexible funding from disaster response funds to design and implement appropriate social protection responses.
- The funds will be utilised in social protection programmes for urban informal workers, gig-workers, and migrants.
- Investments at the municipal level will promote National Digital Urban Mission that will create a shared digital infrastructure for people living in urban areas and will scale up urban safety nets and social insurance for informal workers.
- The programme will give street vendors access to affordable working capital loans of up to Rs 10,000.

INDIA'S 1991 LIBERALISATION LEAP AND LESSONS FOR TODAY

Context:

2021 will mark 30 years since the 1991 LPG reforms which were hugely successful, but there is still some progress to be made.

Relevance:

GS-III: Indian Economy (Planning, Mobilisation of resources, Growth and development of Indian Economy)

Dimensions of the Article:

1. Situations before 1991 Reforms

2. Reforms of 1991
3. Why were the reforms needed?
4. Approaching IMF & IBRD for Loan
5. What changed and how with the 1991 LPG reforms?

Situations before 1991 Reforms

- The private sector was not allowed to invest in several sectors thought to be critical for development. The so-called "commanding heights" were reserved for the public sector despite its lacklustre performance.
- Where the private sector was allowed, it could invest only after getting an industrial licence, and that was especially hard to get for "large" industrial houses.
- Over 860 items were reserved exclusively for small-scale producers, including many that had very high export potential. Imports were more strictly controlled than in almost any other developing country because it was felt necessary to conserve scarce foreign exchange.
- Consumer goods simply could not be imported so domestic producers faced no import competition. Producers could import capital goods and intermediates needed for production, but this generally required an import licence which was given only if the government was satisfied that the import was essential and domestic substitutes were not available.
- Importantly, the import of technology was controlled and Foreign Direct Investment (FDI) was discouraged.

Reforms of 1991

- In 1991, India met with an economic crisis relating to its external debt — the government was not able to make repayments on its borrowings from abroad; foreign exchange reserves, which we generally maintain to import petroleum and other important items, dropped to levels that were not sufficient for even a fortnight.
- The crisis was further compounded by the rising prices of essential goods.
- All these led the government to introduce a new set of policy measures that changed the direction of our developmental strategies.
- In 1991, in response to a major balance-of-payments crisis, India made a radical shift away from its long-standing policy of inward orientation, and the subsequent reforms have moved the policy regime significantly towards market orientation, deregulation, and liberalization.
- Indian industry has responded to the increased competition – domestic as well as foreign – with significant restructuring although the constraints arising from poor infrastructure, largely unreformed public sector, slowly reforming banking sector, inflexible labour laws, and other barriers to exit stand in the way of faster adjustment to the new and emerging policy regime which is inspired by market orientation.

Why were the reforms needed?

- Development policies required that even though the revenues were very low, the government had to overshoot its revenue to meet challenges like unemployment, poverty and population explosion.
- The continued spending on development programmes of the government did not generate additional revenue back then. Moreover, the government was not able to generate sufficiently from internal sources such as taxation.

- When the government was spending a large share of its income on areas that do not provide immediate returns such as the social sector and defence, there was a need to utilise the rest of its revenue in a highly efficient manner.
- The income from public sector undertakings was also not very high to meet the growing expenditure. At times, our foreign exchange, borrowed from other countries and international financial institutions, was spent on meeting consumption needs.
- Neither was an attempt made to reduce such profligate spending nor sufficient attention was given to boost exports to pay for the growing imports.
- In the late 1980s, government expenditure began to exceed its revenue by such large margins that meeting the expenditure through borrowings became unsustainable. Prices of many essential goods rose sharply. Imports grew at a very high rate without matching the growth of exports and foreign exchange reserves declined to a level that was not adequate to finance imports for more than two weeks.
- There was also not sufficient foreign exchange to pay the interest that needed to be paid to international lenders. Also, no country or international funder was willing to lend to India.
- After the Second World War, almost all the newly independent countries adopted the route of planned development. Though they followed an overall model of the indicative planning, many of them had serious inclination towards imperative planning. As in the case of India, the heavy bias towards imperative planning could only be reformed once the process of economic reforms was started in 1991.

Approaching IMF & IBRD for Loan

- India approached the International Bank for Reconstruction and Development (IBRD), popularly known as World Bank and the International Monetary Fund (IMF), and received $7 billion as a loan to manage the crisis.
- **For availing the loan, these international agencies expected India to liberalise and open up the economy by removing restrictions on the private sector, reduce the role of the government in many areas and remove trade restrictions between India and other countries.**
- India agreed to the conditionalities of the World Bank and IMF and announced the New Economic Policy (NEP).
- The NEP consisted of wide-ranging economic reforms towards creating a more competitive environment in the economy and removing the barriers to entry and growth of firms.
- This set of policies can broadly be classified into two groups: the stabilisation measures and the structural reform measures.
- Stabilisation measures are short-term measures, intended to correct some of the weaknesses that have developed in the balance of payments and to bring inflation under control. In simple words, this means that there was a need to maintain sufficient foreign exchange reserves and keep the rising prices under control.
- On the other hand, structural reform policies are long-term measures, aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidities in various segments of the Indian economy. The government initiated a variety of policies which fall under three heads viz., liberalisation, privatisation and globalisation.

What changed and how with the 1991 LPG reforms?

Sector	Pre-LPG	Post-LPG-1991
Banking	Nationalisation of banks, International economy was not	Twin balance sheet syndrome, government required to recapitalise the public sector banks because they

	so greatly interconnected Basel norms less stringent.	cannot do it on their own → Financial burden has increased
Monetary Policy and Fiscal Policy	High level of fiscal deficit. RBI's monetary policy which mandated high level of SLR to finance Government's borrowing using bank depositors' money	Private sectors investment demand, consumerism has increased therefore RBI is forced to cut down the SLR to increase the loanable funds. Since high level of fiscal deficit was one of the reasons for BOP crisis, now Government has statutory FRBM requirements to control fiscal deficit. RBI has statutory requirement to control inflation – So rampant borrowing from RBI is becoming difficult for government
Private sector	Share of private sector in India's economic growth and employment generation was limited due to the License Quota Inspector Raj.	Drastically increased. Private sector requires ₹20 lakh crores every year for sustaining the current level of Economic Growth and Employment generation Therefore, if the government does not control fiscal deficit → crowding out of the private investment = challenges for India's growth story.
PSU	Loss making public sector undertakings were supported by the Government as white elephant.	Difficult to sustain the Public Sector Undertakings against the heavy competition of private sector be it Air India or BSNL. Government unable to pay salaries, even no buyers for their privatization
Infrastructure	Population was sparse. Most people didn't have access to TV, fridge, mobile, internet or social media Their demand for electricity was low.	Population has increased. Aspiration of people have increased They want clean water, 24/7 electricity, good quality of roads; Lot of money required for infrastructure finance, Railway alone requires 50 lakh crore between 2016-30, Government can't spend more than 1.6 lakh crore a year.
Welfare	Right to education, right to food, right to work (MGNREGA) were not yet 'legal rights'.	Now they have become legal rights so the government is required to allocate large amount of funds for them. food subsidy costs ₹ >1.8 lakh crore, MGNREGA ₹ 60k crore Post-LPG era, the level of education and demand for various amenities, and even per capita income has increased, but that has not been a corresponding increase in our tax to GDP (11%, where as countries with similar growth have >20%). This puts further strain on Public Expenditure Management
Public Administration	Small size of Government staff. Their salary levels were also low.	Public aspirations have increased, number of welfare schemes increased, Border Security challenges increased → employees have increased 6th pay commission and 7th pay commission → salaries have increased Challenge? 'Contracting out of the jobs' to keep revenue deficit minimal. NPS where Employee himself is largely responsible for his pension etc.

FUTURE OF IBC AND STRESSED ASSETS RESOLUTION

Context:

The Insolvency and Bankruptcy Code (IBC), notified in 2016, has been the key mechanism for addressing corporate distress and the accumulation of bad loans in the financial sector since its implementation. Recent National Company Law Tribunal (NCLT) rulings have also put the spotlight on the IBC.

Relevance:

GS-III: Indian Economy (Banking Sector & NBFCs, Growth & Development of Indian Economy)

Mains Questions:

What is bankruptcy code? Assess its role to address the bad loans in Banking Sector. 15 Marks

Dimensions of the Article:

1. Basics: What is Insolvency and Bankruptcy?
2. Process of resolution of Insolvency
3. Insolvency and Bankruptcy Code (IBC), 2016
4. Insolvency and Bankruptcy Code (Second Amendment) Bill, 2019
5. Summary of Insolvency resolution mechanism
6. NCLT
7. NCLAT
8. Differences between NCLT and NCLAT
9. Issues with Implementation of IBC
10. Way Forward

Basics: What is Insolvency and Bankruptcy?

- Insolvency is a financial status: your debts are greater than the fair market value of your assets & you're unable to pay your debts as they generally become due.
- Bankruptcy is a legal status: it's a legal procedure whereupon an insolvent person files for protection from her creditors so that they cannot commence or continue legal proceedings (like a wage garnishment) against her to recover their debts.

Process of resolution of Insolvency

- If the adjudicating authority accepts the Insolvency resolution process initiated by any of the stakeholders of the firm: firm/debtors/creditors/employees., then – an Insolvency resolution professional (IP) is appointed.
- The power of the management and the board of the firm is transferred to the Committee of Creditors (CoC) and they act through the IP.
- The IP has to decide whether to revive the company (insolvency resolution) or liquidate it (liquidation).
- If they decide to revive, they have to find someone willing to buy the firm.
- The creditors also have to accept a significant reduction in debt. The reduction is known as a haircut.
- They invite open bids from the interested parties to buy the firm.
- They choose the party with the best resolution plan, that is acceptable to the majority of the creditors (75 % in CoC), to take over the management of the firm.

Insolvency and Bankruptcy Code (IBC), 2016

- Insolvency and Bankruptcy Code, 2016 provides a time-bound process for resolving insolvency in companies and among individuals.

- The Government implemented the Insolvency and Bankruptcy Code (IBC) to consolidate all laws related to insolvency and bankruptcy and to tackle Non-Performing Assets (NPA), a problem that has been pulling the Indian economy down for years.

Objectives of IBC

1. To consolidate and amend all existing insolvency laws in India.
2. To simplify and expedite the Insolvency and Bankruptcy Proceedings in India.
3. To protect the interest of creditors including stakeholders in a company.
4. To revive the company in a time-bound manner.
5. To promote entrepreneurship.
6. To get the necessary relief to the creditors and consequently increase the credit supply in the economy.
7. To work out a new and timely recovery procedure to be adopted by the banks, financial institutions or individuals.
8. To set up an Insolvency and Bankruptcy Board of India.
9. Maximization of the value of assets of corporate persons.

Insolvency and Bankruptcy Code (Second Amendment) Bill, 2019

- The amendment also intends to provide protection to a corporation from criminal proceedings against offences committed by previous management or promoters.
- Additionally, it also provides a faster revival process for stressed companies.
- The amendment brings the much-awaited changes needed in the insolvency sector. It clears the air on various aspects and provides relief to both corporate debtor as well as the creditors.
- The thresholds introduce will prevent admission of unnecessary cases to the insolvency court.
- However, even after anticipation, cross border insolvency framework has not been included in the amendment.

Summary of Insolvency resolution mechanism

Adjudicating authorities:

- The proceedings of the resolution process would be adjudicated by the:
    1. National Companies Law Tribunal (NCLT), for companies; and
    2. Debt Recovery Tribunal (DRT), for individuals.

Committee of Creditors (CoC):

- During the insolvency resolution process, a committee consisting of lenders would be constituted for taking decisions (by voting) on the resolution process.
- The 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 in the committee of creditors. (Earlier, the voting threshold for the approval was 75%, but it was reduced to 66% through the IBC amendment act, 2019).

Insolvency and Bankruptcy Board:

- The Board would regulate insolvency professionals, insolvency professional agencies and information utilities set up under the Code.
- The Board would consist of representatives of Reserve Bank of India, and the Ministries of Finance, Corporate Affairs and Law.

Procedure to resolve Insolvency and Bankruptcy:

- The Code proposes two independent stages: Insolvency Resolution Process, during which lenders assess whether the debtor's business is viable to continue and the options for its rescue and revival; and Liquidation (Sale of Assets), if the insolvency resolution process fails.

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 which may be in the form of extending the maturity period of the loan, reducing the rate of interest on loans etc.
- 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):

- If the Committee of Creditors fail to come up with a resolution plan within the time limit of 330 days, then the proceeds from the sale of the debtor's assets are distributed in the following order of precedence:
    1. insolvency resolution costs, including the remuneration to the insolvency professional,
    2. secured creditors, whose loans are backed by collateral, dues to workers, other employees,
    3. unsecured creditors,
    4. dues to government,
    5. priority shareholders and
    6. equity shareholders.

NCLT

- The National Company Law Tribunal is a quasi-judicial body in India that adjudicates issues relating to Indian companies.
- The tribunal was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India. Hence, NCLT is a Statutory Body.
- All proceedings under the Companies Act, including proceedings relating to arbitration, compromise, arrangements and reconstruction and winding up of companies shall be disposed of by the National Company Law Tribunal.
- The National Company Law Tribunal is the adjudicating authority for insolvency resolution process of companies and limited liability partnerships under the Insolvency and Bankruptcy Code, 2016.
- No criminal court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Tribunal or the Appellate Tribunal is empowered to determine by or under this Act or any

other law for the time being in force and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act or any other law for the time being in force, by the Tribunal or the Appellate Tribunal.

NCLAT

- The National Company Law Appellate Tribunal (NCLAT) is a tribunal which was formed by the Central Government of India under Section 410 of the Companies Act, 2013.
- Hence, NCLAT is also a Statutory Body.
- The tribunal is responsible for hearing appeals from the orders of National Company Law Tribunal(s) (NCLT), starting on 1 June, 2016.
- The tribunal also hears appeals from orders issued by the Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.
- It also hears appeals from any direction issued, decision made, or order passed by the Competition Commission of India.

Differences between NCLT and NCLAT

- NCLT makes the judgement on the insolvency resolution proceedings. NCLAT makes judgement on the decisions made by the NCLT.
- NCLT is the primary Tribunal and NCLAT is the appellate tribunal.
- NCLT analyzes the evidences that are presented by the insolvent debtor or their creditors. NCLAT analyzes the decisions that are made by the NCLT.

Issues with Implementation of IBC

- In India there are not many strategic investors and an asset will have interest or value only if there are more people who are ready to buy. Therefore, better asset value realization will lead to faster resolution of stressed companies (happy creditors).
- There are delays in implementation of IBC whether it's in terms of approvals, having an application admitted itself.
- A lot of IBC cases are very old cases related to the stock of NPAs [Non-Performing Assets]. So, once this round is over, in future, perhaps, there will be fewer cases and IBC will be able to perform better than before.
- There is shortage of NCLT member, lot of vacancies & delays in appointments all of which has a bearing on IBC working efficiency.

Way Forward

- Increasing the predictability of IBC process so as to attract more & diverse range of strategic buyers who are willing to bid for assets, and submit resolution plans under the code
- MSMEs have flexibility in terms of promoters being able to submit resolution plans for such companies. Similar type of relaxation can be extended to large companies with necessary safeguards built into it.
- Establishing National ARC ("Bad Bank") will give the time to the banks to resolve these cases over a period of time. Government should make sure that it is adequately staffed & well-functioning.
- IBC cases are not the only mandate of the NCLT. They also consider various cases under the Companies Act (Ex: mergers or oppression). To improve IBC efficiency, NCLT strength has to be enhanced.
- IBC is not the only solution for resolving stress. Other mechanisms pre-IBC mechanisms, one-time settlements, restructuring packages needs to be promoted as well.

MAKING SENSE OF RBI'S FINANCIAL STABILITY REPORT

Context:

The Reserve Bank of India released its latest Financial Stability Report (or FSR).

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Taxation)

Dimensions of the Article:

1. What is the Financial Stability Report (FSR)?
2. Trends regarding data in the FSR
3. The latest 2021 FSR regarding impact of regulatory relief
4. Other Key pointers in the FSR
5. Systemic Risk Survey (SRS) April 2021

What is the Financial Stability Report (FSR)?

- Published twice each year, the FSR is one of the most crucial documents on the Indian economy as it presents an assessment of the health of the financial system.
- As such, the FSR looks sufficiency of capital for operation of Indian banks (both public and private), levels of bad loans (or non-performing assets) and their manageable limits, ability of different sectors of the economy to get credit (or new loans) for economic activity etc.
- The FSR puts together a wealth of data and information that also allows the RBI to assess the state of the domestic economy, especially in a fast-changing global economy.
- The FSR also allows the RBI to assess the macro-financial risks in the economy. [Macro-financial risks refer to the risks that originate from the financial system but affect the wider economy as well as risks to the financial system that originate in the wider economy.]
- As part of the FSR, the RBI also conducts "stress tests" to figure out what might happen to the health of the banking system if the broader economy worsens.
- With the FSR, the RBI also tries to assess how factors outside India — say the crude oil prices or the interest rates prevailing in other countries — might affect the domestic economy.
- Each FSR also contains the results of something called the Systemic Risk Surveys.

Trends regarding data in the FSR

- The RBI was most worried about bad loans shooting through the roof. According to the FSR in June 2020, depending on the level of stress in the economy, Gross NPAs could rise from 8.5% (of gross loans and advances) at the end of March 2020 to a two-decade high of as much as almost 15% by March 2021.
- In 2021, the FSR has found that the actual level of bad loans as of March 2021 is just 7.5%.
- However, the FSR is quick to point out that "macro-stress tests" for credit risk show that the GNPA ratio of Scheduled Commercial Banks "may increase from by more 2% from March 2021 to 2022 under the baseline scenario and by almost 4% under a severe stress scenario".
- In other words, while relief provided by the RBI in the past year — cheap credit, moratoriums and facilities to restructure existing loans — has contained the number of Indian firms that openly defaulted on their loan repayment, things could yet get worse, especially for the small firms (or MSMEs).

- It all depends on factors such as the evolution of the virus (and its impact on the economy) as well as the decision of central banks the world over (especially the RBI) to raise interest rates (to contain rising inflation) and wind up their cheap money policy.

The latest 2021 FSR regarding impact of regulatory relief

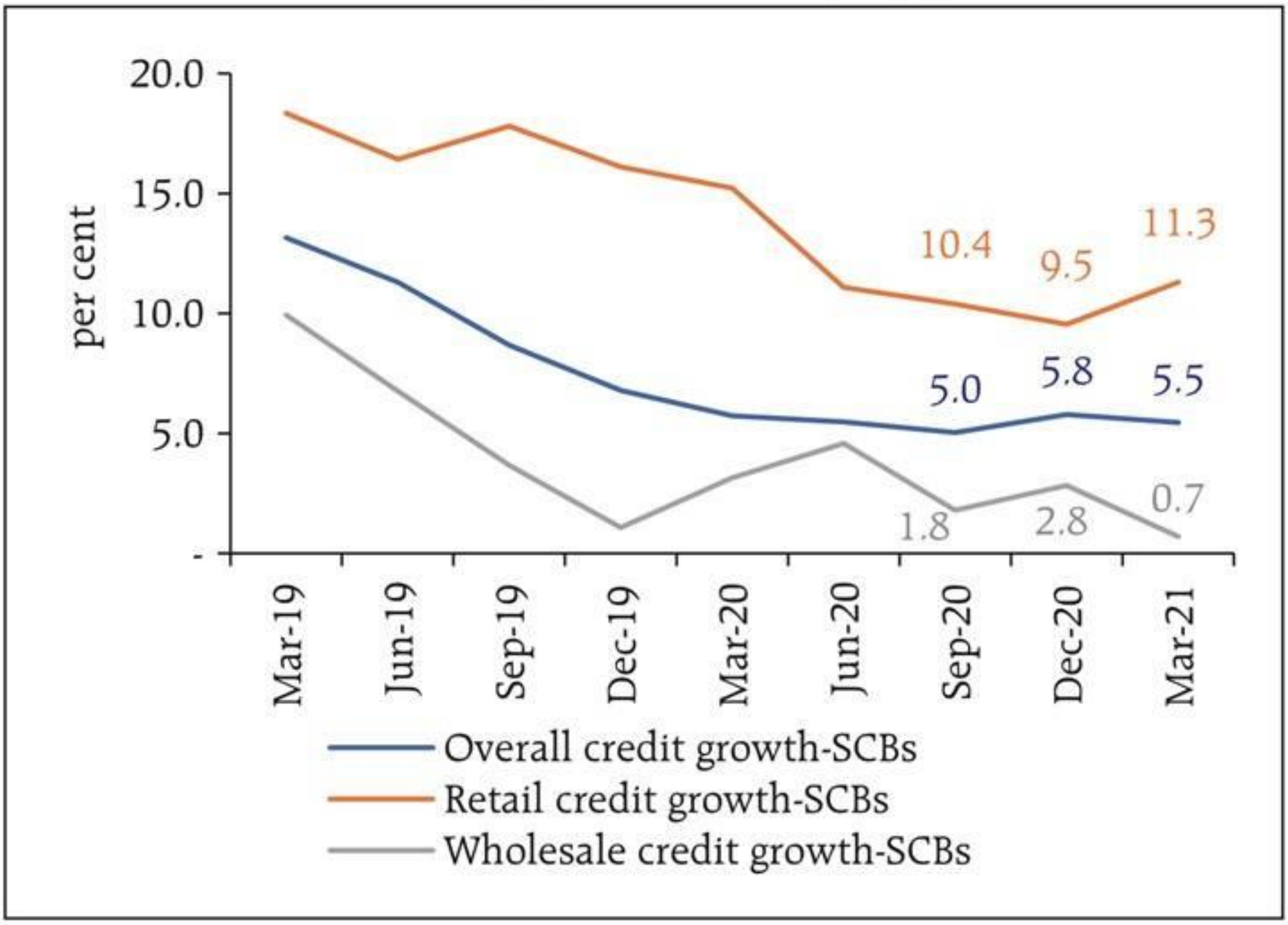
- Historical experience shows that credit losses remain elevated for several years after recessions end. Indeed, in EMEs [Emerging Market Economies], non-performing assets typically peak six to eight quarters after the onset of a severe recession.
- Eventually as the support measures will be phased out, it is important to note that he longer that blanket support is continued, the higher the risk that it props up persistently unprofitable firms ('zombies'), with adverse consequences for future economic growth". In other words, providing excess regulatory relief might just help firms that don't deserve to get it because they are inherently inefficient. Moreover, helping out inefficient firms in this way is eventually a burden on the taxpayers of the country.

Flip side

- If support measures are phased out before firms' cash flows recover, however, banks will have to increase provisions and might tighten lending standards to preserve capital which might, in turn, undermine the recovery. Banks need sufficient buffers to absorb losses along the entire path to full recovery," states the FSR.

Other Key pointers in the FSR

Chart 1.37: Credit growth in SCBs (y-o-y, per cent)

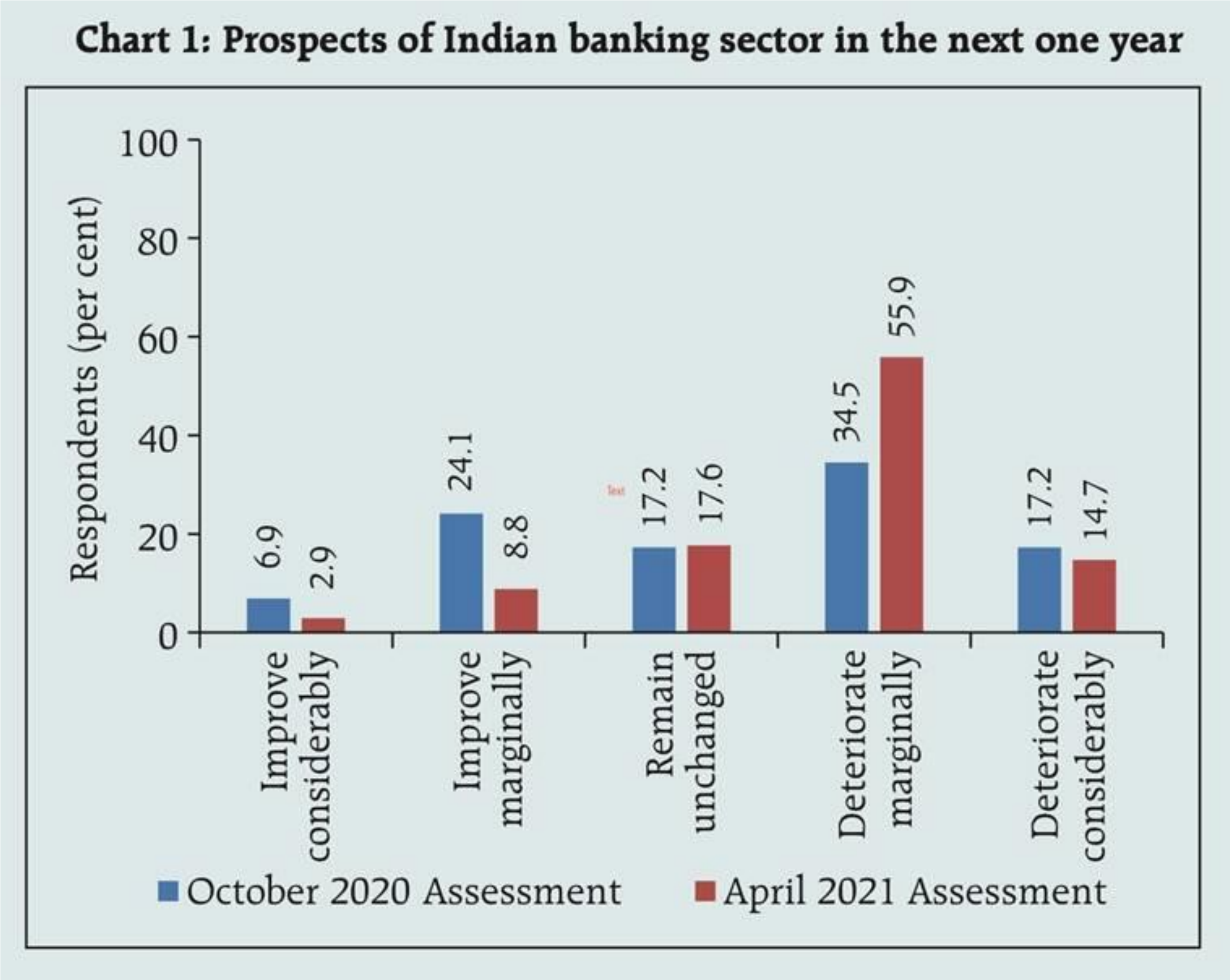


Source: RBI supervisory returns and staff calculations

- The chart which shows the rate of credit growth in commercial banks indicates three things:
- One, at less than 6%, the overall rate of credit growth (blue line) is quite dismal.
- The overall rate of credit growth also shows how the sharp fall in credit growth happened much before the Covid pandemic hit India. This points to a considerable weakness in demand even before the pandemic and, in turn, suggests that recovery in credit growth may take longer than usual because the Indian economy had lost its growth momentum long before Covid.

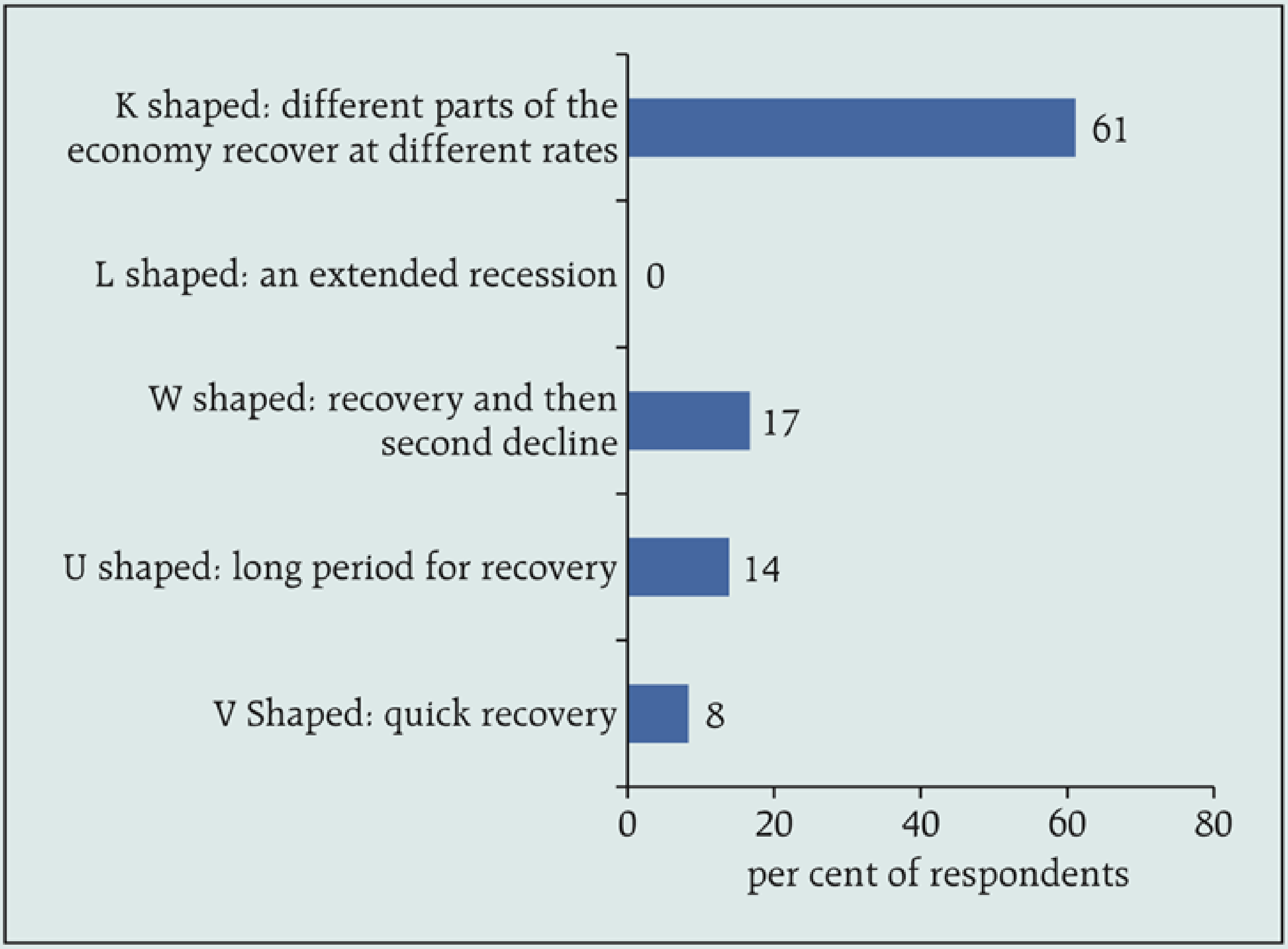
Systemic Risk Survey (SRS) April 2021

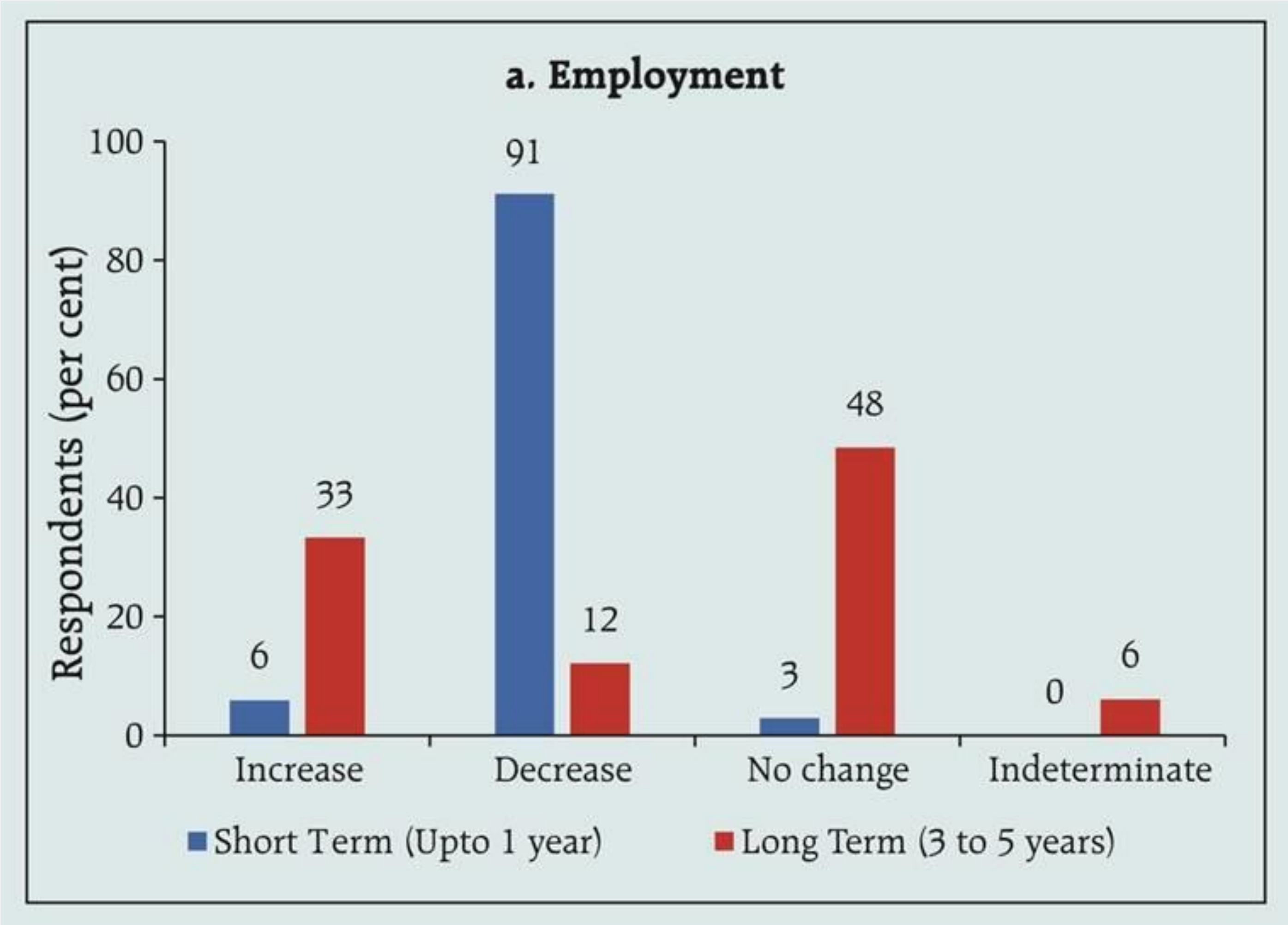
The chart below maps the prospects of the Indian banking sector in the next year. More than 70% of the respondents felt the prospects would worsen.

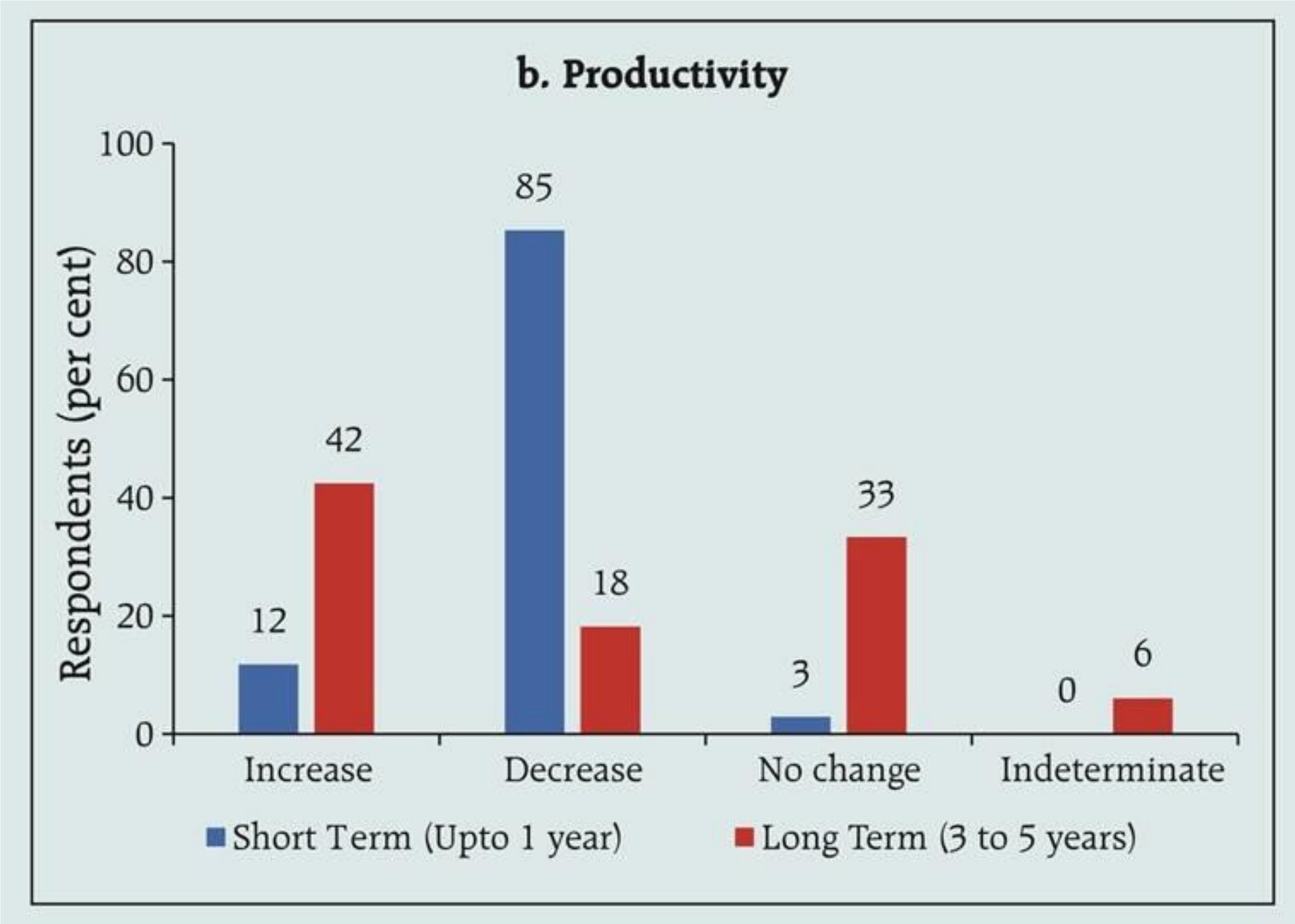


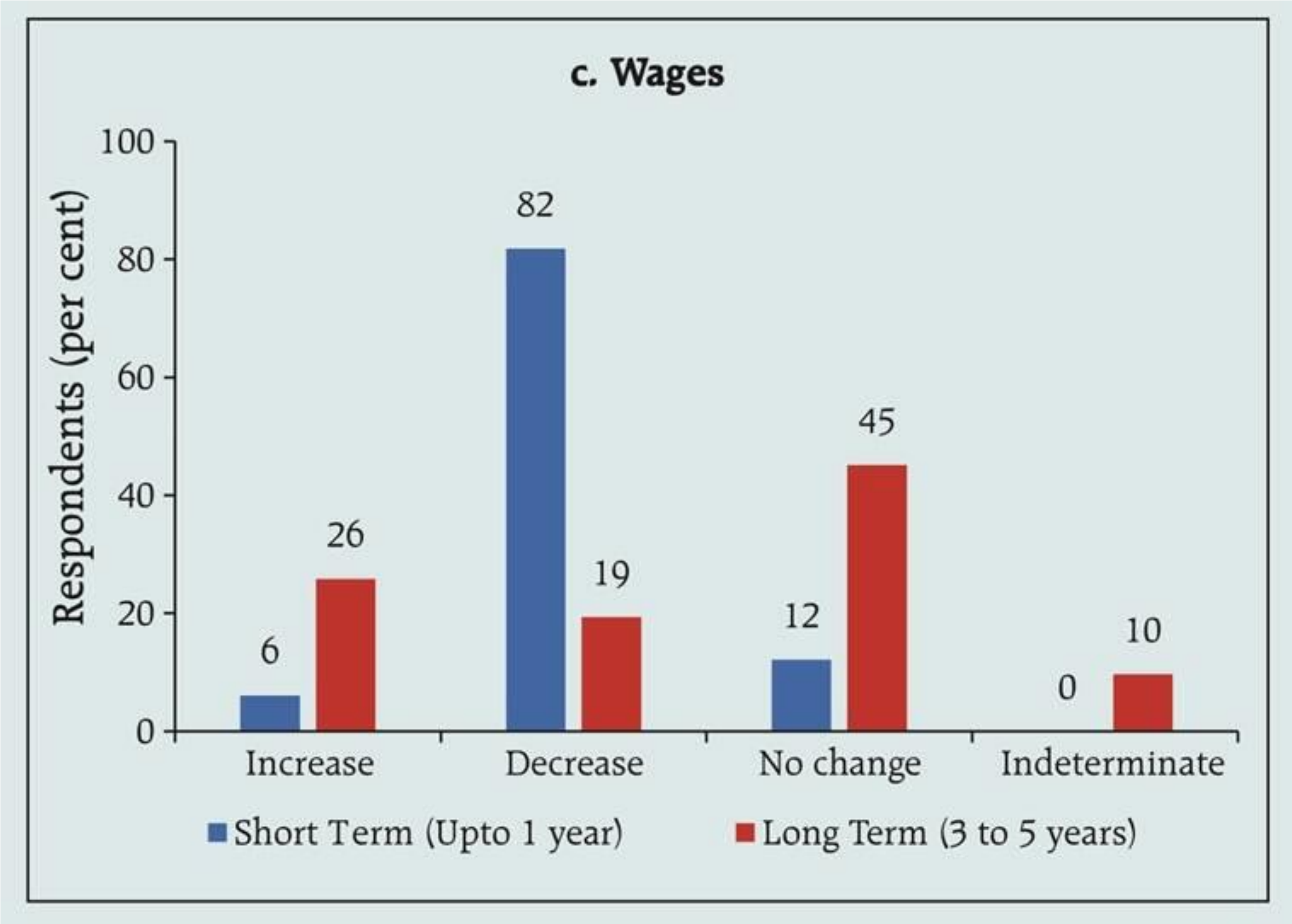
The table below names the sectors with the bleakest prospects in the first half of this year.

Chart 5: Possible shape of Economic Recovery

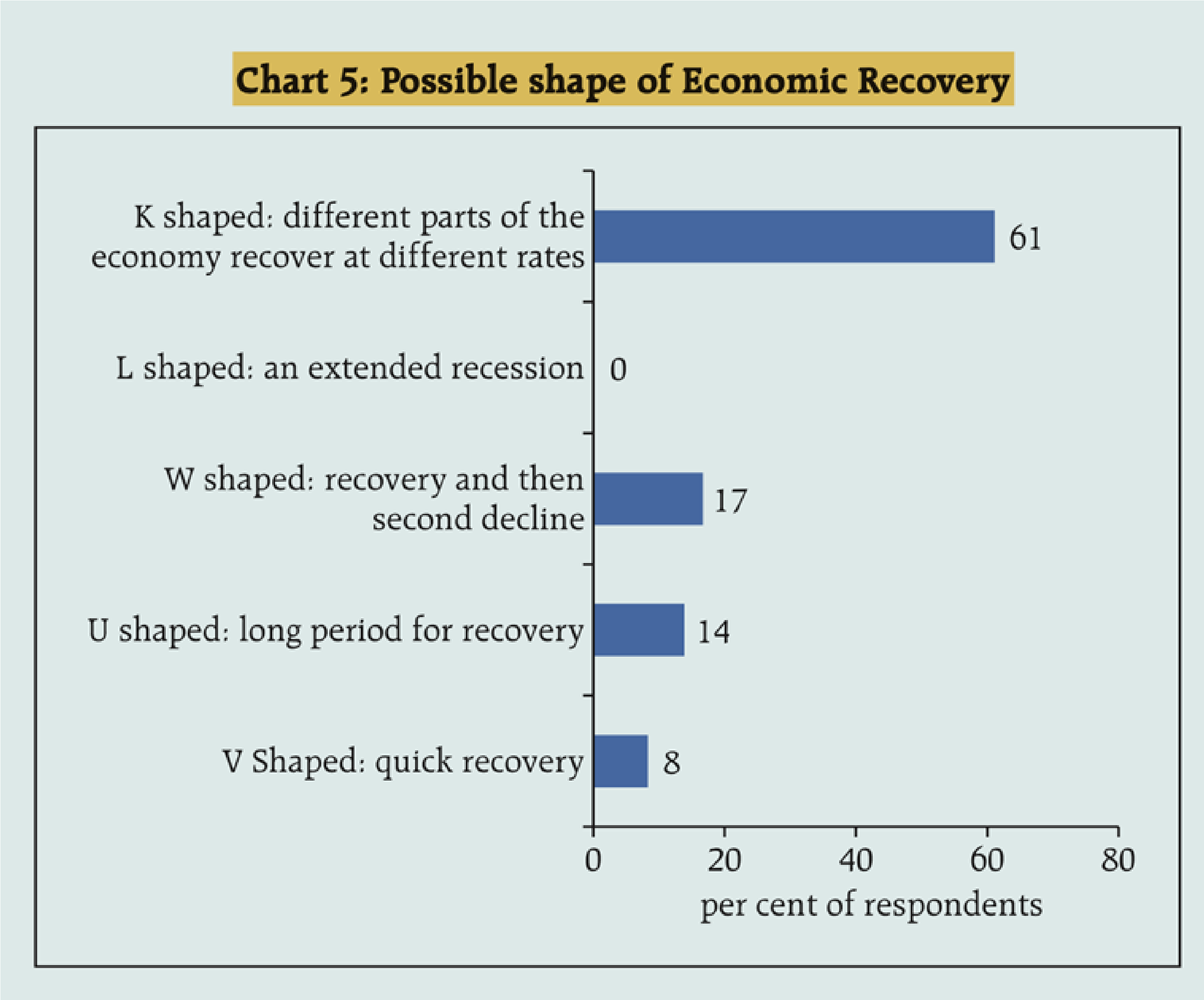



a. Employment
Respondents (per cent)
100
80
60
40
20
0
91
33
48
6
12
3
0
6
Increase
Decrease
No change
Indeterminate
Short Term (Upto 1 year)
Long Term (3 to 5 years)


b. Productivity
Respondents (per cent)
100
80
60
40
20
0
12
42
85
18
3
33
0
6
Increase
Decrease
No change
Indeterminate
Short Term (Upto 1 year)
Long Term (3 to 5 years)


c. Wages
Respondents (per cent)
100
80
60
40
20
0
82
45
26
19
12
10
6
0
Increase
Decrease
No change
Indeterminate
Short Term (Upto 1 year)
Long Term (3 to 5 years)

Of course, not everyone or every sector will recover at the same pace. As the chart below shows, most experts expect a K-shaped recovery from the second Covid wave. It is noteworthy that only a paltry 8% expect a "V-shaped" recovery.



GOVT. SAYS NO ANTI-DUMPING DUTY ON CERTAIN COPPER ITEMS

Context:

Going against a recent Directorate General of Trade Remedies (DGTR) recommendation, the government has decided not to impose Anti-Dumping Duty (ADD) on imports of certain copper products, from China, Thailand, Korea and three other countries.

Relevance:

GS-III: Indian Economy (International Trade, Mobilization of Resources, Growth and Development of Indian Economy)

Dimensions of the Article:

1. What is Dumping?
2. What is Anti-Dumping Duty?
3. Role of the WTO in Regulating Anti-Dumping Measures
4. Directorate General of Trade Remedies (DGTR)

What is Dumping?

- Dumping is a term used in the context of international trade. It's when a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market.
- Because dumping typically involves substantial export volumes of a product, it often endangers the financial viability of the product's manufacturer or producer in the importing nation.

What is Anti-Dumping Duty?

- Anti-dumping duty is a tariff imposed on imports manufactured in foreign countries that are priced below the fair market value of similar goods in the domestic market.
- The government imposes anti-dumping duty on foreign imports when it believes that the goods are being "dumped" – through the low pricing – in the domestic market.
- Anti-dumping duty is imposed to protect local businesses and markets from unfair competition by foreign imports.
- Imposition of Anti-dumping duty is a measure to rectify the situation arising out of the dumping of goods and its trade distortive effect. In the long-term, anti-dumping duties can reduce the international competition of domestic companies producing similar goods.
- It is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.
- The use of anti-dumping measures as an instrument of fair competition is permitted by the World Trade Organisation.

Role of the WTO in Regulating Anti-Dumping Measures

- The World Trade Organization (WTO) plays a critical role in the regulation of anti-dumping measures. As an international organization, the WTO does not regulate firms accused of engaging in dumping activities, but it possesses the power to regulate how governments react to dumping activities in their territories.
- Some government sometimes react harshly to foreign companies engaging in dumping activities by introducing punitive anti-dumping duties on foreign imports, and the WTO may come in to determine if the actions are genuine, or if they go against the WTO free-market principle.
- According to the WTO Anti-Dumping Agreement, dumping is legal unless it threatens to cause material injury in the importing country domestic market. Also, the organization prohibits dumping when the action causes material retardation in the domestic market.
- Where dumping occurs, the WTO allows the government of the affected country to take legal action against the dumping country as long as there is evidence of genuine material injury to industries in the domestic market. The government must show that dumping took place, the extent of the dumping in terms of costs, and the injury or threat to cause injury to the domestic market.

Directorate General of Trade Remedies (DGTR)

- Directorate General of Trade Remedies (DGTR) is an apex national authority responsible for administering all the trade remedial measures which include:
  - Anti-Dumping Duties
  - Countervailing Duties and
  - Other Safeguard Measures.
- Established in 1998 as the Directorate General of Anti-Dumping & Allied Duties, it was renamed in 2018 as the Directorate General of Trade Remedies (DGTR).

- The Directorate General of Anti-dumping and Allied Duties (DGAD), Directorate General of Safeguards (DGS) and Safeguards (QR) functions of DGFT were merged into one single entity, DGTR, making it an integrated single umbrella National Authority.
- DGTR works alongside the Department of Commerce under the Ministry of Commerce and Industry.
- The Department of Revenue considers the recommendations of DGTR for imposing Anti-Dumping, Countervailing and Safeguard Duties.
- Trade defence support would be provided by the DGTR to our domestic industries and the exporters in dealing with the trade remedy investigations instituted by other countries against them.

INFLATION REMAINS ABOVE 6% FOR SECOND MONTH

Context:

After touching a six-month high in May 2021, India's retail inflation was virtually unchanged in June 2021.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Taxation)

Dimensions of the Article:

1. What is Inflation?
2. Types of Inflation based on rate of Increase
3. About the Latest inflation data

What is Inflation?

- Inflation refers to the consistent rise in the prices of most goods and services of daily or common use, such as food, clothing, housing, recreation, transport, consumer staples, etc. Inflation measures the average price change in a basket of commodities and services over time.
- A moderate level of inflation is required in the economy to ensure that production is promoted. Excess Inflation is indicative of the decrease in the purchasing power of a unit of a country's currency. This could ultimately lead to a deceleration in economic growth.
- In India, inflation is primarily measured by two main indices — WPI (Wholesale Price Index) and CPI (Consumer Price Index) which measure wholesale and retail-level price changes, respectively.

Types of Inflation based on rate of Increase

There are four main types of inflation, categorized by their speed. They are creeping, walking, galloping, and hyperinflation.

I. Creeping Inflation

- Creeping or mild inflation is when prices rise 3% a year or less. According to the Federal Reserve, when prices increase 2% or less, it benefits economic growth.
- This kind of mild inflation makes consumers expect that prices will keep going up. That boosts demand. Consumers buy now to beat higher future prices. That's how mild inflation drives economic expansion.

II. Walking Inflation

- When prices rise by more than 3% but less than 10% per annum (i.e., between 3% and 10% per annum), it is called as Walking Inflation.
- It is harmful to the economy because it heats-up economic growth too fast.

- People start to buy more than they need to avoid tomorrow's much higher prices. This increased buying drives demand even further so that suppliers can't keep up and neither can the wages. As a result, common goods and services are priced out of the reach of most people.

III. Galloping Inflation

- When inflation rises to 10% or more (i.e., prices rise by double- or triple-digit inflation rates like 30% or 400% or 999% per annum), it wreaks absolute havoc on the economy. It is also referred as jumping inflation.
- Money loses value so fast that business and employee income can't keep up with costs and prices.
- Foreign investors avoid the country, depriving it of needed capital. The economy becomes unstable, and government leaders lose credibility.

IV. Hyperinflation

- Hyperinflation refers to a situation where the prices rise at an alarming high rate – i.e., more than 50% a month.
- The prices rise so fast that it becomes very difficult to measure its magnitude. However, in quantitative terms, when prices rise above 1000% per annum (quadruple or four-digit inflation rate), it is termed as Hyperinflation.
- Most examples of hyperinflation occur when governments print money to pay for wars.
- Examples of hyperinflation include Germany in the 1920s, Zimbabwe in the 2000s, and Venezuela in the 2010s.
- During a worst-case scenario of hyperinflation, value of national currency (money) of an affected country reduces almost to zero. Paper money becomes worthless and people start trading either in gold and silver or sometimes even use the old barter system of commerce.

V. Chronic Inflation

- If creeping inflation persist (continues to increase) for a longer period of time then it is often called as Chronic or Secular Inflation.
- Chronic Creeping Inflation can be either Continuous (which remains consistent without any downward movement) or Intermittent (which occurs at regular intervals).
- It is called chronic because if an inflation rate continues to grow for a longer period without any downturn, then it possibly leads to Hyperinflation.

VI. Moderate Inflation

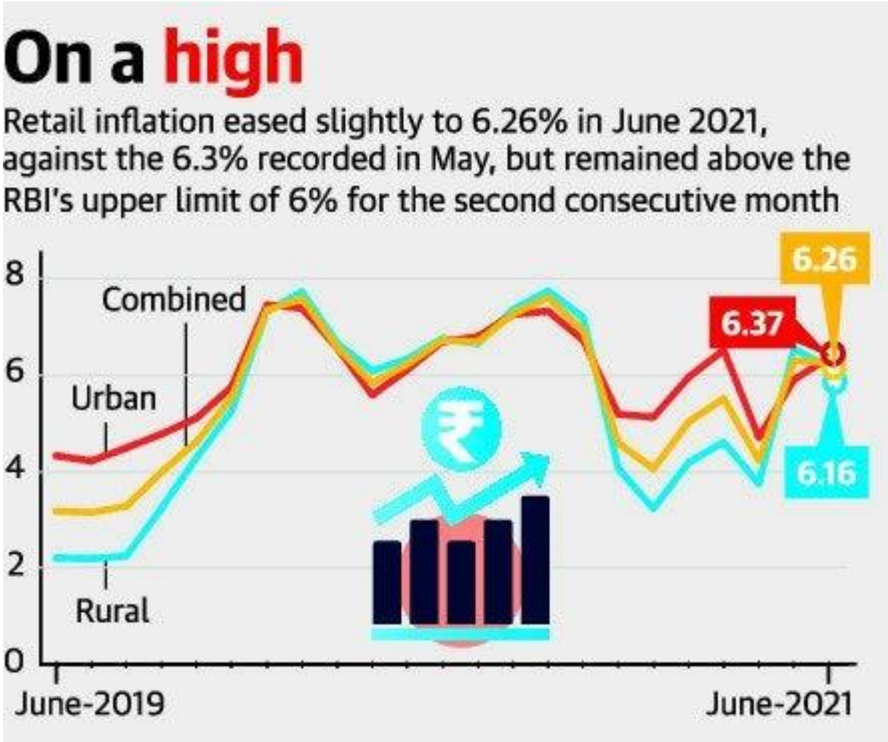
- Concept of Creeping and Walking inflation clubbed together are called Moderate Inflation.
- When prices rise by less than 10% per annum (single digit inflation rate), it is known as Moderate Inflation.
- It is a stable inflation and not a serious economic problem.

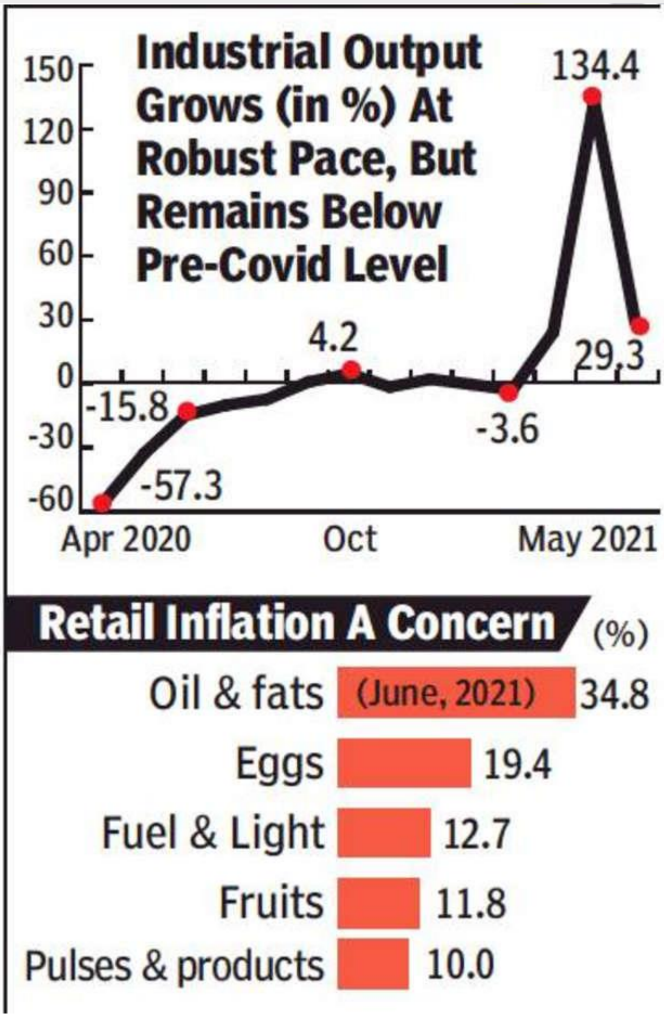
VII. Running Inflation

- A rapid acceleration in the rate of rising prices is referred as Running Inflation.
- When prices rise by more than 10% per annum, running inflation occurs.
- Though economists have not suggested a fixed range for measuring running inflation, we may consider price rise between 10% to 20% per annum (double digit inflation rate) as a running inflation.

About the Latest inflation data

- For the second month in a row India's retail inflation was virtually unchanged remaining above 6% which is out of the central bank's comfort zone.
- Growth impulses remained fragile with the second COVID-19 wave hurting the recovery momentum.
- With petroleum product prices continuing to soar, fuel and light inflation hit more than 12% in June 2021 and Food inflation, which had flared up from just 2% in April to 5% in May, rose further, led by almost a 35% inflation rate for oils and fats.
- Economists expect the Reserve Bank of India (RBI) to revisit its inflation estimate of 5.1% for 2021-22 and stressed that lack of fiscal policy action to cool prices could precipitate a faster unwinding of RBI's growth-supporting approach to interest rates.
- Persistently sticky retail prices for fuel and food translated into little respite for citizens, as inflation measured by the Consumer Price Index (CPI) declined by just four basis points (1 basis point equals 0.01%) from May 2021.
- Beyond the monthly swings, inflation continues to stay above the mid-point (4%) of the inflation target since late 2019. If the CPI inflation remains entrenched above the 6% upper threshold from July-August 2021, a preponement of rate normalization by the RBI can't be ruled out.





RBI RETAIL DIRECT SCHEME

Context:

The Reserve Bank of India (RBI) announced the 'RBI Retail Direct' scheme, a one-stop solution to facilitate investment in government securities (G-secs) by individual investors.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of resources)

Dimensions of the Article:

1. About the 'RBI Retail Direct' scheme
2. Why was this needed?
3. Benefits of the RBI Retail Direct Scheme

About the 'RBI Retail Direct' scheme

- Under the scheme, retail investors [Retail Investors = individuals / non-professional investor who buys and sells securities or funds that contain a basket of securities such as mutual funds and Exchange Traded Funds (ETFs)] will have the facility to open and maintain the 'Retail Direct Gilt Account' [Gilt account is debited or credited with treasury bills or government securities instead of money] (RDG Account) with the RBI.
- It is a one-stop solution to facilitate investment in G-secs by individual investors. RBI seeks to democratize the ownership of government debt securities beyond banks and managers of pooled resources such as mutual funds.
- RDG accounts can be opened through an online portal provided for the purpose of the scheme. The online portal will give registered users access to primary issuance of G-secs and access to Negotiated Dealing System-Order Matching system (NDS-OM).

Why was this needed?

- The G-sec market is dominated by institutional investors which are large market actors such as banks, mutual funds and insurance companies.
- So, there is no liquidity in the secondary market for small investors who would want to trade in smaller lot sizes because institutional investors trade in lot sizes of Rs 5 crore or more.
- There is no easy way for them to exit their investments. Thus, currently, direct G-secs trading is not popular among retail investors.

Benefits of the RBI Retail Direct Scheme

- It will make the process of G-sec trading smoother for small investors therefore it will raise retail participation in G-secs and will improve ease of access.
- This measure together with relaxation in mandatory Hold To Maturity (securities that are purchased to be owned until maturity) provisions will facilitate smooth completion of the government borrowing programme in 2021-22.
- Allowing direct retail participation in the G-Sec market will promote financialisation of a vast pool of domestic savings and could be a game-changer in India's investment market.

INDIA'S TRADE WITH CHINA SOARED 62% IN H1

Context:

India's trade with China in the first half of 2021 rose by a record 62.7%.

Relevance:

GS-III: Indian Economy (International trade), GS-II: International Relations (India and its Neighbors)

Dimensions of the Article:

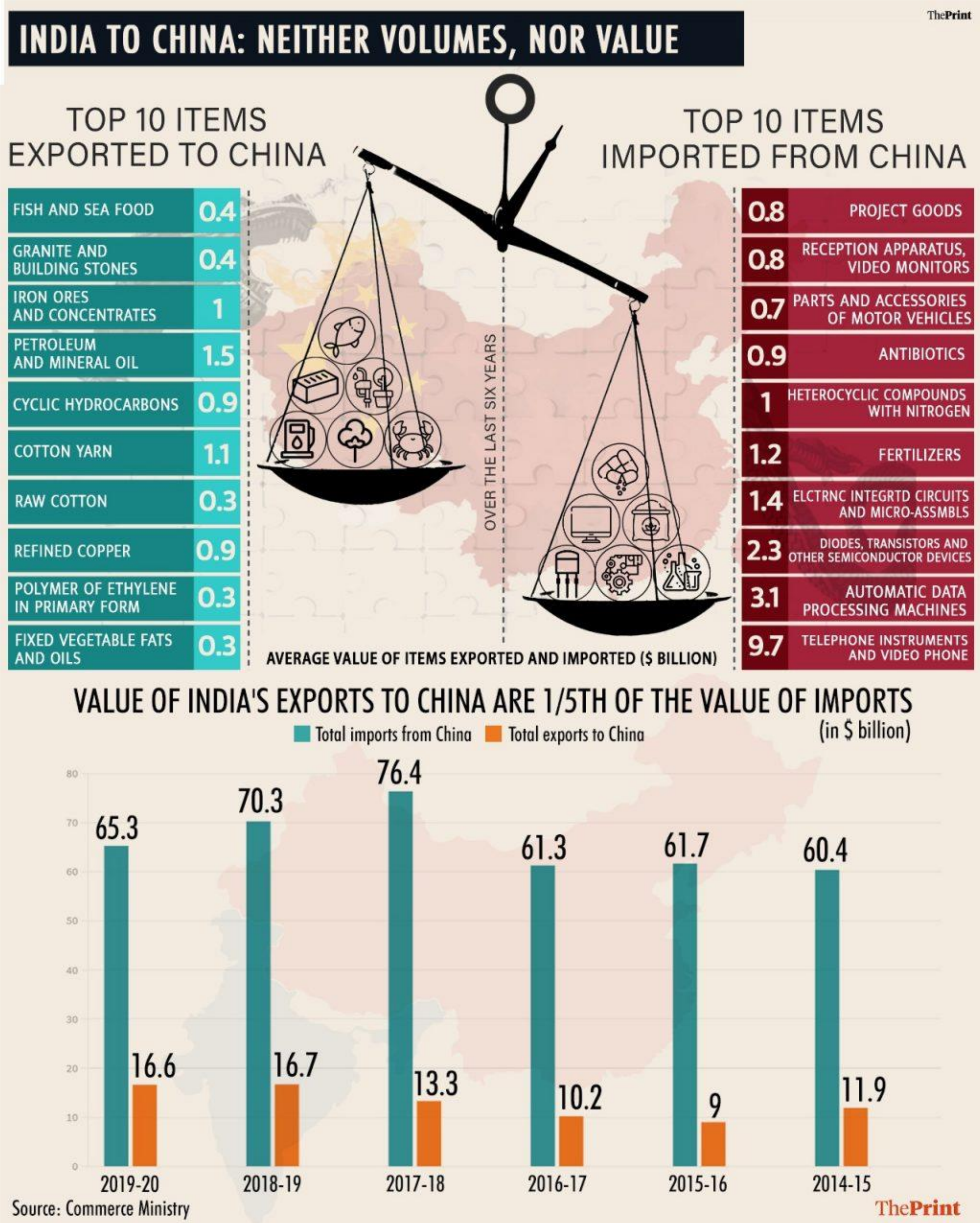
1. Highlights of the latest data on India-China trade
2. Understanding what we import and what we export to China
3. India's Dependence on Chinese Imports

Highlights of the latest data on India-China trade

- India's increase of trade with China by more than 60% in the first half of 2021 is the highest increase among China's major trade partners — with total two-way trade surpassing the pre-pandemic levels.
- India's imports, driven by record purchases of medical supplies increased by more than 60% and higher than the first-half 2019 figure.
- India's exports to China climbed by almost 70% which is also the highest figure on record for the first half of any year.
- The trade deficit for India with China after the first six months stood at $28.04 billion.

Understanding what we import and what we export to China

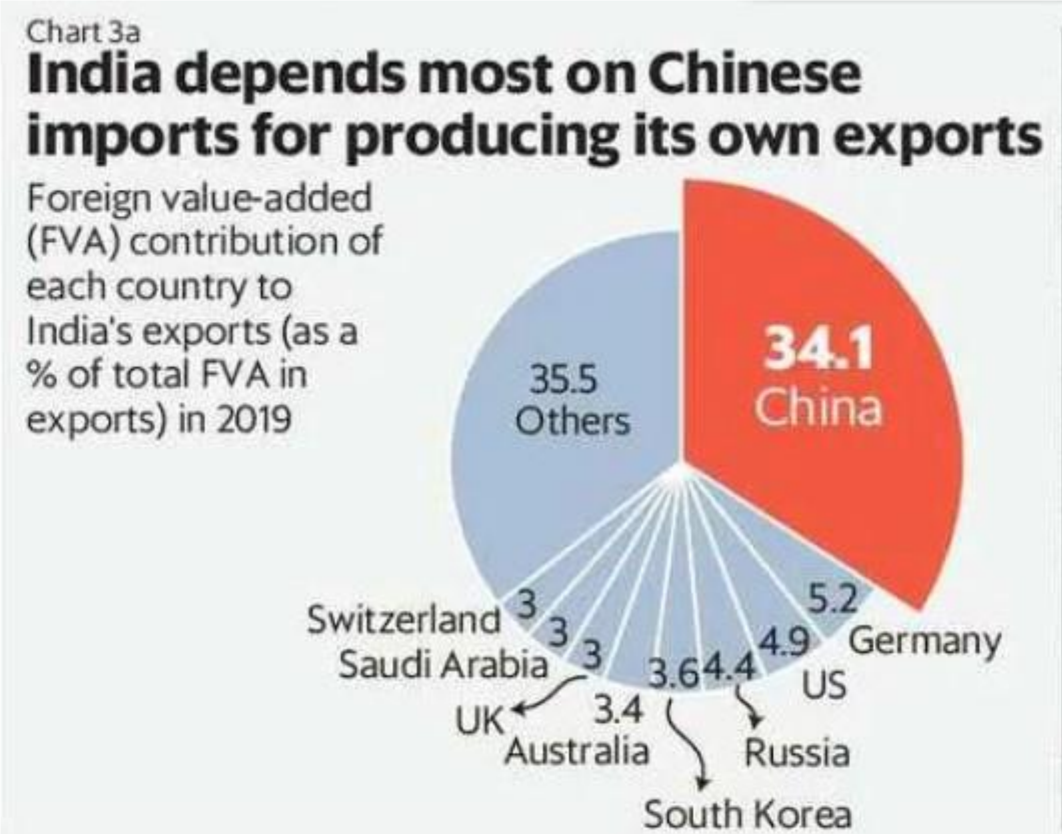
- India's exports to China have risen and imports have fallen over the last few years and a closer look at the items traded between the two countries shows the unequal bilateral trade.
- Trade numbers between 2014-15 and 2019-20 show that export of low-value raw materials and import of high-value manufactured goods has characterised India's trade relationship with China, akin to the ties the country had with its colonial ruler Britain in the years before Independence, said trade experts.
- This "colonial pattern" of trade has meant that India's exports to China over the last six years have been only fifth in value of India's imports from China.
- While average exports from China have been around $13 billion in the six years 2014-20, the average value of imports from China has been $66 billion in the period.
- **India's exports have ranged from food items like fish and spices to essential inputs like iron ores, granite stones, and petroleum products.**
- **India's major exports to China in the last six years were iron ore, petroleum fuels, organic chemicals, refined copper and cotton yarn. Among food items, some of the other major items exported were fish and seafood, pepper and vegetable oils and fats. Blocks of granite and other building stones and raw cotton were also among exports.**
- **Its imports from China have been dominated by electrical machinery and equipment, and other mechanical appliances. India's major imports from China have been of items like automatic data processing machines and units, telephone equipment and video phones, electronic circuits, transistors and semiconductor devices, antibiotics, heterocyclic compounds including nitrogen, fertilisers, sound recording devices and TV cameras, automobile components and accessories and project goods.**



India's Dependence on Chinese Imports

- India must remember that even though its widening trade deficit with China remains an eyesore for policymakers, dependence on Chinese products has only grown year after year.

- In 2019, Chinese imports alone accounted for 34% of all the foreign value-added in India's exports, data from the United Nations Conference on Trade and Development shows. In 2009, this figure was just 1.8%.
- Over the last decade, India's dependence on China for inputs for the manufacture of drugs and consumer goods has shown a marked increase. All this will matter even more in this time of crisis after the coronavirus.
- A strengthening anti-China sentiment and louder calls for self-reliance could actually go against India's interests and economic logic.



UN REPORT ON YOUTH AND AGRICULTURE, WORLD YOUTH SKILL DAY

Context:

Every year, 15th July is observed as the World Youth Skills Day as designated by the United Nations General Assembly (UNGA) in 2014.

A recent United Nations report has said that making agriculture-food systems more appealing to the youth can secure the future of global food security and nutrition.

Relevance:

GS-III: Indian Economy (Employment, Human Resource, Growth & Development of Indian Economy)

Dimensions of the Article:

1. 2021 World Youth Skills Day
2. Status of skill development in India
3. Initiatives in India for Skilling Youth
4. About the UN report on youth and agriculture
5. India's Attracting and Retaining Youth in Agriculture (ARYA) Scheme

2021 World Youth Skills Day

- The 2021 World Youth Skills Day will again take place in a challenging context, in the midst of the COVID-19 pandemic and with education and training systems yet to return to pre-crisis conditions.
- The 2021 World Youth Skills Day's theme is 'Reimagining Youth Skills Post-Pandemic'.
- It aims to celebrate the resilience and creativity of youth throughout the crisis and focus attention on how technical and vocational education and training (TVET) systems have adapted to the pandemic, participate in the recovery, and imagine priorities they should adopt for the post-COVID-19 world.
- The Primary aims of celebrating World Youth Skills day is to equip young people around the world with essential skills for employment, work, and entrepreneurship while achieving the Incheon Declaration: Education 2030 and eliminating gender disparity.
- The Incheon Declaration: Education 2030 devotes considerable attention to technical and vocational skills development, specifically regarding access to affordable quality technical and vocational education and training (TVET) institutions.''

Status of skill development in India

- India is one of the youngest nations in the world with more than 54% of the total population below 25 years of age.
- India's workforce is the second largest in the world after China's. While China's demographic dividend is expected to start tapering off by 2015, India will continue to enjoy it till 2040.
- However, India's formally skilled workforce is approximately 2% – which is dismally low compared to China (47%), Japan (80%) or South Korea (96%).
- To leverage our demographic dividend more substantially and meaningfully, the Government launched the "Skill India" campaign along with "Make in India".

Initiatives in India for Skilling Youth

1. A **Department of Skill Development and Entrepreneurship** was created under the Ministry of Youth Affairs and Sports in 2014 and was subsequently upgraded to full-fledged ministry.The role of the Ministry involves coordinating and evolving skill development frameworks, mapping of existing skills and certification, industry-institute linkages among others.
2. **Draft National Policy for Skill Development and Entrepreneurship 2015:** The objective of the Policy is to meet the challenge of skilling at scale with speed, standard (quality) and sustainability. It aims to provide an umbrella framework to all skilling activities being carried out within the country, to align them to common standards and link skilling with demand centres.
3. **Pradhan Mantri Kaushal Vikas Yojana (PMKVY):** This is a flagship outcome-based skill training scheme aimed at benefiting 24 lakh youth. A monetary reward is provided to trainees on assessment and certification. The steering Committee for PMKVY is responsible for providing directions for implementation.
4. **Skill Management and Accreditation of Training Centres (SMART):** SMART centers provide a single window IT application that focuses on the accreditation, grading, Affiliation and Continuous monitoring of the Training Centres (TC) in the skill ecosystem.
5. **Skills Acquisition and Knowledge Awareness for Livelihood (SANKALP):** SANKALP is a Centrally sponsored scheme of Ministry of Skill Development & Entrepreneurship (MSDE) with the primary focus on district-level skilling ecosystem through convergence and coordination.
6. **Aatamanirbhar Skilled Employee Employer Mapping (ASEEM):** Ministry of Skill Development and Entrepreneurship (MSDE) launched 'Aatamanirbhar Skilled Employee Employer Mapping (ASEEM)' portal to help skilled people find sustainable livelihood opportunities in 2020. Through ASEEM, agencies, employers, and job aggregators who are looking for a skilled workforce in the specific sectors

will have access to the required details of the availability of skilled workforce and formulate their hiring plans.

About the UN report on youth and agriculture

- Youth aged between 15 and 24 years accounted for 16% of the world's population in 2019 and young people were concentrated in Asia, Central and Southern Asia.
- The International Labour Organization (ILO) estimated that 440 million youth from the African continent would enter the labour market between 2015 and 2030.
- Food systems are the largest employers, particularly in developing countries. Yet, they often do not provide decent and meaningful work or adequate livelihood opportunities, nor maintain a balance between the needs and rights of different generations.
- Agri-food systems, if made more appealing and equitable to youth, are a large, untapped reservoir of employment opportunities.
- As almost 88% of the world's 1.2 billion youth live, particularly in Africa, where over 70% of youth subsist on USD 2 per day or less – youth engagement and employment in sustainable agri-food systems is a worthy goal to be realized.

India's Attracting and Retaining Youth in Agriculture (ARYA) Scheme

- In order to realize the importance of rural youth in agricultural development, the Indian Council of Agricultural Research (ICAR) has initiated a programme on "Attracting and Retaining of Youth in Agriculture (ARYA)".
- The Objectives of the ARYA Project are to attract and empower the Youth in Rural Areas to take up various Agriculture, allied and service sector enterprises and to enable the Farm Youth to establish network groups to take up resource and capital-intensive activities.
- The Scheme is implemented through Krishi Vigyan Kendras (KVK-Farm science centres) by training youth in taking up agriculture's allied and supplementary activities such as poultry farming, dairying, fisheries, goat rearing, mushroom production and other similar activities which keep the rural youth attached to agriculture, either directly or indirectly.

RBI BARS MASTERCARD FROM ISSUING NEW CARDS IN INDIA

Context:

The Reserve Bank of India (RBI) imposed restrictions on Mastercard Asia / Pacific Pte. Ltd. from on-boarding new domestic customers (debit, credit or prepaid) onto its card network for non-compliance with the regulator's directions.

According to the RBI, the U.S. card-issuer Mastercard has failed to comply with the local data storage rules announced by the central bank in 2018.

Relevance:

GS-III: Internal Security Challenges (Cyber Security, IT & Computers), GS-III: Indian Economy

Dimensions of the Article:

1. What is the RBI's data localisation policy?
2. What is the need for local data storage?
3. What lies ahead?

What is the RBI's data localisation policy?

- In 2018, the RBI had issued a circular ordering card companies such as Visa, Mastercard, and American Express to store all Indian customer data locally so that the regulator could have "unfettered supervisory access".
- This meant that foreign card companies had to store complete information about transactions made by Indian customers in servers located within India.
- The reason offered by the RBI to back up its data localisation rule was that local storage of consumer data is necessary to protect the privacy of Indian users and also to address national security concerns.

As per the data- localisation norms set by RBI:

- While there is no bar on the processing of payment transactions outside India, the Payment System Operators (PSOs) will have to ensure the data is stored only in India after the processing.
- In case the processing is done abroad, the data should be deleted from the systems abroad and brought back to India not later than the one business day or 24 hours from payment processing, whichever is earlier. The same should be stored only in India.
- The data stored in India can be accessed for handling customer disputes, whenever required.
- The payment system data may be shared with an overseas regulator if required, but with the approval of RBI.
- Some banks, especially foreign, that had been permitted to store the banking data abroad may continue to do so. However, in respect of domestic payment transactions, the data shall be stored only in India.
- The data stored domestically must include:
    1. End-to-end transaction details and information related to payment or settlement transaction collected or processed as part of a payment.
    2. Information such as customer name, mobile number, email, Aadhaar number, PAN number.
    3. Payment sensitive data such as customer and beneficiary account details; payment credentials such as OTP, PIN, Passwords.

What is the need for local data storage?

- Experts believe that customer privacy and national security are genuine concerns that need to be taken seriously. However, many also believe that data localisation rules are too stringent and they could simply be used by governments as tools of economic protectionism.
- For instance, they argue, it may not be strictly necessary for data to be stored locally to remain protected.
- Broadly speaking, formal international laws to govern the storage of digital information across borders may be sufficient to deal with these concerns.
- Governments, however, may still mandate data localisation in order to favour local companies to foreign ones.

Understanding the move

- China, for example, has used its cyber-security laws to discriminate against foreign companies. A similar trend may be playing out in India with the Centre's emphasis on economic self-sufficiency.
- In 2018, Mastercard had launched a complaint with the U.S. government that Prime Minister Narendra Modi was actively promoting Indian cards like RuPay and that it was affecting the business of foreign card companies.
- Governments may also believe that mandating foreign companies to set up local infrastructure can boost their local economies.

What lies ahead?

- Indian banks that are currently enrolled in the Mastercard network are expected to make alternative arrangements with other card companies.
- The process is expected to take a few months, and their card business is expected to take a significant hit meanwhile.
- The RBI's data localisation policy, as it burdens foreign card companies, may end up favouring domestic card issuers like RuPay. Mastercard owns about one-third of the market share in India, and the RBI's ban is likely to significantly benefit its competitors.
- Similarly, the ban on American Express and Diners Club earlier in 2020 benefited the Indian card network RuPay.
- Some believe that even Visa, a foreign company which dominates card payments in India, may come under regulatory pressure in the near future.
- Thus, the card payments sector may end up being restricted to a few domestic companies, which in turn can lead to reduced competition. This could mean higher costs and lower quality services for customers.

US'S 2021 INVESTMENT CLIMATE STATEMENTS: INDIA

Context:

U.S. said that India remains a challenging place to do business while praising the structural economic reforms extended by India during the pandemic in its report titled '2021 Investment Climate Statements: India'.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources, Liberation and Planning of Indian Economy), GS-II: International Relations

Dimensions of the Article:

1. Highlights of the '2021 Investment Climate Statements: India' US report

Highlights of the '2021 Investment Climate Statements: India' US report

Calling India a challenging place to do business

- The removal of special constitutional status from the state of Jammu and Kashmir (J&K) and the passage of the Citizenship Amendment Act (CAA), 2019 are two decisions which are at the heart of policies that are bothering foreign investors.
- Many Measures are being categorized as 'Protectionist' as several sectors of the economy continue to retain equity limits for foreign capital as well as management and control restrictions, which deter investment.
- India adopted a new model Bilateral Investment Treaty (BIT) in December 2015, following several adverse rulings in international arbitration proceedings, which does not allow foreign investors to use investor-state dispute settlement methods, and instead requires foreign investors first to exhaust all local judicial and administrative remedies before entering international arbitration. This BIT also accounts for being policies that are bothering Foreign Investors.
- Preferential Market Access (PMA) for government procurement has created substantial challenges for foreign firms operating in India. State-owned "Public Sector Undertakings" and the government accord a 20% price preference to vendors utilizing more than 50% local content.
- India remained on the Priority Watch List in the 2020 Special 301 Report due to concerns over weak intellectual property (IP) protection and enforcement.

- India, with a score of 40, ranked 86 among 180 countries in Transparency International's 2020 Corruption Perception Index.
- There are other issues that restrict the expansion in bilateral trade.For example, sanitary and phytosanitary measures and Indian-specific standards not aligned with international standards.

Praising India's Recent Economic Reforms amidst the Pandemic

- In 2019, the government announced a new package of liberalization measures and brought a number of sectors including coal mining and contract manufacturing under the automatic route.
- In 2021, Parliament further liberalized India's insurance sector, increasing the foreign direct investment (FDI) limits to 74% from 49%. It also announced plans to raise $2.4 billion through an ambitious privatization program that would dramatically reduce the government's role in the economy.
- In order to combat economic slowdown pertaining to Covid-19, the Government of India launched Atmanirbhar Bharat Abhiyan which envisages extensive social welfare and economic stimulus programs and increased spending on infrastructure and public health. Primarily, it aims towards cutting down import dependence by focusing on substitution while improving safety compliance and quality goods to gain global market share.
- The government also adopted production linked incentives to promote manufacturing in pharmaceuticals, automobiles, textiles, electronics, and other sectors.
- The government of India passed Arbitration and Conciliation (Amendment) Act, 2021 to deal with domestic and international arbitration and defines the law for conducting conciliation proceedings.
- The new labour codes announced by the government in 2021 target simplifying the country's archaic labour laws and give impetus to economic activity without compromising with the workers' benefits.

LOK SABHA PASSES TWO BILLS

Context:

The Lok Sabha passed two bills by voice vote without discussion, amid multiple adjournments and continued protests by the Opposition — the Factoring Regulation (Amendment) Bill, 2020, and the National Institutes of Food Technology, Entrepreneurship and Management Bill, 2021.

Relevance:

GS-II: Polity and Governance (Government Policies and Interventions), GS-III: Indian Economy (Growth and Development of Indian Economy, Mobilization of Resources, Industrial Policy, Inclusive Growth)

Dimensions of the Article:

1. Factoring Regulation (Amendment) Bill
2. National Institutes of Food Technology, Entrepreneurship And Management Bill, 2021
3. What are Institutes of National Importance?

Factoring Regulation (Amendment) Bill

- The Factoring Regulation (Amendment) Bill, 2020 was passed to amend the Factoring Regulation Act 2011.
- The bill will help micro, small and medium enterprises (MSME) tide over their issue of delayed payments as it seeks to broaden the participation of entities undertaking factoring.
- The bill is also likely to enhance traction on the TReDS (Trade Receivables Discounting System – TReDS is an online electronic institutional mechanism for facilitating the financing of trade receivables of MSMEs through multiple financiers) platform introduced by the Reserve Bank of India back in 2014 for entrepreneurs to unlock working capital tied in their unpaid invoices.

- The bill also seeks to permit non-banking finance companies (NBFC) other than those whose principal business is factoring to discount invoices on TReDS and also reduce the time period for registration of invoice and satisfaction of charge upon it in order to avoid the possibility of dual financing.

National Institutes of Food Technology, Entrepreneurship And Management Bill, 2021

- Parliament has passed the National Institutes of Food Technology, Entrepreneurship and Management Bill, 2021 – i.e., Lok Sabha passed it after it was cleared by the Rajya Sabha earlier in 2021.
- With the passing of this bill National Institute of Food Technology Entrepreneurship and Management (NIFTEM) in Haryana and Indian Institute of Food Processing Technology (IIFPT) in Tamil Nadu under the Ministry of Food Processing Industries become Institutions of National Importance (INI).
- This step will provide these Institutes Greater Autonomy and hence, that they can start new and innovative courses, as well as help them to attract excellent faculty and students.

What are Institutes of National Importance?

- Institute of National Importance (INI) is a status that may be conferred on a premier public higher education institution in India by an act of Parliament of India.
- Institutes of National Importance receive special recognition and funding from the Government of India.
- INI relatively have higher degree of autonomy and they are allowed to open additional campuses anywhere in India or overseas.
- As of July 2021, there are 161 institutes, declared as Institutes of National Importance under a distinct Act of Parliament.
- These INIs include 23 IITs; 15 AIIMSs; 20 IIMs; 31 NITs; 25 IIITs; 7 IISERs, 7 NIPERs; 5 NIDs; 3 SPAs; 5 central universities; 4 medical research institutes, 2 food technology, and 14 other specialized institutes.

OXYGEN FOR FISCAL FEDERALISM: ON GST COMPENSATION

Context:

- At the time of introducing the new indirect tax regime, the Goods and Services Tax (GST) law assured States a 14% increase in their annual revenue for five years (up to July 1, 2020).
- But the Union government has deviated from the statutory promise and has been insisting that States avail themselves of loans.

Relevance:

- GS Paper 3: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Mains Questions:

1. A special rate could be levied to the States to enable them to raise more resources during the pandemic. Discuss 15 Marks

Dimensions of the Article:

1. What is GST Compensation Cess and the tussle over it?
2. What is State's stance on the issue?
3. What is Centre's stance on the issue?
4. Way forward

What is GST Compensation Cess and the tussle over it?

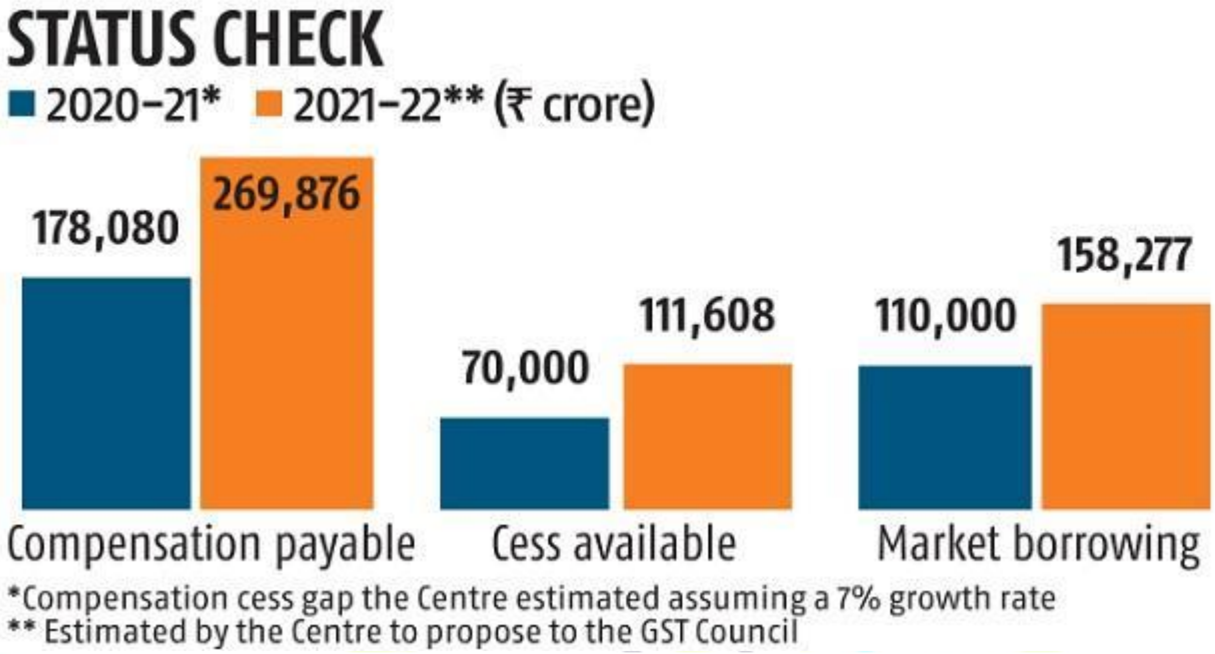
GST was implemented through the GST (101st Amendment Act), 2016 as a long pending indirect tax reform. It is a single tax that replaces multiple other indirect taxes. The Centre lost out on its power to levy taxes such as excise duty, while the States could no longer levy entry tax, VAT etc. To allay the fears of States regarding loss of revenue, following mechanism was made:

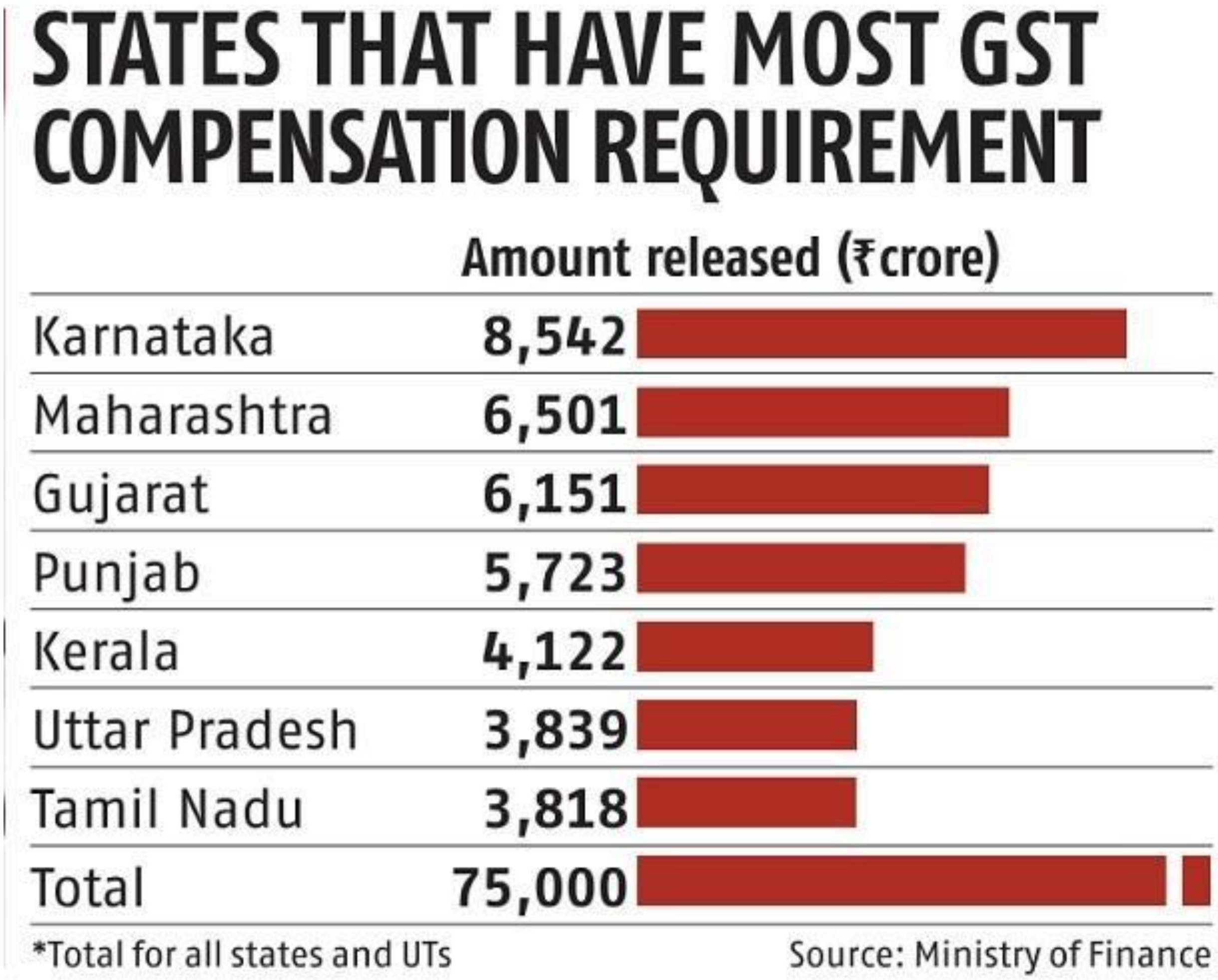
- **GST (Compensation to States) Act, 2017 was enacted:**
  - Under the Act, the percentage of annual revenue growth of a State has been projected to be 14%. If the annual revenue growth of a State is less than 14%, the State is entitled to receive compensation under the statute.
  - The compensation payable to a State shall be provisionally calculated and released at the end of every two months period.
- **The generation of revenue under the Act would happen through a GST Compensation Cess:**
  - The cess comprises the cess levied on sin and luxury goods for five years.
  - The entire cess collected during the year is required to be credited to a non-lapsable Fund (the GST Compensation Cess Fund).
  - The collected compensation cess flows into the CFI and is then transferred to the Public Account of India, where the GST compensation cess fund has been created.

The issue arose when payments due for August-September 2019 were delayed. Since then, all subsequent payouts have seen cascading delays. The problem has aggravated and further compounded due to following reasons:

- **Persistent Economic Slowdown:** The slowdown has impacted the demand and consumption levels and has thus dented the overall GST collections (both Centre and States).
- **Effect of the Pandemic:** The pandemic has given an economic shock to the Indian Economy which has dented the tax collection expectations (including the collections from GST Compensation Cess) of both Centre and States.
- **Estimation of 14% revenue growth unrealistic:** The high rate of 14%, which has compounded since 2015- 16, has been seen as delinked from economic realities. In the initial meetings of the GST Council, a revenue growth rate of 10.6% (the average all-India growth rate in the three years preceding 2015-16) was proposed but 14% revenue growth was accepted “in the spirit of compromise”.

As a result of these issues, the stalemate reached at a point where States were looking at the GST shortfall of Rs. 30,000 crore and the Centre being in no position to provide for it.





What is State's stance on the issue?

Since the GST Compensation acts as a harbinger of State's trust on Centre, non-compliance on this agreement has the potential to erode the trust between the Centre-State relationship. In this context, several States have expressed following issues:

- **Centre not honoring its moral and legal obligation:** Finance Ministers of both Kerala and Punjab have argued that the Central Government has a legal, and a moral obligation to compensate the State Governments for the revenue shortfall. A deadlock so early in the implementation of GST has made States skeptical about the future of Fiscal Federalism.
- **Ineffectiveness of the GST Council:** Any dispute regarding GST is to be handled by the GST Council but in the recently concluded 39th GST Council meeting, no steps were taken to create such a dispute resolution mechanism. With a 1/3rd voting power, the Centre has a virtual veto over the decision making in the council (since 3/4th majority is needed to pass a decision). This has made the States question the functioning structure of the Council itself.
- **Resort to legal proceedings:** In the absence of an alternate remedy, the only option left for states like Kerala and Punjab is to approach the Supreme Court under Article 131 of the Constitution. Such a judicial remedy to establish fiscal federalism of the states would erode even the limited institutional capital present between Centre and States.

What is Centre's stance on the issue?

The stand of the Centre on these issues is not based solely on the response to the States but in the background of low economic growth and negative tax buoyancy rates (percentage change in tax revenue to percentage change in GDP) which is in addition to almost 25% reduction in collection of Corporate taxes. In this background, the Centre has taken following stands:

- **The Centre has refused to compensate the States** immediately but has provided the States with two options (to make good either the shortfall in compensation arising from GST implementation or the overall shortfall).
    - **Option 1:** It offered states to borrow the shortfall arising out of GST implementation, to be borrowed through issue of debt under a special window coordinated by the Ministry of Finance. The option is to ensure steady flow of resources similar to the flow under GST compensation on a bi-monthly basis.
    - **Option 2:** It has offered the states to borrow the entire compensation shortfall (including the COVID impact portion) through issue of market debt. The states will not be required to repay the principal from any other source. However, the interest shall be paid by the states from their own resources.
- **The Centre has alongside contended** that the revenue shortfall is on account of the COVID-19 pandemic, which is an 'Act of God', stating that it has no legal obligation to compensate the States in this scenario.
- **It has also argued that the inflows to the GST Compensation Fund** are to be made from the GST Compensation Cess and if that is inadequate, the Centre is not obligated to supplement it by diverting flows from other sources.

Way forward

- Rebuilding institutional capital to soothe the Centre-State relationship: Efforts could be made rejuvenate and rekindle the Inter-State Council as the body not only has constitutional backing but its mandate and nature of participation is ideally suited for a larger federal role. o Alongside the Inter-State Council, efforts could be made to increase political capital through institutions like Chief Minister's Conference.
- Widening the ambit of GST for revenue augmentation: The current coverage of GST excludes electricity, petrol, diesel and real estate, as also agriculture. Widening the ambit of GST could provide a larger base for taxation in the long run.
- Structural reforms: The augmentation of revenue in the long-term will require structural reforms like reviewing of GST on continuous basis and increasing tax compliance.

- Increasing transparency in Fiscal management: Increasing transparency in areas like working of GST Council, adhering to the procedure established by the GST Compensation Act, and decreasing over-reliance on cesses and surcharges could repose the lost faith of States in Centre's Fiscal Managem

INSOLVENCY AND BANKRUPTCY CODE (AMENDMENT BILL), 2021

Context:

The Insolvency and Bankruptcy Code (Amendment Bill), 2021 was passed in the Lok Sabha (without any discussions due to disruptions).

Relevance:

GS-III: Indian Economy (Banking Sector & NBFCs, Growth & Development of Indian Economy), GS-II: Governance (Government Policies and Initiatives)

Dimensions of the Article:

1. Insolvency and Bankruptcy Code (IBC), 2016
2. Insolvency and Bankruptcy Code (Second Amendment) Bill, 2019
3. Issues with Implementation of IBC
4. Insolvency and Bankruptcy Code (Amendment Bill), 2021

Insolvency and Bankruptcy Code (IBC), 2016

- Insolvency and Bankruptcy Code, 2016 provides a time-bound process for resolving insolvency in companies and among individuals.
- The Government implemented the Insolvency and Bankruptcy Code (IBC) to consolidate all laws related to insolvency and bankruptcy and to tackle Non-Performing Assets (NPA), a problem that has been pulling the Indian economy down for years.
- Objectives of IBC
    1. To consolidate and amend all existing insolvency laws in India.
    2. To simplify and expedite the Insolvency and Bankruptcy Proceedings in India.
    3. To protect the interest of creditors including stakeholders in a company.
    4. To revive the company in a time-bound manner.
    5. To promote entrepreneurship.
    6. To get the necessary relief to the creditors and consequently increase the credit supply in the economy.
    7. To work out a new and timely recovery procedure to be adopted by the banks, financial institutions or individuals.
    8. To set up an Insolvency and Bankruptcy Board of India.
    9. Maximization of the value of assets of corporate persons.

Insolvency and Bankruptcy Code (Second Amendment) Bill, 2019

- The amendment also intends to provide protection to a corporation from criminal proceedings against offences committed by previous management or promoters.
- Additionally, it also provides a faster revival process for stressed companies.

- The amendment brings the much-awaited changes needed in the insolvency sector. It clears the air on various aspects and provides relief to both corporate debtor as well as the creditors.
- The thresholds introduce will prevent admission of unnecessary cases to the insolvency court.
- However, even after anticipation, cross border insolvency framework has not been included in the amendment.

Issues with Implementation of IBC

- In India there are not many strategic investors and an asset will have interest or value only if there are more people who are ready to buy. Therefore, better asset value realization will lead to faster resolution of stressed companies (happy creditors).
- There are delays in implementation of IBC whether it's in terms of approvals, having an application admitted itself.
- A lot of IBC cases are very old cases related to the stock of NPAs [Non-Performing Assets]. So, once this round is over, in future, perhaps, there will be fewer cases and IBC will be able to perform better than before.
- There is shortage of NCLT member, lot of vacancies & delays in appointments all of which has a bearing on IBC working efficiency.

Insolvency and Bankruptcy Code (Amendment Bill), 2021

- The Insolvency and Bankruptcy Code (Amendment Bill), 2021 introduced an alternate insolvency resolution process for Micro, Small and Medium Enterprises (MSMEs) with defaults up to Rs 1 crore called the Pre-packaged Insolvency Resolution Process (PIRP).
- The Pre-packs are largely aimed at providing MSMEs with an opportunity to restructure their liabilities and start with a clean slate while still providing adequate protections so that the system is not misused by firms to avoid making payments to creditors.
- A pre-pack is the resolution of the debt of a distressed company through an agreement between secured creditors and investors instead of a public bidding process. Unlike in the case of Corporate Insolvency Resolution Process (CIRP), debtors remain in control of their distressed firm during the PIRP.
- CIRP is a time taking resolution and one of the key reasons behind delays in the CIRPs are prolonged litigations by erstwhile promoters and potential bidders.
- The PIRP also allows for a Swiss challenge to the resolution plan submitted by a CD in case operational creditors are not paid 100 % of their outstanding dues.
- Distressed Corporate Debtors (CDs) [a corporate person who owes debt to any other person] are permitted to initiate a PIRP with the approval of two-thirds of their creditors to resolve their outstanding debt under the new mechanism.
- Besides offering a way for MSMEs to restructure their debts, the pre-pack scheme could also reduce the burden on benches of the NCLT by offering a faster resolution mechanism than ordinary CIRPs.

BILL ON INSURANCE FIRMS INTRODUCED

Context:

Amid the din, the government introduced the General Insurance Business (Nationalisation) Amendment Bill in the Lok Sabha.

Relevance:

Prelims, GS-III: Indian Economy (Growth and Development of Indian Economy, Government Policies and Interventions)

Dimensions of the Article:

1. General Insurance Business (Nationalisation) Amendment Bill

General Insurance Business (Nationalisation) Amendment Bill

- The General Insurance Business (Nationalisation) Amendment Bill will amend the General Insurance Business (Nationalisation) Act, 1972.
- The Bill proposes three amendments:
    1. The first aims to omit the proviso to Section 10B of the Act so as to remove the requirement that the Central government holds not less than 51 per cent of the equity capital in a specified insurer.
    2. The second amendment is to insert a new Section 24B, providing for cessation of application of the Act to such a specified insurer from the date on which the Centre ceases to have control over it.
    3. And, the third amendment is also to insert a new Section 31A, making a director, who is not a whole-time director, liable only for acts of omission or commission committed with his knowledge and connivance by the insurer.
- Although the Bill has a provision that will allow the government to bring down its shareholding below 51 per cent, Sitharaman clarified that this is not a Bill for privatisation.

Opposition to the Bill

Primary opposition to the bill is that it would lead to total privatisation of the general insurance companies.

SEBI URGES PEERS TO RETHINK BOND MARKET CURBS

Context:

SEBI has urged the RBI, IRDAI and PFRDA to relax investment restrictions.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Capital Market)

Dimensions of the Article:

1. About SEBI's recent requests to its peers
2. The Need to boost Bond markets: inadequacy of current provisions
3. About SEBI

About SEBI's recent requests to its peers

- With banks struggling to provide long-term capital, SEBI sought an urgent rethink on the investment norms specified by SEBI's financial sector regulator peers (like RBI, IRDAI) for participation in the corporate bond market. This would facilitate a quicker economic recovery according to SEBI.
- SEBI is calling for freer flow of funds from provident and pension funds, insurance firms and banks into corporate and infrastructure debt. SEBI wants to make the bond market a more functional source of finance for industry and infrastructure projects, and for this it has asked the RBI, IRDAI and PFRDA to relax investment restrictions.
- Listing out instances of restrictions that limit insurers' exposure to private debt and infrastructure financing, it has been indicated that the recent permission for pension funds to invest up to 5% of their corpus in Infrastructure investment trusts (INVITs) was unlikely to work.

The Need to boost Bond markets: inadequacy of current provisions

- The RBI's partial credit guarantee enhancement norms to help such projects (infrastructure projects which are rated lower) get a better rating faces practical challenges, while the Centre's plan to set up a Credit Enhancement Guarantee Corporation, announced in the Union Budget 2019, is yet to take off.
- RBI's partial credit guarantee norms cap the extent to which a bank can provide credit enhancement to 20% of the issue size. This means it would need at least three banks to get 50% credit enhancement (needed to move from, say, a 'BBB' rating to 'AA+' needed by insurers and PFs) and it has been difficult to get three banks to provide this for a single project.
- In the RBI's Liquidity Adjustment Facility (LAF), corporate bonds are never accepted as collaterals and corporate bonds are not even enshrined in the statutory liquidity ratio (SLR). This needs to change as relying on banks as an exclusive funding source is not going to be a positive for the economy and more steps are needed for the bond market to develop.

About SEBI

- The Securities and Exchange Board of India (SEBI) is the regulator of the securities and commodity market in India owned by the Government of India.
- SEBI was established in 1988 and given Statutory Powers on 30 January 1992 through the SEBI Act, 1992.
- SEBI has three functions rolled into one body: quasi-legislative, quasi-judicial and quasi-executive.
    1. It drafts regulations in its legislative capacity.
    2. It conducts investigation and enforcement action in its executive function.
    3. It passes rulings and orders in its judicial capacity.
- Though this makes it very powerful, there is an appeal process to create accountability.
- There is a Securities Appellate Tribunal which is a three-member tribunal.
- A second appeal lies directly to the Supreme Court.
- The SEBI is managed by its members, which consists of the following:
    1. The chairman is nominated by the Union Government of India.
    2. Two members, i.e., Officers from the Union Finance Ministry.
    3. One member from the Reserve Bank of India.
    4. The remaining five members are nominated by the Union Government of India, out of them at least three shall be whole-time members.
- SEBI has to be responsive to the needs of three groups, which constitute the market:
    - issuers of securities
    - investors
    - market intermediaries
- SEBI has been vested with the following powers:
    0. to approve by—laws of Securities exchanges.
    1. to require the Securities exchange to amend their by—laws.
    2. inspect the books of accounts and call for periodical returns from recognised Securities exchanges.
    3. inspect the books of accounts of financial intermediaries.

4. compel certain companies to list their shares in one or more Securities exchanges.
5. registration of Brokers and sub-brokers

GST COLLECTIONS RECOVER TO RS. 1.16 LAKH CRORE IN JULY

Context:

India's gross GST revenues in July recovered sharply to more than Rs. 1.15 lakh crores after slipping below the ₹1 lakh crore mark for the first time in eight months in June 2021.

Relevance:

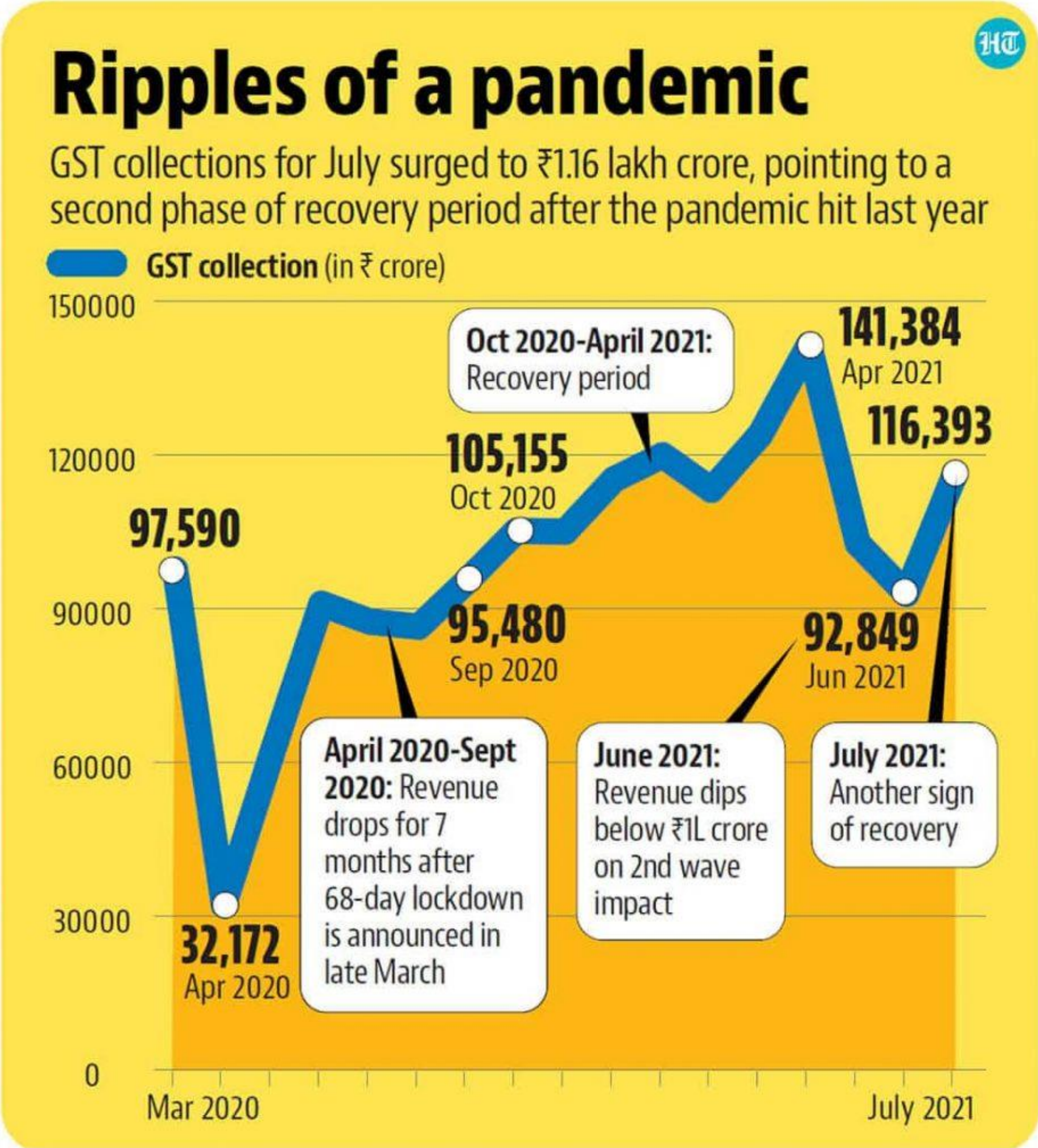
GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Taxation)

Dimensions of the Article:

1. About the recent trend in GST collection
2. About GST and GST Council

About the recent trend in GST collection

- With the easing out of COVID restrictions, GST collection for July 2021 has again crossed ₹1 lakh crore.
- The government called the collections a sign of a rapid economic recovery from the second COVID-19 wave, though economists said they indicate an 'incomplete' rebound.
- The July 2021 collections were 33% higher than July 2020, with GST collected on the import of goods rising 36% and domestic transactions (including import of services) growing by 32%.
- There is a heartening sequential increase, as well as a substantial year-on-year growth, but GST collections remain well below the all-time high recorded in April 2021 (1.41 lakh crore Rs.).
- While most States reported positive growth in tax collections compared to July 2020, there were significant variations — Odisha and Jharkhand reported a 54% uptick, followed by Haryana (53%) and Maharashtra at 51%, while Tamil Nadu and Gujarat clocked 36% growth.



Ripples of a pandemic
GST collections for July surged to ₹1.16 lakh crore, pointing to a second phase of recovery period after the pandemic hit last year
GST collection (in ₹ crore)
150000
120000
90000
60000
30000
0
97,590
32,172
Apr 2020
April 2020-Sept 2020: Revenue drops for 7 months after 68-day lockdown is announced in late March
95,480
Sep 2020
105,155
Oct 2020
Oct 2020-April 2021: Recovery period
141,384
Apr 2021
116,393
92,849
Jun 2021
June 2021: Revenue dips below ₹1L crore on 2nd wave impact
July 2021: Another sign of recovery
Mar 2020
July 2021

PM MODI LAUNCHES DIGITAL PAYMENT SOLUTION E-RUPI

Context:

Prime Minister Narendra Modi launched digital payment solution e-RUPI, a person and purpose specific cashless digital payment solution, via videoconference.

Relevance:

Prelims, GS-III: Science and Technology (IT & Computers), GS-III: Indian Economy (Mobilization of Resources, Growth and Development of Indian Economy)

Dimensions of the Article:

1. About e-RUPI
2. How will these vouchers be issued?
3. What are the use cases of e-RUPI?
4. What are the plans for a central bank digital currency (CBDC)?
5. Does India have appetite for a digital currency?

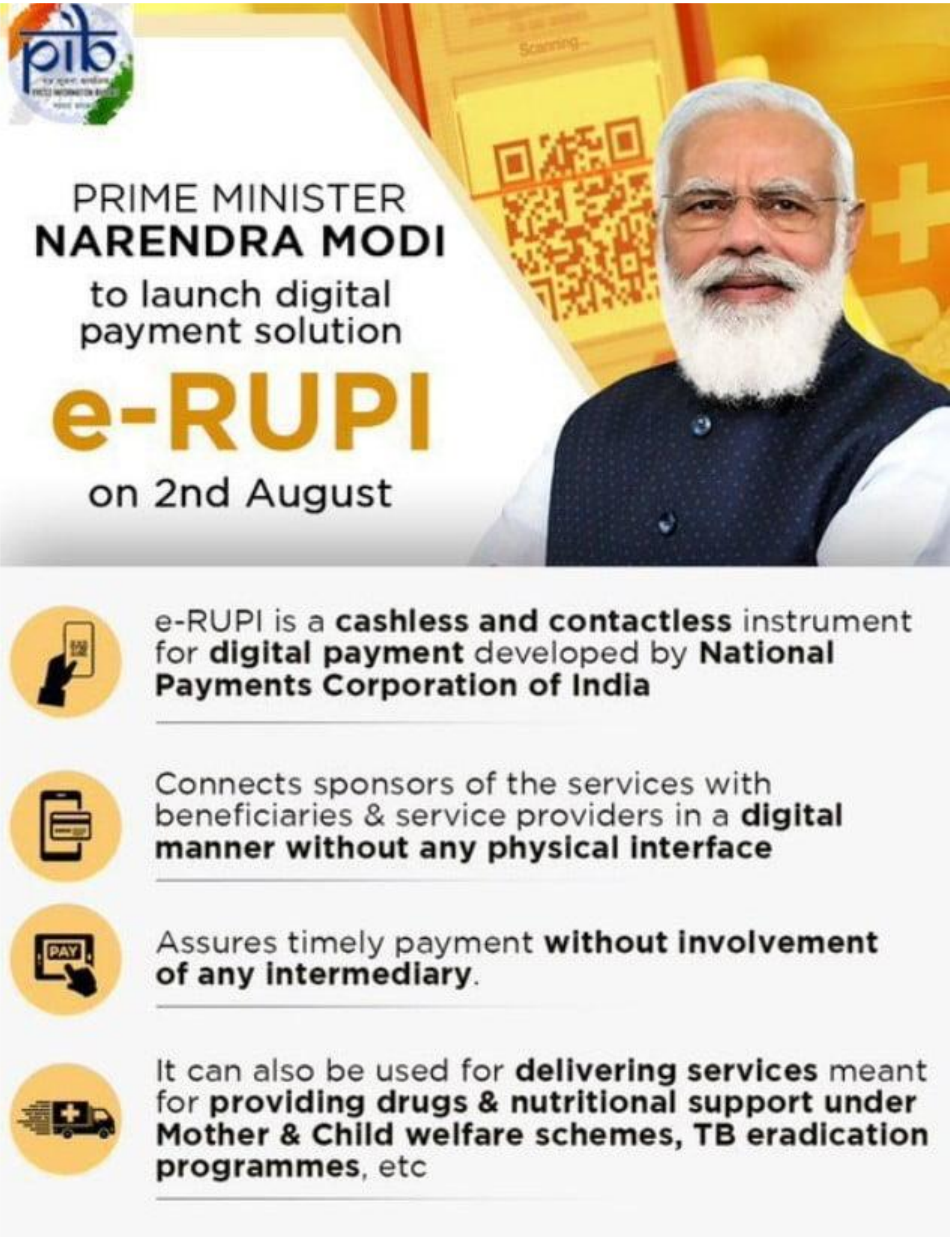
About e-RUPI

- e-RUPI is a cashless and contactless digital payments medium, which will be delivered to mobile phones of beneficiaries in form of an SMS-string or a QR code.
- This will essentially be like a prepaid gift-voucher that will be redeemable at specific accepting centres without any credit or debit card, a mobile app or internet banking.
- e-RUPI will connect the sponsors of the services with the beneficiaries and service providers in a digital manner without any physical interface.

How will these vouchers be issued?

- The system has been built by NPCI on its UPI platform, and has onboarded banks that will be the issuing entities.

- Any corporate or government agency will have to approach the partner banks, which are both private and public-sector lenders, with the details of specific persons and the purpose for which payments have to be made.
- The beneficiaries will be identified using their mobile number and a voucher allocated by a bank to the service provider in the name of a given person would only be delivered to that person.



What are the use cases of e-RUPI?

- According to the government, e-RUPI is expected to ensure a leak-proof delivery of welfare services.
- It can also be used for delivering services under schemes meant for providing drugs and nutritional support under Mother and Child welfare schemes, TB eradication programmes, drugs & diagnostics under schemes like Ayushman Bharat Pradhan Mantri Jan Arogya Yojana, fertiliser subsidies etc.
- The government also said that even the private sector can leverage these digital vouchers as part of their employee welfare and corporate social responsibility programmes.
- The government is already working on developing a central bank digital currency and the launch of e-RUPI could potentially highlight the gaps in digital payments infrastructure that will be necessary for the success of the future digital currency.
- In effect, e-RUPI is still backed by the existing Indian rupee as the underlying asset and specificity of its purpose makes it different to a virtual currency and puts it closer to a voucher-based payment system.
- Also, the ubiquitousness of e-RUPI in the future will depend on the end-use cases.

What are the plans for a central bank digital currency (CBDC)?

- The Reserve Bank of India had recently said that it has been working towards a phased implementation strategy for central bank digital currency or CBDC — digital currencies issued by a central bank that generally take on a digital form of the nation's existing fiat currency such as the rupee.
- RBI deputy governor T Rabi Sankar said that CBDCs "are desirable not just for the benefits they create in payments systems, but also might be necessary to protect the general public in an environment of volatile private VCs.
- Although CBDCs are conceptually similar to currency notes, the introduction of CBDC would involve changes to the enabling legal framework since the current provisions are primarily synced for currency in paper form.

Does India have appetite for a digital currency?

According to the RBI, there are at least four reasons why digital currencies are expected to do well in India:

- One, there is increasing penetration of digital payments in the country that exists alongside sustained interest in cash usage, especially for small value transactions.
- Two, India's high currency to GDP ratio, according to the RBI, "holds out another benefit of CBDCs". Three, the spread of private virtual currencies such as Bitcoin and Ethereum may be yet another reason why CBDCs become important from the point of view of the central bank.

HOW IMF GROWTH FORECAST WILL IMPACT MONETARY POLICY?

Context:

The latest update on the global economy by the International Monetary Fund (IMF) cut India's GDP growth forecast for 2021-22 (or FY22) by as much as three percentage points.

This is set to affect the upcoming monetary policy review by the Monetary Policy Committee of the Reserve Bank of India.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Monetary)

Dimensions of the Article:

1. Significant Points that will affect the August MPC review
2. Impact of the second Covid-19 wave on Monetary Policy

Significant Points that will affect the August MPC review

- The RBI is legally mandated to keep the inflation rate between 2% and 6% but there is no such requirement when it comes to GDP growth.
- So, it can be said that the thumb rule for RBI is that – if inflation is within the desired range, it tries to do whatever it can to boost economic growth.
- Typically, boosting economic growth translates to reducing the interest rate that RBI charges to lend money to India's commercial banks; this rate is called the repo rate. By doing so, it tries to make it easier for all economic agents (especially businesses) to seek new loans and boost economic activity.
- When inflation is too high, the RBI typically increases the interest rate, thus incentivising consumers to keep their money in their bank accounts (instead of spending it) while also making it costlier for businesses to take out new loans.
- If the retail inflation is too low, it suggests weak economic activity and one would expect the RBI to lower interest rates to boost GDP.
- Of course, the RBI cannot boost growth as well as curb inflation at the same time. If it chooses to boost growth when inflation is also high, it runs the risk of further fuelling inflation.

Impact of the second Covid-19 wave on Monetary Policy

IMF cut India's GDP growth forecast for 2021-22 due to:

- **Inadequate levels of vaccination:** Emerging economies such as India have only 11% of their population fully vaccinated — far behind the 40% mark for advanced economies such as the US and UK.
- **Policy support that the Indian economy has received:** Governments in most advanced economies have unveiled measures to support their economies longer. On the other hand, in the emerging market and developing economies most measures expired in 2020 and they are looking to rebuild fiscal buffers.
- **Nature of policy support:** Indian government has favoured the "below the line" measures (policy decisions where instead of a direct immediate outgo from its coffers, the government (including the RBI) provides more loans and credit guarantees) instead of the "above the line" measures (fiscal decisions that boost economic activity by either increasing government expenditures or reducing government revenues). This is contrary to the suggestion of many economists who argue that the Indian economy is in dire need of increased direct spending by the government.

IMF's World Economic Outlook: July 2021 update

Difference between the April and July forecasts of real GDP growth rate (in percentage points)

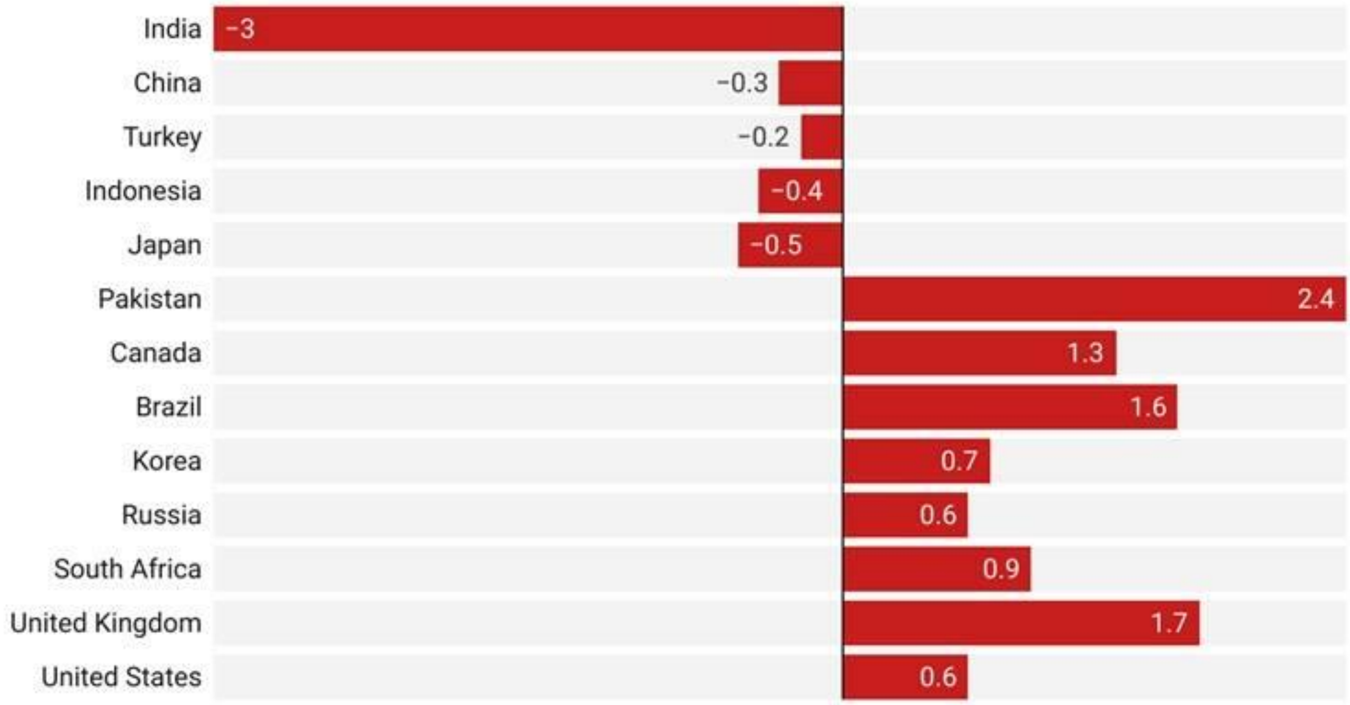
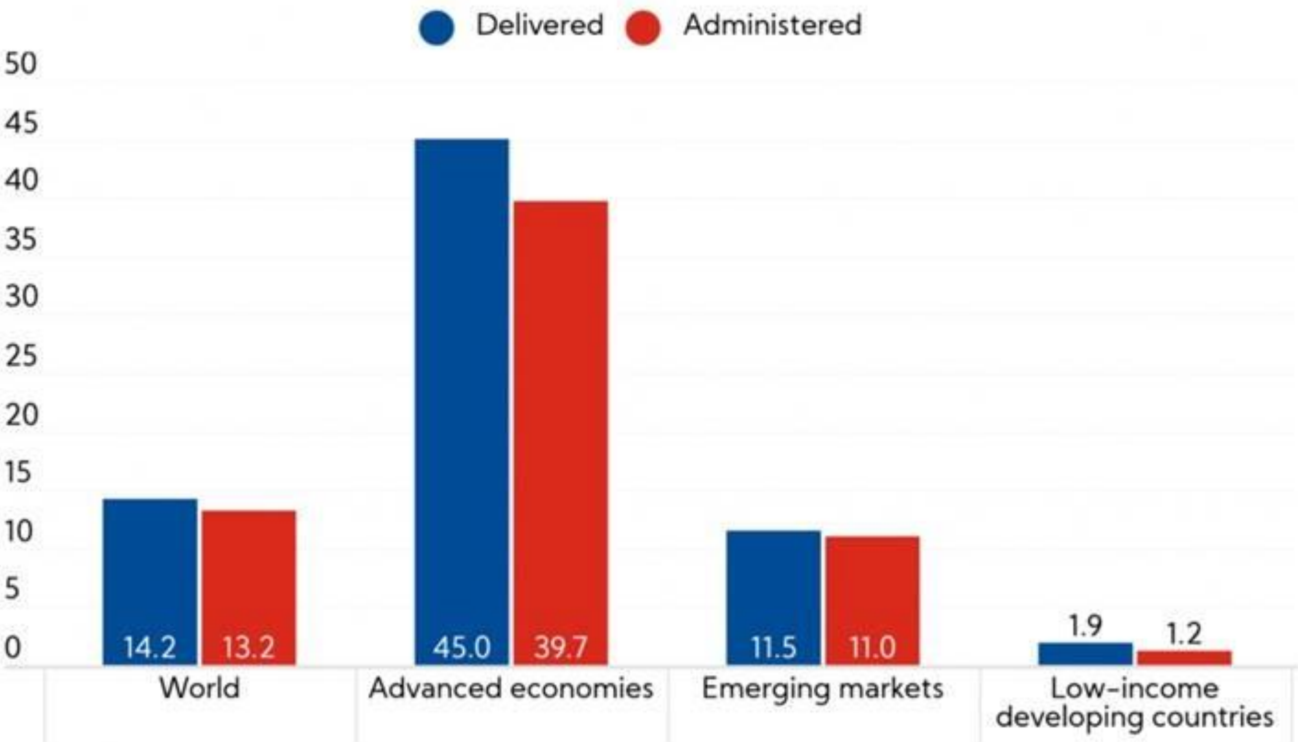


Chart: Udit Misra • Source: IMF • Created with Datawrapper

Two-track pandemic

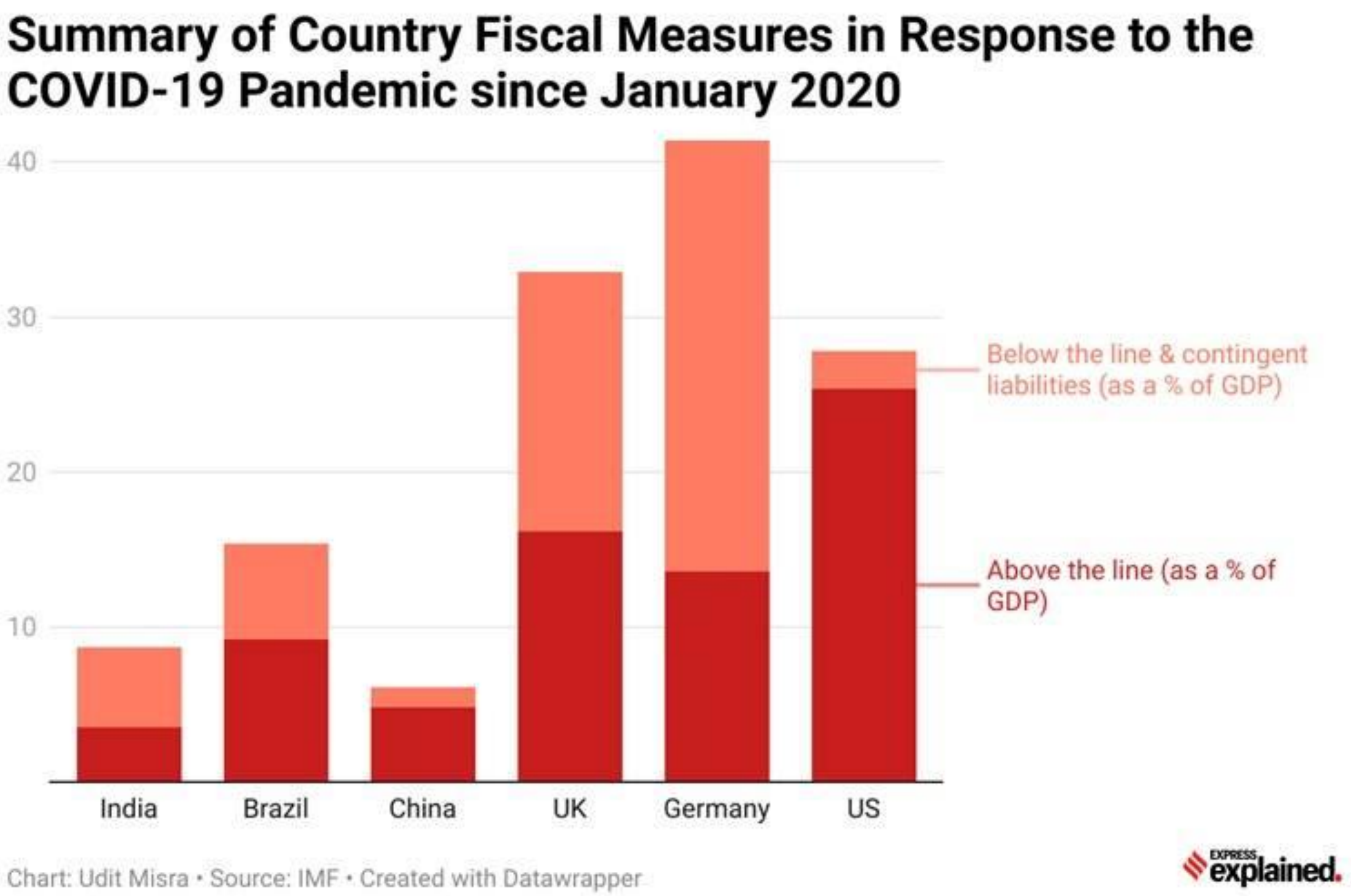
Close to 40 percent of the population in advanced economies has been fully vaccinated, compared with 11 percent in emerging market economies and just 1 percent in low-income developing countries.

(vaccine courses as a percent of the population, as of July 19, 2021)

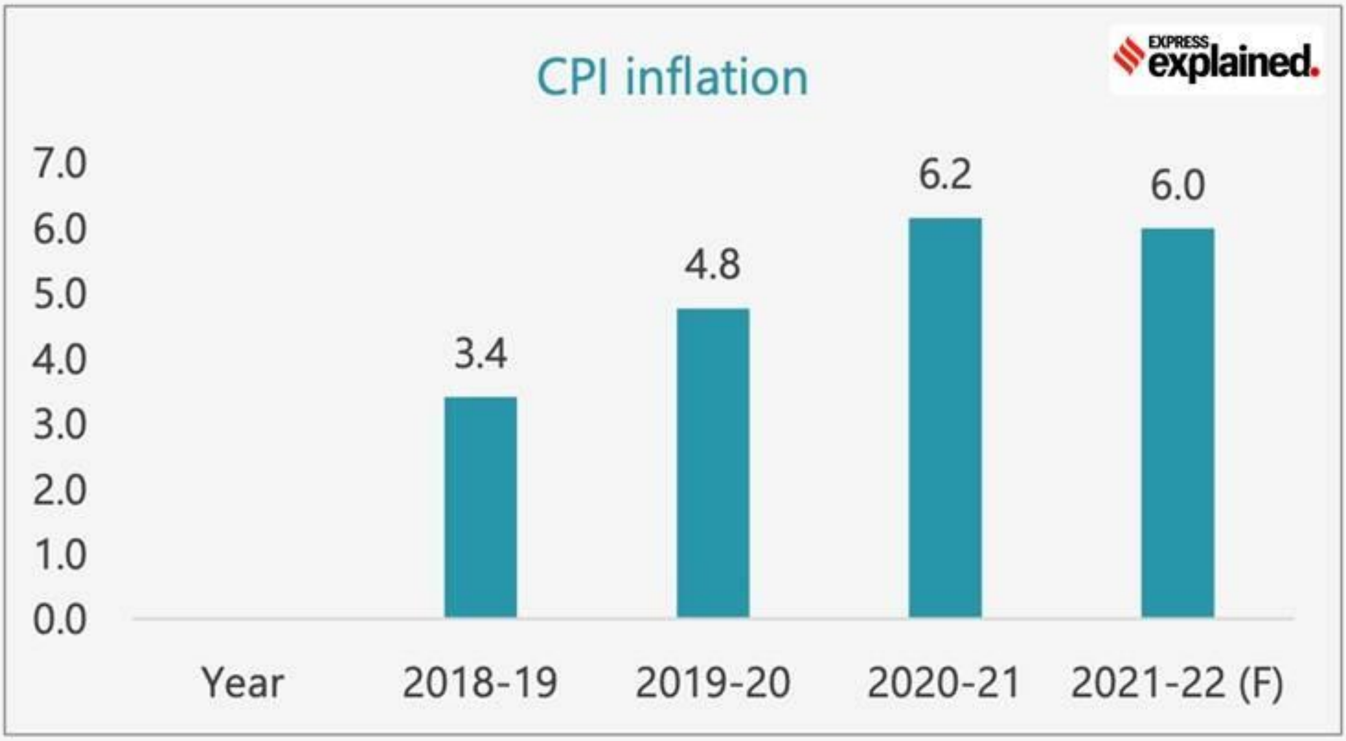


Sources: Haver Analytics; Our World in Data; Airfinity; and IMF staff calculations.
Note: Two doses generally assumed for a full course of vaccination, except for J&J and CanSino.

IMF



- **Inflation: The upshot –** Retail inflation, which is the primary target of RBI, is expected to stay outside or almost outside RBI's comfort zone in 2021-22.
- RBI is unlikely to raise interest rates on August 2021 because India's economic recovery continues to be quite iffy.



Source: MOSPI, CARE Ratings

Source: Office of Economic Advisor, CARE Ratings

LIMITED LIABILITY PARTNERSHIP (AMENDMENT) BILL 2021

Context:

The Rajya Sabha passed the Limited Liability Partnership (Amendment) Bill 2020 which seeks to amend the Limited Liability Partnership Act of 2008.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Inclusive Growth), GS-II: Governance (Government Interventions and policies)

Dimensions of the Article:

1. What is Limited Liability Partnership (LLP)?
2. Limited Liability Partnership (Amendment) Bill, 2021
3. What can be changed regarding LLPs in the future?

What is Limited Liability Partnership (LLP)?

- A Limited Liability Partnership (LLP) is a hybrid model of a partnership firm and a company in which some or all partners (depending on the jurisdiction) have limited liabilities.
- In an LLP, each partner is not responsible or liable for another partner's misconduct or negligence.
- The partners in an LLP are liable only to their extent of agreed contribution to the capital. They are not liable to any unauthorised actions of the other partners.
- In a traditional partnership firm, all the partners are liable for any action taken by any partner and the liability is unlimited. However, in an LLP, the liability extent of any partner is determined by the amount of capital that has been invested by him/her.
- LLP is governed by Limited Liability Partnership Act, 2008 and Companies Act while traditional partnership is governed by Indian Partnership Act, 1932.
- An LLP has a separate legal entity and is liable to the full extent of its assets (liability of partners is limited) while a traditional partnership firm does not have any kind of separate legal entity.
- Foreign Nationals can become partners in LLP, whereas in traditional partnership firms, foreign nationals can't become the partner.
- In a partnership firm, there is professional expertise but the risk-taking capacity often gets undermined due to high liabilities on the partners. The LLP provides an alternative solution to it because it combines the benefits of professional expertise and the risk-taking capacity of the partners and gives them the viable options.

Limited Liability Partnership (Amendment) Bill, 2021

- The Limited Liability Partnership (Amendment) Bill 2021 makes amendments to the Limited Liability Partnership (LLP) Act, 2008 to bring an equal playing field for Limited Liability Partnerships (LLPs), compared to large companies which come under the Companies Act, 2013.
- The Bill aims to facilitate the Ease of Doing Business and encourage startups across the country.
- The bill proposes the creation of a class of small LLPs which will be subject to fewer compliances, reduced fee/additional fee, and smaller penalties in the civil defaults – to encourage entrepreneurs.
- The bill seeks to decriminalise 12 of the existing 24 penal provisions, 21 compoundable offences and 3 non-compoundable ones under the LLP Act by omitting those offences which are more appropriate to be dealt with under other laws.

- Offences that relate to minor/ less serious compliance issues, involving predominantly objective determinations, are proposed to be shifted to the In-House Adjudication Mechanism (IAM) framework instead of being treated as criminal offences.
- The threshold contribution for the partners for the LLPs have been enhanced from Rs. 25 lacs to around Rs. 5 crores and the turnover size from 40 lacs to 50 crores.
- The amendment allows the LLPs to issue fully secured Non-Convertible Debentures from investors regulated by SEBI or the RBI – this will facilitate the enhanced capability of raising capital and financing operations of LLPs.
- The accounting standards and auditing standards for LLPs have been introduced to bring standardisation in the procedures as the LLPs were not enjoying the kind of standard accounting systems that their counterpart companies are enjoying under the provisions of the Companies Act, 2013.

What can be changed regarding LLPs in the future?

- Even if its partners qualify for 'angel investors' in their individual capacity, the LLP might not be eligible for it as LLPs have to meet certain criteria to be eligible for an angel investor. Norms can be eased to enable LLPs access to angel investors become easier.
- Currently, no two NRIs can form an LLP in India as one of the partners has to be an Indian resident. Further, the Foreign Direct investment (FDI) in an LLP can only happen through the government route and therefore, the time required to form this partnership is much more. These norms can be eased to support foreign funding for LLPs as well.
- An LLP does not allow to issue Employee Stock Ownership Plan (ESOP). This restriction can be removed as ESOPs are used as a tool to retain the key personnel of the company.

DEPOSIT INSURANCE & CREDIT GUARANTEE CORPORATION BILL

Context:

The Rajya Sabha passed the Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill amid opposition uproar.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Banking), GS-II: Governance (Government Policies and Interventions)

Dimensions of the Article:

1. Deposit Insurance and Credit Guarantee Corporation (DICGC) Bill, 2021
2. Deposit Insurance and Credit Guarantee Corporation (DICGC)
3. How does DICGC manage deposit insurance?

Deposit Insurance and Credit Guarantee Corporation (DICGC) Bill, 2021

The Deposit Insurance and Credit Guarantee Corporation (Amendment) Bill, 2021 proposes three key changes that could vastly improve the working of deposit insurance as it stands today. This was deemed necessary in the wake of failure of banks such as Punjab and Maharashtra Co-operative (PMC) Bank, Yes Bank and Lakshmi Vilas Bank due to low level of insurance against the deposits held by customers in Indian banks.

Key provisions of the DICGC bill, 2021

- The Bill makes changes to the deposit insurance laws of the country according to which up to Rs 5 lakh of funds will be provided to an account holder within 90 days in the event of a bank being put under moratorium by the RBI. Previously, account holders had to get their insured deposits had to wait for years till the restructuring or liquidation of a distressed lender.

- The deposit insurance premium has also been raised by 20% effective immediately and maximum premium limit by 50%. This premium is paid by the various banks to the DICGC.
- Currently, as premium for insurance cover, banks pay 10 paisa on every Rs 100 worth deposits to the DICGC. This is being raised to 12 paisa on every Rs 100.
- With the bank being put under moratorium, in the first 45 days, DICGC will collect all deposit accounts related information's. Then in the next 45 days, the information will be reviewed and depositors will be repaid within 90 days.

Deposit Insurance and Credit Guarantee Corporation (DICGC)

- Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly owned subsidiary of Reserve Bank of India.
- It was established on 15 July 1978 under the Deposit Insurance and Credit Guarantee Corporation Act, 1961. Hence, it is a Statutory body.
- It was established for the purpose of providing insurance of deposits and guaranteeing of credit facilities.
- DICGC insures all bank deposits, such as saving, fixed, current, recurring deposit for up to the limit of Rs. 500,000 of each deposits in a bank.

How does DICGC manage deposit insurance?

- DICGC charges 10 paise per ₹ 100 of deposits held by a bank (which is set to be increased to 12 paise by the 2021 law). The premium paid by the insured banks to the Corporation is paid by the banks and is not to be passed on to depositors.
- DICGC last revised the deposit insurance cover to ₹ 1 lakh on May 1, 1993, raising it from ₹ 30,000 since 1980. The protection cover of deposits in Indian banks through insurance is among the lowest in the world.
- The Damodaran Committee on 'Customer Services in Banks' (2011) had recommended a five-time increase in the cap to ₹5 lakh due to rising income levels and increasing size of individual bank deposits.
- Banks, including regional rural banks, local area banks, foreign banks with branches in India, and cooperative banks, are mandated to take deposit insurance cover with the DICGC.
- The DICGC does not deal directly with depositors.
- The RBI (or the Registrar), on directing that a bank be liquidated, appoints an official liquidator to oversee the winding up process.
- Under the DICGC Act, the liquidator is supposed to hand over a list of all the insured depositors (with their dues) to the DICGC within three months of taking charge.
- The DICGC is supposed to pay these dues within two months of receiving this list.
- In FY19, it took an average 1,425 days for the DICGC to receive and settle the first claims on a de-registered bank.

TAXATION LAWS (AMENDMENT) BILL, 2021

Context:

The government on introduced the Taxation Laws (Amendment) Bill in the Lok Sabha for doing away with the contentious retrospective tax law of 2012.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Taxation), GS-II: Governance (Government Policies and Interventions)

Dimensions of the Article:

1. Taxation Laws (Amendment) Bill, 2021
2. Conclusion

Taxation Laws (Amendment) Bill, 2021

- Taxation Laws (Amendment) Bill, 2021 was introduced in Lok Sabha on August 2021 to amend the Income-tax Act, 1961 and the Finance Act, 2012.
- The Primary Objective is to nullify the relevant retrospective tax clauses that were introduced in 2012 to bring past indirect transfer of Indian assets under the ambit of taxation.
- The contentious retrospective tax law of 2012 was used to raise large tax demands on foreign investors like Vodafone and Cairn Energy, and was blamed for vitiating India's investment climate.
- The Bill proposes to amend the Income-tax Act, 1961 so as to provide that no tax demand shall be raised in future on the basis of the said retrospective amendment for any indirect transfer of Indian assets if the transaction was undertaken before 2012 (date on which the Finance Bill, 2012 received the assent of the President).
- It is further proposed to provide that the demand raised for indirect transfer of Indian assets made before 2012 shall be nullified on fulfilment of specified conditions such as withdrawal or furnishing of undertaking for withdrawal of pending litigation and furnishing of an undertaking to the effect that no claim for cost, damages, interest, etc., shall be filed.
- It is also proposed to refund the amount paid in these cases without any interest thereon.
- The Bill also proposes to amend the Finance Act, 2012 so as to provide that the validation of demand, etc., shall cease to apply on fulfilment of specified conditions such as withdrawal or furnishing of undertaking for withdrawal of pending litigation and furnishing of an undertaking that no claim for cost, damages, interest, etc., shall be filed.

Conclusion

- The clarificatory amendments by the Finance Act, 2012 invited criticism from stakeholders mainly with respect to the retrospective effect given to the amendments. It was argued that such retrospective amendments militate against the principle of tax certainty and damage India's reputation as an attractive investment destination.
- Even after the retrospective amendments, the pending demand could not be recovered by the Dept. The Income-tax Dept. raised demand in 17 cases. Out of these 17 cases, arbitration under Bilateral Investment Protection Treaty with the United Kingdom and the Netherlands had been invoked in four cases. In two cases, the Arbitration Tribunal ruled in favour of the taxpayer and against the Income Tax Department.
- These clarificatory retrospective amendments and consequent demand continue to be a sore point with the potential investors. Thus, the Govt. has introduced the Taxation Laws (Amendment) Bill, 2021 in the parliament to propose revocation of the amendments.
- Now, the country stands at a juncture when quick recovery of the economy after the COVID-19 pandemic is the need of the hour and foreign investment has an essential role in promoting faster economic growth and employment.

RBI HOLDS RATES, MPC SPLITS ON STANCE

Context:

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept interest rates on hold for the seventh straight time.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Monetary Policy, Inflation)

Dimensions of the Article:

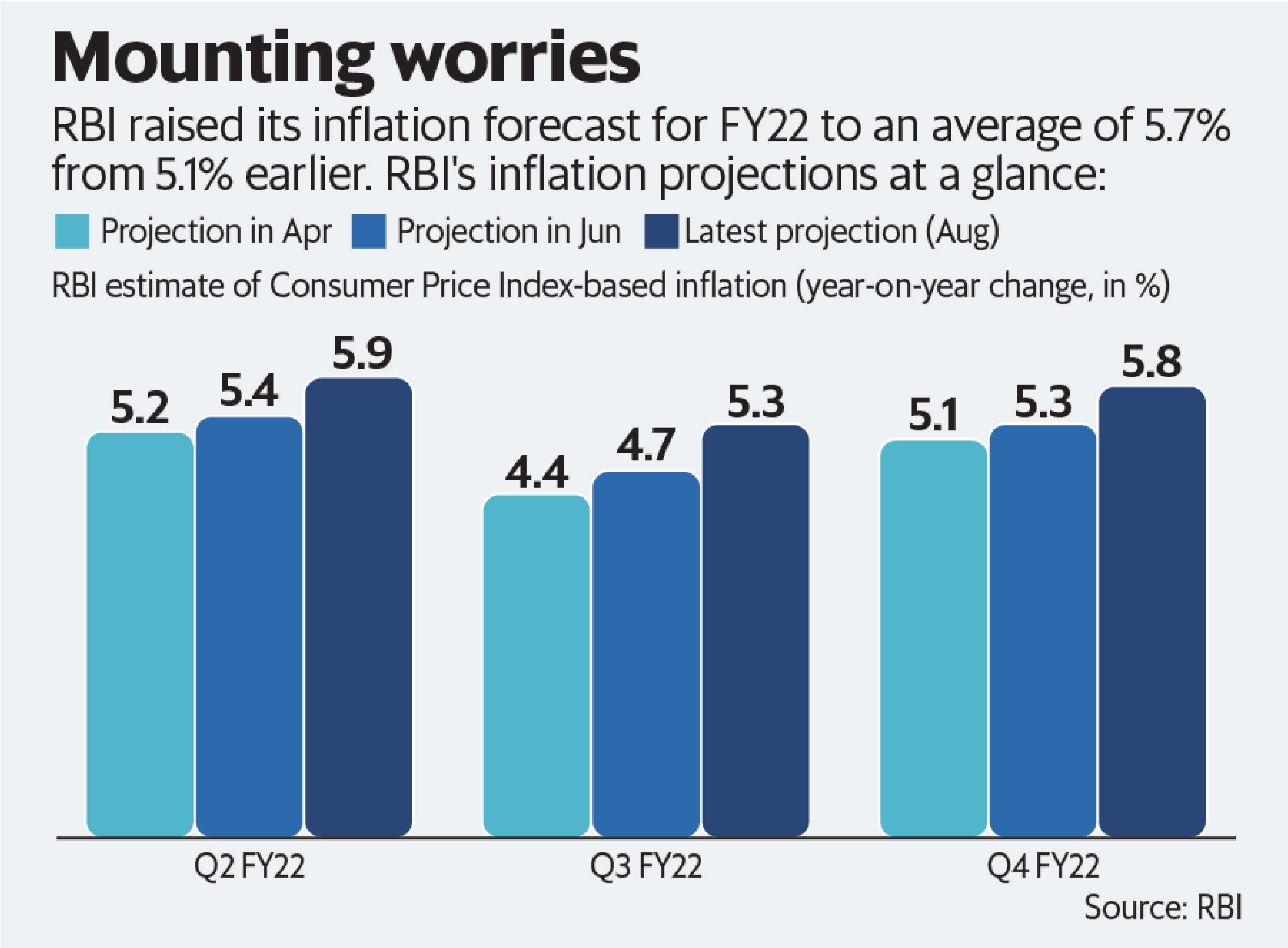
1. About the recent Monetary Policy Committee's decisions
2. Inflation target hiked by the MPC
3. Back to Basics: What is the MPC?

About the recent Monetary Policy Committee's decisions

- The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) on Friday kept the key policy rate — Repo rate, or the RBI's lending rate to banks — unchanged at four per cent for the seventh time in a row.
- The MPC has also kept the reverse repo rate — RBI's borrowing rate from banks — unchanged at 3.35 per cent.
- The MPC has also raised the inflation target for fiscal 2001-22 but maintained the growth forecast at 9.5 per cent (pegged Q1 growth at 21.4% followed by 7.3% in Q2, 6.3% in Q3 and 6.1% in Q4).
- The six-member MPC panel, headed by RBI Governor voted in favour keeping key policy rates unchanged and decided to continue with an accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of Covid-19 on the economy, while ensuring that inflation remains within the target going forward.
- The RBI panel says the nascent and hesitant recovery in the economy — which faced rough weather due to the Covid second wave and lockdowns in states — needs to be nurtured through fiscal, monetary and sectoral policy levers.
- Elevated inflation level and delayed recovery in the economy would have prompted the panel to keep rates steady. Interest rates in the banking system are expected to remain stable in the next couple of months.
- Although RBI retained its policy stance, it raised the amount of variable rate reverse repo (VRRR) auctions by ₹2 trillion to drain excess liquidity from the banking system.
- The RBI Governor said that these enhanced VRRR auctions should not be misread as a reversal of the accommodative policy stance as the amount absorbed after the fixed rate reverse repo is expected to remain more than Rs. 4 trillion at the end of September 2021.

Inflation target hiked by the MPC

- The RBI panel has hiked the inflation target for fiscal 2021-22 to 5.7 per cent from 5.1 per cent projected earlier.
- Although the target is below the RBI's upper band of inflation target of 6 per cent, input prices are rising across manufacturing and services sectors and weak demand and efforts towards cost cutting are tempering the pass-through to output prices.
- With crude oil prices at elevated levels, a calibrated reduction of the indirect tax component of pump prices by the Centre and states can help to substantially lessen cost pressures.
- The combination of elevated prices of industrial raw materials, high pump prices of petrol and diesel with their second-round effects, and logistics costs continue to impinge adversely on cost conditions for manufacturing and services, although weak demand conditions are tempering the pass-through to output prices and core inflation.



Back to Basics: What is the MPC?

The Monetary Policy Committee (MPC) is the body of the RBI, headed by the Governor, responsible for taking the important monetary policy decisions about setting the repo rate. Repo rate is 'the policy instrument' in monetary policy that helps to realize the set inflation target by the RBI (at present 4%).

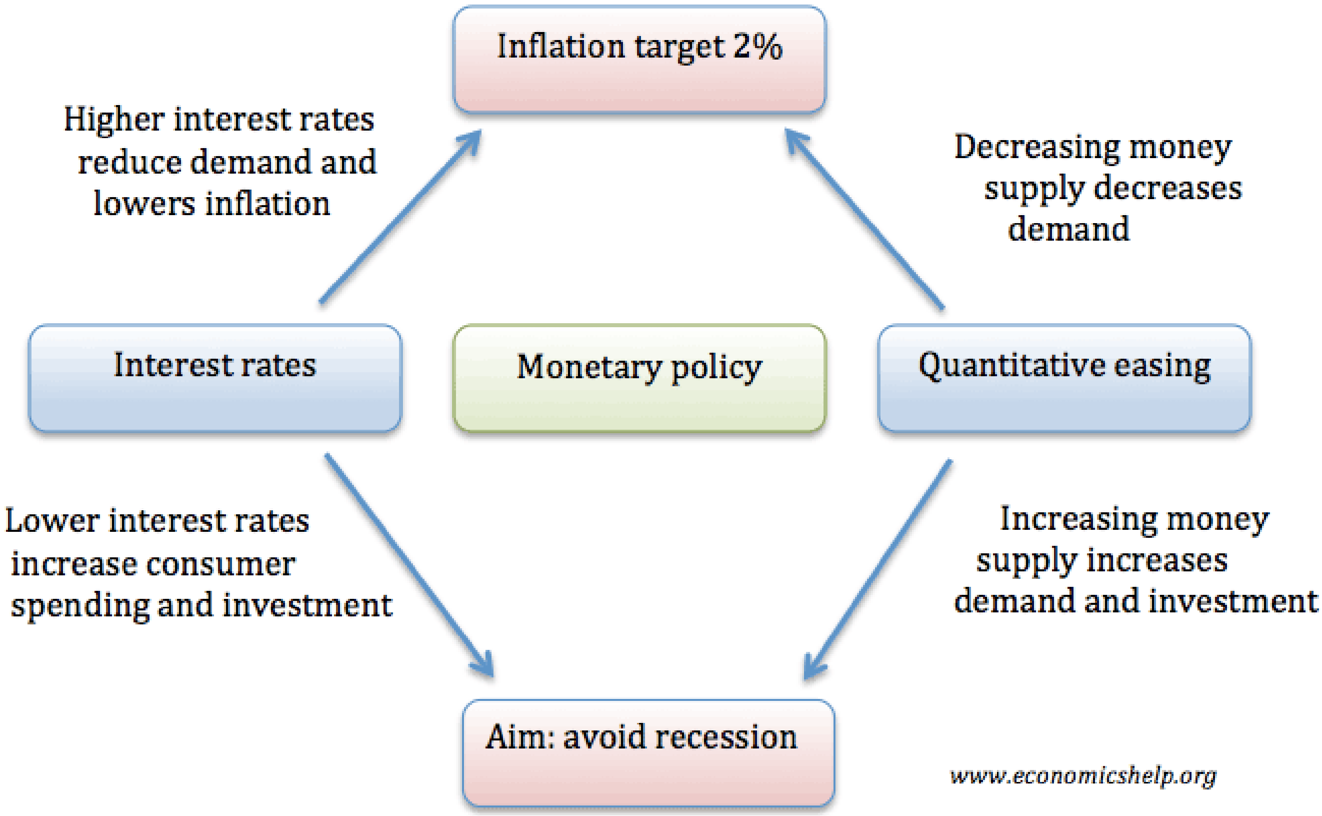
Membership of the MPC

- The Monetary Policy Committee (MPC) is formed under the RBI with six members.
- Three of the members are from the RBI while the other three members are appointed by the government.
- Members from the RBI are the Governor who is the chairman of the MPC, a Deputy Governor and one officer of the RBI.
- The government members are appointed by the Centre on the recommendations of a search-cum-selection committee which is to be headed by the Cabinet Secretary.

Objectives of the MPC

- Monetary Policy was implemented with an initiative to provide reasonable price stability, high employment, and a faster economic growth rate. The major four objectives of the Monetary Policy are mentioned below:
    1. To stabilize the business cycle.
    2. To provide reasonable price stability.

3. To provide faster economic growth.
4. Exchange Rate Stability.



- Average inflation overshooting the upper tolerance level or remaining below the lower tolerance level for any three consecutive quarters constitutes a failure to achieve the inflation target.
- In such an event, the Reserve Bank of India (RBI) is required to send a report to the Centre, stating the reasons for the failure to achieve the inflation target, the remedial actions it proposes to initiate, and an estimate of the time-period within which it expects to achieve the inflation target through the corrective steps proposed.

SOUTH ASIA'S EMERGING DIGITAL TRANSFORMATION

Context:

- COVID-19 has forced South Asia to take a quantum leap in digitalisation. The shift to remote work and education has propelled an unprecedented spike in Internet penetration, with even smaller nations such as Nepal recording almost an 11% increase in broadband Internet users.

Relevance:

- GS Paper 3: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Mains Questions:

1. Digital transformation is a global imperative with adoption of advanced technologies such as cloud computing, artificial intelligence, the Internet of things, Big Data, etc., key to success. Discuss. 15 Marks

Dimensions of the Articles:

1. What is Digital Transformation?

2. Digital Transformation in South East Asia?
3. The yawning divide
4. Digital inevitability, dividend
5. A checklist for change
6. Collaboration needed

What is Digital Transformation?

- Digital transformation is the process of using digital technologies to create new — or modify existing — business processes, culture, and customer experiences to meet changing business and market requirements. It transcends traditional roles like sales, marketing, and customer service.

Digital Transformation in South East Asia?

- **COVID-19 has forced South Asia** to take a quantum leap in digitalisation. The shift to remote work and education has propelled an unprecedented spike in Internet penetration, with even smaller nations such as Nepal recording almost an 11% increase in broadband Internet users.
  - For a region with threadbare public health infrastructure, the digitisation of health-care services was a watershed moment, providing novel solutions to the public health crises.
- **In India, COVID-19** accelerated the launch of **the National Digital Health Mission,** enhancing the accessibility and the efficiency of health-care services by creating a unique health ID for every citizen.
- **The pandemic-induced suspension of bricks-and-mortar businesses** spurred South Asia's embrace of e-commerce, boosted by digital payment systems. Bangladesh alone witnessed an increase of 70-80% in online sales in 2020, generating $708.46 million in revenues.

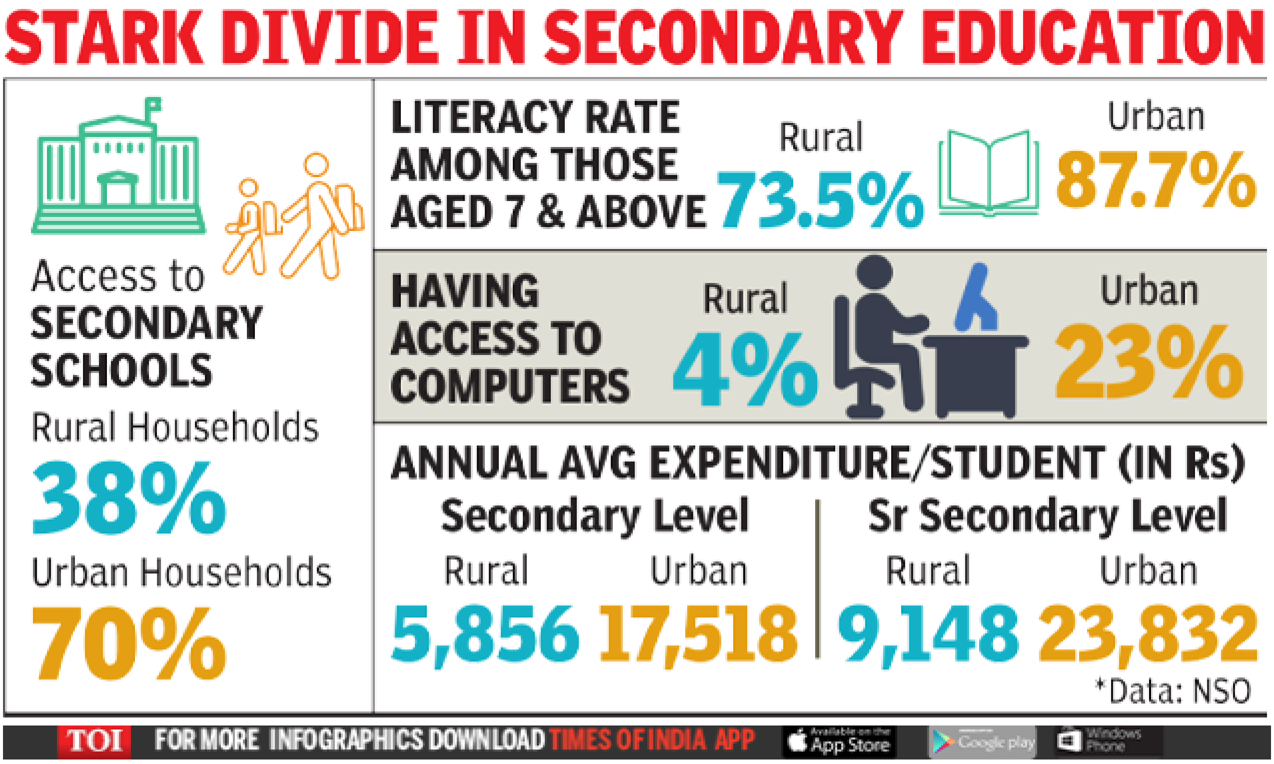
The yawning divide

- **As one of the world's poorest regions,** a wide digital divide persists in access and affordability, between and within the countries of South Asia. Despite having the world's second largest online market, 50% of India's population are without Internet with 59% for Bangladesh and 65% for Pakistan.
- **With monetary and health assistance schemes** distributed online, 51% of South Asian women were excluded from social protection measures during the pandemic .
- **Children** too were at the receiving end, with 88% lacking access to Internet powered home schooling.
  - This disruption could permanently put children out of school, place girls at risk of early marriage, and push poor children into child labour costing economies billions of dollars in future earnings.
- **Businesses** too have paid a heavy price for the gap in digital solutions, whereby many South Asian firms failing to embrace e-commerce or other cloud-based technologies to survive the financial chaos of the novel coronavirus pandemic.
  - **The region recorded a 64% decline in sales,** with small and women-led firms faring the worst . With COVID-19 transforming work life, the acute skills gap among youth will continue, creating unemployment.

Digital inevitability, dividend

- **Digital transformation** is a global imperative with adoption of advanced technologies such as cloud computing, artificial intelligence, the Internet of things, Big Data, etc., key to success.
  - **From banking to manufacturing and retails**, the role of digital technology is too important to be overlooked as countries embrace the digital revolution to drive their development agenda.

- **At the forefront of Asian digitalisation are countries s**uch as Singapore, Japan, and South Korea recognised as global technological hubs. Owing to increased smartphone and Internet penetration, coupled with the availability of trusted digital payment platforms, China's e-commerce industry is said to reach $3 trillion in 2024 .
    - The digital boom in the Association of Southeast Asian Nations (ASEAN) economies is pushing a "common market" initiative, fostering regional economic integration and enhancing global competitiveness.
- **South Asia has also made significant strides in the adoption of digital technologies.** The Digital Bangladesh Vision 2021 envisages transforming Bangladesh into a prosperous, digital society, whereas India's biometric identification systems intend to improve the efficiency of welfare programmes through digital innovation. However, the region still has a long way to go.
- **E-commerce could drive the post-pandemic growth in South Asia,** providing new business opportunities and access to larger markets. In India, e-commerce could create a million jobs by 2030 and be worth $200 billion by 2026.
- **Fintech** could drive significant growth and reduce poverty by building financial inclusion.
    - **For instance, Pakistan's digital financial sector** could boost GDP by 7%, if faster payment gateway, lower costs and fast track licensing are put in place. A timely, inclusive, and sustainable digital transformation can not only bolster productivity and growth but also serve as a panacea for some of the region's socio-economic divides.



A checklist for change

- **To reap the dividends of digital transformation,** South Asia needs to address legal, regulatory and policy gaps as well as boost digital skills. A robust digital infrastructure is a sine qua non and there exists a huge financing gap.
    - India alone needs an annual investment of $35 billion to be in the top five global digital economy and public-private partnership needs to be leveraged for the region's digital infrastructure financing.

- **Regulatory roadblocks** need to be addressed as e-commerce regulations are weak in South Asia. For the sector to drive growth, issues such as customer protection, digital and market access regulation, etc. need to be addressed. There would be no digital revolution without universal digital literacy.
- **Governments and businesses** need to come together to revamp the education system to meet the demand for digital skills and online platforms. The crossflow of data and personal information calls for stringent cybersecurity measures as many have experienced painful lessons in data privacy during the pandemic.
- **In South Asia, only a third of the inter-regional trade potential** has been exploited, losing out on $23 billion in revenues. By addressing issues such as regulatory barriers on currency flows inhibiting online payment to transport-related constraints for cross-border e-commerce activities, South Asia can emulate the European Union's Digital Single Market Proposal.
- **During the pandemic, South Asian nations** joined hands to collectively battle the crises by contributing towards a COVID-19 emergency fund, exchanging data and information on health surveillance, sharing research findings, and developing an online learning platform for health workers.
    - If the eight nations (Afghanistan, Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka) can start walking the talk, partnership for a successful digital revolution is plausible. It will need vision, wisdom, and commitment at the highest level of the region's political leadership.

Collaboration needed

- **COVID-19** has rendered old ways of operating redundant. Concerted collaboration at all levels is needed to push South Asia out of stagnancy and towards a digital future of shared prosperity.
- **The right concoction of regulatory and physical infrastructure, skill sets and regional cooperation** can lead toward a digital utopia whereas, the lack of which can breed a dystopian tomorrow.
- **Adequate support** is needed for those who risk falling through the net of digital progress. A shared "digital vision" could place the region on the right track towards the Fourth Industrial Revolution.

NCLT VACANCIES POINTED OUT BY PANEL

Context:

Parliamentary Standing Committee on Finance has called out the Ministry of Corporate Affairs on persistent vacancies in National Company Law Tribunals (NCLTs) leading to delays in corporate insolvency under the Insolvency and Bankruptcy Code (IBC).

Relevance:

GS-III: Indian Economy (Capital Market, Statutory Bodies)

Dimensions of the Article:

1. NCLT
2. NCLAT
3. Differences between NCLT and NCLAT
4. About the Concerns of the Parliamentary Committee on NCLT
5. Way Forwards Suggested by the Parliamentary Committee

NCLT

- The National Company Law Tribunal is a quasi-judicial body in India that adjudicates issues relating to Indian companies.

- The tribunal was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India. **Hence, NCLT is a Statutory Body.**
- All proceedings under the Companies Act, including proceedings relating to arbitration, compromise, arrangements and reconstruction and winding up of companies shall be disposed of by the National Company Law Tribunal.
- The National Company Law Tribunal is the adjudicating authority for insolvency resolution process of companies and limited liability partnerships under the Insolvency and Bankruptcy Code, 2016.
- No criminal court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Tribunal or the Appellate Tribunal is empowered to determine by or under this Act or any other law for the time being in force and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act or any other law for the time being in force, by the Tribunal or the Appellate Tribunal.

NCLAT

- The National Company Law Appellate Tribunal (NCLAT) is a tribunal which was formed by the Central Government of India under Section 410 of the Companies Act, 2013. **Hence, NCLAT is also a Statutory Body.**
- The tribunal is responsible for hearing appeals from the orders of National Company Law Tribunal(s) (NCLT), starting on 1 June, 2016.
- The tribunal also hears appeals from orders issued by the Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.
- It also hears appeals from any direction issued, decision made, or order passed by the Competition Commission of India.

Differences between NCLT and NCLAT

- NCLT makes the judgement on the insolvency resolution proceedings. NCLAT makes judgement on the decisions made by the NCLT.
- NCLT is the primary Tribunal and NCLAT is the appellate tribunal.
- NCLT analyzes the evidences that are presented by the insolvent debtor or their creditors. NCLAT analyzes the decisions that are made by the NCLT.

About the Concerns of the Parliamentary Committee on NCLT

- The combined strength of the current NCLT benches around the country is currently only 29 members against the total sanctioned strength of 63 members.
- The committee noted that delays in the admission of insolvency cases by NCLTs and the approval of resolution plans were the key reasons behind the non-adherence of timelines under the IBC.
- Delays on the part of the NCLT in admitting cases allowed defaulting owners the opportunity to divert funds and transfer assets.
- A number of high profile cases under the IBC saw multiple decisions being challenged by stakeholders. Many of these appeals are frivolous attempts to slow down insolvency proceedings.
- Cases in which creditors have evaluated resolution plans submitted after the specified deadline would disincentive bidders from bidding within prescribed timelines and that such plans also contribute to delays and value destruction.

Way Forwards Suggested by the Parliamentary Committee

- NCLT should be required to admit a defaulting company into insolvency proceedings and hand over control to a resolution professional within 30 days.

- The MCA, as the nodal ministry, should take greater responsibility to streamline the operational processes in NCLT/National Company Law Appellate Tribunal (NCLAT) while constantly monitoring and analysing the workflow, disposal and outcomes with regard to resolutions, recoveries, time taken, etc.
- The IBC be amended to provide MSMEs, which are operational creditors under the IBC, with greater protection in the current economic environment.

GOVT. TO COMPLETELY EXIT ERSTWHILE PSUS

Context:

The government is eyeing a sale of its residual stakes in erstwhile public sector firms like Paradeep Phosphates, Hindustan Zinc and Balco, which were privatised during the Atal Behari Vajpayee regime.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Fiscal Policy, Inclusive growth and issues therein, Budgeting)

Dimensions of the Article:

1. What is Disinvestment?
2. Evolution of Disinvestment Policy in India
3. Privatization in 2019 and onwards
4. Policy of Strategic Disinvestment announced in the Union Budget FY 2021-22
5. Issues related to Disinvestment
6. Significance of the disinvestment

What is Disinvestment?

- Disinvestment or divestiture refers to the government selling or liquidating its assets or stakes in PSE (public sector enterprise).
- The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment
- It is done when a PSU start incurring the loss of exchequer.
- Disinvestment proceeds can help the government fund its fiscal deficit.

Evolution of Disinvestment Policy in India

- The liberalization reforms undertaken in 1991 ushered in an increased demand for privatization/ disinvestment of PSUs.
- The new economic policy 1991 indicated that PSUs had shown a very negative rate of return on capital employed due to:
    - Subsidized price policy of public sector undertakings.
    - Under–utilization of capacity
    - Problems related to planning and construction of projects.
    - Problems of labour, personnel and management and lack of autonomy
- In the initial phase, this was done through the sale of a minority stake in bundles through auction. This was followed by a separate sale for each company in the following years, a method popularly adopted till 1999-2000.

- India adopted strategic sale as a policy measure in 1999-2000 with the sale of a substantial portion of government shareholding in identified Central PSEs (CPSEs) up to 50% or more, along with transfer of management control. This was started with the sale of 74 % of the Government's equity in Modern Food Industries Limited (MFIL).
- Thereafter, 12 PSUs (including four subsidiaries of PSUs), and 17 hotels of Indian Tourism Development Corporation (ITDC) were sold to private investors along with transfer of management control by the Government.
- Another major shift in disinvestment policy was made in 2004-05 when it was decided that the government may "dilute its equity and raise resources to meet the social needs of the people", a distinct departure from strategic sales.
- Department of Investment and Public Asset Management (DIPAM) has laid down comprehensive guidelines on "Capital Restructuring of CPSEs" in May 2016 by addressing various aspects, such as payment of dividends, buyback of shares, issues of bonus shares and splitting of shares.

Privatization in 2019 and onwards

- In November 2019, India launched its biggest privatization drive in more than a decade. An "in-principle" approval was accorded to reduce the government of India's paid-up share capital below 51% in select Central Public Sector Enterprises (CPSEs).
- Among the selected CPSEs, strategic disinvestment of the Government's shareholding of 53.29% in Bharat Petroleum Corporation Ltd (BPCL) was approved which led to an increase in value of shareholders' equity of BPCL by INR 33,000 crore when compared to its peer Hindustan Petroleum Corporation Limited (HPCL) and this reflects an increase in the overall value from anticipated gains from consequent improvements in the efficiency of BPCL when compared to HPCL which will continue to be under Government control.

The Economic Survey 2020 on Govt. Divestment in PSUs

- The Economic Survey 2020 has aggressively pitched for divestment in PSUs by proposing a separate corporate entity wherein the government's stake can be transferred and divested over a period of time.
- The performance of privatized firms, after controlling for other confounding factors using the difference in the performance of peer firms over the same period, improves significantly the following privatization.
- Further, the survey has said privatized entities have performed better than their peers in terms of net worth, profit, return on equity and sales, among others.

Policy of Strategic Disinvestment announced in the Union Budget FY 2021-22

- The government aims at making use of disinvestment proceeds to finance various social sector and developmental programmes and also to infuse private capital, technology and best management practices in Central Government Public Sector Enterprises.
- Union Minister for Finance and Corporate Affairs, while presenting the Union Budget FY 2021-22 in Parliament announced that government has approved a policy of strategic disinvestment of public sector enterprises that will provide a clear roadmap for disinvestment in all non-strategic and strategic sectors.
- Fulfilling the governments' commitment under the AtmaNirbhar Package of coming up with a policy of strategic disinvestment of public sector enterprises, the Minister highlighted the following as its main features:
- Existing CPSEs, Public Sector Banks and Public Sector Insurance Companies to be covered under it.
- Most significant, however, is the new strategic disinvestment policy for public sector enterprises and the promise to privatise two public sector banks and a general insurance company in the year.

- The policy, promised as part of the AtmaNirbhar Bharat package, states the government will exit all businesses in non-strategic sectors, with only a 'bare minimum' presence in four broad sectors.

Issues related to Disinvestment

- It is against the socialist ideology of equal distribution of resources amongst the population.
- It will lead to monopoly and oligopolistic practices by corporates.
- Proceedings of disinvestment had been used to cater the fiscal deficit of the state which would lead unhealthy fiscal consolidation.
- Private ownership does not guarantee the efficiency (Rangarajan Committee 1993).
- Disinvestment exercise had been done by undervaluation of public assets and favoritism bidding, thereby, leading to loss of public exchequers.

- Private ownership might overlook developmental region disparity in order to cut the cost of operation.

Significance of the disinvestment

- Trade unionism and political interference often lead to halting of PSUs projects thereby hampering the efficiency in long run.
- Problem of disguised unemployment and outdated skill in PSUs employee are the major cause of inefficiency.
- Private prayers works out of Red Tapism bureaucratic mentality and focus on performance-driven culture and effectiveness (Disinvestment Commission 1996).
- More robust competitive bidding leads to competition in private sectors to participate in PSUs.
- Moreover, it ensuring that product service portfolio remains contemporary by developing/ acquiring technology.

CENTRE TO SOON FREE UP UNTAPPED SPACE IN SEZS

Context:

The government will soon free up unused built-up area worth about ₹30,000 crore and idle land inside Special Economic Zones (SEZs) for other economic activity according to the Commerce Secretary.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Government Policies and Interventions)

Dimensions of the Article:

1. Special Economic Zones (SEZ)
2. Special Economic Zones (SEZ) in India
3. About the recent vision of the Government with respect to SEZs

Special Economic Zones (SEZ)

- Special Economic Zones (SEZ) is a territory within a country that is typically duty-free (Fiscal Concession) and has different business and commercial laws chiefly to encourage investment and create employment.
- SEZs are created also to better administer these areas, thereby increasing the ease of doing business.

Special Economic Zones (SEZ) in India

- The Indian government began to establish SEZs in India during the 2000s under the Foreign Trade Policy to redress the infrastructural and bureaucratic challenges that were seen to have limited the success of EPZs.
- Asia's first EPZ (Export Processing Zones) was established in 1965 at Kandla, Gujarat and these EPZs had a similar structure to SEZs.
- The Special Economic Zones Act was passed in 2005 and with this India's SEZs were structured closely with China's successful model.
- More than 350 SEZs are notified in India, out of which 265 are operational.
- About 64% of the SEZs are located in five states – Tamil Nadu, Telangana, Karnataka, Andhra Pradesh and Maharashtra.
- The Baba Kalyani led committee was constituted by the Ministry of Commerce and Industry to study the existing SEZ policy of India and had submitted its recommendations in 2018.

Major Incentives and Facilities Available to SEZ

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- Exemption from various taxes like Income Tax, minimum alternate tax, etc.
- External commercial borrowing by SEZ units upto US $ 500 million in a year without any maturity restriction through recognized banking channels.
- Single window clearance for Central and State level approvals.

Impact of having SEZs notified so far

SEZs were operational in India from 2000 to 2006 (under the Foreign Trade Policy) and since then:

- Exports of around Rs. 22,000 Crore (2005-06) has increased to almost Rs. 8,00,000 Crore (2020-21).
- Investment of Rs. 4,000 Crore (2005-06) has increased to more than Rs. 6,00,000 Crore (2020-21).
- Employment from just over 1,30,000 persons (2005-06) has increased to more than 23,00,000 persons (2020-21).

About the recent vision of the Government with respect to SEZs

- The government will soon free up unused built-up area and idle land inside Special Economic Zones (SEZs) for other economic activity.
- The move to free up unutilised land parcels is likely to be operationalised by the end of August, as part of a simpler regulatory regime that the government is ringing in for SEZs, which account for about 30% of India's exports.
- The ministry has also kicked off a restructuring exercise for the Directorate General of Foreign Trade according to some reports.
- The government will remit about ₹50,000 crore of pending export benefits over a two-year period and notify the RoDTEP scheme rates awaited by exporters.

FINANCE MINISTER AND TN ON FUEL TAXES AND GST FOR FUEL

Context:

Indian Finance Minister took on the Tamil Nadu government or reducing State levies on petroleum products by ₹3 a litre, after an earlier hike of ₹7 a litre (by the previous AIADMK regime), and accused it of being party to the UPA's "trickery" of lowering fuel prices by issuing oil bonds.

Previously, the Finance Minister of India had said that the Centre is ready to consider bringing fuel under the Goods and Services Tax regime if the States bring up the issue at the GST Council.

Relevance:

GS-III: Indian Economy (Economic Development of India, Macroeconomics- Taxation)

Dimensions of the Article:

1. Current Pricing of Petrol and Diesel
2. How much tax do we pay on petrol and diesel?
3. Bringing Fuel under GST
4. Impact of Bringing Fuel under GST

Current Pricing of Petrol and Diesel

- As per the latest (as of March 2021) price-build of petrol and diesel: State taxes had a smaller contribution to the retail price than central taxes.
- While the state Value Added Tax (VAT) was just over 10 and 20 rupees, on diesel and petrol respectively, the union excise duties for both petrol and diesel exceeded 30 Rs.
- These headline numbers suggest that the centre is a bigger beneficiary of tax incomes from the sale of petrol and diesel.
- This is because FFC's earmarked share of states in centre's revenues applies to what is called the divisible pool of taxes, which excludes cess and other forms of special taxes. Overtime, the weight of cess and other such non-sharable taxes has been increasing in the centre's gross tax revenue. This, in practice, has meant that the share of states in gross total revenue of the centre has never reached 41% and in fact gone down overtime.

How much tax we pay on petrol and diesel?

- The Union and state levies put together account for roughly 55 per cent and 52 per cent of the retail price of petrol and diesel respectively.
- These work out to around 135 per cent and 116 per cent of the base prices of the two products respectively.
- The central levy on petrol and diesel works out to around 36 per cent of the retail price while the state component is around 20 per cent (diesel) to 28 per cent (petrol).
- Of the total central levies on petrol and diesel, Rs 1.40 per litre and Rs 1.80 per litre is the basic excise duty for the two fuels, and Rs 11 per litre and Rs 18 per litre is the special additional excise duty.
- Both these components form part of the divisible pool of taxes i.e. 42 per cent of which (approximately Rs 52,000 crore) goes to the states.
- The remaining portion of Rs 18 per litre in both cases is the Road and Infrastructure Cess and Rs 2.50 per litre and Rs 4 per litre is the Agriculture Infrastructure and Development Cess which are retained by the Centre.

Bringing Fuel under GST

- Economists have said that bringing petrol and diesel under the goods and services tax is an unfinished agenda of the GST framework and getting the prices under the new indirect taxes framework can help.
- Centre and states are loathing to bring crude oil products under the GST regime as sales tax/VAT (value added tax) on petroleum products is a major source of own tax revenue for them.
- Thus, there is lack of political will to bring crude under the ambit of GST.
- At present, states choose to levy a combination of ad valorem tax, cess, extra VAT/surcharge based on their needs and these taxes are imposed after taking into account the crude price, the transportation charge, the dealer commission and the flat excise duty imposed by the Centre.

Impact of bringing Fuel under GST

- A growth in the consumption – diesel going up 15 per cent and petrol by 10 per cent – has been used to assess the Rs 1 lakh crore fiscal impact of getting petroleum prices under GST.
- States, which have the highest share of tax revenues at present, will be the biggest losers if the system shifts to GST.
- However, such a move will help consumers pay up to Rs 30 less per liter of fuel. This is because he highest slab under the existing GST rates is 28%. Even if petrol and diesel were to be taxed at the highest rate, the post-tax price will be much lower than what it is currently.

How much will be the loss of revenue?

- A 28 per cent levy of GST on the base price would fetch around Rs 5.40 per litre on petrol and around Rs 5.45 on diesel to the central and each of the state governments.
- Contrast the above with the current yield of Rs 32.90 per litre on petrol and Rs 31.80 per litre on diesel to the Centre alone and an average of around Rs 20 per litre and Rs 15 per litre on petrol and diesel, respectively, to each of the states.
- This, however, would bring down the prices of petrol and diesel to around Rs 55 per litre.
- This would translate into a revenue loss of around Rs 3 lakh crore on account of petrol and around Rs 1.1 lakh crore on account of diesel to the Centre and the states, at current volumes.

Loss of autonomy

- Once petrol and diesel are subsumed within the GST, both the Centre and states will have to give away the current autonomy they enjoy with these taxes which serve twin purposes of counter-cyclical interventions in the realm of both politics and economy.
- For example, both the Centre and the states increased taxes on petrol and diesel to compensate for revenue loss during the lockdown.
- The central taxes on petrol and diesel are a fixed amount per litre rather than a fraction of the base price, which is how GST is levied currently.
- Also, the current regime allows individual state governments to change their taxes – poll bound Assam has reduced taxes on petrol-diesel – a leeway which will not exist once they are subsumed within GST, as taxes will have to be uniform across the country.

ARE OIL BONDS TO BLAME FOR HIGH FUEL PRICES?

Context:

The Centre has argued that it cannot reduce taxes on petrol and diesel as it has to bear the burden of payments in lieu of oil bonds issued by the previous UPA government to subsidize fuel prices.

Relevance:

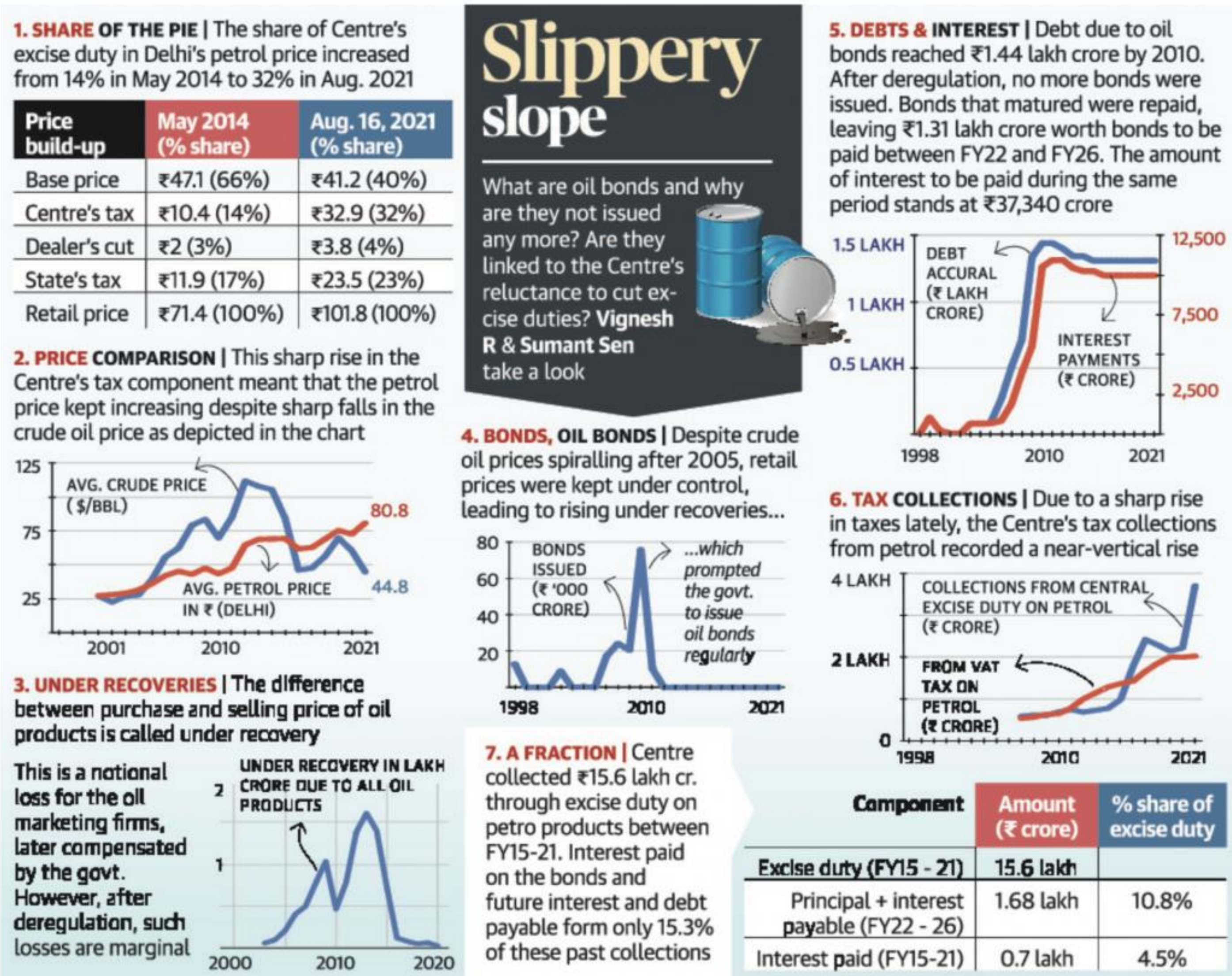
GS-III: Indian Economy (Mobilisation of Resources, Growth & Development of Indian Economy, Taxation)

Dimensions of the Article:

1. What are Oil Bonds?
2. Reason for issuing such oil bonds
3. Why were they issued only up to 2010?
4. Recent Developments regarding Oil bonds

What are Oil Bonds?

- Oil bonds are special securities issued by the government to oil marketing companies in lieu of cash subsidy.
- These bonds are typical of a long-term tenure like 15-20 years and oil companies are paid interest.
- Before the complete deregulation of petrol and diesel prices, oil marketing companies were faced with a huge financial burden as the selling price of petrol and diesel in India was lower than the international market price.
- This ‘under-recovery is typically compensated through fuel subsidies allocated in the Union budget.
- However, between 2005 and 2010, the UPA government issued oil bonds to the companies amounting to Rs 1.4 lakh crore to compensate them for these losses.



Price build-up	May 2014 (% share)	Aug. 16, 2021 (% share)
Base price	₹47.1 (66%)	₹41.2 (40%)
Centre's tax	₹10.4 (14%)	₹32.9 (32%)
Dealer's cut	₹2 (3%)	₹3.8 (4%)
State's tax	₹11.9 (17%)	₹23.5 (23%)
Retail price	₹71.4 (100%)	₹101.8 (100%)

Component	Amount (₹ crore)	% share of excise duty
Excise duty (FY15 - 21)	15.6 lakh	
Principal + interest payable (FY22 - 26)	1.68 lakh	10.8%
Interest paid (FY15-21)	0.7 lakh	4.5%

Reason for Issuing such Oil Bonds

- Compensation to companies through issuance of such bonds is typically used when the government is trying to delay the fiscal burden of such a payout to future years.
- Governments resort to such instruments when they are in danger of breaching the fiscal deficit target due to unforeseen circumstances that lead to a collapse in revenues or a surge in expenditure.
- These types of bonds are considered to be 'below the line' expenditure in the Union budget and do not have a bearing on that year's fiscal deficit, but they do increase the government's overall debt.
- However, interest payments and repayment of these bonds become a part of the fiscal deficit calculations in future years.

Why were they issued only up to 2010?

The UPA government deregulated petrol pricing in 2010, ending under-recovery on the fuel, and OMCs stopped suffering losses on every litre of diesel they sold from 2014.

Deregulation of fuel prices

- Fuel price decontrol has been a step-by-step exercise, with the government freeing up prices of aviation turbine fuel in 2002, petrol in 2010, and diesel in 2014.
- Prior to that, the government would intervene in fixing the price at which retailers were to sell diesel or petrol.

- This led to under-recoveries for oil marketing companies, which the government had to compensate for.
- The prices were deregulated to make them market-linked, unburden the government from subsidizing prices, and allow consumers to benefit from lower rates when global crude oil prices tumble.
- Price decontrol essentially offers fuel retailers such as Indian Oil, HPCL or BPCL the freedom to fix prices based on calculations of their own cost and profits.
- However, the key beneficiary in this policy reform of price decontrol is the government.
- While oil price deregulation was meant to be linked to global crude prices, Indian consumers have not benefited from a fall in global prices.
- The central, as well as state governments, impose fresh taxes and levies to raise extra revenues.
- This forces the consumer to either pay what she's already paying, or even more.

Recent developments regarding Oil Bonds

- As prices of petrol and diesel climb steeply, the Centre has been under pressure to cut the high taxes on fuel.
- Taxes account for 58 per cent of the retail selling price of petrol and 52 per cent of the retail selling price of diesel.
- However, the government has so far been reluctant to cut taxes as excise duties on petrol and diesel are a major source of revenue, especially at a time the pandemic has adversely impacted other taxes such as corporate tax.
- The government is estimated to have collected more than Rs 3 lakh crore from tax on petrol and diesel in the 2020-21 fiscal year.

RBI, IRDAI NOD MUST FOR FDI IN BANK-LED INSURANCE

Context:

Applications for foreign direct investment in an insurance company promoted by a private bank would be cleared by the RBI and IRDAI to ensure that the 74% limit of overseas investment is not breached.

Relevance:

GS-III: Indian Economy (Economic Development in India, Government Initiatives to overcome Challenges in Economic Development)

Dimensions of the Article:

1. What is Insurance?
2. Insurance sector of India
3. About the Insurance Amendment Bill 2021
4. Impacts of the Amendment
5. About IRDAI

What is Insurance?

- Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.
- Insurance is a capital-intensive business so has to maintain a solvency ratio. The solvency ratio is the excess of assets over liabilities.

- Simply put, as an insurance company sells more policies and collects premiums from policyholders, it needs higher capital to ensure that it is able to meet future claims.

Insurance sector of India

- The insurance regulator, the Insurance Regulatory and Development Authority of India (IRDAI), mandates that insurers should maintain a solvency ratio of at least 150 percent.
- Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company.
- In addition to these, there is a sole national re-insurer, namely the General Insurance Corporation of India (GIC Re).
- Other stakeholders in the Indian Insurance market include agents (individual and corporate), brokers, surveyors, and third-party administrators servicing health insurance claims.
- Nationalization of life (LIC Act 1956) and non-life sectors (GIC Act 1972) and the constitution of the Insurance Regulatory and Development Authority of India (IRDAI) in 1999 are the major legislation's regarding insurance sector in India.
- The opening up of insurance sector to both private and foreign players in 2000 and the increase in the foreign investment cap to 26% from 49% in 2015 are the first steps towards privatisation of the insurance sector.
- The notification of 100% foreign direct investment (FDI) for insurance intermediaries (announced in the Union Budget of 2019-20) has further liberalised the sector.

About the Insurance Amendment Bill, 2021

- The Insurance Amendment Bill, 2021, seeks to amend the Insurance Act, 1938.
- The Insurance Act, 1938 provided the framework for functioning of insurance businesses and regulates the relationship between an insurer, its policyholders and its shareholders. It also had provisions regarding the regulator (the Insurance Regulatory and Development Authority of India).

Amendments in the Bill

- The Bill seeks to increase the maximum foreign investment allowed in an Indian insurance company.
- The Act allows foreign investors to hold up to 49% of the capital in an Indian insurance company, which must be owned and controlled by an Indian entity.
- The Bill increases the limit on foreign investment in an Indian insurance company from 49% to 74%, and removes restrictions on ownership and control. However, such foreign investment may be subject to additional conditions as prescribed by the central government.
- The Act requires insurers to hold a minimum investment in assets which would be sufficient to clear their insurance claim liabilities.
- If the insurer is incorporated or domiciled outside India, such assets must be held in India in a trust and vested with trustees who must be residents of India. The Act specifies in an explanation that this will also apply to an insurer incorporated in India – and the Amendment removes this explanation.

Impacts of the Amendment

- The FDI limit increase is also expected to provide access to fresh capital to some of the insurance companies, which are struggling to raise capital from their existing promoters.
- This would not only increase the solvency position for some insurers but would provide long-term growth capital for other companies to invest in newer technologies.
- These technologies would not only help in managing losses but also in customer acquisition and thus insurance penetration.

- The additional funds could be used to invest in technology to adapt to the evolving customer needs like responsive service through digital platforms.
- It is an important shift in stance as the increase in the FDI cap means insurance companies can now be foreign-owned and -controlled as against the current situation wherein they are only Indian-owned and -controlled.
- The move is expected to increase India's insurance penetration or premiums as a percentage of GDP, which is currently only 3.76 per cent, as against a global average of more than 7 per cent.

How this impacts Indian promoters of insurance companies?

- Most of the Indian promoters of insurance companies are either Indian business houses or financial institutions like banks.
- Many entered into the insurance space when they were financially strong but are now struggling to cater to the constant need to infuse capital into their insurance joint ventures.
- Over the years, the sector has seen large-scale consolidation and exits of many promoters.
- A higher FDI cap will mean that more promoters could now completely exit or bring down their stakes in their insurance joint ventures.

What higher does FDI mean for policyholders?

- Higher FDI limits could see more global insurance firms and their best practices entering India.
- This could mean higher competition and better pricing of insurance products.
- Policyholders will get a wide choice, access to more innovative products, and a better customer service and claims settlement experience.

About IRDAI

- The Insurance Regulatory and Development Authority of India or the IRDAI is the apex body responsible for regulating and developing the insurance industry in India.
- It is an autonomous body. It was established by an act of Parliament known as the Insurance Regulatory and Development Authority Act, 1999. Hence, it is a statutory body.
- The IRDAI is headquartered in Hyderabad in Telangana. Prior to 2001, it was headquartered in New Delhi.

Functions of IRDA

- Its primary purpose is to protect the rights of the policyholders in India.
- It gives the registration certificate to insurance companies in the country.
- It also engages in the renewal, modification, cancellation, etc. of this registration.
- It also creates regulations to protect policyholders' interests in India.

Composition of IRDA

The Section 4 of the Insurance Regulatory Development Authority (IRDA) Act, 1999 specifies the composition of authority which consists of 10 member team appointed by the government of India which includes.

- One chairman
- Five whole time members
- Four part time members

UBHARTE SITAARE FUND

Context:

Union Finance Minister Nirmala Sitharaman is set to launch a Rs 250 crore worth alternate investment fund (AIF) on August 2021 for small and mid-sized export-oriented companies.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy, Industrial Development, Government Policies and Initiatives)

Dimensions of the Article:

1. "Ubharte Sitaare": Alternate Investment Fund
2. Other Initiatives to Promote MSME Sector

"Ubharte Sitaare": Alternate Investment Fund

- The Alternate Investment Fund named Ubharte Sitaare will be jointly sponsored by the Exim Bank of India and SIDBI. While the fund size is Rs 250 crore, it will have a greenshoe option of Rs 250 crore.
- Exim Bank of India and SIDBI will invest in the fund by way of equity and equity-like products in export-oriented units, in both manufacturing and services sectors.
- A greenshoe option is an over-allotment option, which is a term that is commonly used to describe a special arrangement in a share offering for example an initial public offering (IPO) that will enable the investment bank to support the share price after the offering without putting their own capital at risk.
- The Alternate Investment Fund will identify Indian enterprises with potential advantages that are currently underperforming or unable to tap their latent potential to grow.
- It will offer a mix of both financial and advisory services and structured support through investments in equity or equity-like instruments, debt (funded and non-funded) and technical assistance (advisory services, grants and soft loans) to the Indian companies.
- A press release from Exim Bank's Ubharte Sitaare Programme (USP) identified Indian companies that have the potential to be future champions in the domestic arena while meeting global demands.
- Exim Bank and SIDBI have together already developed a robust pipeline of over 100 potential proposals across a range of sectors, such as pharma, auto components, engineering solutions, agriculture and software.

Other Initiatives to Promote MSME Sector

1. Scheme of Fund for Regeneration of Traditional Industries (SFURTI): It aims to properly organize the artisans and the traditional industries into clusters and thus provide financial assistance to make them competitive in today's market scenario.
2. A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE): The scheme promotes innovation & rural entrepreneurship through rural Livelihood Business Incubator (LBI), Technology Business Incubator (TBI) and Fund of Funds for start-up creation in the agro-based industry.
3. Interest Subvention Scheme for Incremental Credit to MSMEs: It was introduced by the Reserve Bank of India wherein relief is provided upto 2% of interest to all the legal MSMEs on their outstanding fresh/incremental term loan/working capital during the period of its validity.
4. Credit Guarantee Scheme for Micro and Small Enterprises: Launched to facilitate easy flow of credit, guarantee cover is provided for collateral free credit extended to MSMEs.

GOVT UNVEILS RS. 6L-CRORE MONETISATION SCHEME

Context:

The government will raise ₹88,000 crore this year by leasing infrastructure assets of central government ministries and state-run companies under a ₹6 trillion National Monetisation Pipeline (NMP) it unveiled recently.

Relevance:

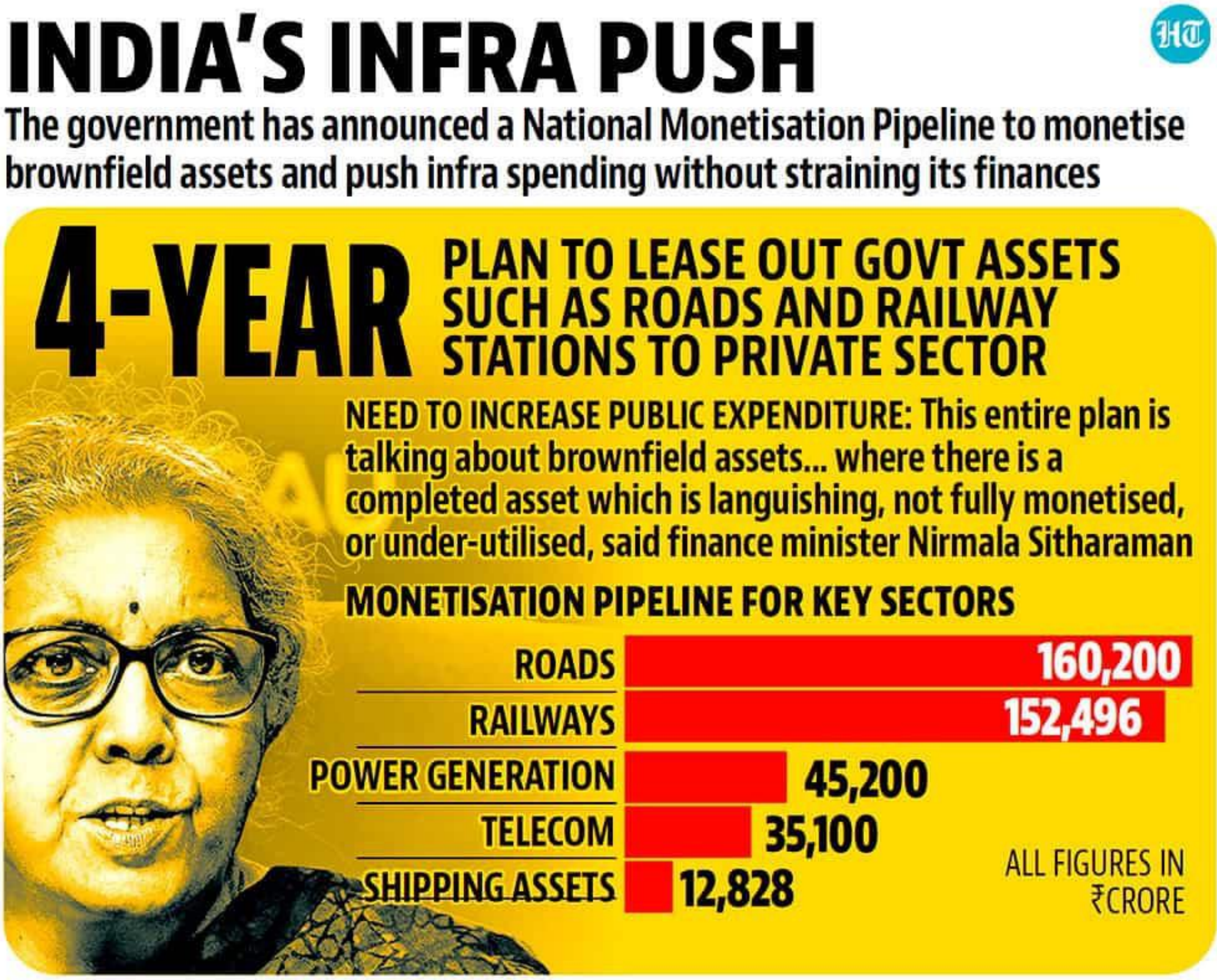
GS-III: Indian Economy (Growth and Development of Indian Economy, Industrial Development, Government Policies and Initiatives)

Dimensions of the Article:

1. About the National Monetisation Pipeline (NMP) scheme
2. Key Challenges in the NMP scheme
3. Union Budget 2021-22 laying the foundation for NMP scheme

About the National Monetisation Pipeline (NMP) scheme

- With the National Monetisation Pipeline (NMP) launched by the government, it aims to raise $81 billion by leasing out state-owned infrastructure assets over the next four years (2021-25). The funds will then be used to build new infrastructure assets, helping boost economic growth in Asia's third-largest economy.
- NMP is envisaged to serve as a medium-term roadmap for identifying potential monetisation-ready projects, across various infrastructure sectors.
- The framework for monetisation of core asset monetisation has three key imperatives:
    1. Monetisation of rights not ownership (this means the assets will have to be handed back at the end of transaction life,
    2. brownfield de-risked assets and stable revenue streams, and
    3. structured partnerships under defined contractual frameworks with strike KPIs and performance standards.
- Annual targets under the four-year pipeline have been set at ₹1.62 trillion for FY23, ₹1.79 trillion for FY24 and ₹1.67 trillion in the following year.
- The top five sectors by value under the government's asset monetization programme are roads (27%), railways (25%), power (15%), oil and gas pipelines (8%) and telecom (6%).
- NMP report has been organised in two volumes which were released today in the presence of Vice Chairman (Niti Aayog), CEO (Niti Aayog), and secretaries of infrastructure line ministries.
- NMP will create employment opportunities, thereby enabling high economic growth and seamlessly integrating the rural and semi-urban areas for overall public welfare.



Key Challenges in the NMP scheme

1. Lack of identifiable revenue streams across various assets,
2. Lack of level of capacity utilisation across gas and petroleum pipeline networks,
3. Lack of a dispute resolution mechanism,
4. Absence of regulated tariffs in power sector assets,
5. Low interest among investors for national highways below four lanes.

THE INDIAN ECONOMY IS STRUGGLING TO RECOVER

Context:

The International Monetary Fund (IMF)'s latest update of the World Economic Outlook report, though projected a global economic expansion of around 6%, had warned of a widening variance in the global recovery process in the aftermath of the pandemic.

Relevance:

GS-III: Indian Economy (Growth and Development of Indian Economy,

Dimensions of the Article:

1. Grim Projection for Asian Economies
2. Highlights of the 'Economic and Social Survey of Asia and the Pacific 2021: Towards post-Covid-19 resilient economies'
3. What is a K-shaped recovery?
4. Concerns for India
5. Way Forwards

Grim Projection for Asian Economies

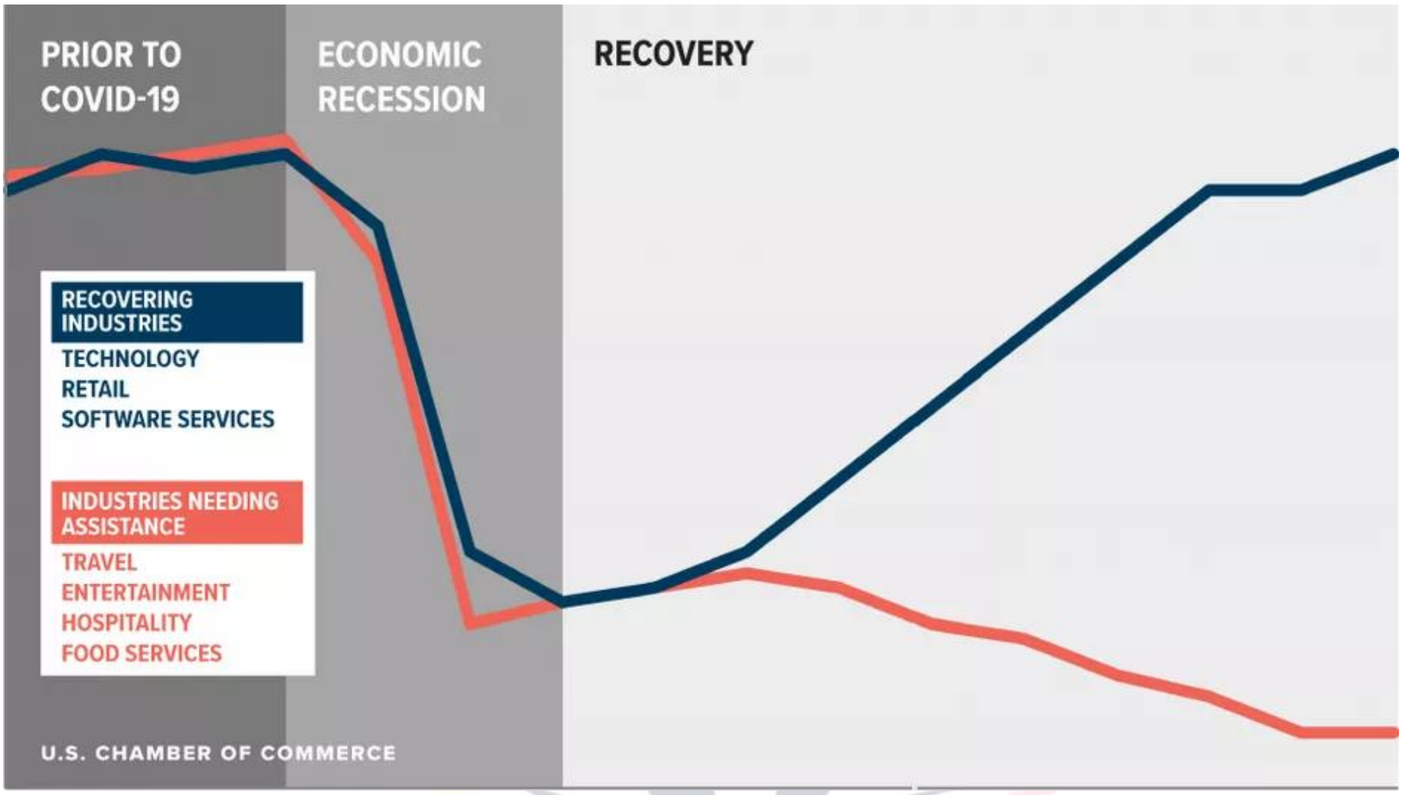
- While the forecast for advanced economies has been revised upwards, prospects for emerging and developing economies, particularly those in Asia are projected to experience slower recoveries.
- The primary reason for this divergence seems to be the difference in vaccine access and the pace of vaccination coverage and the ability of the countries to provide for additional fiscal support.
- There has been a huge difference in the pace of vaccine roll-out between the advanced and the emerging and low-income countries. According to the IMF estimates, overall, over 40% of the population in advanced economies have been fully vaccinated as compared with just 11% in emerging market economies.
- The advanced economies have been able to use their vastly superior fiscal situation to implement significantly bigger stimulus packages. This has helped prop up consumer demand and hence support domestic industry and growth.
- The IMF has warned that "countries lagging in vaccination, such as India and Indonesia, would suffer the most among G20 economies" in the event of the emergence of a super-contagious virus variant.
- India with only around 7% of the total population fully vaccinated, lags behind the estimated global average of about 14%.

Highlights of the 'Economic and Social Survey of Asia and the Pacific 2021: Towards post-Covid-19 resilient economies'

- India is estimated to record an economic growth of 7% in 2021-22, over a contraction of 7.7% witnessed in the previous fiscal on account of the pandemic's impact on normal business activity.
- Unfortunately, India's 2021 economic output is expected to remain below the 2019 level, as India entered the pandemic with already subdued GDP (Gross Domestic Product) growth and investment.
- Maintaining low borrowing costs and Keeping non-performing loans in check are the two major challenges for India on its path to faster economic recovery.
- China's swift and effective response to Covid-19 enabled it to become the only major economy worldwide to achieve a positive annual economic growth rate in 2020.
- On an average, developing Asia-Pacific economies are expected to grow 5.9% in 2021 and 5% in 2022.
- The prospect of a K-shaped recovery, characterized by uneven post-pandemic recovery across countries and widened inequality gaps within countries, is highlighted as a primary policy challenge.

What is a K-shaped recovery?

- A K-shaped recovery happens when different sections of an economy recover at starkly different rates.
- A K-shaped recovery leads to changes in the structure of the economy or the broader society as economic outcomes and relations are fundamentally changed before and after the recession.
- This type of recovery is called K-shaped because the path of different parts of the economy when charted together may diverge, resembling the two arms of the Roman letter "K."



Concerns for India

1. The Indian economy has exhibited one of the poorest performances among the emerging market economies. After the first COVID-19 wave, the Indian economy contracted by over 7% during 2020-21.
2. The economic recovery has been slow in India and this is partly attributable to the second wave of the pandemic. The recovery process has been also skewed and India has been experiencing what is commonly referred to as a K-shaped economic recovery process. This does not augur well for the long term sustainable economic growth prospects of India.
3. Retail inflation had crossed 6% and continues to remain high leading to price pressures on the economic recovery process. It has also raised fears of stagflation in the Indian economy. The high inflation will only further exacerbate the difficulties being faced by the poor.
4. Given the slowdown in revenue inflow to the government, the government too had cut back public spending. The large role that public expenditure plays in India's economy does not bode well for the growth prospects of the Indian economy.
5. Unlike other economies, India's actual fiscal stimulus has been very limited as compared to its GDP. Also, most of the measures are in the form of easy credit facilities to affected sectors of the economy. It does not adequately address the depressed consumer demand in the economy, which is so very important for an economic recovery.
6. Consumer spending has also been extremely sluggish and shows no signs of picking up. This has dampened business confidence and the entrepreneurs are wary of making new investments.
7. The predictions of the onset of a third wave of COVID-19, new mutant variants and the reports of breakthrough infections even in fully vaccinated individuals have added to the uncertainty surrounding the pandemic.
8. There has been a very poor spread of vaccination in the country. It is unlikely that the Central government will be able to achieve its target of vaccinating all adults by the end of the year.

Way Forwards

- For a more robust and inclusive recovery, the report calls for a more synchronised Covid-19 vaccination programme across countries. There is a need to leverage regional cooperation.
- It recommends that fiscal and monetary support should be sustained, as premature tightening could increase long-term scars.
- Continuity in policy support is a must and recovery policy packages should focus on building resilience and investing in the 2030 Agenda for Sustainable Development.
- To deal with various economic and non-economic shocks, a more integrated risk management approach to planning and policymaking is needed.