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BUDGET & TAXATION

Lower Taxes, Higher Compliance: Implication on Economy

- ❑ India needs lower taxes to compete globally and that voluntary tax compliance by citizens should be encouraged by a friendly administration. A higher tax revenue is important to finance infrastructure which is critical to “Make in India” and “Smart Cities”, Investment in Health and Education and overall economic growth.
- ❑ At the same time, large tax revenue should be supported by a large tax base. This means more and more citizens should contribute to tax revenues as paying taxes increases the accountability of the government and strengthens democracy.
- ❑ **Why Taxation is key to Long Run Political and Economic Development?**
 - **Foundation of Nation building:** If spending is about the entitlements of citizenship in a democracy, taxation is about the obligations of citizenship. The obligations of citizenship are the foundations of nation building and democracy. Bringing more and more people into the tax net via some form of direct taxation will help in realizing the promise of Indian democracy.
 - **Accountability Mechanism:** Taxation is not just about financing public spending; it is the economic glue that binds citizens to the state in a necessary two-way relationship. One can think of tax-paying and political participation as two important accountability mechanisms wielded by citizens.
- ❑ **Relation between Tax Rates and Tax Revenue – The Laffer curve Analysis**
 - The Laffer curve shows the relationship between tax rates and the amount of tax revenue collected by governments. It is an inverted-U shaped curve.
 - This suggests that, as tax rates increases tax evasion also increases which reduces tax compliance. Consequently, tax revenue also reduces.
- ❑ **Current Trends in Tax rates and Tax compliance:**
 - Tax rates (as a percentage of the commercial profits) have increased in India and China but they have declined in advance economies. This high tax rate combined with lack of voluntary compliance and lack of effective tax enforcement leads to low overall tax to GDP ratio.

- ▶ For example, India consists of one direct taxpayer for every 16 voters present. Income tax is paid by only 1% of India's population.
- ▶ India's Gross tax to GDP which was 11% in FY19, fell to 9.9% in FY20 and marginally improved to 10.2% in FY21 (partly due to decline in GDP) and is envisaged to be 10.8% in FY22, this is much lower than the emerging market economy average of 21 percent and OECD average of 34 percent.
- If we talk of tax compliance in terms of number of individuals paying taxes, then roughly 5.5% of earning individuals are in the tax net.
- In order to induce voluntary tax compliance, the government needs to reduce the tax rates. Tax compliance could be induced through effective tax enforcement system. In this context, the recent demonetisation move and consequent emphasis on digital transactions is very important. Digital transactions increase transparency. Digital transactions are open to scrutiny by tax authorities thus making evasion difficult. Hence, digital transactions are means of making tax enforcement more effective.

Implications

- Due to a decrease in tax revenues, the Indian State becomes incapable of spending on national security, welfare system, public goods, etc.
- There is heavy borrowing due to the low tax revenue of the government, this causes a persistent deficit bias in fiscal policy.
- Such a system creates political incentives for the government to borrow money to buy votes rather than work on building an effective tax system that will lead to economic growth and development.
- Widespread tax evasion goes unchecked which hampers growth and most of the tax burden falls on the high-productivity sectors that need growth.
- Lower tax collections decrease the capacity of the government to incur expenditure for welfare schemes.
- There is increased dependence on indirect taxes which are regressive in nature.
- There is an increase in social inequality due to the asymmetric distribution of economic resources in society.

To induce voluntary tax compliance, the below mentioned steps are necessary as:

- **First**, the government's spending priorities must include essential services that all citizens consume: public infrastructure, law and order, less pollution and congestion, etc.
- **Second**, reducing corruption—fiendishly difficult as it is—must be a high priority not just because of its economic costs but also because it undermines legitimacy. The more citizens believe that public resources are not wasted, the greater their willingness to pay taxes. In that sense, the government's efforts to improve transparency through transparent and efficient auctioning of public assets will help create legitimacy, and over time strengthen fiscal capacity.
- **Third**, subsidies to the well-off amounting to about Rs.1 lakh crore need to be scaled back. Regaining legitimacy must be as much about phasing down these bounties as it is about better targeting of subsidies for the poor.
 - Similarly, the tax exemptions Raj which often amount to redistribution towards the richer private sector will also need to be reviewed and phased out. And, reasonable taxation of the better-off, regardless of where they get their income from—industry, services, real estate, or agriculture—will also help build legitimacy.
- **Fourthly**, we need to build a friendly tax administration system which makes citizens easily pay taxes. This includes sensitizing tax officials, online tax filing, easy and early disbursement of tax refunds, etc.

Low Tax-to-GDP Ratio: Reasons & Suggestions

■ What is Tax-to-GDP ratio?

- The tax-to-GDP ratio is the ratio of tax collected compared to the national Gross Domestic Product (GDP). The ratio gives policy makers and analysts a metric that they can use to compare tax receipts every year. However, in cases of major shifts in tax laws or during serious economic downturns, the ratio can shift, sometimes dramatically. For example, the GST system is expected to increase the Tax-to-GDP ratio because of higher compliance due to simplicity of structure and input tax credit system.

■ Tax-to-GDP ratio: Developed v/s Developing world

- High-income countries depend more on income taxes and less on indirect taxes. On the other hand, middle-income countries and especially, low-income countries use indirect taxes much more.
- Similarly, low-income countries typically have different and narrower tax bases than high-income countries. This suggests that broadening the tax base, rather than changing the tax rates would be the key to increasing tax revenues in many low-income countries.

■ Tax-to-GDP ratio in India

- India Tax revenue: % of GDP was reported at 7.8 % in Jun 2022. This records an increase from the previous number of 5.2 % for Mar 2022. India Tax revenue: % of GDP data is updated quarterly, averaging 7.3 % from Jun 1997 to Jun 2022, with 101 observations.

■ Reasons for low Tax-to-GDP ratio

- Informal and Small-Scale Firms: The large informal sectors in poor economies are inherently hard to tax. The incomes of these informal firms and their owners are hard to measure for tax purposes, and taxing their transactions is largely impossible in the absence of formal record keeping. Across countries, the size of the informal sector is strongly negatively related to income taxation. Having a large informal sector makes broad-based taxation of income next to impossible.
- Aid and Resource Dependence: Many countries receive significant aid flows, which are a significant fraction of GDP and often larger than domestically generated tax revenues. Availability of aid diminishes the incentive to take actions that would increase the domestic revenue base. Similarly, abundant natural resources have similar consequences, reducing the incentive to generate taxation from domestic sources.
- Failure to Take Government Action: Even though economic growth is important in widening the tax net and increasing the tax base, it does not mechanically translate into a higher tax to GDP ratio. To take advantage of growth and economic development requires the government to invest in improvements in the tax system like VAT and more recently GST introduction in India.
- Culture, Norms, and Identity: Intrinsic motives to pay taxes and to follow the law are also important determinants for tax compliance. One reason why low-income countries have lower levels of taxation may be a weaker ethic of tax-paying than the one that has evolved in high-income countries.

■ Ways to improve the Tax-to-GDP ratio

- Political institutions, namely the strength of Executive Constraints (constraints on the power of the executive), have a strong positive correlation with the share of taxes. This means have high Tax-to-GDP potential. So, strengthening democracy at field level shall improve the Tax-to-GDP ratio.

- State effectiveness improves the Tax-to-GDP ratio. Some measures of state effectiveness such as low level of corruption and high level protection of property rights leads to a higher Tax-to-GDP ratio.
- Formalization of the informal sector is a key part of the process by which taxation increases with development. Ease of doing business, whip against black money and GST will help in creating incentives for firms to become a part of the formal sector economy.
- Creating a culture of compliance may be central to raising revenue. This require constant motivation to citizens to pay tax and become a part of nation building.

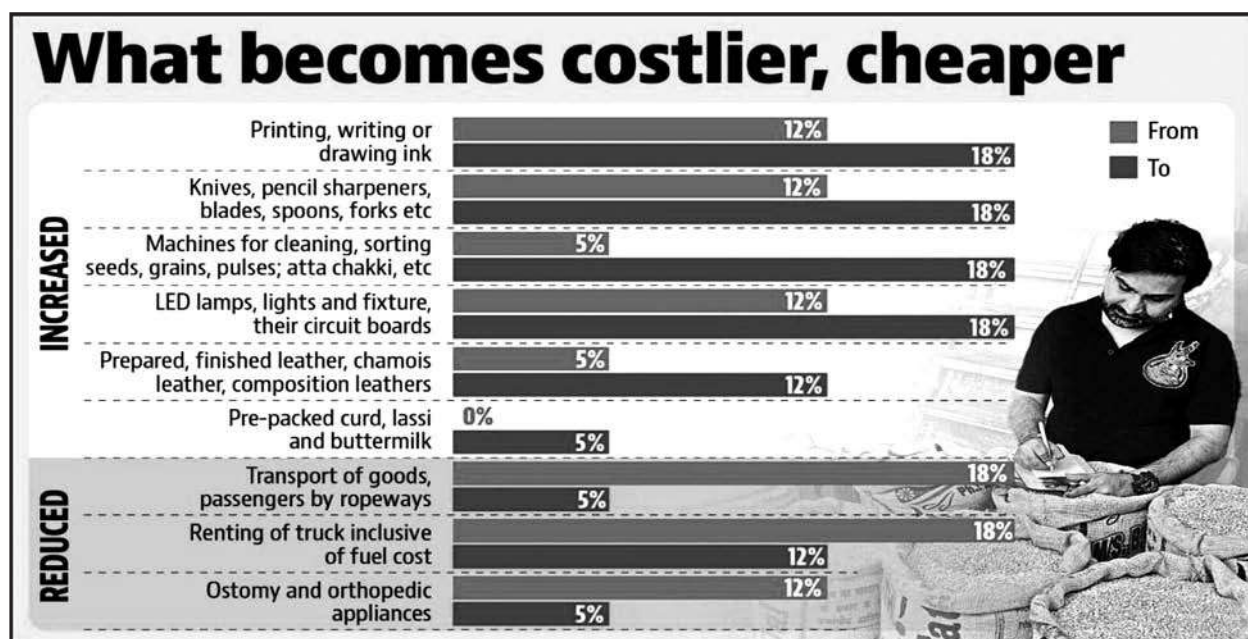
Conclusion

The evolution of taxing power is central not only to the state's capacity to raise revenue, but also to its capacity to provide Public goods and services and to support a market economy. Thus, the power to tax is much more than raising tax revenues—it is at the core of state development. The most important challenge is taking steps that encourage development, rather than special measures focused exclusively on improving the tax system.

GST: Potential benefits, issues and impacts

The GST Structure

- India's tax regime relied heavily on indirect taxes. Indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major case put forth for important dependence on indirect taxes was that the India's majority of population was poor and thus widening base of direct taxes had inherent limitations.
- GST is a path breaking indirect tax reform which will create a common national market by dismantling inter-state trade barriers. GST has subsumed multiple indirect taxes like excise duty, service tax, VAT, CST, luxury tax, entertainment tax, entry tax, etc.
- However, there are certain issues related to the implementation of the new tax system, among them;



- ❑ The uncertainty related to the functionality of the GST information technology system, and
- ❑ The ambiguity of the anti-profiteering clause.
- ❑ These challenges could result in the sinking of an otherwise promising policy endeavour.

Purpose of GST

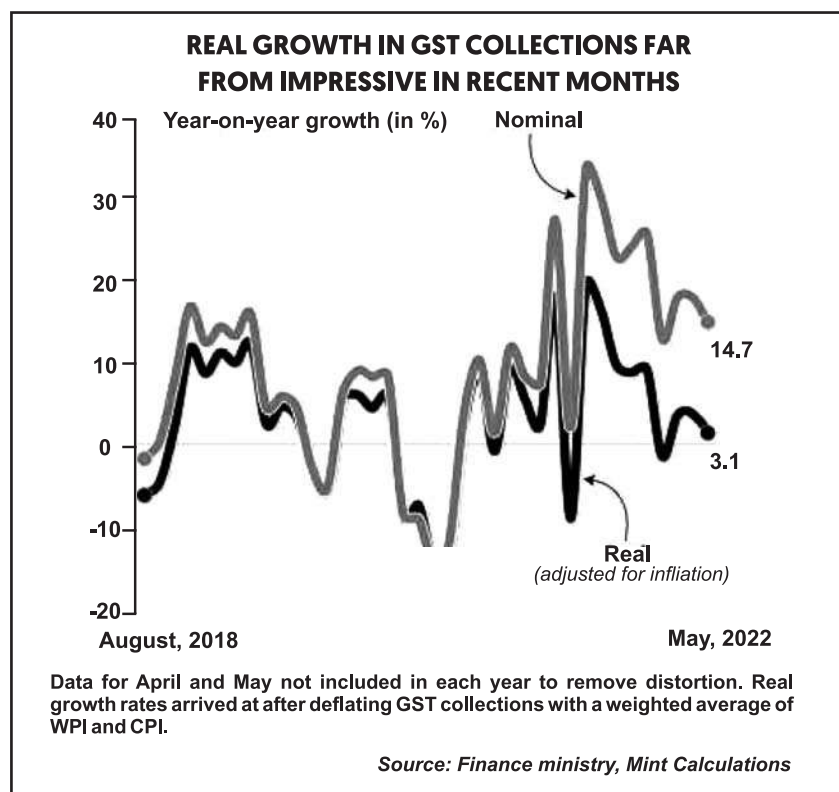
- ❑ The two important purposes of GST are:
 - Single Umbrella Tax Rate: GST shall replace a number of indirect taxes being levied by Union and State Governments.
 - Removing Cascading Effect: GST is intended to remove “Tax on Tax Effect” and provide for common national market for Goods and Services.

The potential benefits of the tax reform

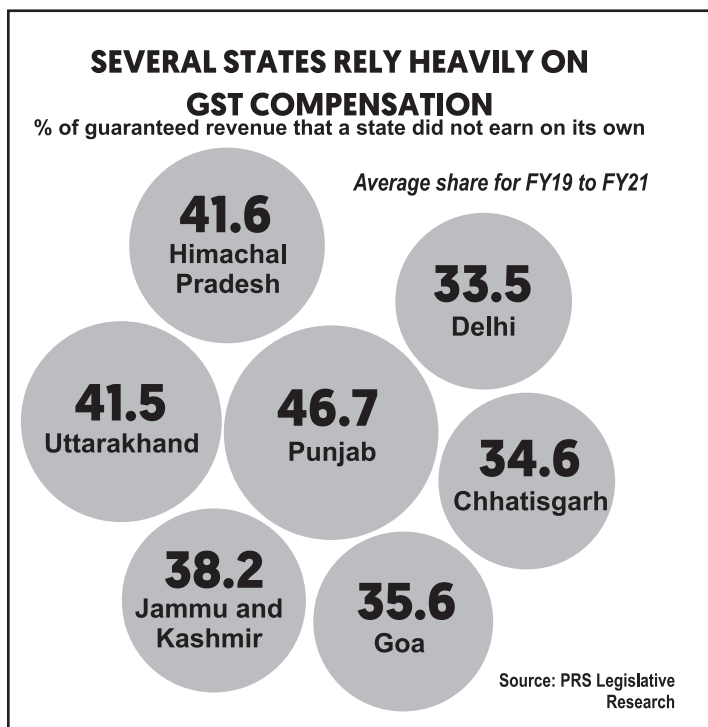
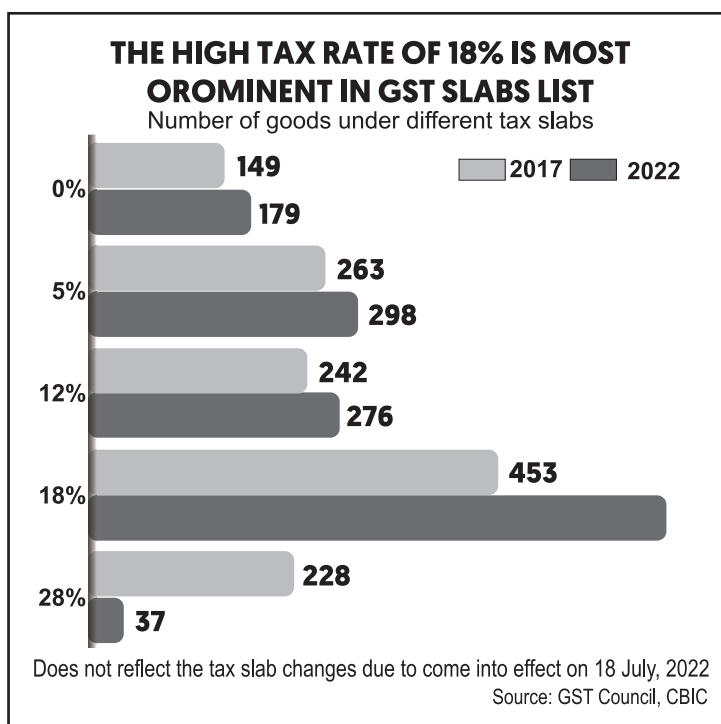
- ❑ GST aims to-
 - It will help bring India’s informal sector into the fold,
 - Lower business costs across most sectors,
 - Increase exports, and
 - Reduce incidences of unnecessary double taxation.

Implementation Issue related to GST network Functionality

- ❑ Inflation and Revenue Collections: Some economists argue that the current rise in GST collections is due to high inflation. The growth rate of GST collections in real terms (adjusted for inflation) is much lower e.g., the Year-on-Year growth rate in GST Collections in March 2022 was 14.7% in nominal terms, but only 3.7% in real terms (adjusted for inflation).



- ❑ **Multiple Tax Rates:** Unlike many other economies which have implemented this tax regime, India has multiple tax rates. This hampers the progress of a single indirect tax rate for all the goods and services in the country. Most of the items fall in the high tax category of 18%. This acts as regressive, as it impacts the poorer section of the society.
- ❑ **Hardships for Taxpayers:** There is unwarranted and excessive issuance of show cause notices for reconciliations of financial numbers, grant of registration, etc. that creates severe hardships for the taxpayers.
- ❑ **Lack of Coverage:** With petrol, diesel, ATF outside GST, a large part of the economy is still not covered by the indirect tax regime.
- ❑ **Compensation to States:** The GST (Compensation to States) Act guaranteed full compensation to States for the first 5 years of the GST if their revenues (after the implementation of GST) fall below 14% annual growth. A lot of States have been dependent upon the compensation. Since the clause is coming to an end, many States are demanding an extension. However, the Union Government appears to be reluctant. Moreover, the Union Government had delayed GST compensation to the States from 2019-20 when the economy started slowing down. It was paid in May 2022 after much delay.
- ❑ **Conflicting orders by AAR:** The state-level Authorities for Advance Rulings (AARs) have given conflicting rulings in various cases on the nature of goods, which determine the tax slab they fall under. These relate to food items such as 'papad', fryums and other areas such as setting up a solar power plant, intermediary services, and so on.
- ❑ **Bogus or No receipts:** Despite coming out with e-way bills and e-invoicing, genuine receipts are not being given in every segment of the economy. For instance, retailers of fast moving consumer goods (FMCG), and chemists buy their stocks from super stockists who, in turn, buy from distributors appointed by the companies concerned. Though these distributors are tracked by e-invoicing and e-way bills, in many cases, the super stockists sell the products to stockists who do not keep records and do not give receipts.



- ❑ **National Anti-profiteering Authority (NAA):** The NAA was set up in December, 2017 to ensure that GST rate reductions were passed on by firms to consumers and there was no profiteering. But right from the outset, the process of imposing penalties on companies was criticised for the alleged lack of a proper methodology to ascertain profiteering. As of May, there are close to 400 cases pending with it.
- ❑ **Technical glitches:** Frequent technical glitches have led to, first, the suspension of forms GSTR 2 (a purchase return) and GSTR 3 (an input-output return), and then, their scrapping altogether. Technical glitches were so rampant that the launch of the e-way bills had to be suspended in February 2018 because the system could not bear the load. Unfortunately, the glitches crop up even now.

Impact of GST

- ❑ **Simpler tax structure:** With GST, the taxation system of our country has become simpler. It is a single tax, ensuring easier calculation. With this tax, the buyer gets a clear idea of the amount paid as tax when purchasing certain products. This is crucial when considering GST and its impact on the GDP.
- ❑ **More funds for production:** Another effect of GST on the Indian economy has been the reduction in the total taxable amount. This saved fund can again be invested back into the production cycle to foster production.
- ❑ **Support for small and medium enterprises:** Based on the size of your organization, the amount of GST depends on your firm's annual turnover, provided you have been registered under the Composition Scheme introduced by GST. Enterprises with a yearly turnover of 50 lakhs have to pay 6% GST whereas enterprises with 1.5 crores worth of turnover have to pay 1% GST.
- ❑ **Increased volume of export:** When considering GST and its impact on the Indian economy, customs duty on exporting goods has reduced. So now production units save money while producing goods and also while shipping them. This two-way savings has lured many production units to export their goods, increasing the export quantity.
- ❑ **Enhanced operations throughout India:** With a unified taxation system, transporting goods around India has now become easy, boosting operations throughout the country.
- ❑ **No more cascading effect:** With GST, taxes of the State and Central Government have been merged. This has removed the cascading effect of taxes, reducing the burden on the buyer and the seller. So even if it may look like one big chunk of tax to be paid, you pay lesser hidden taxes.

Conclusion

- ❑ The Goods and Services Tax is a much needed tax reform, and if implemented correctly, can do wonders for India's economy. Along with eliminating double taxation and lowering product price, the GST can also assimilate the informal sector into the greater Indian economy and provide a much needed boost for India's lagging export market.

How has GST Affected Small Business

- ❑ **Contribution of SME's**
 - Small and Medium Enterprises (SMEs) have been considered as the primary growth driver of the Indian economy for decades. It is further evident from the fact that today we have around 3 million SMEs in India contributing almost 50% of the industrial output and 42% of India's total export. For a developing country like India and its demographic diversity, SMEs have emerged as the leading employment-generating sector and has provided balanced development across sectors.

❑ Negative impact of GST on SME

- Low exemption limit - The Rs. 20-lakh annual turnover limit for opting out of the GST net seems to be inadequate.
 - Small firms like shops, with meagre earning a month will find it difficult to join GST and file returns on par with a large firm.
- No composition scheme to service sector - The service sector (except restaurateurs) which comprises of 70 per cent of all MSME units do not have low tax option.
- Even if a firm's annual turnover is less than Rs. 20 lakh, it must register as a regular dealer to export or import.
- Not registering would lead to loss of business for a lakh small firms that contribute over 40 per cent of India's exports.
- E-commerce has created an entrepreneurship boom in small cities. In GST regime, a small firm must register as a regular dealer to sell online.
- This is bound to affect more than 50,000 entrepreneurs.
- A composition dealer cannot sell to other States. Small firms would face double trouble as they may lose their existing customer base and cannot supply to other States.
- Burdening small business: The huge compliance cost to small businesses may be disproportionate to the revenue generated by them. Also, mismatching of invoices due to technical glitches could hold up credits, a situation that has been seen in China and Brazil, further burdening small businesses.
- Tax Evasion: These hurdles, compounded by the complicated rate structure, may actually end up pushing enterprises to evade taxes.

❑ The impacts have been discussed below:

- No tax differentiation for luxury items and services: The tax neutrality won't differentiate luxury goods and normal goods. Currently, the state and central government levy higher taxes on luxury goods and services. Under GST implementation, all goods and services will have to pay the same tax. It is not an ideal situation for SMEs competing against large businesses.
- Returns must be filed on a monthly basis: Under GST, there will be around 36 returns in a fiscal year. GST returns will also require you to close your books on a monthly basis, which, will take a lot of time. Also, until you've filed the relevant returns, you cannot claim refunds and your customers cannot claim tax credit for the goods they bought from you. Should you miss a single return, you'll be penalized Rs.100/- a day and your compliance rating on the GSTN portal will be reduced.
- Multiple registration for Pan-India businesses: Under the new regime, a business will have to register online for GST in every state involved in its sales process. If your business delivers goods across 5 states, then you'll have to register for GST in those 5 states to carry out your business activities. Since the entire registration process takes place online, small business owners who are not used to working online might not find the transition easy.
- Cost of tax compliance is likely to increase: As mentioned above, consistently filing 3 returns a month, periodically reconciling transactions, and uploading invoices regularly will give rise to the need for an accountant with technical expertise. It's tedious to maintain separate books of accounts for every state involved in the supply of goods/services and assess the records of various entities involved in every single transaction. To cope with the system, small businesses might use the services of licensed third parties that help firms comply with the GST regime.
- Registration will be mandatory for e-commerce suppliers and operators: Businesses carrying out activities related to e-commerce should register under GST irrespective of their annual turnover rate. Unlike other types of businesses, e-commerce firms will not be eligible for threshold exemptions or for the Composition Scheme (which allows firms to file their tax returns on a quarterly basis instead of 3 times a year and pay taxes at a much lower rate).

- Also, e-commerce firms should register for GST in every single state where they supply goods.
- Overall, GST simplifies the entire process of filing and paying taxes. It will also increase the competition between SMEs by unifying the Indian market.

Recent changes proposed

- The GST Council, on considering the demands raised by MSME, increased the threshold limits for GST registration. These changes were proposed in the 32nd GST Council meeting held on 10th January 2019. It was subsequently notified by the CBIC. It helps to ease compliance under GST.
- The council also slashed tax rates on 27 items including sliced dried mango, khakhra, man-made yarn, stationary items, e-waste, plastic waste, rubber waste and job-work services while deciding to adopt a concept paper on the tax rates that would form the backbone of all changes in future.
- The council has also set up a Group of Ministers to examine on an urgent basis issues concerning the small scale sector such as whether the total turnover calculation for the composition scheme should include exempted goods, if inter-state sales should be allowed for those availing of the scheme and whether input tax credit needs to be given to them. This group will give its report in two weeks.

Conclusion

- Implementation of GST is taken by the Indian government is a big structural change in Indian market and is expected to be come with confusions and complexities especially small businesses. These are coming into light and government of India is ensuring appropriate changes to comply with such regime. Though the structure might not be a perfect one but once in place, such a tax structure will make India a better economy favorable for small business and for big business as well.

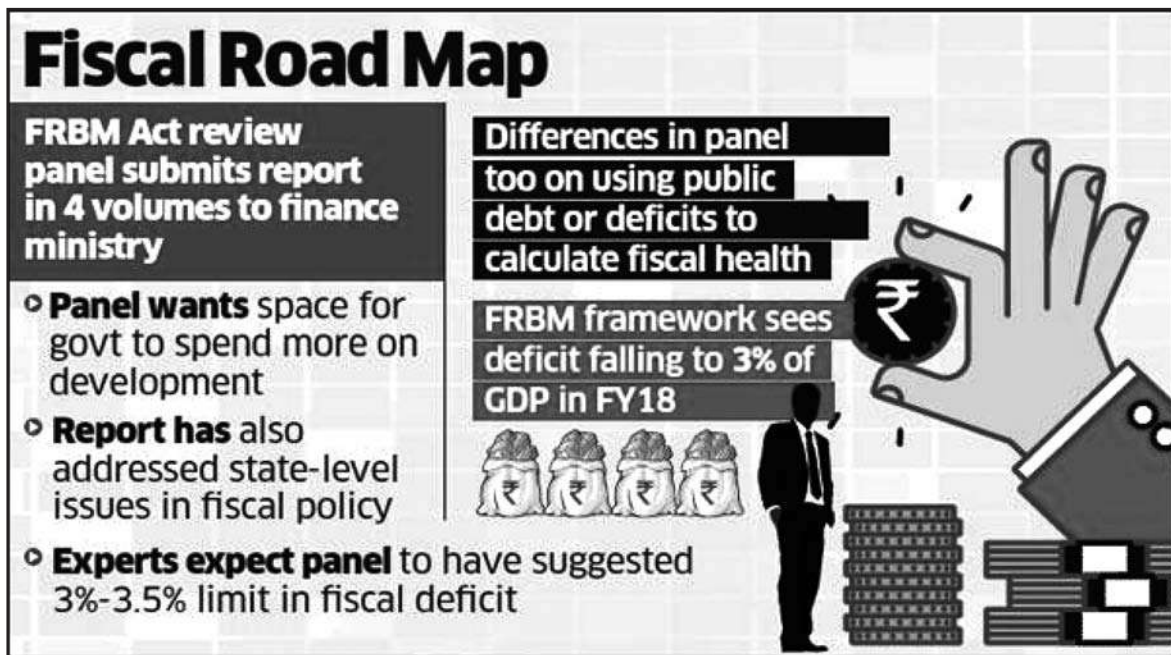
Negative impact on different sectors

- IT companies can have several delivery centres and offices working together to service a single contract. With GST, companies might require each centre to generate a separate invoice to every contracting party. GST on IT sector will attract 18% on software services provided by software companies. For purely software services, the cost of such services will increase under GST.
- In E-commerce, the tax collection at source (TCS) guidelines in the GST regime will increase administration, documentation workload for e-commerce firms and push up costs.

FRBM review (NK Singh committee)

About FRBM Act

- The **Fiscal Responsibility and Budget Management (FRBM) Act, 2003** is an act to provide for the responsibility of the Central Government to ensure intergenerational equity in fiscal management and **long-term macro-economic stability** by removing fiscal impediments in the effective conduct of monetary policy.
- The Act **sets a target** for the government to **establish financial discipline** in the economy, improve public funds management and reduce fiscal deficit.
- It was the first **acquaintance of transparency** in the fiscal management system in the country, ascertaining the ethical dispensation of debt with the passing years, making sure of fiscal solidity in the macroeconomics.

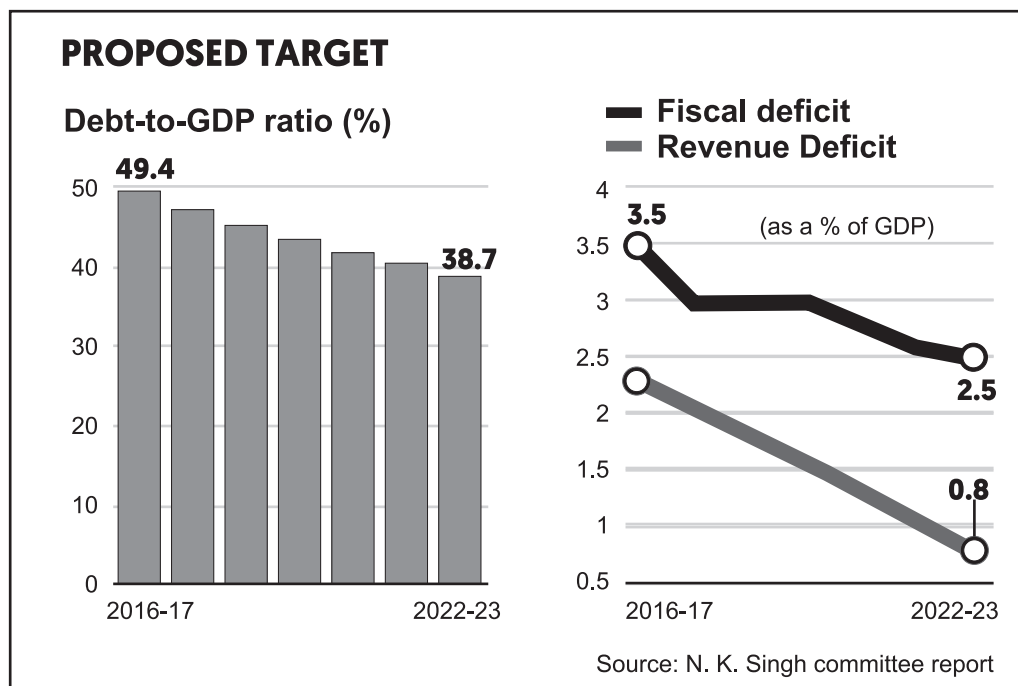


Mandate of NK Singh Committee

- Over the last 12 years, review the working of the FRBM Act and suggest the way while focusing on the broader objective of **fiscal consolidation** and the changes required in times of uncertainty and volatility in the global economy.
- To focus on different factors, required for determining the FRBM targets.
- To examine the requirement of having a '**fiscal deficit range**' as the target as compared to the present **fixed numbers (percentage of GDP)** as fiscal deficit target.
- To ascertain the need for **aligning the fiscal expansion**, contraction with credit contraction, expansion in the economy.

Recommendations of NK Singh Committee

- Replacement of the FRBM Act 2003 with Debt Management and Fiscal Responsibility Bill, 2017.
- The debt to GDP ratio by 2022-23 should be 38.7% for the central government and 20% for the state governments.
- The fiscal deficit target should be 2.5% of GDP by FY 2022-23.
- Setting up of an autonomous fiscal council that deals with the preparation of multi-year fiscal forecasts, improves fiscal data quality, could advise the government on fiscal matters.
- The Fiscal council's responsibilities would include:**
 - preparing multi-year fiscal forecasts,
 - recommending changes to the fiscal strategy,
 - improving the quality of fiscal data,
 - advising the government if conditions exist for deviating from the fiscal target, and
 - advising the government to take corrective action if the Bill is not followed.
- Target commitments** could be deviated under certain circumstances such as a national calamity, war, agricultural collapse, structural reforms in the economy and the real output is less than 3% etc.



- **The debt path** to be followed by each state based on their track record of fiscal health and prudence should be recommended by the 15th Finance Commission.
- **Borrowing from RBI:** The draft Legislation prohibits the government from borrowing from the Reserve Bank of India (RBI) except in the following circumstances:
 - the centre must meet a temporary shortfall in receipts;
 - RBI subscribes to government securities to finance any deviations from specified targets, or
 - RBI purchases government securities on the secondary market.
- **Monetary and fiscal policies** should complement each other and help accomplish economic stability and growth.

Conclusion

The FRBM act served the central role for which it was legislated. It emphasized fiscal discipline in economic development and mainstreamed it as one of the central policies of the government. It also provided a robust framework for budgetary discussions. With the change in dynamics and economics of the country, it was changed as well based on recommendations of various committees.

Concept of Google Tax and its Implications

- Recently, the United States Trade Representative (USTR) published a report concluding that the 2% digital services tax (DST) introduced by the Indian government (by the 2020 Finance Act) discriminates against US businesses and contravenes settled principles of international tax law.

What is Google Tax?

- It is known as Google Tax around the world, but in India it is known as the “Equalization Levy” It is a new concept in taxation where a tax is to be levied on a global firm which makes income through digital economy by raising revenues from advertisements in a country where it has no physical presence.

- ❑ Equalization Levy 2.0 - Commonly known as the Amazon Tax, EL 2.0 was introduced in 2020 which is directly levied on the Non-resident.
- ❑ EL 2.0 covered e-commerce supply or services and was made by way of amendment to Finance Act 2016.
- ❑ It charged an equalisation levy at the rate of 2% of the amount of consideration received or receivable by an e-commerce operator (non-resident) from e-commerce services to a person resident in India or a non-resident or a person who buys goods and services using internet protocol address located in India.
- ❑ EL 2.0 is applicable to e-commerce operators (ECO) having sales, turnover, or gross receipts of Rs20 million in a financial year.

Services under Equalization Levy

❑ Specified Services

- “Specified services”, means “online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement and includes any other service as may be notified by the Central Government.”

❑ Amendment made in Finance Act 2021:

- Any foreign company providing services/goods in India through a digital platform could be within the scope of the levy.
- Given the expanded definition of ‘online sale of goods’, a mere payment that is made through an online mode can potentially be subject to the transaction to equalisation levy.
- The compliance obligation to discharge the levy in India is on the non-resident company.
- Pure traditional brick and mortar businesses that use a fair degree of digitisation, (website, digital payments) may also come under the net of EL 2.0.

❑ Exemptions

- ❑ The exemptions for this levy are:
 - If a non-resident providing a specified service has a permanent establishment in India and the specified service is effectively connected with such permanent establishment.
 - In order to reduce the burden of small players in the digital domain, an exemption is provided if the aggregate amount of consideration that is to be paid by a resident in India who is carrying on business or profession, or by a non-resident having a permanent establishment in India does not exceed one lakh rupees in any financial year and this payment is made towards the specified services provided by the non-resident entity.
 - Where the payment for the specified services is not for the purposes of carrying out business or profession.
 - The equalization levy is aimed at taxing business-to-business (B2B) e-commerce transactions. Therefore, the scope of the levy may be expanded to cover a wider range of digital goods and services as time progresses.

❑ Need of Equalization Levy

- The levy will act as an incentive for the companies to have permanent establishments in India and to get taxed only on their net income made here. It will also discourage the practice of avoiding taxes by exploiting weaknesses in the international taxation rules.

- The levy will be against the base erosion and profit shifting and will prevent shifting of profits from the high tax-rate countries to lower tax-rate jurisdictions. The levy will prevent the technology companies from shifting profits offshore to tax havens. Of late, the levy has become an attractive tool for governments around the world.

■ What are expected implications of such tax?

- It could increase the cost of advertising for firms because the 6% tax have to be borne by them, as global players enjoy dominance in the online advertising field.
- It will lead to decline in profit of companies like Facebook, Google. Since, Google tax is not under the Income Tax Act, thus, the tax credit as under the double taxation avoidance treaty (DTAA) is not available.
- The levy has been introduced as part of the finance bill and not the Income Tax Act to ensure that the double taxation avoidance agreements are not violated. However, because of this, the online firms cannot seek tax credit in their home country.
- Firms like Facebook might consider registering an Indian entity to compete with its online rivals. Further, this marks a trend in the direction of source based taxation and there is increasing possibility that other services might be brought in the ambit of taxation.

■ Criticism

- NASSCOM has said that there exists already a tax which is being deducted at source when there is a B2B transaction. So, the equalization levy will lead to double taxation of same income.
- The levy could also act as a potential deterrent for overseas service providers looking to expand their offerings in India, which might have a dampening effect on the 'Digital India' initiative and 'Startup India' programme by discouraging innovation. Moreover, it may force the startups to cut down on advertising. It will be made to pay as the companies may pass down the tax burden on to the customers. So, the new levy will raise the cost of a whole range of services which are provided online.
- The companies would not be able to take the benefit of tax treaties to avoid double taxation in their home countries because the levy is introduced in the Budget as part of the Finance Bill and not as a part of Income Tax Act.
- There are also the long-term implications for India's own IT service firms, which rely mostly on overseas markets. If other nations follow India's lead and impose similar taxes on services provided from India, local IT firms' cost advantage could be significantly eroded, rendering them non-competitive.

■ Issues of EL 2.0:

- Applicability to intercompany transactions and reseller arrangements - The EL 2.0 provisions do not provide any exemption for inter-company/ intra-group transactions.
- The present scope of EL 2.0 is widely worded and could cover such inter-company transactions provided they qualify within the definition of 'ECO' and 'e-commerce supply or services' as provided in EL laws.
- Technological challenges in locating IP address - Transactions between two non-residents where either the marketplace is in India or the IP address is located in India have been brought under the ambit of the EL 2.0.
- This could cover transactions of a non-resident tourist purchasing goods or services on a non-resident operated e-commerce platform using an Indian IP address which may pose a challenge for various stakeholders.
- Meaning of the term 'digital or electronic facility or platform' - Neither the EL law nor the Income Tax Act defines or explains this term.

- In the absence of any definition, the term is capable of being interpreted in different ways and can potentially cover ubiquitous digital communication tools like emails or calls.
- Definition of the term 'goods' and 'services' - The term 'goods' and 'services' have neither been defined under the Finance Act nor the Income Tax Act leading to interpretational issues.

Fat Tax: Concept Analysis

What is Fat Tax?

- ▶ A fat tax is a tax or surcharge that is placed upon fattening food, beverages or on overweight individuals. A fat tax that aims to discourage unhealthy diets and offset the economic costs of obesity and other diseases associated with unhealthy consumption.
- ▶ Numerous studies suggest that as the price of a food decreases, individuals get fatter. In fact, eating behaviour may be more responsive to price increases than to nutritional education.

Conclusion

- There is a lot of concern about the newly introduced Google Tax. It has attracted many people within the country, but business owners are disappointed with this policy as it compels them to pay more than their previous payment.
- Since the initiative is in line with India's motive to widen its tax base and improve its Tax-to-GDP ratio, at the same time care should be taken to ensure that Indian firms don't suffer. If the tax liability falls more on Indian firms, it will lead to crowding out of such companies which will itself be a loss to the Indian economy.
- With introduction of this levy, India joins the league of various other countries with similar levies for providing equal opportunities to the domestic businesses. In addition, avoidance of double taxation of such transactions has been secured by creating a specific Income tax exemption for specified services chargeable to this levy.

Government Rule on Capital Gains Tax

■ What is a 'Capital Gains Tax'?

- A capital gains tax is a type of tax levied on capital gains, profits an investor realizes when he sells a capital asset (land, building, house property, vehicles, patents, trademarks, leasehold rights, machinery, stocks, bonds and jewellery) for a price that is higher than the purchase price. Capital gains taxes are only triggered when an asset is realized, not while it is held by an investor. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property.
- Some assets are considered short-term capital assets when these are held for 36 months or less. The assets are:
- Equity or preference shares in a company listed on a recognized stock exchange in India.
- Securities (like debentures, bonds, govt securities, etc.) listed on a recognized stock exchange in India.
- The 2022 budget has proposed a 30% tax on cryptocurrency, which is higher than capital gains tax in many cases.
- Besides, under capital gains tax, investors can adjust profits and losses on different investments against each other or against profits/losses in the future. However, this cannot be done with cryptocurrency.

- Units of UTI, whether quoted or not.
- Units of equity oriented mutual fund, whether quoted or not.
- Short-term capital asset – An asset which is held for not more than 36 months or less is a short-term capital asset.
- Long-term capital asset – An asset that is held for more than 36 months is a long-term capital asset.
- From FY 2018-19 onwards – The criteria of 36 months have been reduced to 24 months in the case of immovable property being land, building, and house property. For instance, if you sell house property after holding it for a period of 24 months, any income arising will be treated as long-term capital gain.
- Tax on Short-Term and Long-Term Capital Gains
- Tax on long-term capital gain: Long-term capital gain is taxable at 20% + surcharge and education cess.
- Tax on short-term capital gain when securities transaction tax is not applicable: the short-term capital gain is added to the income tax returns and the taxpayers are taxed according to their income tax slab.
- Tax on short-term capital gain if securities transaction tax is applicable: the short-term capital gain is taxable at the rate of 15% + surcharge and education cess.

Assets Tax	Duration (Short Term)	Duration (Long Term)	Short Term Capital Gains Tax	Long Term Capital Gains
Stocks/shares	Less than	More than	15%	Nil *
Equity oriented mutual funds	Less than 12 Months	More than 12 Months	15%	Nil *
Debt oriented mutual fund	Less than 36 months	More than 36 months	Slab rate	20.6% with Indexation
Bonds	Less than 12 months	More than 12 months	Slab rate	10% without indexation
Real estate/ property	Less than 36 months	More than 36 months	Slab rate	20% with indexation
Gold	Less than 36 months	More than 36 months	Slab rate	20.6% with Indexation

Distortions created by it:

- As capital gains tax is the same regardless of your overall income it can compound inequality.
- For instance, a person with a salary of ₹40 lakh will pay 30% tax on it but just 10% LTCG tax on gains from stock trading.
- A person with a salary of ₹5 lakh will pay a 5% tax on it but the same 10% LTCG tax on stock trading.
- Second, the smaller one-year qualifying period for LTCG in stocks compared to three years in debt mutual funds may encourage short-term trading in equity.
- Changes which needs to be done:
- The government can bring about uniformity in rates and holding periods for various assets to ensure that the tax for one asset is not more attractive than another.

- A uniform and long holding period to qualify for LTCG can also discourage short-term trading and speculative behavior in assets such as stocks.
- The exemptions for LTCG such as reinvestment in another house property or capital gains bonds can also be made simpler, with fewer conditions.
- Small investors can also be given relief by reducing rates of capital gains.

Conclusion:

- ▣ The new rule is a continuation of government fight against unaccounted/ Black money. This shall curb unaccounted income. At the same time, exemptions have been maintained for genuine transactions, however, this will disincentivise trade in share of those companies which are not frequently traded on the stock exchange.

Public Debt Management Cell–Need & challenges

- ▣ The Finance Ministry has set up a Public Debt Management Cell (PDMC) with view to streamline government borrowings and better cash management with the overall objective of deepening bond markets. PDMC would streamline government borrowings and better cash management for deepening bond markets.

About Public Debt Management

- Debt management is one of the important functions of monetary policy in an underdeveloped country. It aims at proper timing and issuing of government bonds, stabilising their prices, and minimising the cost of servicing the public debt.
- The primary aim of debt management is to create conditions in which public borrowing can increase from year to year. Public borrowing is essential in such countries in order to finance development programmes and to control the money supply. But public borrowing must be done at cheap rates. Low interest rates raise the price of government bonds and make them more attractive to the public. They also keep the burden of the debt low.

Background

- ▣ To deepen the Indian Bond market, the Finance Ministry, proposed setting up a PDMA in Budget 2016-17. PDMA was intended to setup to bring both India's external borrowings and domestic debt under one roof.

▣ Facts about PDMC

- The Joint Secretary (Budget), Department of Economic Affairs of the Finance Ministry will be the overall in-charge of the PDMC. PDMC will have only advisory functions in order to avoid any conflict with the statutory functions of RBI.
- As an interim arrangement, the PDMC will be housed at the RBI's Delhi office. In about two years, the PDMC will be upgraded to a statutory Public Debt Management Agency (PDMA).
- PDMC is an interim arrangement and will be upgraded to a statutory Public Debt Management Agency (PDMA). Thus, it is the requisite preparatory work for PDMA.
- It will allow separation of debt management functions from RBI to PDMA in a gradual and seamless manner, without causing market disruption.

- The Middle Office of the Budget Division in the Union Finance Ministry will be subsumed into the PDMC with immediate effect.
- Need of PDMA:
- With establishing PDMA, Government seeks to divest the RBI of its dual and often conflicting roles as the banker and manager of the Central Government's borrowing.
- It will also facilitate in better planning and management of domestic and foreign market borrowings of Central Government.
- It will help in strengthen bond market and help to promote investment.
- It will be in pursuance global practice of shifting public debt management from central bank to a debt management office.

■ Functions of PDMC

- PDMC has been tasked to plan government borrowings, including market borrowings and other borrowings, like Sovereign Gold Bond issuance.
- PDMC is to manage government's liabilities, monitor cash balances, improve cash forecasting, and foster a liquid and efficient market for government securities.
- Advice government on matters related to investment, capital market operations, administration of interest rates on small savings, among others. Further, it will undertake requisite preparatory work for PDMA.
- Challenges of PDMA:
- Previously RBI too had handled the debt management in a transparent and efficient manner. The present system of debt management is working good, as it has helped in maintaining debt at a manageable level always.
- RBI is already prohibited from interfering in the primary market according to the FRBM act, and the govt. bonds are solely auction driven. So, a separate agency is not needed.
- Other countries like UK, had also reverted to assigning the debt management activity to national banks, after forming similar separate agencies.
- Mutual coordination can become difficult.
- RBI also manages states' debts and the PDMA is not very clear on what happens to that function. PDMA under central government have implication for federal structure of India.
- Even though if a separate public debt management agency is to be created, it must be done gradually and systematic fashion.

IBBI and Insolvency Rules- pre-packs over the Corporate Insolvency Resolution Process

The Insolvency and Bankruptcy Board of India (IBBI) is conducting the '3rd National Online Quiz on Insolvency and Bankruptcy Code, 2016', to promote awareness and understanding of the Code among various stakeholders, across the country.

■ What are pre-packs?

- A pre-pack is the process of debt resolution of a distressed company by an agreement between secured creditors and investors instead of a public bidding process.

- Under this resolution, the company's business is negotiated with a buyer before the appointment of an insolvency professional.
- Pre-pack is a corporate rescue method with both informal (out-of-court) and formal (judicial) insolvency proceedings.
- It is a hybrid framework, as it empowers stakeholders to resolve the debt issue with the minimum assistance of the State.
- Under this system, the financial creditors seek approval from the National Company Law Tribunal (NCLT) regarding the resolution plan.
- NCLT may accept or reject any application
- The plan has to be approved by a minimum of 66 percent of unrelated financial creditors to the corporate is required before a plan is sent to NCLT.
- The pre-pack mechanism permits the Swiss challenge for any resolution plans which proved less than full recovery of dues for operational creditors.
- It will be implemented in parallel to the Corporate Insolvency Resolution Process (CIRP).
- This system of insolvency proceedings is a popular mechanism for insolvency resolution in the UK and Europe.

Swiss challenge mechanism

- Under this mechanism, any third party will be permitted to submit the resolution plan for the distressed company.
- The original applicant would have to either match the improved resolution plan or forego the investment.

■ What was the earlier process?

- Corporate Insolvency Resolution Process (CIRP) is a recovery mechanism for creditors under the IBC, 2016.
- If a corporation becomes insolvent, in this case, a financial creditor, an operational creditor, or the corporate itself may initiate CIRP.

■ Benefits of pre-packs over the Corporate Insolvency Resolution Process (CIRP)

- CIRP is said to be a time taking resolution process. In the majority of the cases the threshold of 270-days has been crossed.
- The prolonged litigations by promoters and potential bidders are said to be the key reason behind the delays.
- On the other hand, the limit for a pre-pack is 120 days with 90 days available to the stakeholder in bringing the resolution plan to the NCLT.
- Under the CIRP, a resolution professional takes control of the debtor. On the other hand, in case of pre-pack the management retains control.

■ What is the need for the pre-pack plan?

- Due to the Covid-19 pandemic, the government had suspended the insolvency act. Now as the one-year suspension had come to an end, the government has initiated a pre-pack solution for the debt resolution.
- The pre-packs will provide MSMEs an opportunity to restructure their liability and to start afresh.

- It will incorporate the consensual restructuring of debt with lenders.
- It also ensures adequate protection by errant promoters.

Insolvency and Bankruptcy Code, 2016 (IBC)

- It is a bankruptcy law of India that seeks to create a single law for insolvency and bankruptcy.

Key Features

Insolvency Resolution

- The Code outlines separate insolvency resolution processes for individuals, companies, and partnership firms.
- The process may be initiated by either the debtor or the creditors.
- time limit-
- For companies: 180 days, which may be extended by 90 days
- For start-ups, small companies, and other companies (with asset less than Rs. 1 crore): 90 days of initiation of request which may be extended by 45 days

Insolvency regulator

- The Insolvency and Bankruptcy Board of India will oversee the insolvency proceedings in the country.
- The Board will have 10 members with representatives from the Ministries of Finance and Law, and the Reserve Bank of India.
- Insolvency professionals
- The licensed professionals will manage the insolvency process.

Adjudicator:

- National Company Law Tribunal for Companies and Limited Liability Partnership firms.
- Debt Recovery Tribunal for individuals and partnerships.

Tax evasion in India-Issues & initiatives

The government launched drive to make taxation fairer and taxpayers fearless in the country.

About

- ▣ The programme involves faceless assessment, faceless appeal and a tax payer charter. It seeks to improve tax payer experience and ease of doing business.
- ▣ The Faceless Assessment Scheme aims to eliminate the human interface between the taxpayer and the income tax department.
- ▣ Under the Faceless Appeals system introduced by the government, appeals will be randomly allotted to any officer across the country and the identity of the officer deciding the appeal will remain unknown. Further, decisions will be team-based.
- ▣ The aim of the tax payer Charter is that of nurturing the relationship between the Revenue departments and the community that they serve, a relationship of mutual trust and respect.

- ❑ The drive to honour honest tax payers comes after a series of steps in recent months aimed at making the administration more accountable for its dealings with tax payers, reduce tax litigation and for making compliance easy.
- ❑ The emphasis is on making every rule-law, policy people-centric and public friendly
- ❑ The initiative reflects India's vision towards 'minimum government, maximum governance.

❑ Issues of tax evasion in India

- Even though India's income tax was instituted in 1922 by the British, our tax history explains the high degree of tax delinquency today.
- The government's deficiency in governmental expenditures is most notably attributed to wide spread tax evasion.
- Relative to other developing countries, the fact that India's income tax comprises 5% of its GDP is due to the fact nearly 1-3% of the population is exposed to income taxation. According income tax department, out of population of 130 crore people, only 1.5 crore pay income tax.
- Although India has improved its tax-to-GDP ratio in the last few years, it is still far lower than the average OECD ratio which is 34 per cent. India's tax-to-GDP ratio is lower than some of its peers in the developing world. Developed countries tend to have higher tax-to-GDP ratio.
- India faces more difficulties in proliferating its income tax than a country like China, who subjects 20% of its population, because there is an emphatically low amount of formal wage earners.
- The exorbitant levels of tax evasion has inspired the creation of a black money parallel economy. Black money inherently causes inflation and hinders the government's ability to bring down the prices of commodities.
- In fact, the large volume of black money actually diverts governmental resources from national welfare and encourages the continuation of illegal activity.

❑ Initiative taken by the government to improve tax collection

- The focus of the tax reforms in recent times has been on reduction in tax rates and on simplification of direct tax laws.
- Several initiatives have been taken by the CBDT for bringing in efficiency and transparency in the functioning of the IT Department. This includes bringing more transparency in official communication through the newly introduced Document Identification Number (DIN) wherein every communication of the Department would carry a computer generated unique document identification number.
- Similarly, to increase the ease of compliance for taxpayers, IT Department has moved forward with prefilling of income tax returns to make compliance more convenient for individual taxpayers. Compliance norms for startups have also been simplified.
- The government had in 2019 offered businesses the option of a lower corporate tax rate to those not availing of any incentives and to new manufacturers.
- Also steps have been taken to rationalize personal income tax rates to make the slabs more progressive so that tax payers' transition from lower slab to higher one is more smooth.
- The government has also created Voluntary Disclosure of Income Schemes, whereby black income and assets can actually be declared without penalty or prosecution.
- The Corporate Tax rates were reduced from 30 percent to 22 percent and for new manufacturing units the rates were reduced to 15 percent. Dividend distribution Tax was also abolished.
- With a view to provide for resolution of pending tax disputes the IT Department also brought out the Direct Tax "Vivad se Vishwas Act, 2020" under which declarations for settling disputes are being filed currently.

- IT Department has also made efforts to ease compliances for taxpayers during the Covid times by extending statutory timeliness for filing returns as also releasing refunds expeditiously to increase liquidity in the hands of taxpayers.

■ **Suggestions to improve tax collections**

- There is a reasonable opportunity to raise revenue since our tax-to-GDP ratio is about 16%. Following steps can be taken in this direction:
- Cap on tax-free long-term capital gains: Long-term capital gains on listed securities were exempt from income-tax to increase participation by retail investors in capital markets. But ultra-highnet worth individuals (HNIs) have benefited from tax-free capital gains more than retail investors. A reasonable cap on exemption for capital gains will protect retail investors' interest and at the same time increase tax collection.
- Link transactions to filed taxes: 2 million transactions couldn't be linked to tax returns filed. Significant tax collection can happen if this information is used to detect undisclosed income. A sustained campaign to highlight the ability of tax department to detect undisclosed income will improve tax compliance.
- Curtailing unaccounted money: Real estate provides a major avenue for deployment of cash/parallel economy proceeds. Trading hubs, party contractors, big-ticket purchases and cash couriers are all worth tracking for bringing the parallel economy under the tax net and increasing tax collection.
- Increase service tax: While service tax net has been widened, there may be more opportunities, especially in the unorganized sector. A nominal tax on a presumptive basis may incentivize the unorganised sector to come under the service tax net.
- Need for effective dispute settlement mechanism: Huge tax arrears suggest the need for launching an effective dispute settlement mechanism. A consent system can save considerable time and effort and convert arrears to actual tax collection.

Conclusion:

- To foster economic growth and development India needs sustainable sources of funding for social programs and public investments. Programs providing health, education, infrastructure and other services are important to achieve the common goal of a prosperous, functional and orderly society. And they require that government raise revenues. While the recent initiatives taken by the government are significant step towards raising the revenue, more such efforts are needed in this direction.

Ponzi scheme and Issues

CBI books 132 firms, ED 87 PMLA cases since 2019. The Central Bureau of Investigation (CBI) has registered 100 cases involving 132 firms relating to Ponzi schemes in the last three and half years, and has made 21 arrests in this regard.

■ **What are the impacts of Ponzi schemes?**

- Companies illegally mobilizing deposits diverted considerable funds (estimated to be around INR 240 billion in the last three years) from small savings funds promoted by state government. Official data show a steady slide in small-savings deposits and a spurt in withdrawals, which left a thin slice for the state government to borrow to make ends meet.
- This had ripple effect on the overall macroeconomic situation of the state, as because instead of being used by government for public purpose the money went into Ponzi schemes which either were siphoned off to foreign locations or were put to use for private gains.

- On microeconomic front, it is feared that legitimate Non-banking financial companies and micro finance institutions would be stigmatized and would lead to a vicious cycle of low depositor trust, higher interest rates, lower lending and a localized credit crunch.
- Furthermore, as the majority of the depositors in Ponzi scheme came from the lowest economic strata, the loss of the investment would result in a further decrease in social mobility.

■ What are the various steps taken by government?

- Steering Committee - The Ministry of Corporate Affairs has constituted a Steering Committee to develop a "Fraud Prediction Model" aimed at generating alerts for prevention of fraud and malfeasance.
- Early Warning Systems - It is also proposed to revamp the existing Market Research & Analysis Unit (MRAU) in the Serious Fraud Investigation Office (SFIO) to enable it to function as an intelligence unit. Giving a fillip to the early establishment of a state-of-art Forensic Lab within the premises of SFIO in the national capital and the development of a Comprehensive Early Warning System (EWS) for detection of corporate fraud and malfeasance at the earliest.
- Public Awareness - Regulatory agencies of the government have adopted measures aimed at sensitizing the public of the need to be cautious while making investments into schemes, etc. The Ministry of Corporate Affairs conducts Investor Awareness Programs (IAP's) for making the public aware of the various instruments of investments available to them.
- Role of RBI - RBI issues notice in newspapers regularly to caution the public against the design of entities in collection of deposits illegally. Presently, RBI is in the process of undertaking a comprehensive campaign aimed at alerting the public against falling prey to the Ponzy schemes and other monetary mal-practices.
- NBFC Regulations - RBI also regulates deposits/investments of the public with Non- Banking Finance Companies (NBFC) that are registered with RBI. Complaints received against companies posing as NBFC's and Unincorporated bodies indulging in cheating/fraud are forwarded by RBI to the Economic Offenses Wing of the State Police for investigation and further action.
- Anti-Money Laundering Guidelines - RBI has advised banks to be careful in opening of accounts of the marketing/trading agency, etc., and ensure the strict compliance with the Know Your Customer (KYC) and Anti Money Laundering (AML) guidelines of RBI. In cases where accounts have already been opened in the names of the marketing agencies, retail traders, investment firms, etc.; the Banks have been advised to undertake quick reviews of operations in such accounts particularly in cases where large number of cheque books have been requested or issued.
- SFIO-Statutory status to the Serious Fraud Investigation Office (SFIO) has been assigned.
- Technological Intervention: Increasing application of technology for early detection of frauds through data mining and Forensic Audit, etc.
- Media Sensitization: Editors of Newspapers are also sensitized to exercise caution for accepting advertisements pertaining to acceptance of deposits by un-incorporated bodies.
- Role of SEBI: SEBI also conducts Investor Awareness Programs in cities/towns across the country and has recently launched publicity campaigns through electronic and print media. SEBI has initiated Sebi Complaints Redress System or Scores, popular with investors.

■ Recent initiatives of RBI:

- The Reserve Bank of India(RBI) launched an online website, SACHET, to curb Ponzi schemes at an early stage, by sourcing information from individuals.
- Sachet is an initiative by State Level Coordination Committee (SLCC), a joint forum formed in all states to facilitate information sharing among regulators such as Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, and Enforcement Directorate, to control incidents of unauthorised acceptance of deposits.

- An individual can share information with the regulator if he thinks a company is illegally collecting money. People can also use the website to get detailed information on companies that are authorised to collect deposits and also complain if they are cheated by unauthorised operators.
- On receiving a complaint against any scheme (registered or unregistered), both the state-level regulatory offices and law enforcement agencies will act in unison.
- The initiative is expected to enhance coordination between the state government departments such as police and the regulators strengthening the system as a whole.

How Shell Companies are used in Black Money?

■ What are Shell Companies?

- Theoretically, Shell Companies are companies without active business operations or significant assets.
- They can be set up for both legitimate and illegitimate purposes. Illegitimate purposes for registering a shell company include hiding particulars of ownership from the law enforcement, laundering unaccounted money and avoiding tax.
- Shell companies are not defined in any law or act. However, not all shell companies are illegal. Some companies could have been started to promote start-ups by raising funds.

■ How Shell Companies turn White money into Black?

- The infographic (mentioned on next page) explains how a shell company changes White money into Black money through a hypothetical example.
- At the heart of this business, and what ensured its survival and growth, is the reality that the Indian economy has a kind of dual personality, split as it is, into the 'white' and the 'black' economy, with cash transactions (though not always of an illicit nature) dominating the latter. But these economies don't exist separately from each other. They drive each other, and feed off each other, and money flows from one into the other, depending on the economic cycle and entrepreneurs 'animal spirit'.
- In the initial analysis, it has been found that 'Shell Companies' are characterized by nominal paid-up capital, high reserves & surplus on account of receipt of high share premium, investment in unlisted companies, no dividend income, high cash in hand, private companies as majority shareholders, low turnover & operating income, nominal expenses, nominal statutory payments and stock in trade, minimum fixed asset.
- A Task Force with members from various regulatory Ministries and Enforcement Agencies has been set-up under the Co-chairmanship of the Revenue Secretary and Corporate Affairs Secretary to monitor the actions taken against deviant shell companies by various agencies.
- The concerned regulatory Ministry will ensure that disciplinary actions are initiated against the professionals indulging in malpractices and abetting the entry operators of the shell companies.

Conclusion

- In order to make India a regional power, Government need to invest in the critical areas of the economy like infrastructure, so that productive capacity of the economy increases, similarly investment is required in strategic areas like Defence. Such large investments are not possible until government realizes higher tax revenue, but glitches exist in realizing such revenue due to existence of black economy. Black economy thrives because of existence of shell companies which are a channel to launder black economy. Hence, in order to reduce the size of black economy it is important to take

credible action against shell companies. New initiative of “Whole of the government approach” is a step in right direction in this regard.

Offshore Investments in Tax Havens

A tax haven, or offshore financial center, is any country or jurisdiction that offers minimal tax liability to foreign individuals and businesses. Tax havens do not require businesses to operate out of their country or the individuals to reside in their country to receive tax benefits.

■ How do tax havens actually work?

- One of the primary methods is corporate profit-shifting.
- This is where a multinational company registers its headquarters in a low-corporation tax jurisdiction and then books its profits there, rather than in the country in which it actually makes its sales.
- The central feature of a tax haven is that its laws and other measures can be used to evade or avoid the tax laws elsewhere.

■ About the recent Paradise Paper

- Paradise Papers are 13.4 million leaked documents and 1.4 terabytes of leaked data of offshore activities of national leaders, wealthy individuals, and companies. The leak originated from the Bermudian offshore law firm Appleby.
- The leaks which constitute the most detailed revelations ever of such records were obtained by the German newspaper Süddeutsche Zeitung, and shared with the International Consortium of Investigative Journalists (ICIJ).
- At 1.4 terabytes in size, this is second only to the Panama Papers in 2016 as the biggest data leak in history.
- There are over 300 Indian names in the leak, including over 60 prominent ones.
- Pandora Papers are 11.9 million leaked files from 14 global corporate services firms which set up about 29,000 off-the-shelf companies and private trusts.

■ Output of the Papers:

- The revelations help regulators overcome the obstacle of secrecy.
- After the Panama Papers, regulators everywhere were able to investigate several instances of financial malpractices hidden in the records of Mossack Fonseca. The sheer size of the Paradise Papers trove, and the corporate-centric leads they provide, mark a big step forward.
- Normally, a company is entitled to arrange its financial affairs in whichever way it wishes to reduce its tax liability. Merely the fact that the motive for a particular transaction is to avoid tax does not invalidate the transaction unless the law of the land specifically says so.
- There is a corporate army engaged in imaginative bookkeeping to discover and exploit legal loopholes and evade tax under the corporate veil.
- The burden of justification is always on regulators who are not encouraged to fish for motive or evidence of suspected wrongdoing. According to the Westminster principle, if a document or transaction is genuine, courts or the regulator cannot go behind it to look for any supposed underlying substance.
- Only if a fraud is established then a court or regulator can pierce the corporate structure, since fraud unravels everything even a law, if it is a stumbling block because no legislature intends to

guard fraud. In such cases, the principle of lifting the corporate veil or the doctrine of (economic) substance over (legal) form can be applied.

- Many offshore companies, the Papers reveal, are “sham” entities engaged in tax evasion/avoidance, manipulation of the market, money laundering, round tripping (taking untaxed money out of the country through inflated invoices and then bringing it back as investment), parking black money, bribing, etc. Such insight into corporate ingenuity allows regulators to step in, besides strengthening the case for better laws and global tax reforms.

■ Importance of the leaked Paradise Papers

- They reveal offshore footprints of some of India’s major corporate players as well as of a few high-value individuals- the astounding scale of incorporating shell overseas companies to various ends.
- Internal communications show how a majority of these companies with offshore residency were wholly controlled from India.
- Appleby itself red-flagged round tripping on occasion by questioning if offshore funds meant for investing in India were sourced from India. There are instances of assets of Indian companies being used to guarantee loans raised by offshore companies without disclosing it to Indian regulators.
- Changing ownership of offshore companies to actually change the ownership of shares held by them in Indian companies without paying taxes in India turns out to be another common malpractice.

■ How are Paradise Papers different from Offshore Leaks (2013), Swiss Leaks (2015) and Panama Papers (2016)?

- Like the three major global financial leaks in the past, Paradise Papers also reveal tracks of veiled offshore financial activities. It is indeed the fifth major leak of financial papers in the past four years and, yes, last year’s Panama Papers were bigger in size - 2.6TB to 1.4TB - but the scale of the information in the Paradise Papers and how it lifts the lid on sophisticated, upper-end offshore dealings, many linked to the UK, is unprecedented.
- Like Mossack Fonseca (of Panama Papers, 2016), Appleby helps set up companies and bank accounts overseas, provides nominee office-bearers, and facilitates bank loans or transfer of shares, in multiple secrecy jurisdictions.

■ Laws in India:

- If the decision making powers of an offshore subsidiary’s directors are fully subordinate to the holding company (or beneficiary) such that they are mere puppets, the offshore subsidiary, irrespective of its legal residency, may for all practical purposes be considered a resident of the same jurisdiction to which its holding company (or beneficiary) belongs.
- With effect from April 2017, Section 6(3) of the Income Tax Act 1961 provides that if “the place of effective management” of a company is in India, the company will be considered “resident in India”. The clause explains “place of effective management” as the “place where key management and commercial decisions that are necessary for the conduct of business of an entity as a whole are in substance made”.

■ Companies set up in countries that have a DTAA with India:

- A DTAA does not stop the I-T Department from denying tax treaty benefits, if it is established that a company has been inserted as the owner of the shares in India, at the time of disposal of the shares to a third party, solely with a view to avoid tax.
- The I-T department, in such a situation, is entitled to look at the entire transaction as a whole, and may take into consideration the real transaction between the parties.
- The corporate registries of 19 secrecy jurisdictions are part of the Paradise Papers.

- These are Antigua & Barbuda, Aruba, Bahamas, Barbados, Bermuda, Cayman Islands, Cook Islands, Dominica, Grenada, Labuan, Lebanon, Malta, Marshall Islands, St Kitts & Nevis, St Lucia, St Vincent, Samoa, Trinidad & Tobago and Vanuatu. Of these, India has DTAA with only Malta, Trinidad and Tobago.

▣ Measures taken so far:

- Laws specifying general anti-avoidance rule (GAAR) are in force in countries like the UK, Canada, Australia, New Zealand, South Africa and Hong Kong. There is FATCA in the US. In Europe, anti-tax avoidance measures in the pipeline include a blacklist of offshore tax havens and a common consolidated corporate tax base (CCCTB) for the EU, meant to block transfer of profit to low-tax jurisdictions.
- Lack of clarity and absence of appropriate provisions in the statute and/or the treaty regarding the circumstances in which judicial anti-avoidance rules would apply, has led to litigation in India. India's Direct Taxes Code Bill, 2010 envisages creation of an economically efficient, effective direct tax system, proposing GAAR to prevent tax avoidance.
- Introduced by the then Finance Minister Pranab Mukherjee in 2012, GAAR came into effect from April 1, 2017. India introduced this retrospective clarification to the I-T Act to ensure that cross-border transactions of assets would be taxable if they derive, directly or indirectly, their value substantially from assets located in India.

Conclusion

- ▣ After the Panama leaks, the government was quick to form a multi-agency group to probe all cases of Indians who had set up such offshore structures and launch prosecutions in some cases. It is welcome that the government has swiftly responded this time by announcing a multi-agency group to probe the Paradise papers.

Sunset Clause and its Significance in Policies

▣ What is Sunset Clause?

- Sunset clause, also called sunset provision is a legal provision that provides for the automatic termination of a government program, agency, or law on a certain date unless the legislature affirmatively acts to renew it.
- It means that such clauses require that certain provisions or laws will cease to be effective from a pre-determined date unless they are reauthorized. Such a policy measure could help in tackling legislative inertia that leads to the accumulation of unwanted laws over the years.

▣ Need of such Clause

- The government at different points has taken small steps like making pre-legislative scrutiny of Bills mandatory through public feedback to design better laws but these processes are not data-driven or systematic. But, these steps are not proving enough for government to become more effective and transparent.
- As laws have become more and more specific, there is a greater need to have a mechanism in place to check both how the law has performed in handling the situation and, whether and how, the circumstances around that situation have changed.
- In the 21st century, the society and its needs are changing continuously. So, it becomes very important for the state to become dynamic in the sphere of legislation. One of the policy tools that must be used to tackle this problem is "sunset clause" or "periodic review".

- Such provisions are an admission by the lawmakers that the law is not made for eternity and a recognition that circumstances change over time whether it is one year or five years. Its best example is that our Constitution itself provides for a 10-year sunset for reservations to Parliament and legislative assembly seats (Article 334).
- There is a need to extend this learning to other areas of law by admitting that social circumstances and institutional behaviour (like economic situations) also change over time with the consequent need to revisit the laws.

■ Benefits of the Sunset Review Process

- Sunset laws are a key tool that the legislature uses in asserting itself against an executive branch that often dominates state government.
- According to some political theorists, the sunset laws are a way to diminish interest-group power over government programs and to promote more active legislative oversight.
- Most laws do not have sunset clauses and therefore remain in force indefinitely, and hence increasing executive and financial burden on government.
- Having a fixed tenure for review in effect may actually ensure certainty of law. If the review process may find that the statute is performing as expected and is valuable, then the status quo will be maintained.
- In the long run, this, more than anything else, would allow the present government to deliver on its electoral promise of “good governance”.
- This has even more importance in the Indian context where the parties in power could swing widely, leading to either implementation of unviable electoral promises or mindless reversal of laws passed by previous government.

■ Lessons from Other Countries

- Among European countries, the U.K. required laws to be reviewed within three to five years of enactment. These reviews are conducted by existing departmental select committees on the basis of a memoranda provided by a government department.
- In Germany, ex-post evaluation is systematic and based on a standardised methodology set out in guidelines for public administrators.
- France requires mandatory periodic evaluation, which is enshrined within the law itself.

■ Challenges

- Sunset provisions can be used as a bargaining chip to gather votes in favour of controversial legislation. The presence of a sunset provision can persuade a wavering legislator (or that legislator’s public) of the temporary nature of a controversial law.
- It can also be used to reduce the projected costs of a new program or tax reduction. Public statements can be based on estimates that only forecast costs out to the sunset date, even if it is expected that the program will eventually be renewed or have its sunset provision repealed.

Conclusion

- Insisting on sunset clauses would be a significant structural improvement in the function and efficiency of government at all levels, and would protect citizens from an ever-spreading snarl of outdated laws and regulations, administered by a government incompetent enough to allow them to accumulate in the first place.

Credit Rating Agencies and their Implications

■ Criteria for credit ratings

- The critical variables that go into the assessment and rating of sovereigns, include information on:
- Macroeconomic outcomes such as economic growth;
- The state of public finances;
- The external finance situation including exchange rate management;
- Political risk; and
- The performance of state institutions.
- Each of the three leading rating agencies has a well-defined methodology for assigning ratings. In most instances, ratings committees vote on the rating outcomes before they are published. In most cases these committees are made up of a lead analyst, managing directors or supervisors as well as a number of junior analytical staff. Decisions are made by a simple majority of the committee. The agency's reports are also made available to the issuer for factual verification.

■ Moody's recent ratings

- US-based Moody's has upgraded India's sovereign credit rating by a notch to 'Baa2' with a stable outlook citing improved growth prospects driven by economic and institutional reforms.
- It has been driven by some of the recent structural reforms — including the implementation of a long-delayed nationwide goods and services tax (GST), and moves to address the logjam of mounting bad loans in the banking sector through an Insolvency and Bankruptcy Code. These are expected to help ensure a healthier enabling environment to realise this potential over the longer term.

■ Importance of the credit rating agencies for developing countries:

- Credit rating agencies are incredibly important for developing countries for a number of reasons.
- The ratings act as a kind of moral suasion that compels developing countries to pursue more prudent and sensible monetary and fiscal policies.
- Sovereign ratings serve as an incentive for sound monetary and fiscal policies because performance on these policies forms an integral part of the rating methodologies.
- A favourable rating enables governments and companies to raise capital in the international financial market.
- Institutional investors in both the developed and developing world rely heavily on rating agencies in making investment decisions. This is because credit ratings are essentially opinions about credit risk. Ratings provide insight into the credit quality of an individual debt issue and the relative likelihood that the issuer may default.
- Fund managers often don't know enough about the risk associated with parties they're interested in. Credit rating agencies provide an opinion about the credit quality of borrowers such as governments, corporates, financial institutions, and their related debt instruments such as bonds.

■ Impact of Credit Ratings

- Costs and benefits of obtaining a rating:
- The primary purpose of obtaining a rating is to enhance access to private capital markets and lower debt issuance and interest costs.
- Credit rating agencies, in their role as information gatherers and processors, can reduce a firm's capital costs by certifying its value in a market, thus solving or reducing the informative asymmetries between purchasers and issuers.

- There are benefits from ratings for low income countries, namely:
- To foster FDI; and
- To promote more vibrant local capital markets greater public sector financial transparency.
- As a result, even some sovereigns that do not intend to issue cross-border debt in the immediate future are seeking credit ratings from CRAs.

Credit rating agencies in India

Small and Medium Enterprises Rating Agency (SMERA)

- ❑ SMERA is a joint initiative by SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and several leading banks in the country. SMERA is the country's first Rating agency that focuses primarily on the Indian MSME segment.

CRISIL

- ❑ CRISIL is the largest credit rating agency in India. It was established in 1987. The world's largest rating agency Standard & Poor's now holds majority stake in CRISIL. Till date it has rated more than 5178 SMEs across India and has issued more than 10,000 SME ratings.

CARE Ratings

- ❑ Incorporated in 1993, Credit Analysis and Research Limited (CARE) is a credit rating, research and advisory committee promoted by Industrial Development Bank of India (IDBI), Canara Bank, Unit Trust of India (UTI) and other financial and lending institutions. CARE has completed over 7,564 rating assignments since its inception in 1993.

ONICRA Credit Rating Agency

- ❑ ONICRA was established in 1993 by Mr. Sonu Mirchandani as a rating agency. It analyzes data and provides rating solutions for Individuals and Small and Medium Enterprises(SMEs). ONICRA has an extensive experience in operating a wide range of business processes in areas such as Finance, Accounting, Back-end Management, Application Processing, Analytics, and Customer Relations. It has rated more than 2500 SMEs.

ICRA

- ❑ ICRA was established in 1991 by leading Indian financial institutions and commercial banks. International credit rating agency, Moodys, is the largest shareholder. ICRA has a dedicated team of professionals for the MSME sector and has developed a linear scale for MSME sector which makes the benchmarking with peers easier.

Conclusion

- ❑ It is an undisputed fact that CRAs play a key role in financial markets by helping to reduce the informative asymmetry between lenders and investors, on one side and issuers on the other side, about the creditworthiness of companies (Corporate risk) or countries (sovereign risk).
- ❑ An investment grade rating can put a security, company or country on the global radar, attracting foreign money and boosting a nation's economy. Indeed, for emerging market economies, the credit rating is key to showing their worthiness of money from foreign investors. Credit rating helps the market regulators in promoting stability and efficiency in the securities market. Ratings make markets more efficient and transparent

The Fugitive Economic Offenders (FEO) Act, 2018–Need & process

■ Who is a Fugitive Economic Offender (FEO)?

- An FEO is defined by The Fugitive Economic Offenders (FEO) Act, 2018 as “any individual against whom a warrant for arrest in relation to a scheduled offence has been issued by any court in India, who
 - ▶ has left India so as to avoid criminal prosecution; or
 - ▶ being abroad, refuses to return to India to face criminal prosecution”.
- The FEO Act aims “to provide for measures to deter fugitive economic offenders from evading the process of law in India by staying outside the jurisdiction of Indian courts, to preserve the sanctity of the rule of law in India and for matters connected therewith or incidental thereto”.

■ Why was such a law required?

- There have been several instances of economic offenders fleeing the jurisdiction of Indian courts, anticipating the commencement, or during the pendency, of criminal proceedings. The absence of such offenders from Indian courts has several deleterious consequences:
 - It hampers investigation in criminal cases; second, it wastes precious time of courts of law; third, it undermines the rule of law in India.
 - Most of such cases of economic offences involve non-repayment of bank loans thereby worsening the financial health of the banking sector in India.
 - The existing civil and criminal provisions in law are not entirely adequate to deal with the severity of the problem. It is, therefore, felt necessary to provide an effective, expeditious and constitutionally permissible deterrent to ensure that such actions are curbed.
 - Therefore, the Fugitive Economic Offenders Act has been brought up which provides for measures to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts, thereby preserving the sanctity of the rule of law in India.
 - Economic offences relate to fraud, counterfeiting, money-laundering, tax evasion, etc. Among the laws available for prosecuting these offences are The Prevention of Money-Laundering Act (PMLA), 2002, The Benami Properties Transactions Act, 1988, and The Companies Act, 2013.
 - Sections of The Indian Penal Code, 1860 and The Code of Criminal Procedure, 1973, also cover offences such as forgery and cheating.
 - In 2017, Finance Ministry released a draft Bill to address cases of high-value economic offenders fleeing the country to avoid prosecution. It observed that existing civil and criminal laws did not contain specific provisions to deal with such offenders, and that a new legal framework was needed to prosecute them.
 - The ministry also argued that procedures under these laws were time-consuming, led to roadblocks in investigation and impacted the financial health of banks.
 - In March 2018, the Ministry of External Affairs stated that over 30 businessmen, under investigation by the CBI and the ED, had absconded to avoid facing prosecution before Indian courts.
- ## ■ What is the process for declaring an individual an FEO?
- Under the Act, an application must be filed in the special court asking that a particular individual may be declared an FEO.
 - The application must be accompanied by “reasons for the belief that an individual is a fugitive economic offender; any information available as to the whereabouts of the fugitive economic offender; a list of properties or the value of such properties believed to be the proceeds of crime”, etc.

- The special court may then issue notice to the individual to appear at a specified place, and drop the proceedings if the individual complies.
- If, however, the special court is satisfied that an individual is an FEO, it may, record so in an order, along with reasons. The court may then order the confiscation of the properties of the accused individual in India or abroad.
- In the case of Nirav Modi, the ED filed an application under the FEO Act in July 2018. In the case of Mallya, the application was moved in June 2018, when the Act was still an Ordinance.

Multilateral Convention to Implement Tax Treaty

The Union Cabinet approved the ratification of the Multilateral Convention to implement tax treaty related measures to prevent base erosion and profit shifting and to implement OECD's project on checking tax evasion.

About

▣ Multilateral Convention

- The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, sometime abbreviated BEPS multilateral instrument, is a multilateral convention of the Organisation for Economic Co-operation and Development (OECD) to combat tax avoidance by multinational enterprises (MNEs) through prevention of Base Erosion and Profit Shifting (BEPS).
- The BEPS Project identified 15 actions to address in a comprehensive manner.
- It enables countries to implement the tax treaty related changes between two or more Parties to the Convention to achieve anti-abuse BEPS outcomes through the multilateral route without the need to bilaterally re-negotiate each such agreement which is burdensome and time consuming.
- It will not function in the same way as an amending protocol to a single existing treaty, which would directly amend the text of the Covered Tax Agreement.
- Instead, it will be applied alongside existing tax treaties, modifying their application in order to implement the BEPS measures.

▣ Impact:

- The Convention will modify India's treaties in order to curb revenue loss through treaty abuse and base erosion and profit shifting strategies by ensuring that profits are taxed where substantive economic activities generating the profits are carried out and where value is created.
- Ratification of the Multilateral Convention will enable application of BEPS outcomes through modification of existing tax treaties of India in a swift manner.
- This step will update international tax rules and lessen the opportunity for tax avoidance by multinational enterprises.

Off-Budget Accounting

The Comptroller and Auditor General (CAG) of India pulled up the government for increased use of off-budget financing for schemes and subsidies in its Compliance of the Fiscal Responsibility and Budget Management (FRBM) Act.

❑ Why is it Problematic?

- Off-budget financing, by its nature, isn't taken into account when calculating fiscal indicators. But the cost is borne by the budget through some mechanism or the other.
- Such financing tends to hide the actual extent of government spending, borrowings, and debt, increasing the interest burden of the government.

❑ CAG favours a Policy for Disclosure:

- A policy framework for Off-budget financing that should include disclosures to the Parliament about the amount, rationale and objective of such funding. Off-budget financing being outside parliamentary control has implication for fiscal indicators as they "understate" government's expenditure in the year by keeping them off the budget.
- Such off-budget financial arrangement, defers committed liability (subsidy arrears/bills) or create future liability and increases cost of subsidy due to interest payment. In order to address these issues, it said the government should consider "putting in place" a policy framework for off-budget financing. The framework should specify the rationale and objective of off-budget financing, quantum of off-budget financing and sources of fund, among others.
- Government may consider disclosing the details of off-budget borrowings through disclosure statements in the Budget as well as in the accounts. In the Indian context, at state level, expenditure related to activities undertaken by the Government is considered off-budget if they are not routed through the consolidated fund of the state or, the outside the budgetary process or are not accounted for in the budget document.

❑ Government Argument:

- The government has made amendments in the FRBM architecture through the Finance Act, 2018, presented along with Budget 2018-19.
- In the revised FRBM architecture, the government focused on achieving the fiscal deficit target of 3% of Gross Domestic Product by the end of 2020-21.
- Government refuted the CAG charge by maintaining that since amendments to the FRBM Act in 2018 include a debt target, it has legislative control over Off-Budget financing.

❑ Recapitalising public sector banks :

- Over the last few years, the government had spend a lot of money on recapitalising public sector banks.
- These banks have ended up with a huge amount of bad loans, which has led to the government having to constantly investing money in these banks, to keep them going. Bad loans are loans which haven't been repaid for a period of 90 days or more. Other than public sector banks, the government also spends a lot of money to keep many public sector enterprises going.

Way Forward

- ❑ The objective of the FRBM Act, 2003 was to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macro-economic stability. However, successive governments have resorted to methods like –
- ❑ Rolling over additional subsidy burden
- ❑ Taking back unspent amounts from ministries
- ❑ Converting certain expenditure entries to ways and means advances
- ❑ Running down the cash reserves

- ❑ Investors require a fiscal deficit number that is credible and that reflects the true level of government borrowing and spending.
- ❑ The more transparent it is, the better the market works and the more money can be raised going forward.
- ❑ Thus, the government should not sacrifice the effectiveness of the bond markets to its short-term desire to raise more finance while appearing fiscally conservative.
- ❑ Also, investing the National Small Savings Fund (NSSF) into the troubled and loss-making public sector units, like the state-owned airline Air India, should be avoided.

What the G7 corporate tax deal means for India

The global minimum corporation tax of 15 per cent suggested by the G7 nations at the summit of their finance ministers last weekend, could make life more taxing for some large Indian IT companies. The tax could, for instance, cost TCS, India's largest IT services company, more under the new tax treatment, but Infosys may just about get away because it still does not rank among the top 100 digital multinationals by size.

❑ About the agreement

- G7 nations agreed in principle to ratify a global minimum corporate tax rate to counter the possibility of countries undercutting each other to attract investments.
- The agreement commits states to a global minimum corporate tax rate of 15% to avoid countries undercutting each other.
- The agreement will now be discussed in detail at a meeting of G20 financial ministers and central bank governors in July 2021.

❑ Challenges and problems

- Impinges on the right of the sovereign to decide a nation's tax policy.
- It takes away a tool that countries use to push policies that suit them.
- For instance, in the backdrop of the pandemic, IMF and World Bank data suggest that developing countries with less ability to offer mega stimulus packages may experience a longer economic hangover than developed nations.
- A lower tax rate is a tool they can use to alternatively push economic activity.
- A global minimum tax rate will do little to tackle tax evasion.

❑ Where does India stand?

- In a bid to revive investment activity, the Finance Minister in 2019 announced a sharp cut in corporate taxes for domestic companies to 22% and for new domestic manufacturing companies to 15%.
- The Taxation Laws (Amendment) Act, 2019 resulted in the insertion of a section (115BAA) to the Income-Tax Act, 1961.
 - It provides for the concessional tax rate of 22% for existing domestic companies subject to certain conditions including that they do not avail of any specified incentive or deductions.
 - The existing domestic companies opting for the concessional taxation regime will not be required to pay any Minimum Alternate Tax.
 - This, along with other measures, was estimated to cost the exchequer Rs 1.45 lakh crore annually.

- ▶ The cuts effectively brought India's headline corporate tax rate broadly at par with the average 23% rate in Asian countries.
- ▶ China and South Korea have a tax rate of 25% each,
 - ▶ Malaysia is at 24%,
 - ▶ Vietnam at 20%,
 - ▶ Thailand at 20% and
 - ▶ Singapore at 17%.
- Taxation is ultimately a sovereign function and depends upon the needs and circumstances of the nation.
- India is proactively engaging with foreign governments with a view to facilitating and enhancing the exchange of information to plug loopholes under:
 - ▶ Double Taxation Avoidance Agreements,
 - ▶ Tax Information Exchange Agreements and Multilateral Conventions.
- Besides, effective enforcement actions including;
 - ▶ Expeditious investigation in foreign assets cases have been launched, including;
 - Searches, enquiries, levy of taxes, penalties, etc and filing of prosecution complaints, wherever applicable.
- To address the challenges posed by the enterprises who conduct their business through digital means and carry out activities in the country remotely;
 - ▶ The government has the Equalisation Levy, introduced in 2016 following a recommendation by a panel (Committee on Taxation of E-Commerce) constituted to deliberate on taxation of the digital economy.
- The IT Act has been amended to bring in the concept of "Significant Economic Presence" for establishing "business connection" in the case of non-residents in India.

About G7

- ▶ It is an intergovernmental organisation that was formed in 1975.
- ▶ The bloc meets annually to discuss issues of common interest like global economic governance, international security and energy policy.
- ▶ The G7 countries are the UK, Canada, France, Germany, Italy, Japan and the US.
- ▶ All the G7 countries and India are a part of G20.
- ▶ The G7 does not have a formal charter or a secretariat. The presidency, which rotates among member countries each year, is in charge of setting the agenda. Sherpas, ministers and envoys hammer out policy initiatives before the summit.
- ▶ As of 2022, G7 countries make up 10% of the world's population, 31% of global GDP, and 21% of global carbon dioxide emissions, according to the Summit website. China and India, the two most populous countries with among the largest GDP figures in the world, are not part of the grouping.
- ▶ In all G7 countries, annual public sector expenditure exceeded revenue in 2021. Most G7 countries also had a high level of gross debt, especially Japan (263% of GDP), Italy (151%) and the US (133%).
- ▶ The G7 countries are important players in global trade. The US and Germany in particular are major export nations. Both sold goods worth well over a trillion US dollars abroad in 2021.

Post Pandemic Economy– Challenges & Opportunities

The International Monetary Fund (IMF) upgraded its FY 2021-22 growth projection for India to 12.5% from 11.5% estimated in January. There is a trend towards a more multipolar world and the power centre of the global economy is shifting to Asia. In this new era, India will prioritize economic expansion and sustainability for sustained growth and influence on the world stage.

Analysis of Post Pandemic Economy

- ❑ Almost two years after the **World Health Organization declared COVID-19 a pandemic**, the world is coming to terms with the disruptions caused by the virus. The most profound and consequential impact has been the pandemic's toll on healthcare systems. And then there has been the more persistent and **reverberating economic toll**.
- ❑ **Government action to counter infections** and contain the spread of the virus led to global supply shocks, especially in manufacturing, and lockdowns and other containment measures caused widespread business disruption.
 - It is now clear that the pandemic has brought the world to the second great economic and financial crisis of the 21st century and is likely to have **long-term structural repercussions**. What's more, it has laid bare the fragilities of **the global economic and geopolitical order**.
- ❑ **The churn in the international order**, however, had begun even before the pandemic; power equations had already started to change because of geopolitical shifts. There was an indisputable trend towards a more multipolar world and the power centre of the global economy began to shift to Asia.
- ❑ The current world order has been substantially altered and this is bound to give rise to a new post-COVID dispensation. In this state of flux, space has been created for aspiring and emerging powers to take centre stage and help shape a new world with a better future for all.
- ❑ Indeed, rays of recovery are beginning to emerge in our economies. **The International Monetary Fund (IMF) projects that the global economy will grow by 6% in 2021, and forecasts 9.5% growth in the Indian economy**. At the same time, the world is seeing exponential growth in digital services and infrastructure, from the adoption of **large-scale work-from-home arrangements** to the use of cloud services and videoconferencing.
- ❑ Many tech leaders have noted that the advancements in **digital transformation** that were achieved within a couple of months would have normally taken two to three years. These are hopeful signs, but there is still much work to be done.

India's future on the world stage

- ❑ Despite the economic devastation caused by the virus, India's agile response has been commendable, especially as the country rallied to manage a deadly second wave of the virus early in 2021.
- ❑ India was the first country to feel the impact of the virulent Delta variant but quickly swung into action to ensure that as many people as possible were vaccinated. One billion doses of the vaccine have already been administered.
- ❑ In addition to protecting its own population, India has also acted in the world's best interest by providing medical supplies and equipment to more than 150 countries across the globe and placing a critical supply of the COVID-19 vaccine on the world market.
- ❑ Indeed, the pandemic is an inflection point for India to introspect on its potential as a global leader, especially coming at a time when the country is celebrating 75 years of independence.

- For years, India has supplied crucial drugs and medications to the global market, more recently investing in the supply of the COVID-19 vaccine to ensure equitable access around the world.
- At the start of the COVID crisis**, India's South Asian Association of Regional Cooperation (SAARC) initiative held the first multilateral summit, inspiring the G20 and others to follow suit. With the country taking over the G20 presidency in December 2022, it will certainly play a leading role in the post-COVID global recovery process.
- Away from the pandemic**, India is meeting other global commitments including living up to its climate mitigation promises. It is also well ahead of target to achieve other ambitious commitments such as making renewables 40% of its energy mix by 2030 and managing the sequestration of 2.5 billion tonnes of carbon.
- A recent report from the World Economic Forum - Mission 2070: A Green New Deal for a Net-Zero India** - outlines how India's path to net zero will have an estimated economic impact of over **\$1 trillion by 2030 and around \$15 trillion by 2070**. In addition, India has prioritized cooperation, technology, and digitalization as part of its efforts to support the achievement of the United Nation's Sustainable Development Goals (SDGs).

Challenges and opportunities

- India is marking 30 years since the deregulation of its economy, which is another significant turning point in its history and a testament to its ability to reinvent itself. Successive governments have been focused on **achieving inclusive growth and self-sufficiency** not just for the current generation but for generations to come. But the current administration's efforts to promote digital empowerment and last-mile financial inclusion are especially noteworthy.
- Under the auspices of a government-backed digital payment system**, millions of poor, unbanked families have entered the formal economy and can now access basic financial services.
- On the global stage, **India's diplomatic efforts** are driven by the philosophy of **vasudhaiva kutumbakam** - the world is one family. This is the kind of narrative the world needs for such a time as this. Indeed, India's call for renewed and reformed multilateralism is resonating with global leaders and policy-makers.
- In the past few years, major structural reforms have been launched by the Indian government to boost the long-term outlook of the economy. The government's vision to catalyze India's transformation is evident in the launch of several initiatives including the **Gati Shakti National Master Plan and the Atmanirbhar Bharat mission**.

Conclusion

The government has also announced the **National Infrastructure Pipeline and National Monetization Plan** to boost infrastructure development. This wide-ranging development agenda supports initiatives across multiple sectors including reforms to consolidate multiple and disparate **labour laws**, drafting of the **Insolvency and Bankruptcy Code**, and **banking reforms**. India must maintain the momentum of these laudable initiatives and continue to enhance the robustness and vitality of its economy. At the same time, these and other structural reforms should be aimed at ensuring equitable and inclusive growth.

BANKING & FINANCE

Monetary Policy Committee–Objectives

- ❑ The RBI's Monetary Policy Committee (MPC) raised its estimate for inflation in FY23 to 5.7% after Russia-Ukraine crisis.
- ❑ The sharp increase in crude oil, edible oil and wheat prices, and the cost of feed - which has pushed prices of poultry, egg and dairy products - is the reason for the higher estimates.

Objectives of Monetary policy committee:

- ❑ It is the macroeconomic policy laid down by the central bank-RBI.
- ❑ Monetary policy is a set of tools that a nation's central bank has available to promote sustainable economic growth by controlling the interest rate and the overall supply of money that is available to the nation's banks, its consumers, and its businesses.
- ❑ It is the demand side economic policy that is used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.
- ❑ In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.
- ❑ The RBI implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy, moral persuasion and through many other instruments.
- ❑ Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy.

Shadow Banking–Functioning & associated risk

- ❑ The shadow banking system covers all financial intermediaries that perform bank-like activities but are subject to little regulations. The term was coined by Paul Mc Culley in 2007.

- Shadow banking includes money market funds, private equity funds, hedge funds, securitization, securities lenders, structured investment vehicles, mobile payment system, pawnshops, peer-to-peer lending websites, bond trading platforms set up by technology firms and asset management companies. Broad definitions also include investment banks and mortgage brokers.

How do Shadow Banking works?

- Unlike traditional banks, shadow banks do not take deposits. Instead, they rely on short-term funding provided either by asset-backed commercial paper or by the repo market, in which borrowers offer collateral as security against a cash loan and then sell the security to a lender and agree to repurchase it at an agreed time in the future for an agreed price.
- Shadow banks, which are often based in tax havens, invest in long-term loans like mortgages, providing credit across the financial system by matching investors and borrowers individually or by becoming part of a chain involving numerous entities, some of which may be mainstream banks.

How increased regulation will lead to Shadow Banking?

- Edge over traditional Banking:** Since they do not take deposit they are not required to maintain SLR, CRR with central banks (these are parked in central banks by commercial to protect the interest of customers in case of financial insolvency), hence they have more liquidity with them which are utilized to serve the customer. Apart from CRR, SLR and the Primary Sector Lending Norms also leave very little scope to have more money in the hands of traditional Banks.
- Cost efficient credit facility:** Partly because of their specialization and partly because of liquidity in their hand they are in position to provide cost efficient credit facility to customers. More liquidity in their hands allows them to reduce per unit cost on loan.
- Collateral free credit:** In order to maintain a sound and functioning Banking system, the BASEL norms prescribe Banks to maintain a certain CRIR. Hence, the banks have a limit in terms of providing collateral free loans, whereas these shadow banking need not maintain such CRIR and hence can provide collateral free credit. In this way, it helps in increasing access to loans.
- Risk taking ability:** Shadow banking institutions like hedge funds often take on risks that mainstream banks are either unwilling or not allowed to take by various regulations of central banks. This means shadow banks can provide credit to people or entities that might not otherwise have such access.
- Contraction of formal sector credit:** Due to twin balance sheet problems viz. NPA and Corporate balance sheet in banking system, central banks have put strict regulation through its monetary policy tools. In that case, banks are either hesitant to provide risk associated loans to customers or customers are unwilling to take loans because of high interest rate. This does not only affect only the companies but entire economy as a whole. However, in this situation the shadow banking acts as an important buffer for the real economy, providing an invaluable source of funding as bank credit contracted.
- Formal banks are under stress:** Shadow banks have flourished in part because the traditional ones, battered by losses incurred during the financial slump, are under pressure. Tighter capital requirements and fear of heavy penalties have kept them grounded. In China, where banks are discouraged from lending to certain industries and are mandated to offer low interest rates on deposits, shadow banks fill the gap.
- About two-thirds of all lending in the country by shadow banks are in fact “bank loans in disguise”. Critics worry that unlike the traditional banks which lend against deposits from the customers, non-banks use investor’s cash and rotating lines of credit to loan money.

Risks with Shadow Banking:

- Risk in financial system:** As shadow banks do not take deposits, they are subject to less regulation than traditional banks. They can therefore increase the rewards they get from investments by

leveraging up much more than their mainstream counterparts leading to risks mounting in the financial system.

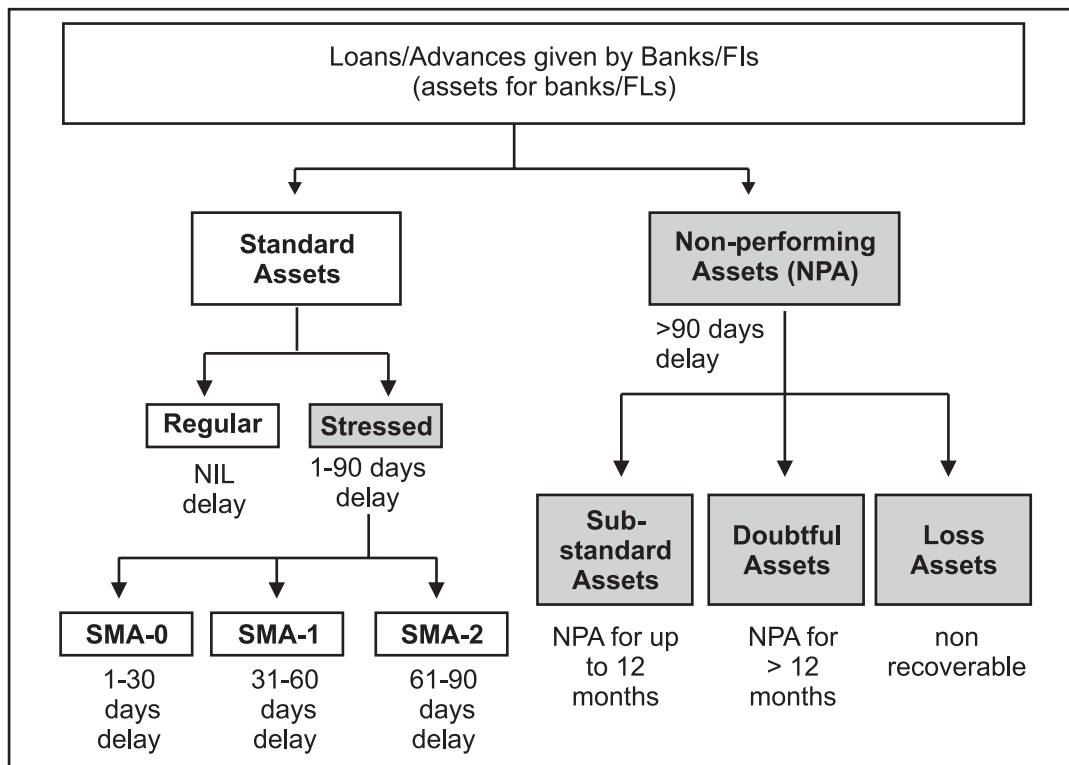
- Avoid rules and cause financial crisis: Unregulated shadow institutions can be used to circumvent the strictly regulated mainstream banking system and therefore avoid rules designed to prevent financial crises.
- Spread the problems to traditional banking system: Shadow banks can also cause a build-up of systemic risk indirectly because they are interrelated with the traditional banking system via credit intermediation chains, meaning that problems in this unregulated system can easily spread to the traditional banking system.
- Global financial crisis: As shadow banks use a lot of short-term deposit-like funding but do not have deposit insurance like mainstream banks, a loss of confidence can lead to “runs” on these unregulated institutions. Economist Paul Krugman said a run on shadow banks was “the core of what happened” to bring about the global financial crisis of the late 2000s.
- Risk with collateral free loans: Shadow banks’ collateralized funding is also considered a risk because it can lead to high levels of financial leverage.
- Bubbles in the market: By transforming the maturity of credit, such as from long-term to short term, shadow banks fuelled real estate bubbles in the mid 2000s that helped cause the global financial crisis when they burst.

Issues and impact of High NPA

- ❑ The health of a firm is measured by what is called the Interest Coverage Ratio (henceforth ICR). It is a ratio of net profits to interest payments due on past debt. It being less than 1 is a danger sign for the lender because it means that the firm is not even making enough profits to pay for its past interest payment commitments let alone the principal amount.
- ❑ The three other measures to measure the financial health are:
 - ▶ Profitability, i.e., whether the firms were making positive post-tax profits.
 - ▶ Ratio of current assets to current liabilities to measure what part of the liabilities they can pay off if they were to sell their assets
 - ▶ Debt to equity (own capital) ratio to measure how much have they stuck their own neck out compared to other people’s money in the risky adventure they are undertaking.
- The well-accepted thresholds for these measures are 0, 0.5 and 5. i.e., firms which are making negative profits, can honour at least half their liabilities by selling off the assets, while debt is five times as large as own capital respectively.

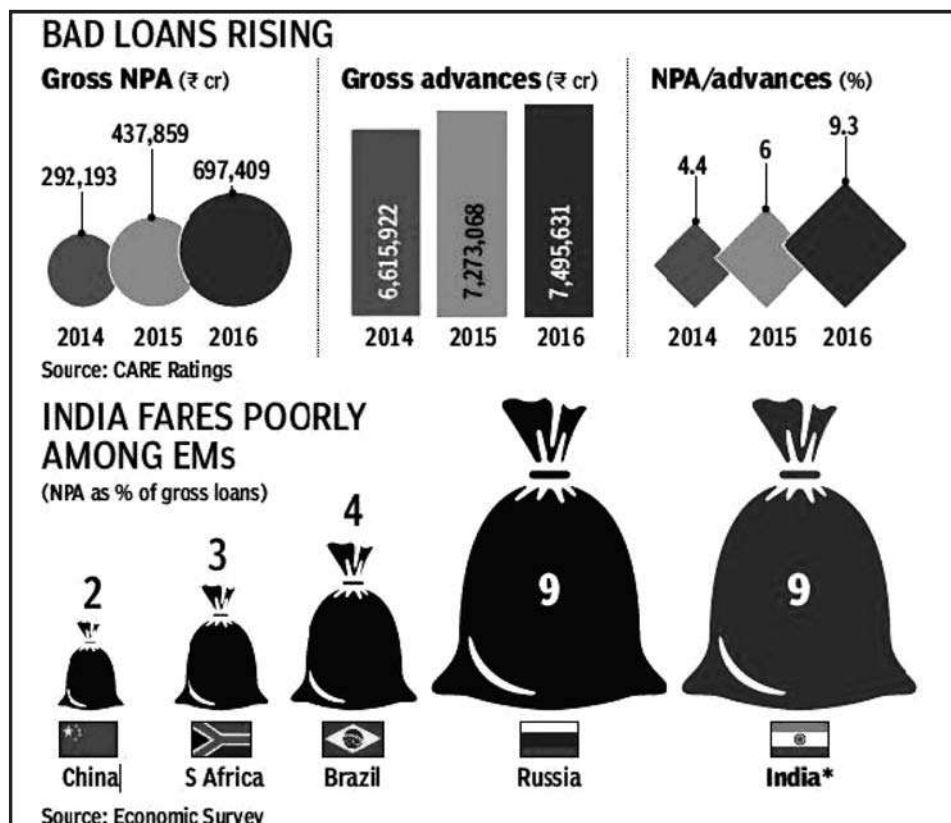
Types of NPAs: NPAs are of 4 types:

- ❑ Standard Assets: It is a kind of performing asset which creates continuous income and repayments as and when they become due. These assets carry a normal risk and are not NPA in the real sense of the word. Hence, no special provisions are required for standard assets.
- ❑ Sub-Standard Assets: Loans and advances which are non-performing assets for a period of 12 months, fall under the category of Sub-Standard Assets.
- ❑ Doubtful Assets: The Assets considered as non-performing for a period of more than 12 months are known as Doubtful Assets.
- ❑ Loss Assets: All those assets which cannot be recovered by the lending institutions are known as Loss Assets.



Impact of high NPAs:

- Profitability: NPAs impact profitability, banks stop to earn income on one hand and attract higher provisioning (set aside an amount in an organization's account) compared to standard assets on the other hand.



- **Capital Adequacy:** According to the Basel norms, banks are required to maintain adequate capital on risk-weighted assets. – Every increase in the NPAs level adds to risk-weighted assets which require banks to increase their capital.
- **Liability Management:** In the light of high non-performing assets, banks tend to lower the interest rates on deposits on one hand and likely to levy higher interest rates on advances. This may hamper economic growth.
- **Public confidence:** The credibility of the banking system is also affected greatly due to higher level NPAs because it has impacted the confidence of the general public of the society with respect to soundness of the banking system.

■ Solutions and the Way Forward:

- The Economic Survey has prescribed a '4-D model' for the banking sector to face competition in the changed environment.
- "Banking is hobbled by policy, which creates double financial repression, and by structural factors, which impede competition," the Economic Survey 2014-15, "The solution lies in the 4Ds of deregulation (addressing the statutory liquidity ratio (SLR) and priority sector lending (PSL), differentiation (within the public sector banks in relation to recapitalisation, shrinking balance sheets and ownership), diversification (of source of funding within and outside banking), and disinterring (by improving exit mechanisms),
- Recently, the RBI has taken commendable and gradual steps in lowering the SLR from 25 per cent to 21.5 per cent. Earlier this month, RBI slashed the SLR by 50 basis points to 21.5 per cent.
- **Asset reconstruction company (ARC):** Asset reconstruction companies (ARCs) are specialised financial institutions that buy NPAs from banks and financial institutions and aid them in cleaning up their balance sheets.
 - ▶ This saves the time and effort of banks in going after defaulters and thus allows them to focus on normal banking activities.
- They function under the regulatory oversight of the Reserve Bank of India.
- **The ARCs undertake various resolution strategies like:**
 - ▶ taking over/changing the management of the business of the borrower;
 - ▶ the sale/lease of the business of the borrower;
 - ▶ entering into settlements;
 - ▶ restructuring or rescheduling of debt; and
 - ▶ enforcement of security interest.
- **Bad bank:** A bad bank is a corporate structure that isolates illiquid and high-risk assets or non-performing loans held by a bank or a financial organisation. It is also referred to as Asset Management Company (AMC).
- The concept of a bad bank originated at the Pittsburgh headquartered Mellon Bank in 1988. The idea and discussions over bad bank have been in place since 2015 when former RBI Governor Raghuram Rajan started a debate on bad bank as a possible solution to the problem of NPAs.
- Afterwards, former Interim Finance Minister Piyush Goyal put forth the idea of National ARC on a recommendation of the Committee headed by Sunil Mehta. The Economic Survey 2017 also propounded to create a Public Sector Asset Rehabilitation Agency (PARA).

Lessons on NPA from Global Banks

Reasons for Poor Performance and Recovery by Indian banks

- **The culture of ignorance by borrowers:** At the time of requirement of loan, borrowers project themselves needy. But at the time of payment of interest and repayment of loan they just ignore the deadlines as per their convenience.
- **Political Interference:** India's banking sector is dominated by more than two-dozen state-run lenders, has been hobbled by its highest bad-loan ratio in a decade as slower economic expansion hurt companies' ability to service debt. While the pace of additions to bad loans has started slowing for most banks, higher provisioning is hurting their profits. State-run lenders also account for a majority of the sector's bad loans.
- **Many large Indian projects are gold-plated;** indeed, many seem to have spent more money than needed due to cost overrun, delay in completion, etc. This increases the unnecessary burden on banking sector.
- There is also lack of a speedy and decisive bankruptcy process which became an unfair advantage for large borrowers. It is probably the most important reason for poor performance. Bad loan recovery will not improve immediately; some companies going bankrupt now, first defaulted 15 years ago, so recoveries should be compared to zero.
- The 3 R's strategy (revealing, recognizing and resolving) to enable higher future recovery rates, modify entrepreneurial behavior and lower future incidence of bad loans.
 - ▶ **Resolving:** The Insolvency and Bankruptcy Code (IBC), a competent Insolvency and Bankruptcy Board of India and Bank IBC filings mean that 3 lakh crore loans are under resolution. The IBBI has constituted a Committee to review the suggestions received from various stakeholders for improvements in the processes prescribed in the Insolvency and Bankruptcy Code, 2016.
- Moreover, more than 300 cases being admitted for resolution by the National Company Law Tribunal.
 - ▶ **Recognizing:** India is one of the 160 countries to sign up a new international accounting standard (IFRS 9) born of the policy feeling that banks recognized bad loans too little and too late in the global financial crisis.
 - ▶ Previously, loans to risky borrowers with higher interest rates meant higher bank income but no provision if creditworthiness declined.
 - ▶ **Revealing:** Banks improve recovery rates by "calling" loans (all future payments become due) immediately after the disclosure of payment misses or lower-case defaults means violations around information, ownership, liquidity or operational covenants.
 - ▶ Revealing defaults forces open lines of communication, enables good faith negotiation between borrowers and lenders, and shrinks the extended bankruptcy periods that destroy value.
- A good bankruptcy regime does not aim for liquidation but motivates a speedy renegotiation of financial viability if there is operational viability; this needs immediate, automatic and universal disclosure.

Suggestions to tackle the challenges and minimize the gap between global banks and Indian banks

- **Basel II implementation:** It is widely acknowledged as a significant challenge faced by both banks and the regulators internationally, but it is true that Basel II implementation may be seen as a compliance challenge. Basel II implementation has offers considerable opportunities to banks like refinement of risk management systems; and improvement in capital efficiency.

- **Enhancing corporate governance:** A good “governance culture” is crucial for financial stability but since it is intangible, rules may not be able to capture its essence effectively. Therefore, banks may have to cultivate a good governance culture building in appropriate checks and balances in their operations.
- **Compliance with international accounting standards:** Accounting standards are important part of the standards that have been identified by the Financial Stability Forum as conducive to a robust financial infrastructure. Financial reporting and prudential supervision have slightly different perspectives.
- **Application of advanced technology:** Technology is a key driver in the banking industry, which creates new business models and processes and also revolutionizes distribution channels. Adoption of technology also enhances the quality of risk-management systems in banks. Recognizing the benefits of modernizing their technology infrastructure banks are taking the right initiatives. Ex. NPCI, BHIM App, etc.

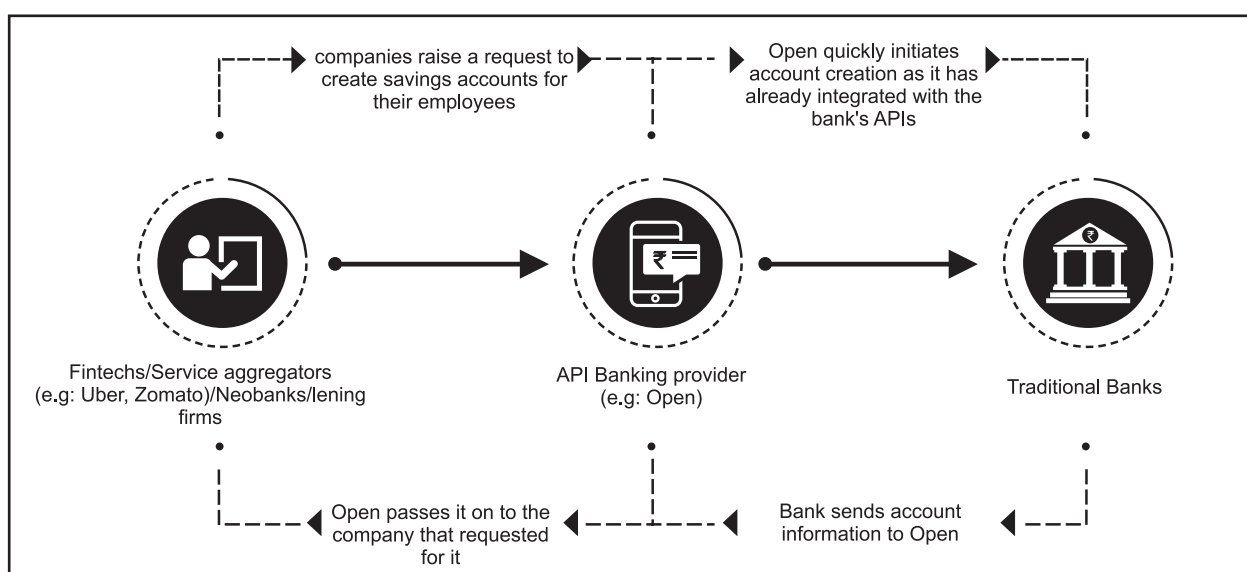
Conclusion

The global challenges are faced by Indian banks especially banks which aims to be a part of a globalized banking system. To overcome these challenges, banks are expected to stand in good stead during difficult times and also needs of the banking system to which they belong and also equip them to launch themselves as a global bank.

Mobile Banking API In India

About API Banking

- API Banking is a set of routines, protocols or tools that allows access to a bank’s services to other financial institutions or third-party platforms like **Cash free**.
- APIs are basically a set of protocols which enable easy and secure exchange of data between two applications. These act as an intermediate layer, enabling the data transfer between the two applications and making it easy for the two parties to leverage each other’s data. Through the use of APIs provided by banks, any third party like a tech company, business or **fintech player** can access a bank’s core banking system to perform banking functions.



- API-led banking has thus brought about a significant change in how financial operations are carried out today, by **enabling easy access to banking services, products, and data**. Core banking services like account opening, funds transfers, lending, card issuance and so on can be unbundled this way and made available via third parties.

For the banking sector, APIs help banks:

- The main benefit of API is the elimination of unnecessary procedures from the banking process. In other words, it ensures speed and ease-of-use for financial service providers.
- APIs are a bank's gateway to digital transformation. They can easily gain customer insights and provide an abundance of services to provide a larger value chain to their customers.
- As for customers, API banking provides them with access & benefit from different product offerings. When it comes to B2B customers like SMEs and Startups, they benefit from having access to services like virtual cards, expense management, accounting mass payouts, etc.
- Third party innovators have more flexibility to:**
 - Offer better banking features and streamlined financial services
 - Introduce more innovative fintech products in the market
 - Gain a competitive advantage
- From a customer's POV, they can:
 - Carry out banking transactions from anywhere, and not just their bank/ bank app
 - Get customised financial service offerings when they need them, eg.: credit offerings at checkout or wallet facilities for receiving payments (gig workers)
 - Access financial information from anywhere, for eg.: see a consolidated view of their finances from a single dashboard and control, track, and analyze financial movements

Conclusion

One should appreciate that for a diverse economy such as India with varied financial requirements, collaborative – **as opposed to competitive** – efforts are essential to cater to its distinct needs. BaaS enables the same by creating a win-win situation for all participating/involved stakeholders – banks, non-banks and end-customers. As APIs and API banking evolves, so will our landscape of financial services.

Marginal Cost of Funds based Lending Rate

Marginal Cost of Funds based Lending Rate (MCLR) will be the internal benchmark of lending rates. Based upon this MCLR, interest rate for different types of customers should be fixed in accordance with their riskiness.

Calculation of MCLR:

- MCLR is calculated using different components, such as:
- Marginal cost of funds: The marginal cost is a novel element of the MCLR. It will comprise of the marginal cost of borrowings and return on net-worth. According to the Reserve Bank of India, the marginal cost should be charged on the basis of following factors:
 - Interest rate given for various types of deposits- Savings, current, term deposit, foreign currency deposit.

- ▶ Borrowings - Short-term interest rate or the Repo rate, etc., Long-term rupee borrowing rate.
- ▶ Return on net-worth - In accordance with capital adequacy norms.
- ▶ Negative carry on account of Cash Reserve Ratio (CRR):
- It is the cost that the banks have to incur while keeping reserves with the RBI. The RBI is not giving an interest for CRR held by the banks. The cost of such funds kept idle can be charged from loans given to the people.
- **Operating Costs:** It is the operating expenses incurred by the banks.
- **Tenor Premium:**
 - ▶ It denotes that higher interest can be charged from long term loans.
 - ▶ The MCLR applicable from 1 April 2016 have to be revised monthly by considering some new factors including the Repo rate and other borrowing rates.
 - ▶ Advantages of MCLR Methodology:
 - ▶ This new methodology will help improve the transmission of policy rates into the lending rates of banks.
 - ▶ The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks.
 - ▶ Further, marginal cost pricing of loans will help the banks become more competitive and enhance their long run value and contribution to economic growth.

Advantages of Unified Payment Interface

- Unified Payment Interface (UPI) 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.
- UPI is a payment system that allows money transfer between any two bank accounts by using a smart phone.
- UPI allows a customer to pay directly from a bank account to different merchants, both online and offline, without the hassle of typing credit card details, IFSC code, or net banking/wallet passwords.
- **Value Proposition of UPI:**
 - Simple Authentication Process: Allows banking customers with registered mobile to easily set and change MPINs.
 - Simplified Issuance Infrastructure: Usage of virtual addresses and payment addresses in conjunction with mobile helps banks to create token less infrastructure, thereby reducing the costs.
 - Simplified Acquiring Infrastructure: Considering the fact that India has nearly a billion phones and 150 million smartphones (expected to be at 500 million in next 4-5 years), massive scale can be achieved if effective use of mobile is made compared to creating costly physical acquiring infrastructure.
 - Flexibility for users: Customers get the flexibility to make payments securely and in addition, innovations such as reminders, using multiple accounts, using special purpose virtual addresses, etc., allow users to enjoy a superior experience.
 - Creating National Interoperability: A unified interoperable interface allows all players to innovate and provide superior customer experience and still provide a secure, standard-based, interoperable payment scheme.

UPI 2.0 launched

After a delay of several months, an upgraded version of the Unified Payments Interface (UPI), UPI 2.0, was launched at a private event in Mumbai. Select members from the National Payments Corp. of India (NPCI), banks and the Reserve Bank of India (RBI) were present at the event.

- ❑ NPCI is the umbrella organization for all retail payments in the country. It also manages the UPI mobile platform, which facilitates instant fund transfers between two bank accounts, without revealing the details of the accounts.
- ❑ Several features were added to UPI 2.0, including an overdraft facility, which enables customers to link their overdraft account to UPI and carry out transactions instantly.
- ❑ The one-time mandate feature allows customers to pre-authorize a transaction and pay at a later date, while the invoice in the box feature allows customers to check the invoice sent by merchants prior to making a payment.
- ❑ The signed intent and QR feature enables customers to check the authenticity of merchants while scanning QR codes.
- ❑ Large number of banks, merchants, third-party players and consumers trusted this (UPI) platform, which resulted in substantial growth in terms of volume and value of transactions since its inception.
- ❑ As of now, 11 banks, including SBI, HDFC Bank, Axis Bank, ICICI Bank and IDBI Bank, have integrated with UPI 2.0, said NPCI.
- ❑ UPI is a path breaking innovation that is unprecedented globally. Its high-volume, low-cost and highly scalable architecture built on an open source platform, and is key to India's transformation to a digital payment economy.
- ❑ The new version of UPI allows higher transaction limits and has more secure QR-based payments. These added features go on to make UPI a more attractive option.
- ❑ Currently, UPI drives about 8-9% of our transaction volumes and with the merchant friendly features of UPI 2.0, we are looking forward to achieving promising growth.

Advantages:

Benefits of UPI		
Banks	Merchants	End Users
<ul style="list-style-type: none"> ➤ Simplified (single Click 2FA) ➤ Universal App for Payments ➤ Leveraging existing infrastructure ➤ Security ➤ Payments basis Single/Unique identifier ➤ Opportunity to tap C2B segment ➤ Opportunity to tap E-Commerce & M-Commerce 	<ul style="list-style-type: none"> ➤ Seamless fund collection from customers using Virtual Address ➤ No Risk of storing Customer's virtual address like in cards ➤ Can tap customers not having credit/debit cards ➤ Suitable for e-commerce and m-commerce ➤ Single click 2FA facility to the customer leading to seamless Pull ➤ In-app payments (IAP) 	<ul style="list-style-type: none"> ➤ Increased privacy as customer will not have to reveal their personal details like Mobile number/Account number. Funds can be transferred with just the virtual address. ➤ Using Pull request, cash can be replaced in many cases such as Bill split sharing/ cash on delivery etc. ➤ Single click 2FA makes it easy to transact by just entering M-PIN ➤ Pull request can be generated both in Web interface (Desktop) and mobile interface (App) ➤ Payments can be done by providing only one identifier like Mobile number/Aadhar number/ Virtual address.

Conclusion

The proliferation of smart phones, the availability of an online verifiable identity, universal access to banking and the introduction of biometric sensors in phones will proactively encourage electronic payment systems for ushering in a less-cash society in India.

Differentiated Bank Licenses

The Reserve Bank of India (RBI) licensed more niche banks and put new lending systems in place as it seeks to widen sources of funding in the economy. RBI plan on differentiated bank licenses will help widen sources of funding available to corporate sector and reduce banks' infrastructure financing burden.

■ What is differentiated bank license policy?

- Differentiated bank license policy refers to the new guidelines by the RBI inviting individuals/entities to start banks in the form of either small finance banks or payment banks.
- Differentiated licensing refers to the system of different licenses in contrast to the existing universal bank (SBI, ICICI etc). Under differentiated banking license, the Small Finance Banks and Payments Banks can provide only selected products (and in prescribed geographies).
- They can engage in sub sectors of the banking sector such as Limited Banking License, Commercial Banking License etc. A differentiated license will allow a bank to offer products only in select verticals.
- Several regulatory requirements for these banks also are different compared to the conventional universal banks. For example, the Payment Banks and Small Finance Banks should have a minimum capital of Rs. 100 crores. On the other hand universal banks should have a capital of Rs. 500 crore. Payment Banks can't give loans. Small Finance Banks should give 75% of its loans to priority sectors.
- RBI has adopted differentiated banking license policy to promote financial inclusion and to enable quick payment services using the new technologies.
- This differentiated bank structure could help new banks focus on niche lending opportunities and get a regulatory treatment different from other banks.
- Small finance banks will offer basic banking services and lend to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries and entities in the unorganized sector.
- Payments banks will offer basic savings, deposit, payment and remittance services to people without access to the formal banking system.

■ Benefits of payment banks:

- The Reserve Bank of India has given out 11 payment bank licenses. To make the most of these banks, it is essential you know what they bring to the table.
- Interest Rate on deposits: Payment banks offer enhanced services compared to a digital wallet, but are not in the same league as the traditional banks. Before you opt for their services, take a look at the rate of interest being offered by them. Like traditional banks, payment banks too offer interest on deposits in savings account and it can significantly vary. Currently, Airtel payment bank offers 7.25%, India Post payment bank gives 5.5% and Paytm payment.

Digital fiat currency, Fiat vs Fiduciary money

Recently, the Reserve Bank of India (RBI) has been working on the phased introduction of the Central Bank Digital Currency (CBDC)

About Digital Fiat Currency

Digital fiat currency is part of the base money supply, together with other forms of the currency. As such, DFC is a liability of the central bank just as physical currency is. It is a digital bearer instrument that can be stored, transferred and transmitted by all kinds of digital payment systems and services.

About Fiduciary Money

- ❑ Fiduciary money is money that is accepted as a medium of exchange due to the trust that exists between the payer and the payee.
- ❑ The current monetary system is highly fiduciary. When a bank promises to pay its customers in different types of money and the customer can sell or transfer the promise to someone else, it is referred to as fiduciary money.
- ❑ Generally, fiduciary money is paid in gold, silver, or paper money. Cheques and bank notes are examples of fiduciary money because they are both tokens that are used as money and have the same value.
- ❑ Fiduciary money's value is determined by the expectation that it will be widely accepted as a medium of exchange.
- ❑ It is not declared legal tender by the government, unlike fiat money, which means that people are not required by law to accept it as a form of payment.
- ❑ Instead, the issuer of fiduciary money agrees to exchange it for a commodity or fiat money if the bearer requests it.
- ❑ People can use fiduciary money just like regular fiat or commodity money as long as they are confident that the promise will not be broken.

About Fiat money

- ❑ Fiat money is government-issued currency that is not backed by a physical commodity, such as gold or silver, but rather by the government that issued it.
- ❑ The value of fiat money is derived from the relationship between supply and demand and the stability of the issuing government, rather than the worth of a commodity backing it as is the case for commodity money.
- ❑ Most modern paper currencies are fiat currencies, including the U.S. dollar, the euro, and other major global currencies.

Benefits of digital currency

- ❑ **Fast Transaction time:** Because digital currencies generally exist within the same network and accomplish transfers without intermediaries, the amount of time required for transfers involving digital currencies is extremely fast.
- ❑ **Do not require Physical Manufacturing & Saves Cost:** Many requirements for physical currencies, such as the establishment of physical manufacturing facilities, are absent for digital currencies. Such currencies are also immune to physical defects or soiling that are present in physical currency.

- ❑ **Ease Implementation of Monetary and Fiscal Policy:** Under the current currency regime, the Central bank works through a series of intermediaries—banks and financial institutions—to circulate money into an economy. CBDCs can help circumvent this mechanism and enable a government agency to disburse payments directly to citizens.
- ❑ **Make Transaction Costs Cheaper:** Digital currencies enable direct interactions within a network. For example, a customer can pay a shopkeeper directly as long as they are situated in the same network.

Disadvantages of Digital Currency

- ❑ **Susceptible to Hacking:** Their digital provenance makes digital currencies susceptible to hacking. Hackers can steal digital currencies from online wallets or change the protocol for digital currencies, making them unusable.
- ❑ **Volatile Value:** Digital currencies used for trading can have wild price swings.
 - For example, the decentralized nature of cryptocurrencies has resulted in a profusion of thinly capitalized digital currencies whose prices are prone to sudden changes based on investor whims.

Way forward

- ❑ The introduction of CBDC has the potential to provide significant benefits such as reduced dependency on cash, higher seignior age due to lower transaction costs, and reduced settlement risk.
- ❑ It would possibly lead to a more robust, efficient, trusted, regulated and legal tender-based payments option.
- ❑ There are associated risks, no doubt, but they need to be carefully evaluated against the potential benefits.
- ❑ It would be the RBI's endeavour, as we move forward in the direction of India's CBDC, to take the necessary steps which would reiterate the leadership position of India in payment systems.

Digital Payments Scenario

❑ Background

NITI Aayog had constituted a Committee of Chief Ministers for suggesting measures to seamlessly enable all sections of the population to migrate to the digital mode of payment as well as to recommend measures that would enable India to leapfrog into the advanced digital payment systems that compares with the best global standards.

❑ Report Summary

- **Current Status:** Digital payments and per capita transactions in India are one of the lowest compared to similar countries as indicated in the following table
- **Modes of Digital Payment:** After analyzing all modes of payments existing in the country, it may be concluded India will have a digital payment framework largely based on the following modes: Aadhaar enabled Payment System (AEPS): Micro-ATMS/ATMs/Aadhaar-Pay Mobile phone based: Both Smart Phone and Feature phone Swiping: e-PoS, m-PoS, Micro-ATM and ATMs.
- **Constraints:** The following are the important constraints which hampers the transition of the country to digital payments mode:
 - ▶ Attitudinal Change and Training;

- ▶ Lack of hardware including acceptance infrastructure;
- ▶ Lack of proper connectivity and Data infrastructure;
- ▶ Lack of a proper cyber security, Fintech & insurance platform for Digital Payments;
- ▶ Digital transactions are costlier than cash;
- ▶ Lack of appropriate digital payment mode for high cash and vulnerable users like farmers;
- ▶ Lack of interoperability among various banks and modes of payments.
- ▶ The recent decision of the Government on demonetization has created a massive opportunity to fast track the roll out of digital payment movement. However, given the scale and pace for this change, for the Government to leverage this opportunity would require far-reaching, innovative and bold decisions to facilitate behavioral change amongst the common people in moving to digital platform.

- **Need of Government Actions on following lines:**

- ▶ Set targets with clear milestones and a monitoring system for follow-up;
- ▶ Expand and strengthen the physical infrastructure, including originating and acceptance infrastructure, network connectivity, etc.;
- ▶ Formulate an incentive structure that makes digital payments more attractive option vis-à-vis cash and remove all disincentives currently associated with digital transactions;
- ▶ Formulate institutional, policy, regulatory changes that promote adoption of digital payment mode;
- ▶ Formulate a strong cyber security policy for digital payments;
- ▶ Formulate a dispute settlement mechanism and insurance policy on digital payments;
- ▶ Patenting new technologies like AEPS/Aadhaar Pay;
- ▶ Create awareness and spread financial literacy.

- **The proposed actions will require concerted and coordinated effort across a broad spectrum of stakeholders, including:**

- ▶ The Government, leading the way, giving overall direction, policy decisions and to execution.
- ▶ Financial entities, like NPCI, RBI, Banks, Payment gateway providers, to expand the technical infrastructure and strengthening security.
- ▶ Telecommunication entities, like TRAI, Telecom Players, Smartphone Players, in expanding infrastructure and strengthening security; and
- ▶ Awareness partners, including a broad spectrum of entities who needs to be roped in as partners in driving awareness like the Microfinance institutions, Fertilizer Corporations, NGOs, Corporates, Panchayati Raj institutions, etc.

■ Recommendations

- **Set target and monitoring mechanism**

- ▶ A target for growth in total value and volume of digital transactions may be set covering all modes of digital transactions, including NEFT, RTGS, Aadhaar Enabled Payment Systems (AEPS), Aadhaar Pay, IMPS, Card usage at PoS, UPI, USSD, m-wallets & PPI cards.

- **Expand technical infrastructure for digital payments**

- ▶ Increase supply of origination infrastructure - Currently the country has 600 million phones including both feature and smart phones and in the initial phase steps need to be taken that make mobile phones (with inbuilt or external STQC certified FP biometric / Iris sensors) the default payment device.

- **Increasing supply of acceptance infrastructure**
 - ▶ Scaling up
 - ▶ Promote AEPS
 - ▶ e-KYC
 - ▶ Pre-Paid Instruments (PPIs)
 - ▶ Unified Payments Interface (UPI)/ BHIM
 - ▶ Unstructured Service Supplementary Data (USSD)
 - ▶ Backend Infrastructure
- **Necessary institutional, policy, regulatory changes to ease adoption of digital payment**
 - ▶ Review of transaction charge regimes
- **Create awareness and trials among customers and merchants**
 - ▶ Grass root level training
 - ▶ Public awareness campaign
 - ▶ National digital help desk
- **Incentivize digital transactions**
 - ▶ Incentives to customers to use digital channels
 - ▶ Incentives for merchants
 - ▶ Curbing the use of cash for large transactions
- **Strengthen security in digital payments**
- **Targeting specific segments for quick results**

Report of the Working Group on the Development of Corporate Bond Market in India

- Corporate Bonds are debt securities issued by a corporation and sold to investors. These are considered of having higher risk than government bonds, thus having higher interest rates. Such bonds are a form of debt financing and are a major source of capital for many businesses. The market where it is sold or purchased is known as the 'corporate bond market'.
- In its recent research report, Morgan Stanley predicted that India will be included in global bond indices in early 2022 and this will lead to huge foreign inflows in the Indian onshore corporate bond market in the medium-to-long term.
 - Foreign ownership of Indian government bonds (IGBs) has been declining but 2022 will be the turning point that could bring an acceleration of bond inflows.
 - The GBI-EM and Global Aggregate indices are likely to include India in early 2022.
 - The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-eight local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

- The inclusion in the global bond index could push the government to open its bond market further by removing foreign portfolio limits for all bonds in a bullish scenario.
- The opening up indicates policy-makers' desire to push growth rates higher through investment.
- It will indirectly create an environment for a lower cost of capital and ultimately be positive for growth.
- Since 2019, India has been working towards being included in global bond indices as rising government borrowing and a desire to push investment rates higher have necessitated opening up the domestic bond market to a broader investor base.

■ Why India needs to develop Its Corporate Bond Market?

- Recently, a report released by CRISIL (Credit Rating Information Services of India Limited), suggested that - A deep corporate bond market was desirable in India. It gave the following reasons:
- India needs around Rs 43 lakh crore for infrastructure build-out over five fiscals to 2020. At a time when major public sector banks are stressed with rising non-performing assets and mounting losses, many feel that relying predominantly on banks to fund infrastructure development in the country will not be prudent and the country must look beyond the banks. Such constraints mean the corporate bond market has become crucial to India's growth story. Thus steps are necessary to attract investors and issuers. These may include policy impetus for issuers to tap bond markets, and offering protection through innovative credit-enhancement mechanisms such as a bond guarantee fund, which will draw a larger set of issuers and investors.
- CRISIL also highlighted on the need for multiple modes of raising funds. "For growth-finance to be structurally de-risked there is a need for new innovative structures and vehicles". This needs more issuers beyond the financial sector, which means mandating large companies to raise a portion of their funding requirement through bonds and commercial papers.
- Corporate bond issuance in India is currently dominated by private placements with institutions, which accounts for over 95% of the total issuance of corporate debt.
- The CRISIL report believes that there are several positives in the economy that favour development of corporate bond market in India. A conducive macro-economic milieu, elevated stress at public sector banks, the imperatives of financing large infrastructure build-outs, favourable regulations, ongoing innovations in bond structures, and the Insolvency and Bankruptcy Code, 2016 - are all positives for India's corporate bond market.

■ Benefits of Corporate Bond Market

- It has been well recognized that a well-developed corporate bond market complements a sound banking system in providing an alternative source of finance to the real sector for its long-term investment needs. An active corporate bond market also helps in the diversification of risks in the financial system. In order to enable public and private sector firms to borrow for longer maturity periods in local currency to meet their investment needs and avoid balance sheet mismatches and foreign currency exposures, there is a need to accelerate the development of local currency bond market. An active corporate bond market could also provide institutional investors such as insurance companies and provident and pension funds with quality long term financial assets, helping them in matching their assets and liabilities.

■ The HR Khan Committee Report

- The Financial Stability and Development Council Sub-Committee (FSDC-SC) constituted a Working Group on Corporate Bonds with representation from the Ministry of Finance, Government of India and all the regulators with the remit to guide the implementation of the recommendations made by all the earlier committees and suggest further measures that may be taken to develop the corporate debt market in the light of evolving macroeconomic and financial market conditions within a specific time span.

■ The HR Khan Committee recommendations for development of the corporate bond market

- In a bid to develop a strong corporate bond market in India, standardization of corporate bond issuance, relaxing norms for allowing foreign investments, creation of a bond index and encouraging corporate to tap the market.
- Banks should be allowed to pledge corporate bonds as collateral to borrow funds from the Reserve Bank's overnight repo window. As of now, banks can only pledge government securities to borrow from the Reserve Bank of India, and allowing them to pledge corporate bond could spur more buying of the debt by lenders.
- To impose some limits, including limiting the corporate bonds that can be pledged to top-rated securities.
- SEBI also proposed allowing insurance and provident fund companies to invest in hybrid capital debt instruments, including additional Tier I or perpetual bonds. Banks are the main issuers of those securities and would benefit from an expanded buyer base.
- Setting up a platform to guarantee and settle corporate bond trading, to make it similar to the one for government bonds.
- Market participants need a debt market index as benchmark. SEBI is in dialogue with stock exchanges to design a suitable debt market index.

■ Issues with the corporate bond market

- The Group recognized some of the structural features of the corporate bond market in India impinging on the development of a deep corporate bond market:
- The corporate bond issuance is dominated by private placements as this account for more than 95% of the total issuance of corporate debt.
- A majority of the issuances are concentrated in the 2-5 year tenure;
- The investor base is limited/narrow as the investment mandates of institutional investors such as insurance companies, pension funds and provident funds, despite review of the minimum credit rating from time to time, provide limited space for going down the credit curve as the investments are made in fiduciary capacity to protect the interests of subscribers;
- Small outstanding stock of individual issuances is one of the key factors impacting secondary market trading as re-issuances have not picked up inspite of the enabling provisions by SEBI;
- Functional trading platform with Central Counter Party (CCP) facility like NDS-OM in G-Sec is not available; the existing DvP-III settlement introduced by stock exchanges has found no takers;
- There is total lack of liquidity in credit risk protection instruments like Credit Default Swaps (CDS);
- Stamp duties on corporate bonds across various states have not been standardized; tax regime for financial instruments remains one of the key drivers of investor interest;
- There are inherent structural incentives for borrowers to prefer bank financing, e.g., cash credit system and no disincentive for enjoying unutilized working capital limits;
- As the corporate debt market cannot be looked as totally detached from the sovereign bond market, this market may get a fillip as the interest rates come down with the inflation and fiscal consolidation targets being achieved; and
- In the current context, many large non-financial corporate who should normally be the preferred issuers of bonds are leveraged and hence cannot access either loan from banks or bond financing through market mechanism.

Municipal Bonds–Status and benefits

■ What is the Status of Municipal Bond Market in India?

- The market for municipal bonds in India is almost non-existent unlike US and many developing countries like Russia and Mexico, where it is one of the principal mode of financing urban infrastructure.
- The Government of India allowed ULBs to issue tax-free municipal bonds in 1999-2000 and has amended the Income Tax Act (1961 vide the Finance Act 2000) inserting a new clause (vii) in Section 10(15), whereby interest income from bonds issued by local authorities was exempted from income tax.
- The GOI issued guidelines for issue of tax-free municipal bonds in February 2001. It has been clearly specified that the funds raised from these tax-free municipal bonds are to be used only for capital investments in urban infrastructure like potable water supply, sewerage or sanitation, drainage, solid waste management, roads, bridges and flyovers, and urban transport.
- Ahmedabad Municipal Corporation (AMC) was the first ULB in India to issue tax-free municipal bonds for water and sewerage projects.

■ Some main features include:

- Investment grade ratings for ULBs,
- No default in last 365 days and positive net worth,
- A mandated guarantee from the State Government or Central Government,
- Compliance with the state's municipal account standards or the National Municipal Accounts Manual to be eligible for the issue, etc.

■ Benefits of Municipal Bond

- Municipal bonds have advantages in terms of the size of borrowing and the maturity period which may extend up to 20 years. Both these features are suitable for urban infrastructure financing. Further, if properly structured, municipal bonds can be issued at interest costs that are lower than the risk-return profile of individual. The municipal bond mode of financing allows both the borrowers and the lenders to have greater flexibility.
- Local government bond issuers are likely to be less restricted by annual budget cycles and the capital grants' decisions of higher levels of government. Further, they can unbundle their functions, which enables them to make separate decisions about the placement of their liquid deposits and about obtaining advice regarding the financial and/or technical components of their infrastructure projects. The flexibility available to the lenders arises out of the possibility of trading municipal bonds prior to the end of their tenor in the secondary bond market. Liquidity in such a market is essential for the development of the primary municipal bond market. However, the advantages of municipal bond market can only be realized when a sound fiscal and regulatory framework is structured for developing the market.

■ Further Recommendations:

- A Government of India led initiative can be launched for creating a Regulatory Guidelines Handbook for Municipal Borrowings' through consultations with key stakeholders, within the next one year, dealing with:
 - ▶ Regulations relating to lenders and lending instruments, which fall under the responsibility of the Government of India;
- Regulations involving mixed or shared authority and responsibility between the national and state governments; and

- Regulations relating to rules regarding the ex-ante borrowing activities of municipalities and ex-post procedures relating to municipal default and insolvency.
- State financial intermediaries can be set up in each state with a view to assisting ULBs to make use of capital markets for meeting their infrastructure investment requirements. It will help reduce transactions costs, particularly for smaller ULBs who, on their own, are unable to access capital markets. The Tamil Nadu Urban Development Fund (TNUDF) has been working as a financial intermediary for small cities and towns. A number of other states like Rajasthan, West Bengal, Karnataka, and Orissa are also in the process of establishing similar intermediaries. These entities can be set up in a PPP mode as in the case of the TNUDF.
- In order to strengthen the municipal bond markets to support leveraging of funds for urban infrastructure, the fixed cap of 8% on annual interest on municipal bonds can be removed to allow market conditions to fix the interest rate and make the bonds attractive.

Corporate Governance: Role of SEBI

■ Why Corporate Governance reforms are needed?

- A corporation includes various stakeholders' viz. investors, shareholders, customers, employees, vendor partners, government and society. Its objective should not be confined to maximizing the shareholder value but should be responsible to all stakeholders. Its governance should be fair and transparent to its stakeholders in all its transactions.
- Thus, corporate governance becomes imperative in today's globalized world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community.
- On the other hand, the Liberalization and related developments such as deregulation, privatization and extensive financial liberalization render the Corporate Governance very crucial. All the fruits of capital market reforms can be lost to corporate frauds, malpractices, etc. Thus, independent and effective corporate governance reforms are necessary to maintain the market credibility confidence.

■ Benefits of following of Business Ethics and maintenance of Corporate Governance

- Corporate Governance is needed to create a corporate culture of Transparency, accountability and disclosure. It refers to compliance with all the moral & ethical values, legal framework and voluntarily adopted practices.
- Improved governance structures and processes help ensure quality decision making.
- Investors consider corporate Governance as important as financial performance when evaluating companies for investment.
- Good corporate governance systems attract investment from global investors, which subsequently leads to greater efficiencies in the financial sector.
- Companies that are transparent, and have sound system provide full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide environment where corruption will certainly fade out.
- The credit worthiness of a company can be trusted on the basis of corporate governance practiced in the company.

- Improved management accountability and operational transparency fulfill investors' expectations and confidence on management and corporations, and return, increase the value of corporations.
- Effective Corporate Governance ensures efficient risk mitigation system in place.
- Thus, following of corporate governance is must for the growth of the organization.

▣ Recent step taken by SEBI

- Market regulator SEBI had set up a committee under the Chairmanship of Uday Kotak, Executive Vice Chairman and Managing Director of Kotak Mahindra Bank to help improve the standards of corporate governance of listed companies in India.
- Besides Kotak, the panel comprises of 20 members including representatives of Corporate India, stock exchanges, professional bodies, investor groups, chambers of commerce, law firms, academicians and research professionals.
- The Kotak-led Panel had been tasked to make recommendations for “ensuring independence in spirit of independent directors and their active participation in functioning of the company”.
- Recommendations on improving safeguards and disclosures pertaining to Related Party Transactions.
- The Panel has been tasked to go into issues in accounting and auditing practices by listed companies.
- The other areas include improving effectiveness of Board Evaluation practices; addressing issues faced by investors on voting and participation in general meetings; and disclosure and transparency related issues.

▣ The five major themes that the governance panel is working on :

- Role of promoters: The SEBI panel is working to ensure that promoter-driven companies are subject to the same level of transparency as companies with higher public shareholding. In many instances, the holding company is not listed and the promoters themselves may have a governance framework, and decisions taken through such a framework would have implications for all listed companies under the same management, as was observed in the case of Tata Sons.
- In such a scenario the decisions taken by promoters are not subject to the same level of transparency and governance norms as listed companies are. The SEBI panel is working to ensure that investors of listed operating companies are assured that a holding company is just the dominant shareholder and one individual isn't running the whole group of companies.
- 'Independence' of independent directors: The debate started with former chairman of Tata Sons Cyrus Mistry's complaint that many independent directors on Tata group companies were not truly independent. This has prompted the regulator to write to the ministry of corporate affairs that removal of independent directors should also require a special resolution. It is also the appointment of independent directors that is subject of debate and resignation without citing a reason.
- The SEBI panel is mulling to have rules around these gaps.
- Disclosure and transparency: Lack of transparency is one of the major concerns in listed companies. Annual reports are often not released on company and exchange websites. The SEBI panel is trying to change this by ensuring that annual reports are on websites a day after they are released to shareholders of the company.
- The panel is also working on improving the quality of financial disclosures including those related to party transactions and during initial public offers. The SEBI panel is considering whether auditing can be made a regular task.
- Evaluation of directors: Performance evaluation of directors was a voluntary concept introduced by SEBI in 2004 until the Listing Regulations and the Companies Act made it mandatory. The SEBI panel may make recommendations on how the directors' role and performance will be evaluated.

- Role of auditors: The SEBI panel is mulling on having norms to examine the role of auditors. An auditor could be barred from the listed space if the audit fails to give a true picture. In addition, splitting the post of chief managing director is another focus area of the SEBI.

■ **Suggestions from Market participants :**

- According to the market participants, a supervisory board should be constituted that would lay down the framework for the functioning of the board of directors. The supervisory board, comprising eminent personalities, will monitor performance as well as the value system for the company and this alone will create wealth for the company and keep it on the tracks.
- The Board of Directors, in turn, oversees the functioning of the executive management.
- Multinationals, like Google and Microsoft, are governed in this manner.

Conclusion

- Corporate governance has been high on the agenda of the government. A number of measures have been taken in the last four years. It is time for India to look at global good governance practices and imbibe them to improve governance. In the UK, 40 large asset management companies have come together voluntarily to launch a project called the diversity project. This project is about whether we have diversity in the board and whether we have diversity in senior management.
- It is time for corporate India to start looking at these measures.

IL & FS issue and Corporate Governance in India

Context

- Ten years after the collapse of Lehman Brothers triggered the global financial crisis, India's non-banking financial companies (NBFC) sector is roiled by a series of defaults by the Infrastructure Leasing & Financial Services (IL&FS) group of companies –triggering concerns about risks in the country's shadow banking sector.
- The crisis has shaved off Rs 8.48 lakh crore (\$116.33 billion) in investor wealth in the past few days.
- It raises the matter of overall corporate governance in India.

Background

■ **IL&FS**

- The three-decade-old infrastructure lending giant, IL&FS, is a 'shadow bank' or a non-banking financial company that provides services similar to traditional commercial banks. Its major stakeholders include LIC, HDFC, SBI, etc.

■ **Corporate Governance in India**

- Corporate Governance deals with how a corporate is governed. It is the system by which companies are directed and controlled. It refers to the set of rules and regulations, processes and procedures which ensure that a company is run in a way so as to achieve its goals and objectives, add value to the company and also provide benefits to all the stakeholders in the long run.

- Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.
- The debate around transparency, role of independent directors, promoters, etc., have received wide attention in the country in the light of episodes of Tata, Infosys, ICICI bank, PNB bank and now IL&FS, to further secure corporate governance in India.

❑ Possible reasons for the crisis

- The government blames IL&FS's board and management for the crisis and in order to ensure that the IL&FS stays afloat, the government replaced the IL&FS board with six selected nominees. Kotak Mahindra Bank's managing director Uday Kotak will serve as chairman of the new IL&FS board. Additionally, the government nominated technocrats with substantial experience in their fields.
- The government said that it would make sure that the IL&FS has sufficient liquidity so that no more defaulting takes place and infrastructure projects are implemented smoothly.
- The move came as a surprise since the central government has rarely stepped in to take control of a private company. Reuters reported that the new six-member IL&FS board would prepare a revival plan, but it would be inevitable for some lenders to suffer major losses.
- Another reason for the crisis could be attributed to a business model where short-term loans were taken to pay for long-term projects. But the long-term projects did not earn enough or fast enough to pay off the short-term loans.
- IL&FS defaulted on a few payments and failed to service its commercial papers (CP) on due date—which means the company has run out of cash or it is facing a liquidity crunch. The company piled up too much debt to be paid back in the short-term while revenues from its assets are skewed towards the longer term.
- The market regulator SEBI and other agencies are also looking into alleged Corporate Governance and disclosure-related lapses at various group firms.

❑ Need for Corporate Governance norms in India

- Many companies in India, including the large corporate groups, were born as family-owned enterprises. Family members occupied managerial positions in such companies and took all the key business decisions. This practice had blurred the distinction between company's finances and that of family owners.



- With the evolution of equity markets, many such family-run businesses listed themselves on the stock markets. This led to a separation of the ownership from the management of firms. Despite this, the promoters continue to wield disproportionate influence over company decisions.
- Corporate Governance norms are needed to ensure that a company is run in the interest of all the stakeholders, without the promoters and the management lining their own pockets.
- Further, a company with good corporate governance standards enjoys greater investor confidence, adding value to its share price in the stock markets.
- Foreign Institutional/Portfolio Investors (FII/FPI) prefer to invest in those companies with good corporate governance reputation.
- India has a history of high profile scams like the stock market scams (Harshad Mehta, Ketan Parekh), UTI scam, Satyam scandal, etc., which were termed as the outcomes of failed corporate governance. Therefore, there is a need to institutionalize stringent norms surrounding corporate governance to prevent their recurrence in future.
- Apart from this, changing ownership structure, wide spread of investor, greater expectations of society of the corporate sector, hostile take-overs, huge increase in top management compensation, Globalisation, Deregulation and capital market integration are some other factors that calls for strict corporate governance norms in India.

■ **Present Legislative Framework to improve Corporate Governance in India**

- The Companies Act, 1956: All listed and unlisted companies in India are governed by the Companies Act 1956. It is administrated by Ministry of Corporate Affairs.
- The Securities Contracts Act, 1956: It covers all types of tradable government paper, shares, stocks, bonds, debentures, and other forms of marketable securities issued by companies.
- The SEBI Act, 1992: The act established SEBI as an independent capital market regulatory authority. It is a regulatory authority having jurisdiction over listed companies and which issues regulations, rules and guidelines to companies to ensure protection of investors.
- Indian Companies Act 2013: The key provisions of Indian companies act, 2013 include:
 - Maximum number of members (shareholders) permitted for a private limited company is increased to 200 from 50.
 - Section 135 of the act deals with a new added provision called Corporate Social Responsibility (CSR).
 - Women empowerment in the corporate sector by including the provision for more number of women in the board of directors.
 - Fast track mergers and cross border merger.
 - Establishment of Company Law Tribunal and Company Law Appellate Tribunal.
- The Companies (Amendment) Bill, 2017: The amendments under the Companies (Amendment) Act, 2017, are broadly aimed at:
 - Addressing difficulties in implementation of the Companies Act 2013;
 - Facilitating ease of doing business in order to promote growth with employment;
 - Harmonization with the accounting standards, the Securities and Exchange Board of India Act, 1992 and the regulations made thereunder, and the Reserve Bank of India Act, 1934 and the regulations made thereunder;
 - Rectifying omissions and inconsistencies in the Act.

Important Committees on Corporate Governance in India

- ❑ Rahul Bajaj Committee (1995): The Confederation of Indian Industries (CII) had set up a task force under Rahul Bajaj. The CII came up with a voluntary code called “Desirable Corporate Governance” in 1998.
- ❑ Kumarmanlagam Birla Committee Report (2000): The committee was set up by SEBI and covers issues such as protection of investor’s interest, promotion of transparency, building international standards in terms of disclosure of information. The SEBI implemented the recommendations of the Birla committee through the enactment of Clause 49.
- ❑ Naresh Chandra Committee Report (2002): It extensively covers Auditor-company relationship.
- ❑ R. Narayana Murthy Committee (2003): The committee was set up by SEBI to review the performance of corporate governance in India and make appropriate recommendations.
- ❑ Uday Kotak Panel: In the light of recent Tata and Infosys episodes, SEBI appointed Uday Kotak panel to enhance corporate governance norms in India.

Way Forward

- ❑ Strengthening the role and providing enough autonomy to institutions like SEBI, ICAI, and ICSI to handle the corporate governance failures efficiently.
- ❑ A robust mechanism should be developed to mitigate risk so as to avoid failure of big giants like Kingfisher, Satyam, etc., as seen in the past.
- ❑ CSR projects should be effectively managed and monitored so that its benefits reach to the intended population.
- ❑ Persons from diverse background must be promoted rather than only from families as member of board of directors.

SEBI and Commodity markets in India

❑ SEBI and Commodity markets in India

- SEBI took over the Regulation of the Commodity Derivatives market on September 28, 2015 as a result of merger of FMC with SEBI. The merger of two Regulators is a unique and rare event. It was also a milestone for SEBI as an organization that Government had reposed faith in its regulatory capacity while entrusting regulation of a new sector.
- Taking over the Regulation of the new sector and bringing it at par with the Regulation of the securities market was a lengthy process which involved Gap Analyses, widespread consultation with stakeholders, amendment to various Regulations, integration of trade data with our integrated surveillance system, upgrading the risk management framework, improving governance system of Exchanges and laying down an elaborate mechanism for investor grievance redressal and arbitration, capacity building and necessary organizational restructuring.
- The Government has also taken the e-Agri market initiative to link spot markets for agricultural commodities across the country. This will also improve linkage of futures market with spot market.

Key SEBI Reforms

Introduction of options trading in the commodity market

- ▶ Exchanges, investors and other market participants have been demanding options trading as also new products for a long time and they welcomed the move taken by the government and SEBI, which now regulates the commodities market as well.
- ▶ So far, only futures contracts are permitted in the commodity derivatives trading space.

Unified licence regime for equity and commodity brokers

- ▶ The equity broking business in India is passing through a consolidation phase, ahead of the launch of universal trading platforms -- that is, permitting commodity trading on equity exchanges and vice versa.
- ▶ In Phase-I, it was proposed to have integration at the intermediary level. In Phase-II, necessary steps would be taken to enable a single exchange to operate various segments such as equity, equity derivatives, commodity derivatives, currency derivatives, interest rate futures and debt.
- ▶ With regards to Phase-I, all necessary steps required to enable integration of commodity derivatives market with rest of the securities markets at intermediary's level have been taken by the SEBI.
- ▶ Increase the trading time in the commodity segment by an hour to deepen the commodity derivatives market as well as enhance the participation of stakeholders, including farmer produce organisation and foreign entities. For non-agricultural commodities, the revised timings will be from 9 am to 11.55 pm, while for agricultural and agri-processed commodities, the trading hours will be from 9 am to 9 pm.

■ At the time of the merger, priorities of SEBI were:

- Ensuring proper risk management so as to avoid any major instance of misconduct.
- Ensuring non-disruptive transitions of the Exchanges as well as brokers to the new regulatory regime.
- Improving the surveillance of the market and putting in place an enforcement mechanism to ensure market integrity – integration of markets with integrated surveillance system of SEBI.
- Putting in place an adequate mechanism for grievance redressal and arbitration.
- Building capacity within and outside the Regulator.

■ Various steps were taken to ensure the above:

- **Strengthening of risk management:** Few of the important steps and their impact are mentioned as under:
 - ▶ Position limits in the agri-commodities were reduced to align with the existing liquidity and to curb excessive speculative interest and consequential breach of market integrity.
 - ▶ Daily Circuit filter limits were also reduced in the agri commodities from 6% to 4% to reduce volatility.
 - ▶ A risk management system was put in place 2016 introducing new concepts/ tools to deal with the risk prevalent in the commodities markets.
 - ▶ To bring the risk management system at par with securities market, SEBI mandated forming of clearing corporations by the exchanges. Three years' time was provided to the Commodities markets, in this regard.
- ▶ **Surveillance of market and Enforcement:** Immediately after taking over the Regulations of the Commodities markets, the markets were integrated with the Integrated Surveillance System of

SEBI which is being used for the securities market. This enhanced the vigil over the commodities markets very substantially and enabled SEBI in taking action against the instances of misconduct. Action in the case of 18 entities was also taken under Section 11B of the SEBI Act, debarring them from participating in the market as an interim measure.

- ▶ **Online registration of Brokers:** To facilitate time bound, speedy and easy transition of brokers from the old system to the new system, online registration was successfully implemented.
- ◉ **Strengthening of delivery infrastructure:** Ensuring good delivery, which is so necessary for winning the confidence of the participants in the Commodities markets, has always been a challenge. Considering this, SEBI in the beginning itself made “good delivery” a legal responsibility of the Exchanges which used to be a moral responsibility earlier. The Exchanges were also mandated to put in place necessary infrastructure to ensure discharge of this legal responsibility.
 - ▶ Further, to improve the standard of warehouses and develop the warehousing sector elaborate guidelines for ‘minimum standards’ and ‘governance’ have been laid down by SEBI recently.
 - ▶ **Grievance Redressal Measures:** The Grievance redressal system of the Commodities Markets has been brought almost at par with the securities market. Formation of Investor Grievance Redressal Committee (IGRC), setting up of Investor Service Centre at important places and formation of panel of arbitrators at the exchanges are notable steps in this direction.
 - ▶ **Capacity Building:** NISM has been entrusted with responsibility of training the officers. So far, 220 Officers were given training on Commodity Derivatives by NISM; SEBI has also collaborated with US Regulator of Commodities i.e., Commodity Futures Trading Commission (CFTC) in this regard; A certification course at NISM for commodity market professionals is being put in place.

■ Other Developmental Efforts

- ◉ Though the top priority of SEBI at the time of merger was risk management and enforcement, SEBI is conscious of the fact that the further development of the market is important from the angle of improving the liquidity of the market and making the benefits of the market reach to all the stakeholders. SEBI, therefore, constituted an Advisory Committee headed by Prof. Ramesh Chand, Member of NITI Aayog, which had representatives from different segments of the stakeholders.
- ◉ SEBI has allowed trading in options and now the exchanges have been allowed to submit the proposal for option contracts.
- ◉ On the recommendation of SEBI, the Government has notified following new commodities for futures trading: Diamond; Brass; Pig Iron; Eggs; Cocoa; Tea.

Crypto currencies–Benefits and risks

■ Benefits

- ◉ **Freedom in Payment:** With Crypto-currency it is very possible to be able to send and get money anywhere in the world at any given time without third party like bank as intermediary; there is no intermediary in Crypto-currency exchange.
- ◉ **Low collapse risk:** Regular currencies depend on governments which fail occasionally. Such events either cause hyperinflation or a complete collapse of a currency, which can wipe out savings of a lifetime in day. Bitcoin is not regulated by any one government. It's a virtual global currency.
- ◉ **Transparent and safe:** All finalized transactions are available for everyone to see, however personal information is hidden. Your public address is what is visible; however, your personal information is not tied to this. Bitcoin protocol cannot be manipulated by any person, organization, or government. This is due to Bitcoin being cryptographically secure.

■ Risks

- **Untraceable:** This feature of crypto-currencies also attracts crime. People can buy and sell drugs and other illegal items with significantly less risk of being traced by authorities. Transactions that occur through the use and exchange of these altcoins are independent from formal banking systems, and therefore can make tax evasion simpler for individuals. Since charting taxable income is based upon what a recipient reports to the revenue service, it becomes extremely difficult to account for transactions made using existing crypto-currencies.
- **Volatility:** Bitcoin has volatility mainly due to the fact that there is a limited amount of coins and the demand for them increases by each passing day. Currently, Bitcoin's price bounces everyday mainly due to current events that are related to digital currencies.
- There is no easy way to buy them or sell them. There aren't a lot of places where Bitcoins or other crypto-currencies are accepted as payment.
- **Still Developing:** Crypto-currencies are still at its infancy stage with incomplete features that are in development. To make the digital currency more secure and accessible, new features, tools, and services are currently being developed.

■ Regulatory Framework

- The legal status of crypto-currencies varies substantially from country to country and is still undefined or changing in many of them. While some countries have explicitly allowed their use and trade, others have banned or restricted it. China, South Korea and Japan have adopted use of bitcoins with regulations.
- The circulation of virtual Currencies which are also known as Digital/Crypto Currencies has been a cause of concern. In order to examine the existing framework, Department of Economic Affairs, Ministry of Finance has constituted an Inter- Disciplinary Committee chaired by Special Secretary (Economic Affairs) and representatives from Department of Economic Affairs, Department of Financial Services, Department of Revenue (CBDT), Ministry of Home Affairs, Ministry of Electronics and Information Technology, Reserve Bank of India ,NITI Aayog and State Bank of India.
- The Committee will:
- Take stock of the present status of Virtual Currencies both in India and globally;
- Examine the existing global regulatory and legal structures governing Virtual Currencies;
- Suggest measures for dealing with such Virtual Currencies including issues relating to consumer protection, money laundering, etc; and
- Examine any other matter related to Virtual Currencies which may be relevant.

Conclusion

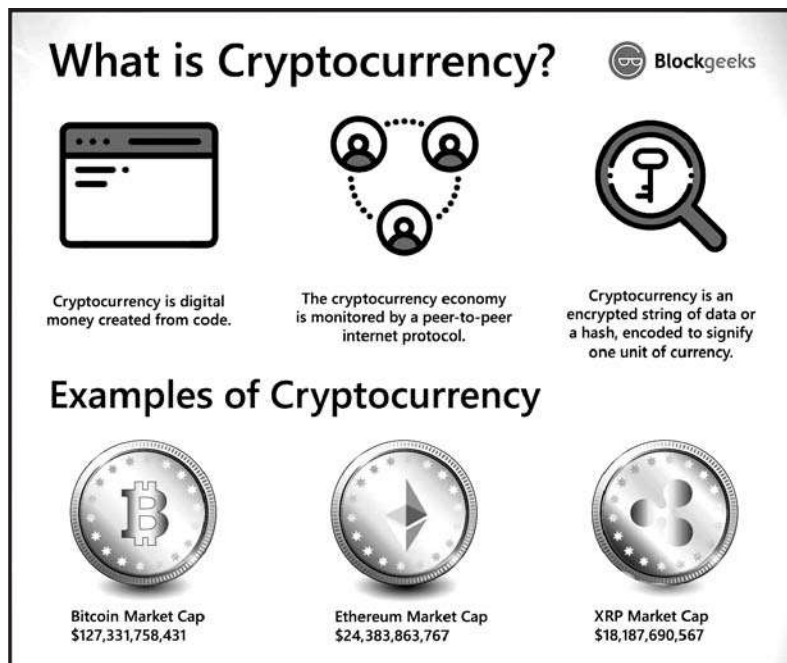
Crypto-currencies are not perfect. It does have many advantages that physical currencies do not provide its users; however, it also has its disadvantages. This is mostly due to the fact that crypto-currencies are still a relatively young and new currency. However, lead role in their success depends on regulatory framework which keeps an oversight on them.

Crypto and Economic Sovereignty

Recently RBI officials told a Parliamentary panel that cryptocurrencies could lead to dollarization of economy and would be against India's sovereign interest.

Cryptocurrency in India

- There are 15 million to 20 million crypto investors in India, with total crypto holdings of around 400 billion rupees (\$5.37 billion).
- In Budget 2022, government announced that India will impose a tax of 30% on income from cryptocurrencies and other digital assets.
- Many countries around the world like Saudi Arabia, Turkey have completely banned crypto currencies. In India, they are identified as **Virtual Digital Asset (VDA)**. Under **Section 2 (47A) of the Income Tax Act (1961)**.
- Though there is **no official data on size of Indian crypto market**, it is estimated that India has 15-20 million crypto investors, with total crypto holdings of around **USD 5.34 billion**.
- Other Countries like USA, Japan, and Canada have imposed reasonable restrictions regarding the same. In the recent budget, Government has announced the Reserve Bank of India (RBI) will soon issue a **central bank-backed digital currency (CBDC)**.



Economic sovereignty: Concerns over Cryptocurrency

The debate over Cryptocurrency across the world is becoming more and more intense as its price is touching new highs. Every day something is being said either for or against it. The regulators across the world, however, appear to be hesitant in taking a clear stand on the issue as cryptocurrency and its impact is still not fully understood. Therefore, trust and the absence of accountability creates number of other concerns, such as:

- In India, cryptocurrencies in the **absence of a governing legislation**, have been operating in an open field. (In 2020, Supreme Court had set aside an RBI Circular prohibiting regulated entities from dealing in virtual currencies).
- Financial Instability:** Acceptance of any kind of international currency pose a threat to the stability of the financial system of the country as it may:
 - Have negative consequences on the economy due to their highly volatile nature, and it can lend significant economic control in the country to anonymous players- who can be anyone like businessmen, foreign governments, or their proxies.

- ❑ **Dollarization of Economy:** With almost all cryptocurrencies in India being dollar-denominated and issued by foreign private entities, they can replace the rupee in financial transactions.
- ❑ **Anonymity and non-traceability:** Cryptocurrencies can be used anonymously to conduct transactions between account holders worldwide. This makes them liable to be misused for terror financing, money laundering and drug trafficking.
- ❑ **Impact on the Banking System:** Banking System has an important function in a well-functioning financial system. As more people invest their savings in cryptocurrencies, lesser resources will be available for banking system.
- ❑ **Consumer Protection:** In cryptocurrencies, huge Information asymmetry exists between insiders and lay investors. The high volatility of cryptocurrencies and being largely unregulated, no regulatory recourse is available for any loss of the consumer

Way forward

- ❑ The Indian government is planning to introduce the **Cryptocurrency Bill** in the Parliament. While, the measure has been long overdue, it is unlikely the proposed legislation will end the debate on regulation versus complete ban of cryptocurrencies.
- ❑ Where **protectionists recommend banning of cryptocurrencies** to counter illicit activities and safeguard against volatility and speculation, enthusiasts recommend regulation considering the potential for job creation and contribution to India's GDP.
- ❑ The **argument also finds support from the data** which shows that less than 1% of illicit activity is through cryptocurrency transactions. Of that, scams make up majority of cryptocurrency related crime.
- ❑ Even so, it is accepted that either of the approaches would not suffice to counter illicit activities through P2P networks which by design are immune to institutional control.
- ❑ **Inclusive regulations** with strict enforcement (through mandatory KYC (know your customer), **real-time suspicious transaction reporting, industry wide-compliance standards, stringent reporting and monitoring** by the regulator might help minimise crypto related illegal activities.
- ❑ Thus, enabling **economic growth and financial inclusion** versus a complete ban which could further push illegal transactions to the underbelly leading to more difficult tracking and penalizing the genuine investor.
- ❑ **A comprehensive Cryptocurrency Bill** would as a first step go a long way in establishing a sound regulatory and inclusive regime for the cryptocurrency ecosystem.

Significance of P2P lending

- ❑ **How Peer to Peer Lending works?**
 - From an investor perspective, peer to peer lending allows to directly invest in other entities, thereby completely bypassing the banking system. Investors simply sign-up at Lending Club or Prosper, link to their bank account and then transfer their money.
- ❑ **Significance of P2P lending and the Need for regulation**
 - P2P lending promotes alternative forms of finance, where formal finance is unable to reach and also has the potential to soften the lending rates as a result of lower operational costs and enhanced competition with the traditional lending channels. If properly regulated, P2P lending platforms can do this more effectively

- P2P lending firms unlike aggregator firms hold the lender's money before giving it out to the borrower which creates a risk factor. Guidelines on P2P lending by the regulator will be important as it involves individual investors' money. With the notification coming in, the lenders will be more at ease while participating on P2P lending platforms.
- P2P have adopted a system of online auction approach in which borrowers indicate the maximum interest rate they are willing to pay and lender indicate the minimum rate they are looking for at classified levels of risk. The technology matches the borrowers and lenders. The platform also conducts reverse auction to match the parties by gradually increasing the interest rate payable on loan until sufficient bids are made. This facilitates fast, effective decision making, matching of loans, monitoring payments, follow up with interest payments, etc.

■ Risks of P2P

- One of the basic risks of P2P lending is that investors/lenders may lose part or all of the principal due to loan defaults.
- P2P institutions are not guarded by adherence to accounting standards nor are they professional capital providers they may be landed into trouble. Gradually the participation may also be motivated by non-financial aims such as becoming part of an entrepreneurial venture or supporting a particular individual or business.
- An important aspect is assessing the value of the equity or firm to decide on the volume and pattern of fund raising. Some platforms operate a market-driven approach to setting valuation, whereby the entrepreneurs set out the amount of equity and number of shares they are offering, and, through a bidding process, investors who are willing to pay the most for the shares get in on the deal. Some platforms also provide to entrepreneurs training on how to value a business, engaging ex-investment bankers, fund managers and venture capitalists.

■ RBI proposed regulations

- P2P companies must act only as intermediaries and their role must be limited to bringing the borrower and lender together. This basically means that P2P lenders cannot take on the functions of a bank and seek and keep deposits.
- Funds must move directly from the lender's account to the borrower's account to prevent risk of money laundering.
- P2P platforms can't assure returns to lenders.
- The companies must have a minimum capital of Rs.2 crore.
- The platforms may have to adhere to a leverage ratio so that they do not expand indiscriminately.
- Since lenders may not be sophisticated, there may be limits on maximum contribution by a lender to a borrower/segment of activity.
- Promoters, directors and chief executive officers of P2P platforms will have to meet so-called "fit and proper" criteria.
- Some proportion of the board members of such platforms may need to have a background in finance.
- P2P platforms may be required to have a "brick-and-mortar" presence in India.
- Platforms will need to submit regular reports on their financial position, loans arranged each quarter, complaints and so on to RBI.
- Since RBI can only regulate companies and co-operative societies (and not individuals, proprietorships, partnerships or limited liability partnerships), all P2P platforms may have to be structured as companies.
- The platforms will have to guarantee confidentiality of customer data.
- Loan-recovery practices of the P2P platforms will need to adhere to existing guidelines on recovery practices.

■ Positives of the regulations

- The notification ends the regulatory vacuum in which these firms were operating. These firms have now been officially recognized.
- The regulatory purview of RBI will lend the sector more credibility.
- It will help P2P lenders gain official recognition, opening new avenues for fund-raising and business expansion.
- The notification will allow more access to institutional funding. This will push organized venture capital firms to invest in this space.

■ Shortcomings of the regulations :

- The RBI paper is silent on credit risk profiling of the borrowers.
- The fact that the money has to move directly from lender to borrower without an escrow account will be tedious from accounting point of view.
- A prescribed leverage ratio for the platforms makes no sense because credit doesn't come from the platform.

Way forward

- The regulator can ask the P2P lenders to create a credit insurance fund to offer some kind of relief in case of default.
- The calls for P2P platforms for either an escrow or a nodal account should be considered. The platform will need to maintain an escrow account to pool money since there are post-dated cheques involved.
- The general opinion is that the regulations will lend respectability to the nascent business experts, investors, and executives in P2P platforms highlighted some concerns. While the regulator seems to be conscious of the fact that very strict regulation of this sector may impact its growth in its infancy, the steps are in the right direction.

Bank Recapitalization Program–Need, concerns & Impact

■ Why there is a need to bank recapitalization?

- The banking sector in general and PSBs in particular are facing problem of high level of NPA for some time. NPA have reached alarming level in PSB, among the top 20 banks with the highest gross non-performing asset (GNPA) ratios, 18 belong to Public sector.
- The bank recapitalisation would ensure genuine borrowers get adequate funding. Credit growth in the banking system has remained sluggish for some quarters, partly, that was result of weak capital position of the banks as it restricted their ability to lend. This exercise gives much needed funds to public sector lenders for them to step up to the demand for loans from good-rated companies. This in turn will make the wheels of investment run faster, leading to a faster and more sustainable economic recovery.
- The capital shortage in the face of rising NPAs had resulted in a wider gap between the public sector banks' weighted average lending and deposit rates; so recapitalisation should enable more effective transmission. Fourth, higher share prices post announcement of RCB program, should enable public sector banks to directly raise more capital from markets.

Context

Union cabinet has approved the amalgamation of 3 banks (Vijaya, Dena, Bank of Baroda) to create India's 3rd largest commercial bank.

The merger was compelled by weak state of most PSBs and inability of centre to infuse capital in face of tight finances

Finally, It Begins

Arun Jaitley-led alternative mechanism proposed the consolidation

Boards of the three banks to consider the proposal

Combined entity will have

1 More than **34%** of low-cost deposits

2 Capital buffer of nearly **12%**

3 Business book of **₹14.82 lakh cr**, the third-largest

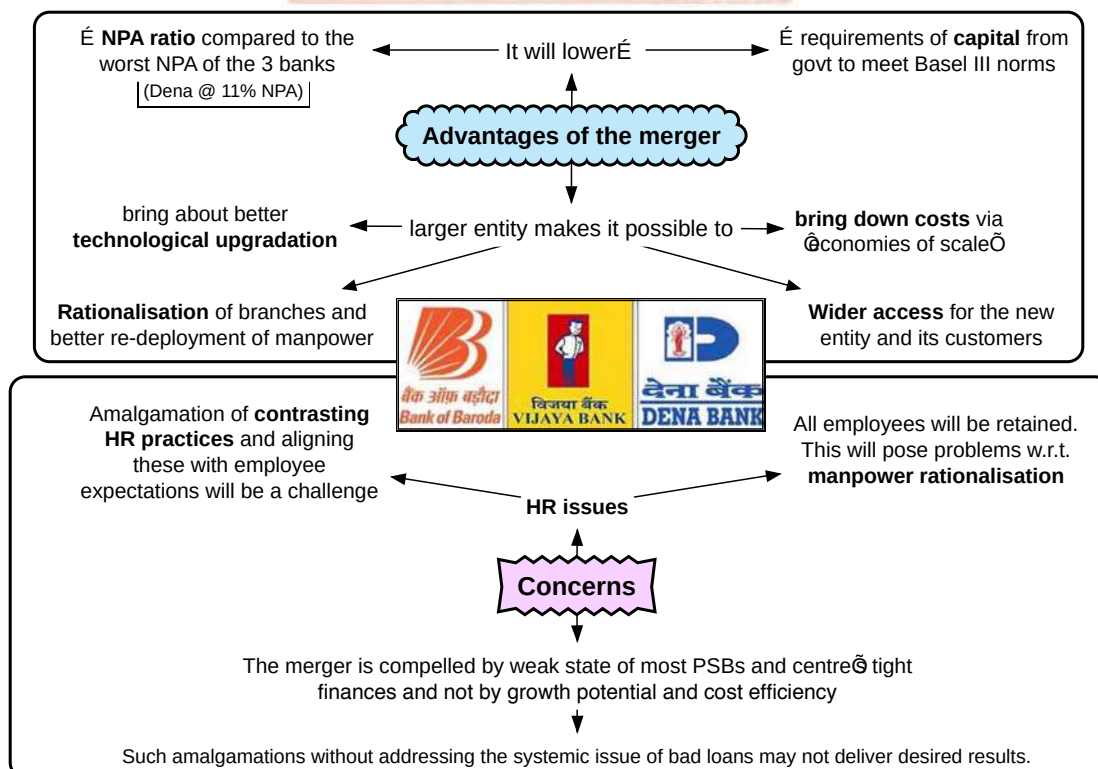
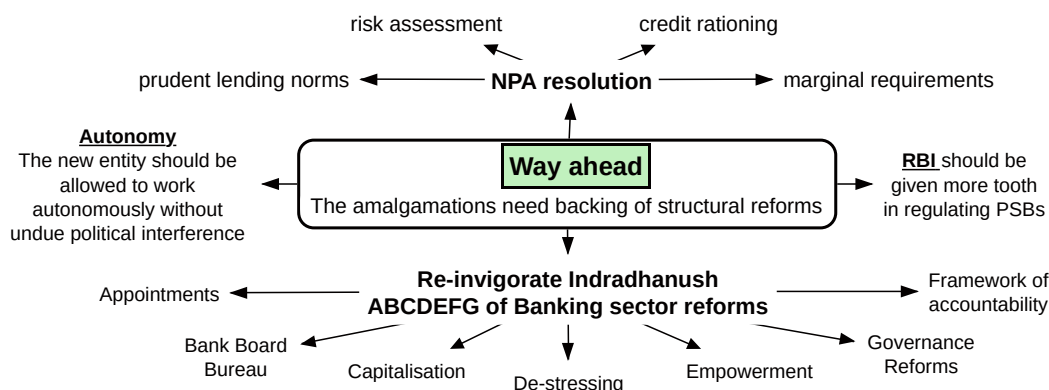


Bank of Baroda **₹10.29 lakh crore**
Vijaya Bank **₹2.79 lakh crore**
Dena Bank at **₹1.72 lakh crore**

GS SCORE

Learning Aid

Dena Bank had been placed under prompt corrective action framework by RBI and it was felt that amalgamating it with better performing banks would lead to a more sustainable entity with larger lending ability.



Bottomline

For long, it has been recognised that having several banks that are majority-owned by the Government is not a good strategy because they are doing the same business, and competing for the same pie of customers. That means a lower return on the capital employed by the Government, which has competing demands for funds, and growing competition. However, rationalising no. of banks has to be backed by structural reforms addressing systemic issues.

❑ What are the concerns raised by bank recapitalization decision?

- Such a recapitalization without setting accountability for higher NPA ratio is like rewarding banks with a free get-out-of-jail card without any corrective measures to avoid repeating past mistakes. There's also the moral hazard question: recapitalisation studies conducted globally have shown that banks receiving fresh government capital tend to exhibit increased risk-taking activity compared with banks deprived of capital infusion. There are other studies which show that recapitalisation stimulates the credit cycle for only larger banks and existing borrowers. This then contradicts the government's assertion that recapitalisation will lead to increased credit availability for the micro, small and medium-enterprise segment.

❑ What will be the impact of Recapitalisation Bonds on government's fiscal deficit?

- The government has made it clear that it will stick to the 'glide path' for the fiscal deficit and that the impact of the recapitalisation bonds on the fiscal position will depend on its legal nature and the issuing agency. The budget has set a fiscal deficit target of 3.2% of gross domestic product for this financial year and government shall stick to it.
- Though exact impact of RCBs on fiscal deficit depends on manner in which bonds are floated, such details are still unclear. But the interest payment for it will certainly be a part of the fiscal deficit. According to an estimate of Chief Economic Advisor, the annual interest payments expense will come at around Rs. 9000 crores. This interest payments expense will be covered from the profits of capital receiving PSBs.

❑ Other measures required for banking reform

- First, there should be no political interference in lending decisions. The Centre has assured that nobody influences decisions. But it is hard to be sure if the State and local governments have kept away from influencing decisions.
- Second, bank boards should be chosen through a UPSC-like system and not by doling out favours to those who served political interests or have occupied prestigious positions.
- Third, management as well as skilled staff have to be paid market-related salaries; while support staff could remain on the existing pay structure, core critical functions need higher compensation. In fact, the chairman or CEO should have a fixed term of five years and selection should be on a transparent basis without succumbing to the temptation to bring in only personnel from the private sector. The argument is that if the public sector culture does not change, then getting in a private sector person could demotivate the existing personnel. Besides, those who have been with the bank through the years are the best to head such organisations given their superior knowledge and experience.
- Fourth, at the policy level it is essential to review the approach to banking. The very concept of loan waivers and other compulsions like interest rate subventions should be reconsidered. While there could be compensation by the States, the ethos of banking gets eroded when there is official sanction for a culture not to repay loans, which stretches to all sections. While there are arguments for such lending, from the commercial point of view it is high-risk. When regulation makes such lending mandatory, the same ideology gets extended to sectors like infrastructure which further adds to the risk.
- Fifth, the Government also has to be discreet when it keeps batting for lower interest rates. It is now axiomatic to badger the RBI to lower the repo rate and banks to transmit the same to boost lending. By doing so, the message is that credit has to increase through lower rates with no 'mention' of credit quality, which is the major concern. Therefore, there is pressure on banks to enhance lending, which can lead to a perverse selection of portfolio.

Conclusion

The recapitalisation programme seemed like a fait accompli, especially since banks were caught in a vicious cycle, leading to a credit impasse which exacerbated the economic distress. As the largest shareholder, it was incumbent on the government to recapitalize banks to kick-start the credit cycle and growth process. However, this recapitalization and restructuring should go together. The government's current plan incorporates one without the other. It is equally important to reduce the government's stake in public sector banks, which then will provide banks with operational autonomy.

Banks Board Bureau-Issues & solution

Introduction

- ❑ Health of banking sector is crucial for the economic growth and infrastructure development.
- ❑ With a view to improve the Governance of Public Sector Banks (PSBs), the Government had decided to set up an autonomous Banks Board Bureau.
- ❑ The Banks Board Bureau, an autonomous body under the aegis of Department of Financial Services, was set up in 2016 to help the government in selection of top executives of PSBs and enforce a code of conduct and ethics for managerial personnel.
- ❑ The bureau recommends for selection the heads of public sector banks and financial institutions and help banks in developing strategies and capital raising plans.
- ❑ But BBB, due to recent PNB fraud, has been dubbed as inefficient as it has been grappled with lot of problems.

❑ Reasons for Creation of Banks Board Bureau

- In the past few years, the Non-Performing Assets of Indian Banks have increased considerably (particularly of the Public sector banks).
- This is because of following reasons:
- Poor corporate governance of the banking structure.
- Government interfered in the appointment of directors of PSBs leading to frequent delays, inefficiencies and favors.
- Lack of fresh capital injection: The state-owned public sector banks have been struggling to raise capital for a long time.
- The selection of top management for PSBs has been a sore point in the banking history. Whenever a PSB has witnessed a change of guard at the top, their immediate quarterly performance has nosedived. Top management of various PSU banks has often been passing the buck to the preceding management for the poor numbers.
- Hence, due to the above issues P.J. Nayak committee has recommended the creation of the BBB (Banks Board Bureau).

❑ Problems Faced by the BBB

- Poor autonomy: Set up as an autonomous Bank board but suffers from poor autonomy. The recommendations of the Board are not binding on the government.
- Recommendations Bypassed by government: BBB was completely marginalized in the appointment of all the top-level executives.

- The Bureau has given several recommendations to the government regarding improvement in the standards of state-run banks, but they are gathering dust.
- No significant devolution of powers: The P.J. Nayak Committee envisioned Board to handle other issues such as resolution of stressed assets, mergers and consolidation of banks, etc. But the Board does not have much say in such matters.
- Non-official directors appointment: The Bureau also doesn't have any role in choosing the so-called non-official directors at boards of PSBs who typically constitute one-third of the directors on any PSB board and most are political appointments.
- Old wine in a new bottle: The Board still has members from the old appointment board - An RBI deputy governor, two bureaucrats and four external experts.
- Part time job: Many have criticized the Board as the members have other portfolios also.
- The Power, to choose the heads of institutions such as IIFCL, IFCI, SIDBI and Exim Bank, was taken away from it and given to the Finance Ministry.
- Instead of taking the Bureau's recommendations seriously and referring them to the appointments committee of the Cabinet for approval, they are all scrutinized afresh by the Finance Ministry.

■ Solutions

- Devolve more powers: The BBB should be given powers as envisaged by the P.J. Nayak Committee.
- No bypassing of recommendations: The government should not bypass the recommendations of the BBB as it shows both the government and BBB in bad light. It also dampens the trust of general public in government regarding resolving the NPA menace.
- BBB should be supplemented with other reforms: Indradhanush plan, Insolvency and Bankruptcy Code, S4A scheme etc. should also be implemented to compliment the efforts of BBB.
- More autonomy to BBB: The recommendations of BBB should be made binding on the government. Any deviation should be allowed under exceptional circumstances only.
- The members of the Board should not be seen as handling a part time job. They should be relieved of other duties or jobs if necessary.
- The BBB should also have say in appointment pertaining to SIDBI, Exim Bank etc.
- The government must (implement other recommendations of P.J. Nayak committee) like setting up of the Bank Investment Company.
- PARA: Public Asset Rehabilitation Agency as envisioned by Economic Survey should also be brought into existence.

Way Forward

- The tackling of NPA requires restructuring of the BBB. It requires both political will and devolution of more powers to the BBB to function in autonomous manner.
- It will not be easy to raise capital and solve NPA menace unless the government plans to overhaul the way public sector banks operate and this cannot be done by merely asking the Board to select bankers for the top jobs.
- The government must clarify whether it is an intermediate step towards setting up the Bank Investment Company (BIC) as envisaged by the Nayak committee.
- It also must look into the tenure of the managing director and the chief executive and the compensation of senior bankers, among other things. Finally, the process of appointment must also change.

Conclusion

- BBB was setup to separate the day-to-day governance and supervision of the banks from the concerns of their ultimate owner, the government. But this has not been possible.
- The health of the banking sector continues to deteriorate. The banking sector has crucial role in taking India on the path of economic growth and development.
- The recent PNB scam further dented the image of the banking sector and the seriousness of the government to resolve the NPA issue. The BBB requires restructuring and devolution of powers as envisioned by the P.J. Nayak Committee.
- However, the Government of India has been committed to the cause of tackling NPA menace and brought significant measures to curb them. Eg – Insolvency and Bankruptcy Code, Gyan Sangam, merger of SBI bank etc. Overhauling BBB will further strengthen such efforts and help resolve the NPA menace.

Regulatory Regime for Alternative Investment Fund

■ What is Alternative Investment Fund?

- In India, alternative investment funds (AIFs) are defined in Regulation 2(1)(b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.
- It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company or a body corporate or a Limited Liability Partnership (LLP) which are not presently covered by any Regulation of SEBI governing fund management (like, Regulations governing Mutual Fund or Collective Investment Scheme) nor coming under the direct regulation of any other sectoral regulators in India - IRDA, PFRDA, RBI.
- Thus, AIFs includes Private Equities, Venture Capital Fund, Hedge funds, Commodity funds, Debt Funds, Infrastructure Funds, etc. Most of these investment entities are owned by big corporate houses or wealthy individuals. Several multinational banks have also AIFs. Venture Capital Funds and Angel Investors are also categorized as AIFs.

■ Previous Regulatory Regime

- SEBI in May 2012 had notified the guidelines for AIFs as funds established or incorporated in India for pooling in of capital from Indian and foreign investors for investing.
- In 2014, SEBI decided that the promoters of listed companies can offload 10 per cent of equity to AIFs such as SME Funds, Infrastructure Funds, PE funds and Venture Capital Funds registered with the market regulator to attain minimum 25 per cent public holding.

■ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012

- Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 (also called AIF Regulations) are a set of regulations introduced by Securities and Exchange Board of India (SEBI) in 2012, to regulate pooled investment funds in India, such as real estate, private equity and hedge funds.
- These regulations apply to all pooled investment funds registered in India which received capital from Indian or foreign investors.
- These were made to regulate funds that were not covered under the SEBI (Mutual Funds) Regulations, 1996; SEBI (Custodian of Securities) Regulations, 1996 and any other regulations of SEBI.

- This was introduced to bring unregistered funds in India under the ambit of law. Prior to the introduction of this, many funds were operating in India that could not be classified as domestic venture capital funds (VCF), foreign venture capital investors (FVCI) or foreign institutional investor (FII) funds.
- Under SEBI guidelines, AIFs are classified into three categories. The SEBI rules apply to all AIFs, including those operating as private equity funds, real estate funds and hedge funds, among others.

■ Types of AIFs

- AIFs are categorized into the following three categories, based on their impact on the economy and the regulatory regime intended for them in India.
- The Category I AIF: are those AIFs with positive spillover effects on the economy, for which certain incentives or concessions might be considered by SEBI or Government of India. Such funds generally invest in start-ups or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable.
- Category II AIF: are those AIFs for which no specific incentives or concessions are given. They do not undertake leverage or borrowing other than to meet the permitted day to day operational requirements, as is specified for Category I AIFs, eg. Private Equity or debt fund.
- Category III AIF: are funds that are considered to have some potential negative externalities in certain situations and which undertake leverage to a great extent; these funds trade with a view to make short term returns. These funds are allowed to invest in Category I and II AIF also. They receive no specific incentives or concessions from the government or any other Regulator, eg. Hedge Funds.

Way Forward

- Probable solutions can be seen as:
- Dedicate a portion of the fund-of-funds created under the Startup India scheme to VCFs.
- A mere 20% allocation, Rs.2,000 crore, will increase the capital base of start-up-focused AIFs by more than 100%.
- Government can provide special incentives for VCFs which make them more attractive for investors and fund managers.
- More VCFs will encourage competition and boost activity in the start-up ecosystem.

Conclusion

The various government schemes have tremendous potential to propel India to a higher level of sustainable growth. AIF is one of the best ways to take India away from the jobless growth through investment in various schemes. However, the scheme can succeed only if sufficient capital is available to upcoming start-ups, along with other incentives. The government and SEBI can kick-start the next phase of start-up funding and employment growth in India by using the AIF regulations to their advantage.

Pradhan Mantri Mudra Yojna (PMMY): A Step towards Financial Inclusion

Context

- Finance Ministry plans to revamp its flagship lending scheme, Pradhan Mantri Mudra Yojna (PMMY), to ensure better access to credit for small firms, boost entrepreneurship and promote financial inclusion.

- Government will also take into consideration that Non-Performing Assets should not be created out of the MUDRA loans which could burden the Banking sector further.

Analysis

■ Funding the unfunded: Concerns

- In India, the main problem that acts as a hurdle for the development of entrepreneurship is financing.
- Major problems faced by micro enterprises, small business and entrepreneurs includes financial illiteracy, lack of information, lack of financial access, entry level policies, lack of infrastructure, high cost and technologies barriers.
- Bank credit to MSMEs as a percentage of GDP in India is around 6%—less than one-sixth of the levels seen in South Korea and China, and one-fourth in Thailand and Malaysia.
- Banks hesitate to grant loans due to lack of transparency, lack of financial discipline, high administrative costs of small-scale lending, high-risk perception, and lack of collateral.
- High mortality rates of MSMEs—financial institutions are doubtful about their survival and growth and, therefore, under-financing happens
- The Scheme has helped in creating an enabling environment particularly for small businesses and has helped generate large-scale employment opportunities at the grass roots level. More than 68% of the loan accounts have been sanctioned to women and 22% of the loans have been given to new entrepreneurs who had not availed any loan since the inception of the Scheme.
- With 51% of total loans sanctioned so far going to the SC/ST/OBC category, the Pradhan Mantri Mudra Yojana stands for social justice in action and embodies the true spirit of ‘SabkaSaath, SabkaVikas’

■ Why MSMEs matter?

- India's Micro Small and Medium Enterprises (MSMEs) are vital for the economy as they contribute around 8 per cent to the GDP and being labor- intensive these employ the largest number of people in the industrial and services sectors.
- There are 50 million or so MSMEs, both registered and unregistered, in India and they contribute 6.11 percent of the manufacturing GDP and 24.6 per cent of the services GDP.
- There are 12 crore employees in MSMEs second only to agriculture. These also employ the maximum number of women workers.
- Many of the micro and small-scale units come under the informal sector due to their size and low capital base.

■ Performance of the MUDRA Loans

- Under PMMY loans are provided up to Rs. 10 Lakh through Member Lending Institutions (MLIs) viz; Banks, Non Banking Financial Companies (NBFCs), Micro Financial Institutions (MFIs), other financial intermediaries, in three categories namely, ‘Shishu’, ‘Kishore’ and ‘Tarun’ which signifies the stage of growth or development and funding needs of the borrowers.
 - Shishu : covering loans up to Rs. 50,000/-
 - Kishore : covering loans above Rs. 50,000/- and up to Rs. 5 lakh
 - Tarun : covering loans above Rs. 5 lakh and up to Rs. 10 lakh.
- Achievements of this Scheme (As on 25.03.2022)**
 - More than 34.42 crore loans for an amount of Rs 18.60 lakh crore have been sanctioned since launch of the scheme (as on 25.03.2022). Approximately 22% of the total loans have been sanctioned to New Entrepreneurs.

- ▶ 4.86 crore PMMY loans accounts with sanctioned amount of Rs. 3.07 lakh crore extended in current FY (As on 25.03.2022)
- ▶ Approximate 68% loans of the total number of loans have been sanctioned to Women Entrepreneurs
- ▶ The average ticket size of the loans is about Rs 54,000/-
- ▶ 86% of the loans are of 'SHISHU' category
- ▶ Almost 22% of the loans have been given to New Entrepreneurs
- ▶ About 23% of the loans have been given to SCs and STs borrowers; About 28% of the loans have been given to OBCs borrowers (Total 51% loans have been sanctioned to SC/ST/OBC categories of borrowers)
- ▶ About 11% of the loans have been given to Minority community borrowers
- Under Atma Nirbhar Bharat Package (ANBP), the Scheme has been formulated as a specific response to an unprecedented situation and aims to alleviate financial stress for borrowers at the 'bottom of the pyramid' by reducing their cost of credit.
- Implementation of Scheme : By all categories of MLIs viz. Public Sector Banks (PSBs), Private Sector Banks, Regional Rural Banks (RRBs), Small Finance Banks (SFBs), Non-Banking Financial Companies (NBFCs) and Micro Finance Institutions (MFIs).

■ Major concerns

- Seeking collateral security from the beneficiaries is not mandatory under Mudra Yojana. It is argued that waiving off mandatory collateral clause may be good politics but bad economics. The average of sanctioned loans under Mudra Yojana comes at Rs 52,739. This amount could not be considered enough to launch a startup that could provide jobs to others.
- This amount is also much lower than the average per capita income of Indians - Rs 1.11 lakh for 2017-18, according to advance estimates of the Central Statistics Organisation (CSO). There is no empirical data no record for employment generated by the loans disbursed under Mudra Yojana. The numbers of large-sized loans or disbursements from the banks exceeding Rs 5 lakh - that can generate employment - are mere 1.3 per cent under Mudra Yojana.
- The Mudra scheme is designed such as to give preference to women entrepreneurs. This has led to creation of a pool of proxies, who claim to turn entrepreneurs. There has been a lack of awareness about the scheme among the bank officials as well as the borrowers which has clouded the performance of the scheme.
- Although, present trend of NPAs in MUDRA loans are lower compared to Formal sector lending, there are apprehensions that there would be increase of NPAs from these loans in the coming years. The central bank has revealed that bad loans under PMMY have risen to Rs 11,000 crore. The NPAs in this segment have spiked because most of the applicants are first-time borrowers without any credit history.

Way forward

- MUDRA should enhance the role of alternative channels such as microfinance institutions (MFIs) and other intermediary organisations in reaching out to end-users by leveraging additional funds. The small ticket size loans of less than Rs 10 lakh require a very different expertise in terms of managing the loans as well as making it a success.
- Similarly, the RBI has created a new institutional infrastructure in the form of Small Finance Banks, which specialise in small ticket size loans. In fact, the entire organisation is groomed to handle and manage small borrowers. The cooperative banks are also best suited to operate in small loan segment.

- The policy makers should widen the MUDRA net and incentivize further formalization of micro units. The revamping of the scheme should allow the participation of digital lenders with small unsecured loans to new-to-credit MSMEs.
- Efforts should be made to popularise digital payments like BHIM (Bharat Interface for Money) and JAM (Jan Dhan-Aadhaar-Mobile) trinity to promote cashless transactions for using the MUDRA loans.
- The new technologies and fin-techs should play a key role in devising alternative ways to do credit assessment of people who don't have a credit history. For example, use various tools like driving license, social media tools, tax returns; GST should be used to assess the credit worthiness of those borrowers who borrows substantial amounts.

Privatization of Banks– Benefits and Challenges

- ❑ The government is in the process of taking 'advanced action' to expedite the privatisation of public sector banks.
- ❑ The government is geared up to take further steps to rein in inflation as well as maintain economic stability and growth.

Background

- ❑ The Union Budget 2021 has announced the privatization of two public sector banks and one general insurance company in the upcoming fiscal 2021-22.
- ❑ The Government has fast-paced the privatization of PSBs (Public Sector Banks).
- ❑ The government front-loaded Rs 70,000 crore into government-run banks in September 2019, Rs 80,000 crore in FY18, and Rs 1.06 lakh crore in FY19 through recapitalization bonds. In 2019, the government merged ten PSU banks into four.
- ❑ Now, the NITI Aayog listed 6 banks for the privatization plan.
- ❑ The government aims to keep a bare minimum presence in the strategic sector. The final number of Public Sector entities in strategic sectors (including banking) will be determined by a group of ministers.

Analysis

- ❑ **What are the reasons for the privatization of banks?**
 - **Degrading Financial Position of Public Sector Banks:**
 - Years of capital injections and governance reforms have not been able to improve the financial position of public sector banks significantly.
 - Many of them have higher levels of stressed assets than private banks and also lag the latter on profitability, market capitalization, and dividend payment record.
 - **Issue of Dual Control: At present PSBs are under the dual control of RBI and Dept. of Financial Services of Min of Finance.**
 - The RBI handles the governance side of the PSBs under the RBI Act, 1934
 - On the other hand, the Dept of Financial Services under the Finance Ministry maintains the regulation of PSBs under the Banking Regulation Act, 1949.

- ▶ Thus, RBI does not have the powers to revoke a banking license, shut down a bank, or penalize the board of directors for their faults. The Privatization will provide the powers to RBI to control them effectively.

● Part of a Long-Term Project

- ▶ Privatization of two public sector banks will set the ball rolling for a long-term project that envisages only a handful of state-owned banks, with the rest either consolidated with strong banks or privatized.
- ▶ The initial plan of the government was to privatize four. Depending on the success with the first two, the government is likely to go for divestment in another two or three banks in the next financial year.
- ▶ This will free up the government, the majority owner, from continuing to provide equity support to the banks year after year.
- ▶ Through a series of moves over the last few years, the government is now left with 12 state-owned banks, from 28 earlier.
- ▶ Reduced performance: The PSBs in the past failed to perform effectively when compared to Private Banks. This will result in a loss for the government at the end of the day.
- ▶ For example, The PSBs had almost 71% of the overall lending ratio in 2005. But in 2020 their overall lending ratio came below 57% due to intense competition from the Private Banks.
- ▶ Public sector bank boards are still not adequately professionalized. Further, the Bank Board Bureau is not fully functional. So the government still decides board appointments. This creates an issue of politicization and interference in the normal functioning of Banks.

● Impact of Covid:

- ▶ After the Covid-related regulatory relaxations are lifted, banks are expected to report higher NPAs and loan losses.
- ▶ As per the RBI's recent Financial Stability Report, the gross NPA ratio of all commercial banks may increase from 7.5% in September 2020 to 13.5% by September 2021.
- ▶ This would mean the government would again need to inject equity into weak public sector banks.

■ What was the Contribution of PSBs so far?

- According to RBI data, there were only 1,833 bank branches in rural areas in the country in 1969. But after the nationalization in the 1970s, the rural branches increased to 33,004 by 1995 and continued to grow over the next decades. This provided various benefits to economic development. Such as,
- **Agricultural growth:** PSBs expanded agricultural credit, short-term agricultural credit ('crop loans'). According to an estimate, the PSBs in 2017-18 account for a total of Rs 622,685 crores of Agricultural credit.
- Further, The PSBs also played a huge role in making the country self-sufficient by supporting the green, blue, and dairy revolutions.
- **Priority sectors:** The PSBs pioneered the concept of 'priority sector lending. This provided credit to certain priority sectors which were earlier deprived of credit such as housing, etc.
- **Solution for poorest:** The Differential Rate of Interest (DRI) loans are the brainchild of public sector banking. Under this poorest section of people will receive the loan at a very marginal interest rate.
- Women empowerment: The PSBs extended loans to women's self-help groups under various programs. This contributed to women's empowerment in India.
- **Rural growth:** PSBs also funded rural infrastructure projects through the Rural Infrastructure Development Fund.

- In conclusion, the PSBs provided access to a formal banking network for all and facilitated financial inclusion in India.

❑ Views against the Privatization of PSBs

- The supporters of PSBs provide many arguments against the privatization of PSBs. Such as,
- Credibility of Private Sector Banks: The Private sector bank is not always efficient. On a global level, many private banks have failed, thus challenging the idea of private banks are efficient. For example, the recent YES Bank problem in India.
- Reason for NPA's: The present NPA problem lies majorly with the PSBs. But the NPA's increased due to the credit provided to the private corporate entities. So the private corporate entities have to be regulated and not the PSBs.
- Against inclusive banking: The Private Sector focussed on profit motive might restrict the credit to rural, agricultural, women, poor sections of society, etc. Thus, after Privatised PSBs the remaining PSBs have to take care of all of such credits. This might stress the remaining PSBs also.
- Governance and policy issue of RBI: Restructuring schemes such as strategic debt restructuring and schemes for sustainable structuring of stressed assets, initiated by RBI, are the major reasons for delayed recognition of bad loans from banks. This applies to all banks irrespective of ownership (public as well as private) of the banks.
- For these reasons only the Former governor of RBI, Raghuram Rajan also opposed the Privatization of PSBs. He also mentioned that India at present needs changes in banking regulation.

❑ What are the challenges associated with increasing the Privatisation of Banks?

● Private Banks are not without faults

- In the last couple of years, some questions have arisen over the performance of private banks, especially on governance issues.
- ICICI Bank MD and CEO Chanda Kochhar was sacked for allegedly extending dubious loans.
- Yes Bank CEO Rana Kapoor was not given an extension by the RBI and now faces investigations by various agencies.
- Lakshmi Vilas Bank faced operational issues and was recently merged with DBS Bank of Singapore.
- Former Axis Bank MD Shikha Sharma too was denied an extension.
- Moreover, when the RBI ordered an asset quality review of banks in 2015, many private sector banks, including Yes Bank, were found under-reporting NPAs.

● Dangers of private banks repeating the mistakes of the 1960s

- There is a widespread perception that the private sector then was not sufficiently aware of its larger social responsibilities and was more concerned with profit.
- This made private banks unwilling to diversify their loan portfolios as this would raise transaction costs and reduce profits.
- The expansion of branches was mostly in urban areas, and rural and semi-urban areas continued to go unserved.

● Suggestive Measures

- To improve the governance and management of PSBs, there is a need to implement the recommendations of the PJ Nayak committee. The government must properly implement the recommendations of various committees. Such as,

- **Recommendation of PJ Nayak Committee:**

- ▶ Though the government approved the Bank Board Bureau, the government has to provide enough support for proper functioning.
- ▶ The government can split the Chairman and Managing Director roles. Further, the state can allow them a fixed tenure of 3 to 5 years.

- **Recommendations of Narashimham committee**

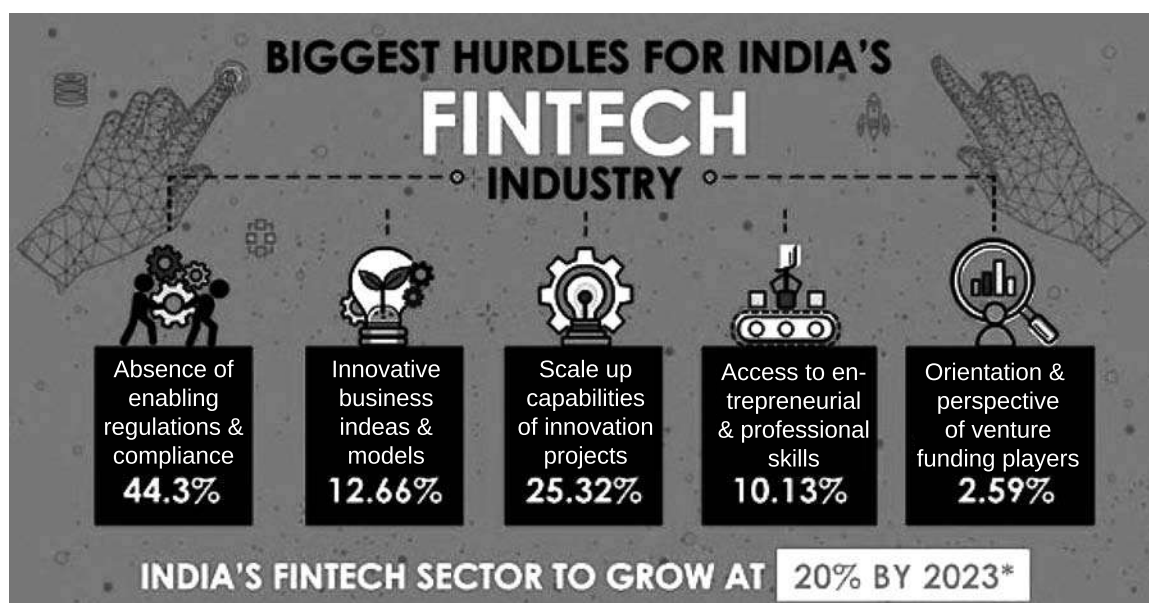
- ▶ The government can review the Banking Regulation Acts.
- ▶ India can explore the concept of Narrow Banking. Under this weak PSBs will be allowed to place their funds only in the short term and risk-free assets. This will improve the performance of PSBs.
- ▶ Apart from that, the government has to create strong recovery laws and taking criminal action against wilful defaulters.
- ▶ The government has to rectify the challenges in the Insolvency and Bankruptcy Code. This will provide a faster resolution process.
- ▶ In the meantime, the government can explore alternate steps such as the concept of Bad Banks.

Conclusion

The majority of the Committees appointed by the government including the PJ Nayak Committee supported the reduction of government stake in PSBs. So, the government has to strike a balance on how much privatization of PSBs is essential for financial inclusion and credit to essential sectors like infrastructure, rural, etc. Instead of providing arbitrary numbers, the government have to provide the rationale behind the bare minimum presence in the strategic sectors including PSBs.

FIN TECH—Opportunities & Challenges

- Financial technology (Fintech) is used to describe new tech that seeks to improve and automate the delivery and use of financial services. It refers to the technology start-ups that are emerging to challenge traditional banking and financial players and covers an array of services such as crowdfunding platforms, mobile payment solutions, online portfolio management, money transfers, etc.



- ❑ Fintech is utilized to help companies, business owners and consumers better manage their financial **operations, processes**, and lives by **utilizing specialized software and algorithms** that are used on computers and, increasingly, smartphones. The term “FinTech” is a combination of the words “**finance**” and “**technology**”.

What are the active areas of FinTech Innovation?

- ❑ **Blockchain technology**, that maintains records on a network of computers, but has no central ledger. **For eg:** Cross-border payments, Real-time IoT operating systems, Personal identity security, Anti-money laundering tracking system.
- ❑ **Smart contracts**, which utilize computer programs (often utilizing the blockchain) to automatically execute contracts between buyers and sellers. **For eg:** Smart contracts can automate, calculate and arrange payments, and then automatically carry out their terms and conditions.
- ❑ **Open banking**, a concept that leans on the blockchain and posits that third-parties should have access to bank data to build applications that create a connected network of financial institutions and third-party providers. **For eg:** Yes Bank, RBL Bank and DCB Bank etc offer Open bank services.
- ❑ **Regtech**, which seeks to help financial service firms meet industry compliance rules, especially those covering Anti-Money Laundering and Know Your Customer protocols which fight fraud. **For eg:** REGnosys, Ceptine, Cappitech etc.
- ❑ **Cybersecurity**, given the proliferation of cybercrime and the decentralized storage of data, cyber security and fintech are intertwined. **For eg:** Internet Governance Forum (IGF), Budapest Convention etc.

Opportunities related to Fin-Tech:

- ❑ **Embrace the Promise of Fintech** with its far-reaching social and economic impact, particularly in low-income countries, small states, and for the underserved, and prepare to capture its possible wide-ranging benefits, including:
 - increasing access to financial services and financial inclusion;
 - deepening financial markets;
 - improving cross-border payments and remittance transfer systems.
- ❑ **Driving Financial Inclusion in India:** A significant number of people in India remain outside the purview of the formal financial system.
 - Use of financial technologies can help address the gaps in financial inclusion left by the traditional models of banking and finance.
- ❑ **Enable New Technologies to Enhance** Financial Service Provision by facilitating foundational infrastructures, fostering their open and affordable access, and ensuring a conducive policy environment.
- ❑ **Foster Fintech to Promote Financial Inclusion** and Develop Financial Markets by overcoming challenges related to reach, customer information, and commercial viability, and by improving infrastructure.
- ❑ **Enhancing Customer Experience and Transparency:** FinTech start-ups offer convenience, personalisation, transparency, accessibility and ease of use – factors that empower customers to a great extent.
- ❑ **The FinTech industry will develop unique and innovative** models for assessing risks. Leveraging big data, machine learning, and alternative data to underwrite credit and develop credit scores for customers with a limited credit history will improve the penetration of financial services in India.

- ❑ **Modernize Legal Frameworks** to Provide an Enabling Legal Landscape with greater legal clarity and certainty regarding key aspects of fintech activities.
- ❑ **Enhance Collective Surveillance of the International Monetary and Financial System** and the adaptation and development of policies to support inclusive global growth.

Challenge associated with Fin-Tech innovation:

❑ **Economic Challenges:**

- ❖ **Regulatory and Compliance Laws:** Many laws inevitably contribute to the slowdown of the Fintech start-ups in Indian financial markets. Not only are these regulations challenging to cope with, but they also make it difficult for Fintech players to enter the Indian markets.

❑ **Infrastructural Challenges:**

- ❖ **Unbanked and Underbanked Population:** Fintechs had staggered growth because of poor infrastructures like low internet penetration and literacy levels in India. Although the Indian government is tackling these issues with generous policies, the benefits will only be visible in the long run. The truth is that even today a large segment of the Indian population is unbanked, and thus prefer cash transactions rather than online purchases.

❑ **Behavioural Challenges:**

- ❖ **Trust in Cash:** Most Indians follow a conservative approach when it comes to daily transactions and end up using cash. They have trusted money as a medium of sales for ages and find it difficult to change their habits and adapt to new avenues.

❑ **Social Challenges:**

- ❖ **Cyber threats:** Fintech companies deal with sensitive customer data. Multiple cybersecurity threats result in massive monetary losses during online transactions. These are entirely unwarranted for customers.

❑ **Political Challenge:**

- ❖ **Lack of Support from the Government:** Fintechs face a dire lack of governmental support and incentives to protect their interest in the Indian financial markets. This can be highly demotivating for new Fintech players. Fintechs play a crucial role in driving economic growth and must be offered all the necessary means to thrive.

❑ **Cooperative Challenges:**

- ❖ **Industry-Related Complexities:** Fintechs are designed to work with a sophisticated working model. This makes it difficult for them to maintain a smooth relationship with other financial institutions like banks. Banks, on the other hand, fear to work with Fintechs risking reputation loss.

Way forward

- ❑ **Accelerating Financial inclusion:** The Reserve Bank has encouraged banks to explore the possibility of establishing new alliances with FinTech firms as it could be pivotal in accelerating the agenda of financial inclusion through innovation. It is essential that the flow of investments in this sector is unimpeded to realise its full potential.
- ❑ **Collaboration and compliance:** It is imperative to create an ecosystem which promotes collaboration while carefully paying attention to the implications that it has for the macroeconomy.

- ❑ **Appropriate regulating mechanism:** In order to ensure the orderly development of FinTech, to streamline their influence into the financial system, to protect the customers and to safeguard the interest of all the stakeholders, it is necessary to have appropriate regulatory and supervisory frameworks. Such frameworks should address associated risks while keeping in mind the growing requirements of this sector.
- ❑ **Role of central bank:** The Reserve Bank's working group on FinTech and digital banking suggested the introduction of a '**regulatory sandbox/innovation hub**' within a well-defined space and duration to experiment with FinTech solutions, where the consequences of failure can be contained and reasons for failure analysed.
 - ⦿ A '**Regulatory Sandbox**' would benefit FinTech companies by way of a reduced time to launch innovative products at a lower cost.
- ❑ **Use and adoption of new technologies:** Overall, the Indian finance sector is underway drastic changes like the move towards a cashless economy. The Indian government is proactively pushing the use and adoption of technologies to make India a cashless society through instruments like
 - ⦿ **UPI, digital wallets, e-KYC, Aadhaar, and BHIM, etc.**
- ❑ Post demonetization, the number of Fintech start-ups in India saw a sudden rise. These start-ups are working in various sub-sectors of the Fintech market, such as **mobile POS (point of sale), peer-to-peer (P2P) transactions, lending, and insurance**, among others.
 - ⦿ They initiated creative innovations in the fields of finances and technology. However, multiple challenges also deter the growth of the Fintech sector in the Indian economy.

Conclusion

The success or failure of digitizing rests on demonstrating personal value to the end consumer in switching from cash to digital payments. Reaping these benefits requires strengthening of institutional capacity, expanding outreach to stakeholders, and adopting a cross-agency approach involving relevant ministries and agencies. So that the fast moving technology which is a boon for a growing economy does not turn into a curse.

AGRICULTURE

The future of Indian Agriculture

- ❑ The question of future of Indian agriculture has been around for some time now since the agrarian distress and crisis in the sector.
- ❑ It has become more important in the context of the spate of recent reforms that include permitting private wholesale markets, contract farming, direct purchase from farmers and land leasing across states both under the earlier state-level Acts, and now under the central Acts.

Background

- ❑ India is an agricultural country. However, the sector is facing various issues and challenges due to the recent reforms introduced by the Centre.
- ❑ These reforms led to the dispute, which raises questions not only about agriculture but about dwindling populations in rural India where small communities are already struggling to survive.
- ❑ Future of agriculture is a very important question for the planners and all other stakeholders. However, its future depends on many existing and missing policies and directions of policy reforms.
- ❑ But, it is sad to note that India does not have a policy for the same. The sector loses its policy focus as it is a state subject, but practically being run by the Centre for long time.
- ❑ When the sector is faced with economic, social and environmental crisis, absence of policy is the major factor in the crisis not being attended by any stakeholder.

Analysis

- ❑ **Assessing the profile the Indian agricultural sector**
 - Contribution to GDP: The farm production sector contributes only 13 percent of the gross domestic product (GDP). Small farmers contribute 51 percent of agricultural output with 46 percent of operated land, and a much higher share (70 per cent) in high-value crops.
 - Employment generation: The sector engages 44 percent workforce.
 - This presents a dismal picture of the sector as compared with other sectors, as the earnings are poor.

- Land division: 85 percent of India's farmers operate less than five acres of land, half of which in many parts of India may be dry / rain-fed and only a part of their income comes from farming activity now with others coming from wages, off-farm and non-farm activities.
- Self-sufficient India: Although the sector's contribution in the GDP has reduced to less than 20 percent, agricultural production has grown. This has made us self-sufficient and taken us from being a begging bowl for food after independence to a net exporter of agriculture and allied products.
- Total foodgrain production in the country is estimated to be a record 291.95 million tonnes, according to the second advance estimates for 2019-20.
- Crops: India is the top producer of milk, spices, pulses, tea, cashew and jute, and the second-largest producer of rice, wheat, oilseeds, fruits and vegetables, sugarcane and cotton.

■ The increasing pressure on land

- Increasing population, increasing average income and globalisation effects in India will increase demand for quantity, quality and nutritious food, and variety of food.
- As per the estimates of Indian Council for Agricultural Research (ICAR), demand for foodgrain would increase to 345 million tonnes by 2030.
- Therefore, pressure on decreasing available cultivable land to produce more quantity, variety and quality of food will keep on increasing.

Agro-Climatic Zones

- India is blessed with large arable land with 15 agro-climatic zones as defined by ICAR, having almost all types of weather conditions, soil types and capable of growing a variety of crops.
- Western Himalayan Region: Jammu and Kashmir, Himachal Pradesh and the hill region of Uttarakhand
 - Eastern Himalayan Region:** Arunachal Pradesh, the hills of Assam, Sikkim, Meghalaya, Nagaland, Manipur, Mizoram, Tripura, and the Darjeeling district of West Bengal
 - Lower Gangetic Plain Region:** West Bengal (except the hilly areas), eastern Bihar and the Brahmaputra valley
 - Middle Gangetic Plain Region:** Parts of Uttar Pradesh and Bihar
 - Upper Gangetic Plains Region:** Central and western parts of Uttar Pradesh and the Hardwar and Udham Nagar districts of Uttarakhand
 - Trans-Ganga Plains Region:** Punjab, Haryana, Chandigarh, Delhi and the Ganganagar district of Rajasthan
 - Eastern Plateau and Hills:** Chhotanagpur Plateau, extending over Jharkhand, Orissa, Chhattisgarh and Dandakaranya
 - Central Plateau and Hills:** Bundelkhand, Baghelkhand, Bhandar Plateau, Malwa Plateau, and Vindhya Hills
 - Western Plateau and Hills:** Southern part of Malwa plateau and Deccan plateau (Maharashtra)
 - Southern Plateau and Hills:** Interior Deccan and includes parts of southern Maharashtra, the greater parts of Karnataka, Andhra Pradesh, and Tamil Nadu uplands from Adilabad District in the north to Madurai District in the south
 - Eastern Coastal Plains and Hills:** Coromandal and northern Circar coasts of Andhra Pradesh and Orissa

- ▶ **Western Coastal Plains and Ghats:** Malabar and Konkan coastal plains and the Sahyadris
- ▶ **Gujarat Plains and Hills:** Hills and plains of Kathiawar, and the fertile valleys of Mahi and Sabarmati rivers
- ▶ **Western Dry Region:** West of Aravalli (Rajasthan)
- ▶ **Island Region:** Andaman-Nicobar and Lakshadweep
- ▶ In spite of all these facts, the average productivity of many crops in India is quite low.

■ What are the key-trends expected in the sector?

- Changing demand due to increase in incomes, globalisation and health consciousness is affecting and going to affect more the production in future. Demand for fruits and vegetables, dairy products, fish and meat is going to increase in future.
- **Innovation:** Researches, technology improvements, protected cultivation of high value greens and other vegetables will be more. There will be more demand of processed and affordable quality products.
- **Competition among private companies:** More competition will be there among private companies giving innovative products, better seeds, fertilisers, plant protection chemicals, customised farm machinery and feed for animals etc in cost effective ways at competitive prices giving more returns on investment by farmers.
- **Eco-friendly and climate resilient crop:** Use of biotechnology and breeding will be very important in developing eco-friendly and disease resistant, climate resilient, more nutritious and tastier crop varieties.
- **Adoption of AI:** Precision farming with soil testing-based decisions, automation using artificial intelligence will be focused for precise application inputs in agriculture. Sensors and drones will be used for precision, quality, environment in cost effective manner. Use of GPS technology, drones, robots etc controlled by smart phones etc can make life of farmers easy and exciting with good results.
- **Nano-technology:** Usage of nano-technology for enhancement of food quality and safety, efficient use of inputs will be in near future.
- **Digitalization:** Retailing in agriculture will largely be digitalised.
- A study estimates that over 90 percent of kirana stores across the country will be digitalised by 2025 with modern traceable logistics and transparent supply chain.

■ What are the major constraints in Indian agriculture?

- **Small land holding:** Farming for subsistence which makes scale of economy in question with majority of small holdings.

- ▶ According to 2010-11 Agriculture Census, the total number of operational holdings was 138.35 million with average size of 1.15 hectares (ha).
- ▶ Of the total holdings, 85 per cent are in marginal and small farm categories of less than 2 ha (GOI, 2014).

- **Low access of credit:** Low-access of credit and prominent role of unorganised creditors affecting decisions of farmers in purchasing of inputs and selling of outputs
- **Less utilisation of technology:** Less use of technology, mechanisation and poor productivity for which first two points are of major concern

- **Less value addition:** Very less value addition as compared to developed countries and negligible primary-level processing at farmers level.
- **Poor infrastructure:** Poor infrastructure for farming making more dependence on weather, marketing and supply chain suitable for high value crops.

❑ **How these key-challenges can be addressed?**

- **Cost-effective technologies:** There is a need for work on cost-effective technologies with environmental protection and on conserving our natural resources.
- **Fair and responsible production:** The sector needs to engage with fair and responsible production and trade issues on a priority basis even for domestic markets.
- **Value chain approach:** A combination of livelihoods and agribusiness or value chain approach can help leverage the sector for betterment of its stakeholders i.e. farmers, workers and others around it.
- **Protective measures for small producers:** There is a need for a policy at union and state levels and even more effective regulation to protect small producer interest in a globalised market context to leverage the strengths of modern and large players in the agribusiness value chains for a win-win for all stakeholders involved so that inclusive and effective sustainable agricultural development could be attempted.
- **Institutional innovation:** There is also a need for institutional innovations besides product, process and organisational innovations in the sector to deal with existing and emerging challenges and problems of sustainability in the sector which can be converted into opportunities.

Way Forward

India is among the world's most essential food producers. However, the agricultural sector deserves attention and support as it evolves. The sector needs innovation, and entrepreneurship is the best way forward. The potential is mind-boggling.

'Growth in agriculture is not remunerative to Indian farmers'

Farmers are not earning proportionately to their production or matching agricultural growth. As such, a farmer's share in consumers' expenditure on food items is very low; sometimes, it is less than 66 per cent and as low as 20 per cent in case of fruits and vegetables. There are two key facets of the farmers' crisis – falling income and indebtedness.

Background

- ❑ When output increases well beyond the market demand at a price remunerative to producers, market prices decline.
- ❑ And in the absence of an effective price support policy, farmers are faced with a loss in income, depending on how much the price decline is.
- ❑ The 'farm distress' in recent years has been partly on account of this situation, as the loss of income is beyond the ability, particularly of small farmers, to absorb.
- ❑ In recent times, agriculture made headlines for all the wrong reasons:
- ❑ Farmers quitting cultivation

- ❑ the sector turning into a perennial loss-making enterprise
- ❑ the country's official policy to downsize the dependence on agriculture to reduce overall economic hardship among the poorest of the population.
- ❑ Agriculture's fast-declining economic importance reached such an extent that economists suggested India had already turned into a non-agrarian economy and the more people quit farming, the better the fortune of remaining farmers would be.
- ❑ But two developments in the first half of September seem to be forcing us to revise these perceptions of Indian farming and farmers.
- ❑ First, when India recorded 23.9 per cent contraction in the gross domestic product (GDP) in the first quarter (April-June, 2020), agriculture emerged as the unbelievable winner, growing at 3.4 per cent. This growth in the agriculture sector was based on the rabi or winter crop, that was anyway a bumper one.
- ❑ Second, the kharif or the monsoon crop is already an exceptional one in terms of acreage. It has broken a four-year record, with 109.5 million hectares (ha) under sowing.

Kharif Crops

- The crops that are sown in the rainy season are called kharif crops (also known as the summer or monsoon crop) in India.
- Kharif crops are usually sown with the beginning of the first rains in July, during the south-west monsoon season.
- Rice, maize, bajra, ragi, soybean, groundnut, cotton are all Kharif crops.

Rabi Crops

- The crops that are sown in the winter season (November to April) are called Rabi crops. (also known as the "winter crop") in India.
- The Rabi means, when the crop is harvested. Some of the important rabi crops are wheat, barley, peas, gram and mustard.

- ❑ Now, the tough question: how much will farmers earn out of this?
- ❑ As per all the indications, Indian farmers are going to suffer one of their worst losses, proportionate to their investment and excitement.

Analysis

❑ Crop output and income of farmers

- Usually, crop output value is used as a proxy for farmers' income. But in recent years, the sector has witnessed no co-relation between crop output and the income of farmers.
- For instance, take the situation in 2016-17. This was the year when India had a record acreage that was surpassed only this kharif season. Crop value output in that year grew at 5.9 per cent, the fastest in recent times.
- But according to the National Account Statistics released recently, 2016-17 didn't register any real growth in farmers' income.

❑ Wholesale Price Index (WPI)

- The Wholesale Price Index (WPI) for agriculture indicates the price at which farmers sell their produce.

- Thus, it is an indication of how much they could earn. The higher it is, the more is the income for farmers.
- But in the first quarter, WPI for food items was 2.1 per cent. It was seven per cent in the first quarter of last year.
- This means farmers didn't get a good return from their bumper rabi crops. Similarly, they didn't receive any good returns for the kharif season.

Why the returns are not good even after bumper harvest?

- ▶ The harvest would be bumper but the government is already distributing foodgrains from its reserve as part of the novel coronavirus disease (COVID-19) relief package, free and cheaper as well.
- ▶ It already has an overflowing stock.
- ▶ These would immediately lead to a market glut for the farmers, reducing prices for their produce.
- ▶ On the other hand, there might not be a huge demand for foodgrains since the loss in income caused by the pandemic has reduced purchasing power generally.
- ▶ This would lead to a fall in food prices. Ultimately, farmers are not earning proportionately to their production or matching agricultural growth.

Recent Government Schemes for Agricultural Reforms

- Financial assistance: To support farmers in effectively undertaking the post-harvest rabi produce and preparatory work for kharif crops, Rs 30,000 crore additional emergency working capital fund through NABARD and Rs 2 lakh crore of concessional credit has been provided.
- Allocation of Rs 1 lakh crore for Agri Infrastructure Fund will strengthen cold chain and post-harvest management infrastructure in the vicinity of their farm gates for farmers.
- The allocation of Rs 20,000 crore for fishermen under Pradhan Mantri Matsya Sampada Yojana (PMMSY) will provide significant impetus to production and exports of marine, inland fisheries and aquaculture and further strengthen infrastructure for fishing harbours, cold chain and markets.
- The announcement on setting up of Animal Husbandry Infrastructure Development Fund of Rs 15,000 crore will tremendously support private investments in dairy processing, establishment of plants for export of niche products, strengthen value addition and cattle feed infrastructure.
- Amendment to Essential Commodities Act: With the aim to enable better price realisation for farmers to attract private investments and make the agriculture sector competitive, amendment of the Essential Commodities Act and deregulation of agriculture food items, including cereals, edible oils, oilseeds, pulses, onions and potato, have been announced.
- Extension of Operation Green to TOTAL: Another step towards a better price realisation for farmers has been the extension of Operation Green from Tomato, Onion and Potatoes (TOP) to all fruits and vegetables (TOTAL) in a pilot project for six months. Also, this will reduce wastages and promote affordability of products by consumers.
- In addition, during the last few years, a plethora of schemes and initiatives have been announced by the government. A few of the major schemes are:
 - ▶ soil health card scheme
 - ▶ launch of a pan-India electronic trading platform under the National Agriculture Market (NAM)
 - ▶ Pradhan Mantri Fasal Bima Yojana
 - ▶ Pradhan Mantri Krishi Sinchai Yojana (PMKSY)
 - ▶ dedicated online interface e-Krishi Samvad

- ▶ favourable taxation treatment to Farmer Producers Organisations (FPOs)
- ▶ Micro-Irrigation Fund (MIF)
- ▶ Pradhan Mantri Kisan SammanNidhi (PM-KISAN)
- ▶ Paramparagat krishi vikas yojana
- ▶ NATIONAL AGRICULTURAL MARKET (NAM)

Doubling farmers' income

- ▶ The Government shared the vision of doubling farmers' income in 2016.
- ▶ A time frame of six years (2016-17 to 2022-23) was delineated as the period for implementation of this reform measure to transform the vision into reality.
- ▶ The roadmap for doubling farmers' income include-
 - ▶ increase in productivity of crops
 - ▶ increase in production of livestock
 - ▶ improvement in efficiency of input use
 - ▶ increase in crop intensity
 - ▶ diversification towards high value crops
 - ▶ improved price realisation by farmers
 - ▶ shift to non-farm jobs
- ▶ Agriculture Export Policy, 2018: In a major breakthrough, the Government approved the Agriculture Export Policy, 2018 with an objective to double farmers' income by 2022.

❑ Why Agriculture matters?

- The role of the agriculture sector remains critical to the Indian economy as a large proportion of the population still depends on agriculture directly or indirectly.
- The sector is a supplier of food, fodder and raw materials for a vast segment of industry.
- Agriculture sector in India is still the primary source of livelihood of millions. More than 40 per cent of the total workforce in the country still depends on agriculture for their livelihood.
- India is globally acknowledged as the leading producer of several agriculture and allied products.
- Globally, India is well known as the leading producer of milk, banana, mango, guava, papaya, ginger, okra, wheat, rice, fruits, vegetables, tea, sugarcane, cashew nut, cereals, coconut, lettuce, chicory, cardamon, pepper, among others with availability of diverse agro-climatic zones.
- India supports around 18 per cent of the world's population with about 2.4 per cent of the world's land and 4 per cent water resources.

❑ Is raising MSP the 'only' solution?

- Raising the minimum support price (MSP), price deficiency payments or income support schemes can only be a partial solution to the problem of providing remunerative returns to farmers.
- A sustainable solution is market reforms to enable better price discovery combined with long-term trade policies favourable to exports.
- The creation of a competitive, stable and unified national market is needed for farmers to get better prices.

■ What's adding to the challenges?

- In recent years, agricultural markets have witnessed only limited reforms. They are characterised by-
- inefficient physical operations
- excessive crowding of intermediaries
- fragmented market chains
- Due to this, farmers are deprived of a fair share of the price paid by final consumers. States have also not shown any urgency in reforming agricultural markets.
- For better price for farmers, agriculture has to go beyond farming and develop a value chain comprising farming, wholesaling, warehousing, logistics, processing and retailing.

■ What needs to be done?

- Focus on ease of doing farm business: Availability of sound ease of doing business is critical for the growth of the agriculture sector. There is a need to strengthen the environment for providing one stop information source on various policy developments, incentives offered, agriculture supporting resources and infrastructure facilities across the country.
- Strong government support: Farmers must be assured that the government will extend necessary help to enable them to continue farming in a profitable way.
- Price stabilisation fund: A price stabilisation fund should be established and proactive measures taken to save farmers from economic collapse.
- Focus on crop insurance: Crop insurance and prompt compensation are important for sustainable agriculture. The government needs to promote a credit-cum-insurance policy, which will insulate farmers from losses due to factors beyond their control.
- Crop-livestock integration: Crop-livestock integration has always helped in ensuring both income and nutrition security.
- The National Commission on Farmers recommended a major non-farm initiative, on the model of the rural township programme of China.
- This would involve agriculture-based enterprises such as mushroom cultivation, use of bio-pesticides and bio-fertilisers, apiculture, inland and coastal aquaculture, and the biological software essential for sustainable agriculture.
- Biomass utilisation: The State needs to adopt more biomass utilisation through bioparks such as the rice bio-park established by the Government of India in Myanmar.

Conclusion

- Agriculture is dying, not as in the production of food but as a desirable profession. The clearest indicator of the problems of agriculture as a profession is how there are actually shortfalls of labour in some areas, with larger farms relying on imported farm labourers, drawn not just from the neighbouring states but from the far ends of the country (especially the north-east) and even Nepal.
- In the present difficult scenario amid the COVID-19 pandemic, the agriculture sector is the low hanging fruit. At this juncture, the government have an opportunity to boost more and more growth of agriculture with a lot of efforts and technology support. This will also lead to growth of the manufacturing sector and spur the overall economic growth trajectory of the country.

NITI Aayog & Agriculture

NITI Aayog, through a discussion paper, recommended reducing the rural and urban coverage under the National Food Security Act (NFSA), 2013, to 60% and 40%, respectively.

Background

- ❑ India is one of the world's biggest crop producers and more than half of its 1.3 billion people rely on agriculture for their livelihoods.
- ❑ But the major problem faced by India is "the problem of food management and its distribution".
- ❑ India is the largest producer in the world of milk, ginger, turmeric, and other things.
- ❑ It also has the world's largest cattle population (281 million). It is the second-largest producer of wheat, rice, sugar, groundnut, and inland fish.
- ❑ It is the third-largest producer of tobacco.
- ❑ India accounts for 10% of the world fruit production with the first rank in the production of bananas.
- ❑ Despite ensuring ample availability of food, the existence of food insecurity at the micro-level in the country has remained a formidable challenge for India.
- ❑ In the recently released 2020 Global Hunger Index, India ranks 94th out of the 107 countries. With a score of 27.2, India has a level of hunger that is serious.
- ❑ In 2010, the government introduced the "Food Security Bill" 2010, which is considered as the biggest ever experiment in the world for distributing highly subsidized food for any government through a "rights-based" approach.
- ❑ The National Food Security Bill after much debate and analysis was passed and became a law on 12th September 2013.
- ❑ According to the United Nations, India shares a quarter of the global hunger burden, and nearly 47 million children not meeting their full potential due to malnutrition.

Analysis

❑ What is the NFSA?

- Under the Act, each Antyodaya Anna Yojana household, which refers to the poorest sections of the country, is entitled to 35 kg of food grains per month.
- This policy covers approximately 2.37 crore households or 9.01 crore persons, as on February 1, 2021.
- Besides, nearly 70.35 crore persons from priority households, or those who hold a ration card, are entitled to 5 kg of food grains per person per month.

Food Security

- According to NFSA, Food Security is defined as the availability of sufficient food grains to meet the domestic demand as well as access, at the individual level, to adequate means of food at affordable prices.
- The globally recognized definition of food security is access to food at the household level at all times to ensure a healthy and active life for all its members.

❑ Need for Revision

- Food subsidy bill has increased significantly and reached Rs 4.22,618 crore for 2020-2021, according to revised estimates for the year due to following reasons:
- **Revision of Central Issue Price due since 2016:** The subsidised prices were fixed for 3 years from the date of commencement of the Act as per Schedule-I of the Act.
 - ▶ The date for revision was 2016 but it was never done.
 - ▶ The revised prices cannot exceed the minimum support price for wheat and coarse grains, and the derived minimum support price for rice.
 - ▶ Economic Survey 2020-21 also recommended it.
- **No Update on Coverage list:** Section 9 of the Act deals with an update of coverage of population under the Act.
- **Section 9 of NFSA 2013:** The percentage coverage under the Targeted Public Distribution System in rural and urban areas for each State shall, subject to sub-section (2) of section 3, be determined by the Central Government and the total number of persons to be covered in such rural and urban areas of the State shall be calculated on the basis of the population estimates as per the census of which the relevant figures have been published.”
 - ▶ But this data is too old (of 2011) and there may be exclusion and inclusion errors.
 - ▶ Also different states and Union Territories are demanding an annual updating system.
- The **Shanta Kumar committee** report had recommended reducing the coverage rate from 67 percent of the population to 40 percent.

❑ What is the current coverage?

- Currently, 75% of the rural population and 50% of the urban population come under NFSA's coverage.
- Overall, the Act covers 67% of the country's total population.

❑ What has been recommended?

- Government think tank NITI Aayog has recommended the following:
 - ▶ Lowering coverage: Lowering the coverage of both rural and urban population under the National Food Security Act, 2013, to save up to Rs 47,229 crore annually.
 - ▶ It suggests reducing the coverage to 60% from the current 75% of the rural population, and to 40% from the current 50% of the urban population.
 - ▶ Updating population data: Updating the population level which is currently based on Census 2011.
 - ▶ The erstwhile Planning Commission had determined the state-wise coverage ratio of the NFSA based on the rural and urban coverage ratio of 75:50.
 - ▶ The coverage ratio has not been revised since the law came into effect on July 5, 2013.
 - ▶ Revising coverage ratio: Revising the state/Union Territory-specific coverage ratios and identifying eligible beneficiaries.
 - ▶ Niti Aayog's suggestions come at a time when the food subsidy bill has touched Rs 4,22,618 crore for 2020-21.

❑ Important Reports

- Shanta Kumar Committee: In the past, the Shanta Kumar Committee, which submitted its report in January 2015 on “Reorienting the role and restructuring of Food Corporation of India”, had recommended reducing the coverage ratio from 67% of the country’s population to 40%.
- Economic Survey (2020-21): The Economic Survey for 2020-’21 had also recommended a revision of the Central Issue Prices (CIP) of food grains released from the central pool, observing that the food subsidy, at its current level of Rs 4,22,618 crore, is becoming “unmanageably large”.

❑ Important Government Programs

- To combat this perennial problem of food security, Government did introduce some major program such as:
- Mid-day meal Scheme: The program provides daily meals to over 120 million children between classes 1 and 8 in all government and government-aided schools with nutritious cooked meals.
- Integrated Child Development Services(ICDS): The ICDS provides 100 million children under 6 years of age and pregnant and lactating mothers with cooked meals and take-home rations.
- Public food distribution system (PDS): PDS is a system of government-sponsored chain of shops entrusted with the work of distributing basic food and non-food commodities to the needy sections of the society at very cheap prices.
- Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGS): The Act aims to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work.
- Antyodaya Anna Yojana (AAY): It is the sponsored scheme of Government of India to provide highly subsidised food to millions of the poorest families.

Right to Food: A Fundamental Right?

- Article 39(a) of the Constitution, enunciated as one of the Directive Principles, is fundamental in the governance of the country.
- It requires the State to direct its policies towards securing that all its citizens have the right to an adequate means of livelihood.
- While Article 47 spells out the duty of the State to raise the level of nutrition and standard of living of its people as a primary responsibility.
- The Constitution thus makes the Right to Food a guaranteed Fundamental Right which is enforceable by virtue of the constitutional remedy provided under Article 32 of the Constitution.

❑ Major issues/challenges in ensuring food security

- The disappointment in the failure of attainment of food security can mainly be attributed to the:
- prevalence of inequality among the society
- unsuccessful delivery of public services
- pathetic liability system
- infringement in the implementation of pro-poor policies

❑ What measures are required?

- **Addressing major challenges:** India’s food security challenges lie in the areas of low GDP per capita, sufficiency of supply, public expenditure on R&D and protein quality. India needed to address these issues not just for food security, but welfare of rural India, where the majority of people live.

- **Enhancing agricultural sector:** Agriculture remains the pre-dominant occupation in India for vast sections of the population. Over the years, several new challenges have emerged before the sector.
- With fragmentation of agricultural holdings and depletion of water resources, the adoption of a resource-efficient, information and communication technology (ICT) based climate-smart agriculture can enhance agricultural productivity and sustainability.
- **Transparent arrangement:** There is a need to shift from the existing expensive, inefficient, and corruption-ridden institutional arrangements to those that will ensure cheap delivery of requisite quality grains in a transparent manner and are self-targeting, g.- Automatic Grain Dispenser or Grain ATM.
- **Ensuring quality food:** An organized system of inspecting the quality of food offered in public places.
- Assessing the real situation: Furthermore, the Government needs to conduct a fresh national survey on food insecurity to assess the impact of the COVID-19 pandemic on the food security of different sections of the population.
- **A UN World Food Programme (WFP)** report indicates a rise in hunger due to the pandemic, with approximately 270 million people facing food insecurity as opposed to the 149 million during pre-COVID times. This is a matter of grave concern.

Value Addition

- ▶ NITI Aayog: The National Institution for Transforming India (NITI Aayog), was formed via a resolution of the Union Cabinet on January 1, 2015.
- ▶ NITI Aayog is the premier policy 'Think Tank' of the Government of India, providing both directional and policy inputs.
- ▶ While designing strategic and long term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre and States.
- ▶ Food Corporation of India: FCI is the government agency managing the procurement and distribution of foodgrains.
 - ▶ Set up in 1965 under the Food Corporations Act, it is responsible for procurement of foodgrains at MSP, storage and maintenance of adequate buffer stock, and distribution through the public distribution system (PDS).
 - ▶ The agency primarily procures foodgrains like wheat and paddy at MSP, which are raised every year in accordance with inflation in cultivation cost of these crops.
- ▶ Minimum Support Price (MP): MSPs are revised every year in line with the recommendations of the Commission for Agricultural Costs and Prices but the sale prices have remained largely untouched.

Conclusion

- Food security is the backbone of national prosperity and well-being. The health of any nation is directly linked to food security.
- While the Union government has taken various steps to ensure food security through schemes such as the Food Security Act, 2013, the revised coverage ratio will have a huge impact on many rural and urban families. The government must adopt a well-detailed plan to cautiously examine the suggestions of NITI Aayog taking into consideration the number of households that depend on food rations to survive. Their future cannot be compromised.

Agriculture Finance–Problem & recommendation

Problems of Agricultural Finance

- ❑ **Limited Coverage:** The foremost problem of agricultural credit is that its coverage is very limited. In co-operative, universal membership has been accepted as a policy but people from weaker sections of the society are not being given proper representation in administration of co-operative societies. Consequently, they are intended to depend upon money lenders and landlords to meet their basic requirements.
- ❑ **Complicated Procedures of Loans:** It has been observed that number of formalities are to be completed to avail credit facilities. Majority of farmers are illiterate and are unable to furnish requisite informational. Therefore, farmers prefer to borrow from money lenders and pay higher rate of interest. Moreover, there is large time gap between submission of loan applications and sanction of loans.
- ❑ **Wastage of Time and Man Power:** Most of financial institutions like commercial banks, state co-operative banks etc. are situated in cities. Farmers have to visit the bank offices for a number of times to fulfil many formalities leading to the sanction of loans. This results in wastage of time and manpower.
- ❑ **Lack of Co-ordination:** Another problem of agricultural finance is that the co-operatives and commercial banks lack co-ordination in respect of credit planning. This results in overlapping as commercial banks credit flows to those areas where due credit structure is strong and areas of low credit availability remains deprived. Therefore, paucity of funds has been greatly responsible for low production of agriculture, thus, poverty of the cultivators.
- ❑ **Misutilisation of Loans:** It has been observed that there is a gap between disbursement and requirement in the farm sector. The situation becomes more pitiable when the granted loans are being misutilised by the farmers. In other words, the loans are utilized for unproductive purposes in rural areas of the country.
- ❑ **Inefficient Administration:** Still another problem faced is that co-operatives and commercial banks are managed by inefficient and incapable persons. These organisations possess inadequacies which are difficult to handle easily. There is no second opinion that they do not work for the betterment of farming community. Rather, they are keen for their personal benefits.
- ❑ **Regional Imbalances:** An acute problem has been noticed that there is regional imbalances in the supply of agricultural credit. For example, five states, Gujarat, Andhra Pradesh, Punjab, Tamil Nadu, Maharashtra availed 52 per cent of the total agricultural credit. This had led to rapid growth in crop of these states lag behind in the adoption of new technology. It is only due to the lack of credit facilities in these areas of the country.
- ❑ **Mounting Overdues:** The stagnation of agriculture has caused mounting overdues. The efforts to wipe off loans in some parts of the country can be seriously viewed. In fact, it has set an undesirable precedent and will hamper the development of agricultural sector in future.
- ❑ **No Provision of Consumption Loans:** Due to the seasonal nature of farm incomes, peasants need credit both for production purpose and consumption needs of the family. No doubt, commercial banks provide loans for the purpose of durable consumption goods but this facility is limited to urban areas. Therefore, farmers are compelled to borrow from money lenders for consumption needs who suck their blood by using malpractices.
- ❑ **Low Rate of Share in Development:** Since there is low productivity in agriculture, so it has led to a low share in the economic development. This is due to non adoption of latest technology. This evidence shows that commercial banks still prefer industry and trade safest field to invest rather the agricultural sector. Moreover, large amount of the total credit facilities are pocketed by rich farmers,

leaving poor cultivators at the mercy of unscrupulous money lenders. The same pattern is common in loan disbursement of co-operatives as they are managed by the well to do farmers.

- ❑ **Lack of Savings:** There is lack of rural savings in the country. Whatever rural savings exist fall short of rural needs and that is why there is a greater need for outside finance in the rural areas of the country.
- ❑ **Predominance of Private Agencies:** In India, there exists the private agencies. There is an urgent need for the substitution of private agencies as we have been able to do in the sphere of industrial finance in the country. Institutional credit may be private or otherwise but the continuance of professional moneylenders as the major source of finance to cultivators cannot solve the problem of rural finance.

Suggestions for Improvement

❑ Recommendations of All India Rural Credit Survey Committee

- All India Rural Credit Survey Committee has made certain far reaching recommendations for the development of Co-operative societies. Some of the main recommendations are as under:
 - State partnership in the share capital of co-operative societies at all levels, from primary societies in the villages to the banks, and from simple lending to warehousing, marketing and processing of agricultural produce.
 - Linking of co-operative credit with Co-operative marketing.
 - Nationalisation of the Imperial Bank
 - Establishment of a National Co-operative Development and warehousing Board for the promotion of storage and warehousing.
 - Creation of three special funds one under the Ministry of Food and Agriculture and the other two under the Reserve Bank of India, namely, the Long-term National Agricultural Credit fund and the Short-term National Agricultural Credit fund.
 - Proper and adequate training of personnel for co-operative societies.
 - Reorganisation of co-operative movement.
- It emphasized not only State guidance and State aid, but also State partnership with co-operatives in credit, processing and marketing etc. It should be noted that while it emphasized state participation, it sounded very rightly that it should not lead to state interference in the day-to-day working of co-operatives.
- Taking stock of situation in terms of success of private moneylenders, the cooperative societies should assume the role and act “like a doctor, who feels the pulse of patient, prescribes the medicine and helps in administering it.” Thus, the needs of farmers should be diagnosed properly and accordingly treatment must be made.

❑ Recommendations of Mehta’s Committee on Co-Operative Credit

- The committee on Co-operative Credit under the chairmanship of Mr. V.L. Mehta has made several recommendations for the development of co-operative credit in the country. Some of the main recommendations of the committee were:
- The organization of co-operatives in general, should be based on the village community as a primary unit. To ensure the viability of these societies, the number of villages to be covered by each society should be increased in case the village covered by it is small. But care should be taken to see that the extension is subject to the maximum limits of a population of 3,000 and a distance of not more than 3 to 4 miles from the headquarters.
- State partnership in the share capital of primary agricultural societies should be subject to the maximum contribution ordinarily limited to Rs. 5,000 and only in exceptional circumstances, it should be increased to Rs. 10,000.

- Membership should be open to all classes of cultivators; and attention should be paid to the production requirements and repaying capacity of borrowers while granting loans.
- Co-operative institutions must expand their range of credit and distribution operations. They must strengthen themselves and collect share capital and deposits on a very large scale, by attracting local deposits to the maximum extent possible.
- A programme for the reorganization and revitalization of primary societies should be undertaken with a view to making them viable economic units with necessary full-time paid staff.
- There should be liberalization of lending policy by the Reserve Bank of India, to central co-operative banks for enabling them to obtain larger funds.
- Departmental and other staff should be increased and proper arrangements should be made for their training.

■ Recommendations of Mirdha Committee

- The Mirdha Committee found that the movement suffered from various shortcomings mostly from a deliberately accelerated pace of expansion observed that the movement was proceeding on the right lines. It emphasized open membership, democratic control, distribution of surplus to members in proportion to their transactions, limited interests on capital, mutual aid, thrift and self-help and promotion of education as essential principles for the sound growth of the co-operative movement.
- Before a society is registered, detailed conditions should be prescribed to ensure a minimum performance. These might be mostly in terms of a minimum membership and a minimum share capital to be achieved before registration. The planning of a new society must ensure that targets have some relations to financial resources and administrative preparedness. The committee said that the problem of dormancy of a huge number of agricultural credit-service societies was very disturbing; and quick action was needed to eliminate societies which had no chances of revival. A programme of revitalization for growth should be carried out quickly.
- It is, thus, concluded that the present shortcomings could be remedied with vigilant administration and supervision at official and non-official levels.

Crop Insurance in India

Related Issues

- A four members Committee headed by Dr. P. K. Mishra, former Secretary, Department of Agriculture and Cooperation was constituted in September 2013 to examine the loopholes in the implementation of the Crop Insurance Schemes.
- The Committee examined the various issues related to Crop Insurance such as:-
 - Discrepancy in area insured.
 - Delay in receiving crop – cutting data and quality and reliability of such data.
 - Weather data.
 - Crop loan practices.
 - Crop insurance premium.
 - Settlement of Claims.
 - Role of Banks and Agricultural Insurance Companies in the operation of schemes and
 - Awareness of farmers regarding various features of the Schemes.

Critical Analysis of PM Crop Insurance Scheme

- ❑ In April 2016, the Government of India had launched Pradhan Mantri Fasal Bima Yojana (PMFBY) after circumscribing the earlier insurance schemes, viz. National Agriculture Insurance Scheme (NAIS), Weather-based Crop Insurance Scheme and Modified National Agricultural Insurance Scheme (MNAIS).
- ❑ Thus, at present, PMFBY is the only flagship scheme of the government for agricultural insurance in India.
- ❑ Despite the centre pumping more funds into its flagship crop insurance scheme, coverage among farmers is on the decline.



❑ Pradhan Mantri Fasal BimaYojana (PMFBY)

- To help farmers cope with crop losses, the Government of India launched its flagship scheme Pradhan Mantri Fasal BimaYojana (PMFBY), starting from the kharif season of 2016.
- PMFBY replaced the National Agricultural Insurance Scheme (NAIS) and Modified National Agricultural Insurance Scheme (MNAIS). PMFBY is designed to reduce the burden of crop insurance on farmers.
- The Weather-Based Crop Insurance Scheme (WBCIS) remains in place, though its premium rates have been made the same as in PMFBY.
- State governments have the authority to decide whether they want PMFBY, WBCIS or both in their respective states.
- The new Crop Insurance Scheme - PMFBY- is in line with 'One Nation – One Scheme' theme.

❑ Key Features of PMFBY

- PMFBY fixes a uniform premium of 2% of the value of sum insured to be paid by farmers for all kharif crops, 1.5% of sum insured for all rabi crops, and 5% of sum insured for annual commercial and horticultural crops or actuarial rate, whichever is less.

- The balance premium will be paid by the government to provide the complete insured amount to farmers against crop loss on account of natural calamities.
- The subsidy is divided equally between the state and the Central government. There is no upper limit on government subsidy for actuarial premium.
- 25% of the likely claim will be settled directly in farmers account.
- There will be one insurance company for the entire state.

Recent changes:

- The scheme was once mandatory for loanee farmers, but 2020, the Centre changed it to make it optional for all farmers.
- Earlier the rate of average premium subsidy including the difference between the actuarial premium rate and the rate of the insurance premium payable by the farmer was shared by the state and center, further states and UTs were free to extend additional subsidies over and above the average subsidy from their budgets.
- The Centre decided in February 2020 to limit its premium subsidy to 30% for unirrigated areas and 25% for irrigated ones (from the existing unlimited). Previously, the central subsidy had no upper limit.

■ Possible Reasons for Decline in Insurance

- Only 40% of the premium due from state governments has reached insurance companies and the farmers are suffering due to the delay.
- Centre is yet to calculate the total claims filed by farmers in the current year ending March (2017-18), indicating long delays in settlement of claims.
- Due to rising indebtedness and delays in loan repayment by farmers expecting to benefit from loan waivers, it could be that banks are issuing less fresh loans. This could be bringing down the number of loanee accounts and therefore, the (mandatory) crop insurance enrolment numbers.
- Scheme is also failing to attract non-loanee farmers due to delays in claim settlements.
- Insurance scheme is beset with problems like delays in assessment of crop loss and claim settlement, high actuarial premiums charged by insurance companies, and lack of officers monitoring the scheme.
- Blame game - The central government has been citing poor implementation by the states for the lackadaisical response to the scheme. State officials blame that bid of private insurance companies for more profit and delay in settlement of claims are crucial factors for the decline.

■ Challenges for PMFBY

- The premium subsidy under the PMFBY is to be equally shared between the Centre and the states. One reason for delay in claim payments by insurance companies is the latter not releasing their part of the subsidy on time.
- The states are also slow in conducting village-level crop-cutting experiments and submitting yield data from the same to the insurance companies.
- The insurance companies themselves have no direct connection with the farmers. In most cases, they don't even maintain databases relating to landholdings or cropping patterns. The premiums are collected and passed on by the banks that extend loans to the farmers.
- The scheme, thus, acts "more as loan insurance than as crop insurance".
- Problem encountered with this scheme is that the actuarial premium, instead of coming down with the increasing scale of coverage, has gone up.

■ Reforms Needed

- To force the states to implement PMFBY properly, the Centre should bear the whole premium subsidy burden and link its release to states meeting prescribed operational schedules.
- Once the insurance companies are assured of timely release of subsidy and also of crop yield data from the states, they will have no excuse for delaying claim settlements.
- There are problems in assessing and getting data. A specialized agency with help of modern technology like satellite imaging could be of great help.

Way Forward

- Indian agriculture is reeling at the menace of twin droughts following El-Nino phenomenon and untimely Rabi season rains and hailstorms. It is against this backdrop, that a crop insurance scheme to deal with risks associated with weather fluctuation is imperative for alleviating the distress caused to the farmers.
- While recent decline in insurance highlights drawbacks in scheme. Government should muse over problems of insurance (above mentioned) and take necessary steps at the earliest.

Conclusion

- Government's target of doubling farmer's income by 2022 cannot get great push unless we are able to build proper insurance ecosystem. Government should perform reforms (above mentioned) to bring all the farmers into insurance fold.

Defects in Procurement Policy

■ Objective of Public Procurement Policy

- The Government policy of procurement of Food grains has broad objectives of -
- Ensuring MSP to the farmers.
- Availability of food grains to the weaker sections at affordable prices.
- Keeping the prices under check through effective market intervention and
- Adding to the overall food security of the country.

■ How the procurement process works?

- The foodgrain procurement works into two parts, first is announcement of MSP and then procurement of foodgrain on MSP.
- Announcement of MSP: Before the harvest during each Rabi / Kharif Crop season, the Government of India announces the minimum support prices (MSP) for procurement on the basis of the recommendation of the Commission of Agricultural Costs and Prices (CACP).
- New order:
- According to experts, this decision has been taken to prevent the influx of Chinese products and investments into India, following the clashes between Indian and Chinese troops in Galwan Valley.
- To push for Atmanirbhar Bharat (self-reliant India).
- Bidders from these countries will be eligible only if they are registered with the Registration Committee (Competent Authority) constituted by the Department for Promotion of Industry and Internal Trade (DPIIT).

- For national security reasons, the Registration Committee shall not be required to give reasons for rejection/cancellation of registration of a bidder.
- Bidders will also be required to take mandatory political and security clearance from the ministries of External Affairs and Home respectively.
- The order will be applicable for public sector banks and financial institutions, Autonomous Bodies, Central Public Sector Enterprises (CPSEs) and Public Private Partnership projects receiving financial support from the Government or its undertakings.
- The order will not apply to procurement by the private sector.

■ **Procurement:**

- Open ended procurement policy for Wheat and paddy: FCI, the nodal central agency of Government of India, along with other State Agencies undertakes procurement of wheat and paddy under price support scheme.
- Open ended procurement policy: Whatever food grains are offered by the farmers, within the stipulated procurement period and which conforms to the quality specifications prescribed by Government of India, are purchased at MSP. If the farmers get prices better than the support price from other buyers such as traders/millers etc., the farmers are free to sell their produce to them. FCI and the State Government/its agencies ensure that the farmers are not compelled to sell their produce below support price.
- Coarse grains are procured by State Government Agencies for Central Pool as per the direction issued by Government of India on time to time.

■ **What are the problems with procurement policy?**

- Faulty calculations: Though FCI decides procurement targets annually on consultation with states, but they many a times do not reflect the ground realities of production.
- Delay in opening of Procurement places: hanta Kumar Committee has said the procurement centers open with delay, are not distributed across the states, are far away and sometimes very few. This creates hurdles for selling the food grains.
- Exclusion of sharecroppers: Sharecroppers are left out of the paddy procurement process, only farmers are registered for the procurement process.
- Poor storage infrastructure: Since many states and FCI suffer from poor storage infrastructure, they does not sincerely open ended procurement policy, because it will be difficult for them to store foodgrains, which can lead to wastage and they will have to bear the cost.
- Collusion among state government agencies and private players: Private players in order to procure at lower rates collude with government agencies. This force farmers to sell at lower rates. This generally happens where farmers lobbies are weak.
- Delay in payments also creates problems for farmers.
- All these factors not only create problems for farmers but also affects agriculture system. The government's pledge to double the farmer's income by 2022 sound hollow under such circumstances. In absence of remunerative prices investment in agriculture declines, farmers fall into debt trap, the families and rural economy suffers.

■ **What should be done?**

- There is a need to ensure efficient procurement policy, which focuses on the overall food security and agriculture sector.
- Food procurement must be seen as a component of the overall agriculture system which ties to ensure remunerative prices for farmers, ensure food security and price stability.

- Infrastructural arrangements should be made at enough number of places with proper facilities for foodgrains, farmers to avoid overcrowding, wastage.
- Grievance redressal system for farmers so that they can approach some authority if they are facing some difficulties in procurement and to ensure proper implementation of open ended procurement policy of foodgrains.
- Reforms in agriculture marketing which will help in turning agriculture into a business, rather than only a means of livelihood. It will help in proper forecasting of demand, will help making informed decisions by farmers about which crop should be sowed and help in getting remunerative returns.
- Revitalize food processing sector so that wastage of food is reduced and supply chain is streamlined.
- It will boost farmers income, minimize distress sale and can bring in contract farming which if properly regulated can bring returns for farmers.
- All these steps will ensure that agriculture turns into profitable venture and becomes part of virtuous circle. It will also help agriculture to move away from the support of government (which can be reserved only for certain emergency situations only).

■ Relaxations:

- Relaxation will be provided for procurement of Covid-19 medical supplies till 31st December 2020.
- The order for prior registration will not apply for countries to which India extends lines of credit or provides development assistance, even if they share a land border with India.
- India shares its border with China, Nepal, Bhutan, Pakistan, Bangladesh, Afghanistan and Myanmar.
- As per official data, out of these, the government has extended lines of credit to Bangladesh, Nepal, Myanmar.
- India also provides various developmental assistance to Bhutan and Afghanistan.

Reforming Trade in Agriculture Products

- Almost half of India's population depends on agriculture, however its share in GDP is less than one-fifth. This creates anomalies like rising inequality between agriculture and industry cum services sectors and among rural -urban areas. India's development goal depends crucially on improving agriculture productivity and reforming the sector. This is vital to double the farm's income by 2022. The biggest reforms could be related to post-harvest area like marketing and trade of agriculture products.
- Such reforms are important not only because these have direct implication on price received by farmers but it shall also create an efficient and robust market to attract investments especially from private sector and talent required for ensuring a bright future for agriculture in India.

■ One India in Agriculture marketing and trade

- Today, marketing is extremely crucial and almost every sector has embraced marketing principles to ensure best possible outcomes. However, agricultural development in India has entirely ignored the potential of marketing and has continued to follow its old trajectory.
- There is no single market for Agriculture produce in India, rather APMC acts enacted by states mandate farmers to sell their produce to designated Mandis. Thus farmer has to sell to commission agent in mandi at whatever prices they dictates as farmers cannot sell directly to private firms or consumers.
- There is a lack of cold storage and other infrastructure in these mandis and they add layers of middlemen between producer and consumer and lead to price difference between what farmer gets and what consumer pays. In order to streamline trade across India in agriculture products, Agri-market Reforms are required.

- To address the demands for marketing of increased and diversified agricultural marketable surplus there is a need to strengthen the network of regulated markets (APMC) and augment it with alternative marketing channels. In order to keep pace with the changing production pattern and growing marketable surplus, the Government advocates development of adequate number of markets equipped with modern infrastructure, with increased private sector participation and development of other marketing channels like direct marketing and contract farming etc. The Government is actively pursuing with States to amend their marketing laws to provide suitable legal framework and policy atmosphere to usher such developments.
- Further, as a part of reforms, government announced a scheme for setting up of National Agriculture Market (NAM). Under NAM, a common e-market platform is to be deployed for on-line trading across the States/Country. It is expected that NAM would address the marketing constraints of fragmentation, lack of transparency in bidding, poor price discovery, information asymmetry between sellers and buyers and provide farmers with a larger share of the consumer rupee.

■ Other Hindrances to Trade

- Currently, a farmer can take the produce from the farm to a certified warehouse, get the quality inspected and receive a negotiable warehouse receipt (WR) with a unique identity (ISIN). This WR can be traded on the exchange like any other negotiable instrument.
- Theoretically, this works fine and has several advantages. It provides better price realisation for farmers, safer collateral for lenders like banks and NBFCs, a more efficient market place for hedgers and speculators, and better quality and lower disruptions in supply for the end customer.
- But, in practice the storage cost at certified warehouses is higher than the cost at the non-certified ones, this directly impacts the percentage of produce that gets dematerialised.

Agriculture Export Policy, 2018–Need and significance

About

- The Vision of the Agriculture Export Policy is to “Harness export potential of Indian agriculture, through suitable policy instruments, to make India global power in agriculture and raise farmers’ income.”
- The policy has been designed with extensive consultations with states that have agreed to remove a lot of restrictions, including mandi taxes, and APMC (Agricultural Produce Market Committee)-related conditions.
- The implementation of the policy will have an estimated financial implication of over Rs 1,400 crore that will be utilised to set up specialised clusters in different states for different produce to push exports.

Highlights of the Policy

■ Objectives of the Agriculture Export Policy:

- To double agricultural exports from present US 30 Billion to US 60 Billion by 2022 and reach US\$ 100 Billion in the next few years thereafter, with a stable trade policy regime.
- To diversify our export basket, destinations and boost high value and value added agricultural exports including focus on perishables.

- To promote novel, indigenous, organic, ethnic, traditional and non-traditional Agri products exports.
- To provide an institutional mechanism for pursuing market access, tackling barriers and deal with sanitary and phyto-sanitary issues.
- To strive to double India's share in world agri exports by integrating with global value chain at the earliest.
- Enable farmers to get benefit of export opportunities in overseas market.

▣ Elements of Agriculture Export Policy:

- The recommendations in the Agriculture Export Policy have been organised in two categories – Strategic and Operational – as detailed below:

• Strategic

- ▶ Policy measures
- ▶ Infrastructure and logistics support
- ▶ Holistic approach to boost exports
- ▶ Greater involvement of State Governments in agri exports

• Operational

- ▶ Focus on Clusters
- ▶ Promoting value-added exports
- ▶ Marketing and promotion of “Brand India”
- ▶ Attract private investments into production and processing
- ▶ Establishment of strong quality regimen
- ▶ Research & Development
- ▶ Miscellaneous

▣ Need for an Agriculture Policy

- A stable agricultural import and export policy has been a long-standing demand in India.
- India has a track record to open up imports whenever prices of crucial food items (potato, onion, pulses, etc.) start climbing. This hurts local producers. The government being “pro-consumer” backs cheap imports to keep inflation in food prices low.
- There are several instances of sudden increase in export duties and lowering of import duties to keep food prices in check. The Centre cut the import duty on wheat by a fifth when prices increased in 2016-17, leading to imports from Australia and Ukraine flooding the market. Similarly, a zero import duty on palm oil hurts domestic oilseeds farmers.
- Further, recently the farm exports have also grown by 20 per cent in a year. Agricultural exports of India are currently estimated at \$30 billion.
- The new policy aims at doubling agricultural shipments to over \$60 billion by 2022.

▣ Significance

- The first ever ‘Agriculture Export Policy, 2018’ would help the government in achieving the target of doubling farmers’ income.
- The policy aims to boost exports of agriculture commodities such as tea, coffee and rice and increase the country's share in global agro-trade.
- The policy seeks to diversify exports by products and destination and will focus on high value-added farm produce and perishables. At present, rice, wheat and marine products account for about 52% of the total farm exports.

- The policy would focus on all aspects of agricultural exports including modernising infrastructure, standardisation of products, streamlining regulations, curtailing knee-jerk decisions, and focusing on research and development activities.
- It will also seek to remove all kinds of export restrictions on organic products. The policy will promote organic, ethnic and indigenous products.
- Considering the sanitary and phyto-sanitary issues that farm exports usually run into with many countries, the policy will provide an institutional mechanism to pursue market access and tackle barriers.
- The policy will harness export potential of Indian agriculture through suitable policy instruments to make India global power in agriculture.
- The policy strive to double India's share in world agro exports by integrating with global value chain at the earliest and enable farmers to get benefit of export opportunities in overseas market.

■ Challenges

- According to some experts, the agriculture policy may prove to be a steep task, given the depressed international market for food grain, sugar, cooking oil as well as dairy and meat products.
- There will be an effort to dispose the excess in the international market, but the challenge is that prices in the international market are already lower than domestic prices.
- The current minimum support price (MSP) of wheat and rice make India food grain quite dear in the domestic market. In such cases, India cannot export it into the international market.
- In India MSP of food-grain is linked to politics, not to world trade and political considerations drive MSPs, instead of world trade considerations.
- India has subsidised sugar prices and can compete in the international market, but countries like Brazil will drag India to the WTO dispute settlement forum.
- An on-going dispute at the World Trade Organization (WTO) can also not be ruled out. The United States has already accused India of subsidising farmers heavily to keep prices low.

Way Forward

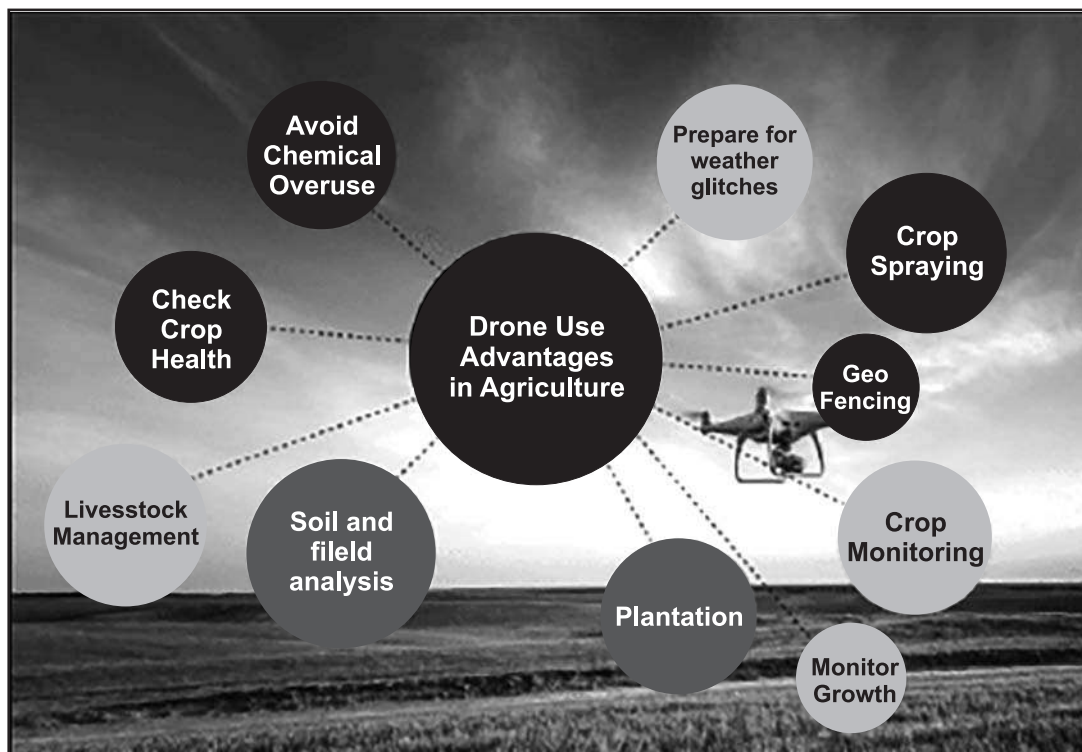
- Some experts suggest that India should shift focus to indigenous, unique products from food grain for the international market.
- The farmers must be made aware and they should know when to start sowing, as external factors like global price, impact the domestic situation.
- The government must focus on production of items like edible oil and vegetables, which India import, to help the Indian farmers.
- To operationalise the policy, dedicated clusters could be set up for items like mangoes, pomegranate, bananas, grapes, tea, coffee, turmeric, and marine products, among others.
- The government must set up 'Brand India' to promote exports and establish as strong quality regime for exports in which the states can also be extensively involved.

Significance & Concerns of Drone Technology in Agriculture Sector

The Prime Minister has **flagged off 100 Kisan drones** in different cities and towns of India to spray pesticides in farms across India. He also flagged off "**Drone Kisan Yatra**" to promote chemical-free farming in India. The initiative was first announced in **Budget, 2022** to ensure inclusive drone development.

Significance in Agriculture Sector:

- ❑ Agriculture drones efficiently study external factors like weather, soil conditions, and temperature and empowers the farmer to make mindful choices accordingly.
- ❑ The gained data helps regulate crop health, crop treatment, crop scouting, irrigation, and carry out field soil analysis and crop damage assessments.
- ❑ The drone survey helps boost crop yields and minimize time and expenses.



Applications of Drone in Agriculture:

- ❑ **Locusts Attacks:** The drones can be used for spraying of insecticides in the areas affected by locusts. Recently, the Maharashtra government decided to use drones to spray insecticides on swarms of locusts.
- ❑ **Mapping/Surveying:** The process of using a drone to map or survey crops is a relatively efficient way to gather exact information in a precise manner.
- ❑ **Crop Dusting/Spraying:** Use of drones in spraying and dusting crops helps reduce costs and potential pesticide exposure to workers who would have needed to spray those crops manually.
- ❑ **Irrigation Monitoring:** Drone survey helps improve water efficiency and disclose potential pooling/leaks in irrigation by providing Irrigation monitoring yields.
- ❑ **Crop Health Monitoring and Surveillance:** Agriculture drones can see which plants reflect different amounts of green light and Near-infrared spectroscopy (NIRS) light. This data helps produce multispectral images to track crop health.
- ❑ **Field Soil Analysis:** The drone survey allows seizing soil data, field soil analysis, irrigation, and nitrogen-level management which permits farmers to analyse their soil conditions thoroughly.

Concerns using Drones in Agriculture:

- ❑ **Knowledge and Skill:** An average farmer cannot analyse drone functioning as it requires specialized skills and knowledge to translate it to any useful information.

- ❑ **Flight Time and Range:** Due to relatively higher payloads, the flight duration of drones used in agriculture is short which results in limited coverage of land.
- ❑ **High Cost:** Mostly, agricultural drones are costlier as it includes the cost of imaging sensors, software, hardware and tools.
- ❑ **National Laws:** Multiple laws governing drone use in India creates ambiguity besides affecting the production and use of drones.
- ❑ **The requirement of obtaining an unmanned aircraft operator's permit (UAOP) for piloting drones, Permission for each flight through Online Digital Sky platform for No Permission No Take off (NPNT) compliance limits use of drones in agriculture.**
- ❑ **Connectivity:** Farmers intending to use drones have to invest in connectivity or buy a drone with local data storing capability in a format that can be transferred and processed later.
- ❑ **Weather Dependent:** Drones are weather dependent. Under windy or rainy conditions, flying drones is not easy, unlike traditional aircrafts.
- ❑ **Misuse:** There is a chance of misuse to infringe the privacy of people and illegal transfer of information.

Recommendations

- ❑ Encourage Start-ups to establish local drone manufacturing/assembling units for agriculture use.
- ❑ Develop a comprehensive legal and policy framework in the form of Civil Aviation Requirements (CAR 3.0) to encourage applications of drones in agriculture.
- ❑ Expedite Digital sky platform with its revision for pragmatic and practical implementation for enhanced drone usage.
- ❑ Capacity development for flying drones is required as it is a skill-based operation.
- ❑ Develop an enabling ecosystem with a single-window concept for entrepreneurs.
- ❑ Encourage Research in drone applications to study various operating parameters in agriculture.

Conclusion

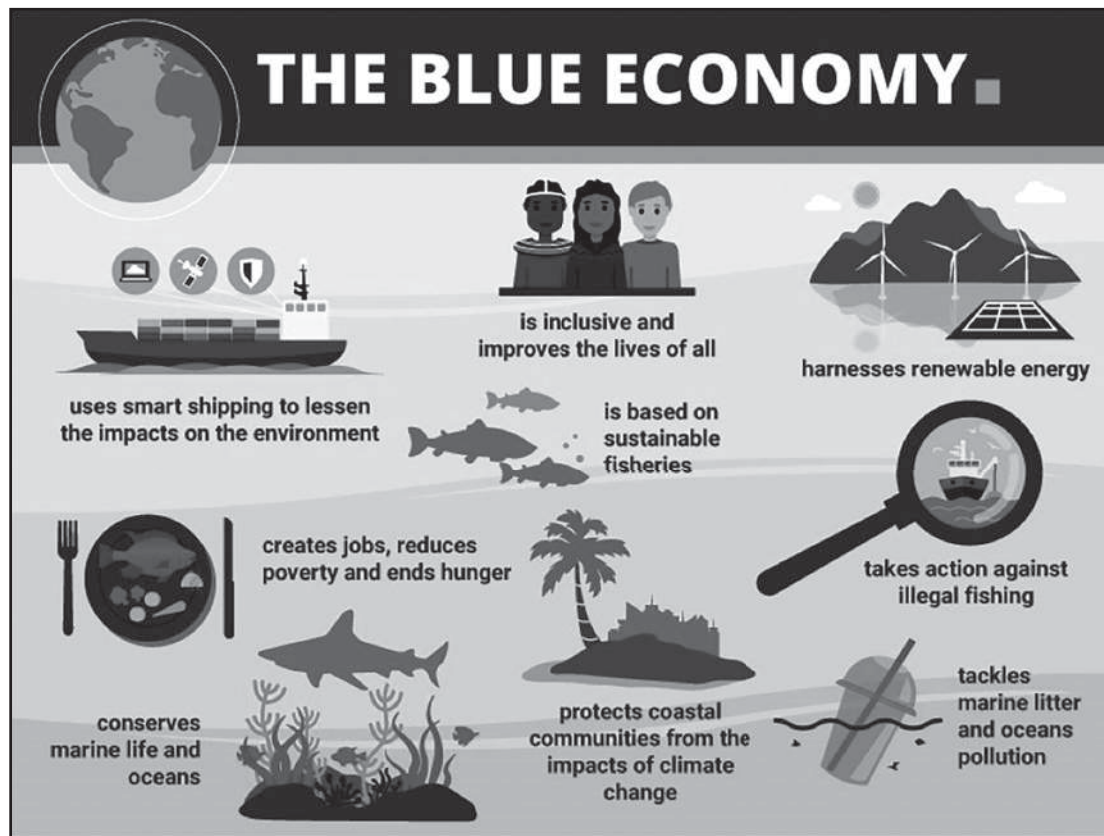
- ❑ The Indian agriculture sector has still not been able to overcome the digital divide that is prevalent for so many years in the rural development scenarios. Hence, it is high time to fill the digital gap for farmers.

Significance of Blue Economy in India

- ❑ According to the World Bank, the blue economy is the “sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem.”
- ❑ Blue economy’ is the integration of ocean economy development with values of social inclusion and environmental sustainability, along with dynamic and innovative business models.
- ❑ For India, however, blue economy extends beyond being merely an economic and environmental proposition. It presents India with an unprecedented opportunity to meet its national objectives, strengthen connectivity with neighbours, and exert influence in the surrounding regions.

Significance of Blue Economy in India

- ❑ India's blue economy is a subset of the national economy comprising the entire ocean resources system and human-made economic infrastructure in marine, maritime, and onshore coastal zones within the country's legal jurisdiction.

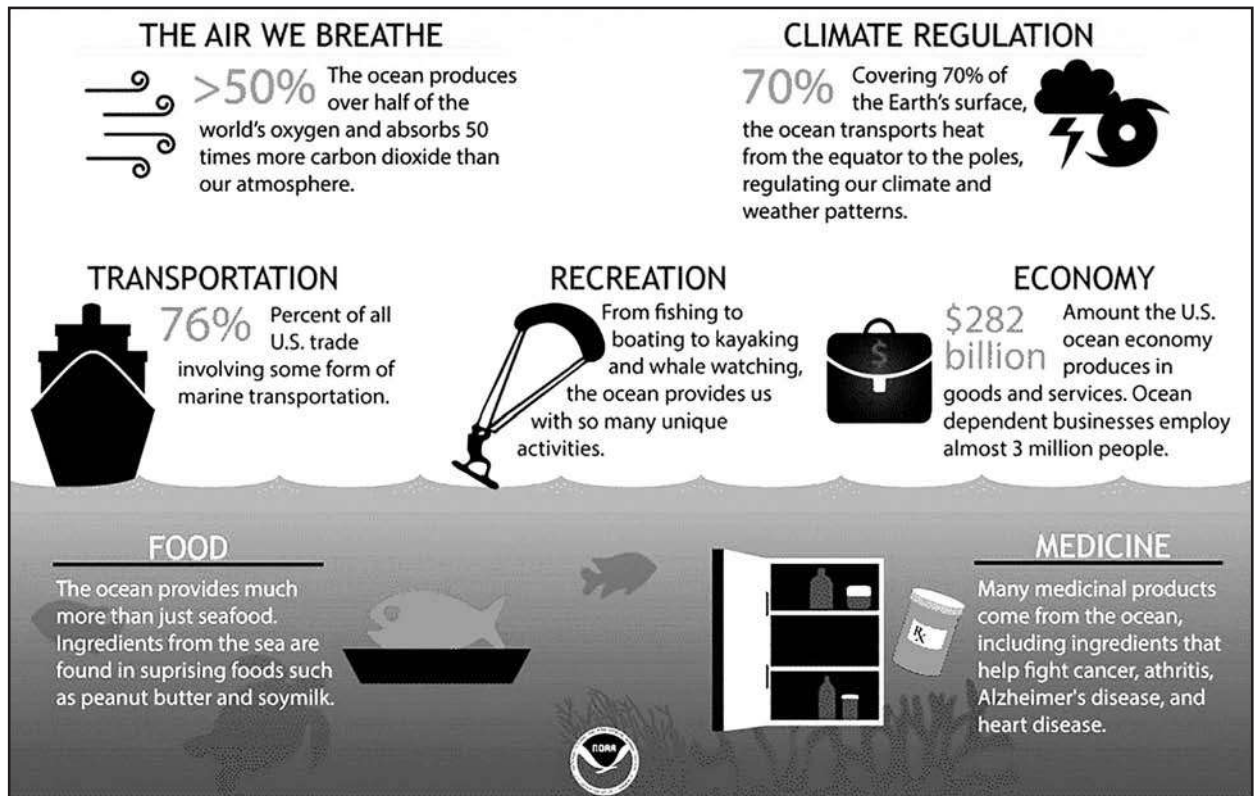


- ❑ **High Return on Investment:** According to research commissioned by the high-level panel for a sustainable ocean economy shows that USD1 invested in key ocean activities yields five times i.e. USD5 in return, often more.
- ❑ **Sustainable Energy:** Supporting the increasing demand for renewable energy, offshore regions have tremendous potential in the form of offshore wind, waves, ocean currents including tidal currents, and thermal energy.
- ❑ With some 7,500 kilometres, India has a unique maritime position. Nine of its 28 states are coastal, and its geography includes 1,382 islands. There are nearly 199 ports, including 12 major ports that handle approximately 1,400 million tons of cargo each year.
- ❑ Besides, India's Exclusive Economic Zone of over 2 million square kilometres has a bounty of living and non-living resources with significant recoverable resources such as crude oil and natural gas. Also, the coastal economy sustains over 4 million fisher-folk and coastal communities.

Governments draft on Blue Economy Policy

- ❑ Given India's vast maritime interests, the blue economy occupies a vital potential position in India's economic growth.
- ❑ It could well be the next force multiplier of GDP and well-being, provided sustainability and socio-economic welfare are centered. Therefore, India's draft blue economy policy is envisaged as a crucial framework towards unlocking the country's potential for economic growth and welfare.
- ❑ **Factors affecting Blue Economy**
- ❑ **Threat of Sea Borne Terror:** Piracy and armed robbery, maritime terrorism, illicit trade in crude oil, arms, drug and human trafficking and smuggling of contraband etc.
- ❑ **Natural Disasters:** Every year tsunamis, cyclones, hurricanes typhoons etc leave thousands of people stranded and property worth millions destroyed.

- ❑ **Man-Made Problems:** Oil spills, climate change continue to risk the stability of the maritime domain.
- ❑ **Impact of Climate Change:** Changes in sea temperature, acidity, threaten marine life, habitats, and the communities that depend on them.
- ❑ **Marine Pollution:** In form of excess nutrients from untreated sewerage, agricultural runoff, and marine debris such as plastics



Steps taken to Promote Blue Economy

- ❑ **India-Norway Task Force on Blue Economy for Sustainable Development:** It was inaugurated jointly by both the countries in 2020 to develop and follow up joint initiatives between the two countries.
- ❑ **Deep Ocean Mission:** It was launched with an intention to develop technologies to harness the living and non-living resources from the deep-oceans.
- ❑ **Sagarmala Project:** The Sagarmala project is the strategic initiative for port-led development through the extensive use of IT enabled services for modernization of ports.
- ❑ **Integrated Coastal Zone Management:** It focuses on conservation of coastal and marine resources, and improving livelihood opportunities for coastal communities etc.
- ❑ **National Fisheries Policy:** India has a National Fisheries policy for promoting 'Blue Growth Initiative' which focuses on sustainable utilization of fisheries wealth from marine and other aquatic resources.
- ❑ **O-SMART:** India has an umbrella scheme by the name of O-SMART which aims at regulated use of oceans, marine resources for sustainable development.

Conclusion

- ❑ With its vast maritime interests, the blue economy occupies a vital potential position in India's economic growth. It could well be the next multiplier of GDP and well-being, provided sustainability

and socio-economic welfare are kept center-stage. India should look to adopt the Gandhian approach of balancing economic benefits with sustainability for meeting the broader goals of growth, employment generation, equity and protection of environment.

Farm Policies: One-Size-Fits-All does not Work

- ❑ India's current policies for the agriculture sector are geared towards short-term solutions and revenue expenditure rather than long-term capital investment solutions. The dependence on subsidies squeezes government spends on critical infrastructure, technology and credit, in the absence of which farmers use inefficient methods of cultivation.
- ❑ The process of formulating and implementing agricultural policies in India is very complex because several ministries, departments and institutions at both the centre and the state level are involved in the process. The Union Ministry of Agriculture, under the guidance of the NITI Ayoga, provides the broad guidelines for agricultural policies. But the implementation and administration of agricultural policies remain the responsibility of respective state governments.
- ❑ The One-Size-Fits All policies hamper its implementation at the ground level.

❑ Example 1: Pradhan Mantri Fasal BimaYojana

- ❑ The PMFBY was launched by the Centre on April 1, 2016 to help farmers cope with crop losses due to unseasonal and extreme weather. It replaced the National Agricultural Insurance Scheme and the Modified National Agricultural Insurance Scheme. The Weather-Based Crop Insurance Scheme (WBCIS) remains in place, though its premium rates have been streamlined with the latest scheme.

❑ Key Features of the New Crop Insurance Scheme

- In this scheme, premium rates to be paid by the farmers have been brought down substantially so as to enable more and more farmers in availing insurance cover against crop loss on account of natural calamities.
- Under the new scheme, farmers will have to pay a uniform premium of two per cent for all Kharif crops and 1.5 per cent for all Rabi crops. For annual commercial and horticultural crops, farmers will have to pay a premium of 5 per cent. The remaining share of the premium, as in previous schemes, will continue to be borne equally by the Centre and the respective state governments.
- Under PMFBY, there will no upper limit on government subsidy and even if balance premium is 90 per cent, it will be borne by the government.
- The use of technology will be encouraged to a great extent under this scheme. Smart phones will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers. Remote sensing will be used under this scheme to reduce the number of crop cutting experiments.
- Total cropped area insured has increased by 58.9 million hectares and premiums worth Rs 21,968 crore have been collected through crop insurance in the financial year (2016-17).

❑ Issues

- Under climate change scenario, making assessment and forecasting rain and other weather conditions accurately has become challenging. This, in turn, is affecting assessment of yield losses and payment of claims to farmers.
- Poor density of government's Automatic Weather Stations (AWS) and lack of trust among farmers in private AWS is presented as another major challenge.
- PMFBY remains a scheme for loanee farmers – who take loans from banks are mandatorily required to take insurance. Like previous crop insurance schemes, PMFBY fails to cover sharecropper and tenant farmers.

- There has been no concerted effort by the state government and insurance companies to build awareness of farmers on PMFBY. Insurance companies have failed to set-up infrastructure for proper implementation of PMFBY. There is still no direct linkage between insurance companies and farmers. Insured farmers receive no insurance policy document or receipt.
- The PMFBY is designed to provide crop insurance and the Central government shares part of the premium subject to conditions. To receive the Central government's share, the state has to walk the dotted line, come hell or high water; whether the region is rain-fed or irrigated; whether the cropping density is less than 100 per cent or upwards of 200 per cent. Simply allowing each state to design its own crop insurance scheme and yet receiving the Central government share of the premium would yield the desired results.

• **Example 2: eNAM–National Agriculture Market**

- ▶ The objective is to create a unified national market for agricultural commodities by integrating the APMCs across India in the states which desire to be part of this initiative.
- ▶ NAM provides single window service for all APMC related services and information, such as commodity arrivals and prices, provision for responding to the trade offers, buy and sell trade offers, among other services. The key facilities include:
 - Enable farmers to showcase the produce through nearby markets and facilitate traders from anywhere to quote price.
 - Sale and Purchase transactions
 - Liberal licensing policies for traders, buyers and commission agents.
 - Single point of levy of market fees.
 - Harmonization of quality standards.
 - Provision of soil testing labs near or in the mandis.
 - Facility to allow states to have their own platforms and link them with NAM
 - The e-NAM is not a parallel marketing structure. It's a device to create a national network of physical mandis which can be accessed online. It seeks to leverage the physical infrastructure of mandis through an online trading portal, enabling buyers even outside the state to participate in trading.

▣ **Challenges**

- To implement it, each State has to first amend its APMC Act to make a provision for electronic auction as a mode of price discovery, allow a single licence across the State and have market fees levied at a single point.
- Currently, only 13 States have enacted the necessary amendments.
- An incentive of Rs 75 lakh per mandi is given by the Centre to the states for linking each market with E-NAM, the electronic platform for trading commodities. There are no scientific sorting/grading facilities or quality testing machines. Lack of internet connectivity is another issue impeding progress. In Maharashtra, the infrastructure is in the development stage, internet connectivity and computers are being provided slowly. And testing labs are yet to be set up both in Gujarat and Maharashtra.
- In UP, Haryana and Rajasthan, too, there are no fully functional online mandis. In Haryana, the procurement of assaying equipment has started.
- States like Haryana log in all FCI purchases as E-NAM transactions. Rather than force E-NAM on states, incentivising each state to have the electronic platform which meets the basic criteria of interoperability with other states is the correct path.

❑ Other areas that need to be worked

- The Central government shouldn't negotiate international trade treaties on agriculture commodities without the consent of the state governments.
- The Centre intervenes to rein in inflation by facilitating the unhindered import of agricultural commodities. This constantly drives down farm-gate prices. But when prices fall, the Central government remains apathetic. To compensate these annual losses, states should demand that the Centre set a floor price for all such farm produce, where only the Central government shells out the shortfall between the market price and floor price via a "Price Deficiency Payment".
- To prepare Indian farmers for global integration, funding for programmes such as the RashtriyaKrishiVigyan and the sub-mission on agriculture mechanization should be doubled and the funding ratio should be changed from 60:40 to 80:20, where the Central government's contribution rises to 80 per cent.

Way Forward

- Our agriculture policy needs to focus on improving productivity.
- Central government should negotiate international trade treaties on agriculture (like RCEP) with the consent of state governments.
- Integrating the 4T formula propounded by the Prime Minister — Tradition, Talent, Technology and Trade. We have to fuse tradition and technology, find it a market place and work towards bringing farmers and business groups together in a federation.
- Centre must follow a scientific methodology for importing agricultural commodities so as to prevent fall in prices.
- Access to formal credit, rationalizing crop rotation and inputs, and weathering seasonal risks.
- Synergy between Ministry of Food Processing with the Ministry of Agriculture and Farmer Welfare.
- Allowing each state to design its own crop insurance scheme and receiving the Central government share of the premium would yield desired results.

Conclusion

Often our policies are focused on farming without looking at their implications for the farmers at the ground level. Unless these policies lead to welfare of farmers, they cannot be sustained. Thus One-Size-Fits-All will not work and decentralized system should be adopted according to the local conditions.

Lab to Land: How to Improve

❑ Lab to Land Programme

- The Lab to Land Programme (LLP) was launched by the ICAR- Indian Council for Agriculture Research, in 1979 as a part of its Golden Jubilee celebration.
- The overall objective of the programme was to improve the economic condition of the small and marginal farmers and landless agricultural laborers, particularly scheduled castes and scheduled tribes, by transfer of improved technology developed by the agricultural universities, research institutes etc.

■ The Specific Objectives of the Lab to Land Project

- To study and understand the background and resources of the selected farmers and landless agricultural laborers. To introduce low cost relevant agricultural and allied technologies on their farms/houses for increasing their employment production and income.
- To assist the farmers to develop feasible farm plants keeping in view the availability of technologies, needs and resources of the farmers, and the resources which could be made available from external sources/agencies.
- To guide and help the farmers in adopting improved technologies as per their farm plans and demonstrate to them the economic viability of those technologies as well as methods of cultivation and farm management.
- To organize training programmes and other extension activities in relation to their adopted practices, and prepare them for active participation in agricultural development programmes of the state departments of agriculture.
- To make the farmers aware of the various opportunities and agencies which they could utilize to their economic advantage.
- To develop functional relations and linkages with the scientists/Institutions for future guidance, advisory services and help.
- To utilize this project as a feedback mechanism for the agricultural scientists and extension functionaries.

■ Krishi Vigyan Kendra (KVK)

- Krishi Vigyan Kendra (KVK) is an innovative science based institution which undertakes vocational training of farmers, farm women and rural youths; conducts on farm research for technology refinement and front line demonstrations to promptly demonstrate the latest agricultural technologies to the farmers as well as the extension workers.
- The KVK functions on the principles of collaborative participation of scientists, subject matter experts, extension workers and farmers.

■ KVK work to:

- Collaborate with the subject matter specialists of the state Agricultural universities/Scientists of the regional research station, NAEP and the state extension personnel in “on farm testing”, refining and documenting technologies for developing region-specific sustainable land use systems.
- Organize training to update the extension personnel within the area of operation with emerging advances in agricultural research on regular basis.
- Organize long term vocational training courses in agriculture and allied vocations for the rural youths with emphasis on “learning by doing” for generating self-employment through institutional financing.
- Organize front-line demonstration in various crops to generate production data and feedback information. Based on the mandates, the following activities are performed by KVK.
- On-Farm Research (OFR): On farm research is an adaptive research which is conducted on farmers’ fields by the farmers with the support from scientists/subject-matter specialists. It is conducted with a farming systems perspective.
- In Service Training: The KVKs has been given the responsibility of conducting in service training of grass route level extension workers like VEWs and others working in Government and non-Government development organizations.
- Vocational Training of Farmers: This had been the major mandate of the KVKs in the past and will continue to be so in future as well. The objective is to organize long term vocation based and skill

oriented training for farmers, farm women, rural youths and school drop-outs so that they could adopt new methods of farming and increase farm income thus, the emphasis is not on crops but on vocations.

- Front line Demonstrations (FLD) and other Extensional Activities: The KVKs organize front line demonstrations which aim at demonstrating the production potentialities of newly released and pre-released production technologies of cereals, pulses and oil seeds and farmers' fields.
- These are called frontline demonstrations because the technologies are demonstrated for the first time before being fed into the main extension system. The KVKs have also been given the responsibility of conducting at least some good integrated farming system demonstration which could serve as model for extension agencies.

❑ How to Improve Lab to Land

- Research output in the university laboratories cannot be directly transferred to the companies, and in India that gap is huge.
- A system needs to be created where the workable models of research output can be presented to companies.
- Indian traditional knowledge to be used for on-site implementation of lab innovations.
- Improve KVKs to take better initiatives on field research.
- Other measures being:
 - Set up Core Groups at State, District and Block levels for coordination.
 - Issue letter to District Collector, Line Departments and Banks about the implementation of the initiative.
 - Identification of nodal persons in each department.
 - BDO to be trained as the Chief Block Coordinator.
 - Initiation meeting with stakeholders at the block level to be chaired by District Collector.
 - Orientation of officials, PRIs, SHGs, community resource institutions / persons on thematic issues.
 - Finalization of objectives, actions, indicators, targets with PRA.
 - Sharing of action plan with CRPs and the community.
 - Setting up of a community radio.
 - Use of Cultural troops.

Conclusion

- ❑ 'Per drop, more crop' is our mission statement' so there is need for taking scientific research to fields and suggested setting up of radio stations by agri-colleges and universities to create awareness among farmers.
- ❑ The farm growth target cannot be achieved unless farmers' income is increased, government's policies therefore should focus in this direction.
- ❑ So, there is need to address the challenge of taking farm research from 'Lab-to-Land' by making efforts to convince farmers about efficacy of new farm techniques in simple ways.

Draft National Food Processing Policy

- ❑ Government has introduced reforms like allowing 100% FDI in Multi Brand Retail.
- ❑ Additionally, Government has taken several initiatives and announced attractive incentives including capital subsidies, tax rebates, and reduced custom and excise duties.

- Increasing focus is also being given to supply-chain related infrastructure, such as cold chains, abattoirs and food parks. The whole idea is to spur greater growth in the food processing sector as well as connect farmers with the value chain to increase their returns.
- The event 'World Food India' has been conceptualized to provide a platform to showcase India's strengths in the sector and to attract major investments in the sector.
- Government expect all state governments and their departments to allow single window clearances and other statutory clearances.
- Apart from this, all our raw produce and processed food shall be showcased.
- The Ministry of Food Processing Industries (MoFPI) is in the process of collating and addressing issues related to the sector, with an aim to facilitate investors and help build investors' confidence to boost engagement of foreign investors, at the World Food India, later this year.
- **Summary of Draft National Food Processing Policy**
 - The objectives of the suggested Model Food Processing Policy are as follows:
 - To reduce wastages, increase value addition, ensure better prices for farmers while ensuring availability of affordable and quality produce to consumers.
 - To address the challenges of malnourishment and malnutrition by ensuring availability of nutritionally balanced foods
 - To make food processing more competitive and future ready through creation of adequate infrastructure facilities along the supply chain, use of modern technology and innovation, promoting traceability, food safety, encouraging optimum capacity utilization of assets and resources.
 - To position India as the most preferred investment destination for the agri-business and food processing.
 - To generate more opportunities for the development of the agri-business and Food Processing Industry, and create employment.

Key Terms

■ Cluster

- A cluster, as defined by the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India, is a group of enterprises located within an identifiable and as far as practicable, contiguous area and producing same/similar products/services. The essential characteristics of enterprises in a cluster are: (a) Similarity or complementarities in the methods of production, quality control and testing, energy consumption, pollution control, etc; (b) Similar level of technology and marketing strategies/practices; (c) Channels for communication among the members of the cluster; and (d) Common challenges and opportunities.

■ Consumer

- Consumer means persons and families purchasing and receiving processed food products in order to meet their personal needs.

■ Food Processing

- Food processing shall include process under which any raw product of agriculture, dairy, animal husbandry, meat, poultry or fishing is transformed through a process (involving employees, power, machines or money) in such a way that its original physical properties undergo a change and if the transformed product has commercial value and is suitable for human and animal consumption. It also includes process of value addition to produce products through methods such as preservation, addition of food additives, drying with a view to preserve food substances in an effective manner, enhance their shelf life, quality.

■ Food Business Operator

- As defined in the Food Safety and Standards Act, 2006, Food business operator in relation to food business means a person by whom the business is carried on or owned and is responsible for ensuring the compliance of the Act.

■ Food Safety

- As defined in the Food Safety and Standards Act, 2006, Food Safety means assurance that food is acceptable for human consumption according to its intended use.

■ Food Parks

- Food Parks will be a place where food processing units are established predominantly for production of processable agriculture, horticulture, animal husbandry, meat, poultry, dairy, fisheries etc. products.

■ MSME

- MSME means Micro, Small and Medium Enterprises as defined in the Micro, Small and Medium Enterprises Development Act, 2006 as amended from time to time shall be applicable.

■ SME

- SME means Small and Medium Enterprises as defined in the Micro, Small and Medium Enterprises Development Act, 2006 as amended from time to time shall be applicable.

Key Provisions

- Create a Separate Department to Promote Food Processing: In order to ensure that proper focus is given to the Food Processing Industry and also encourage greater employment generation in the sector it is proposed that each state set up an independent Department to handle all matters related to food processing.
- Facilitation support - Single Window Clearance System: With the purpose to improve ease of doing business and boost investor's confidence the Ministry of Food Processing Industry suggests focus on initiatives like; timely clearances of pre and post investment activities/ services, declaration of the entire State as Single Zone with Single Window Clearance System for project clearances, match making and handholding of investors.
- Promote Food Processing Clusters: It is suggested that State Governments focus on commodity based cluster development based on the production strengths of respective geographies to enable a focused and coordinated approach for developing the food processing industry. The cluster approach, would help in production of market oriented and higher value crops. It will also help address critical issues such as human capital, workforce development, logistics, infrastructure planning, capacity building and community mobilisation.
- Strengthen Agriculture Marketing Infrastructure: Reforms in the Agriculture Produce Marketing Act will go a long way in promotion of value addition and encourage greater food processing in the state. It is also suggested that states that have not modified their AMPC Act may work towards making reforms. With the purpose of aligning with unified national agriculture markets, it is suggested that State ensures that markets are registered in the eNAM platform to promote direct procurement of all raw materials, especially horticulture produce.
- Facilitation of allotment of land: There should be a facility for leasing and acquiring of land to encourage food processing. Ceiling on Land Lease Act should be raised or abolished to encourage entrepreneurs procure lands for bigger units.

- Industries need quality agriculture produce for which they need to undertake agriculture for captive consumption: It is suggested that Government of State encourage long term lease of land from farmers to industries for producing agriculture produce at commercial rate with the guarantee of allotting land back to farmers after the expiry of the lease.
- Mega Food Parks and Food Parks: State to allot land on priority basis to Mega Food Parks (MFPs) and Food Parks to promote Agri & Food Processing Industry including demonstration farms. The Food Parks and Mega Food Parks shall have modern infrastructure facilities. It will include creation of processing infrastructure near the farm, transportation, logistics and centralized processing centres.
- Promote Mega Projects: It is suggested to promote mega projects with similar structure as MFPs. Projects with costs beyond 500 crore could be assisted under this scheme. It is suggested that approximately 50 crore assistance be provided to FBO for setting up units in terms of providing basic infrastructure facilities like establishment of roads, adoption of clean technology and establishment of infrastructure for recycling of waste.

Support development of Logistics infrastructure

- ▣ Compliance with Food Safety Regulatory Requirements: State should ensure that Food Business Operators are aware of licensing requirements and have proper licenses to operate business. They should also ensure effective enforcement of the regulations as specified under the Food Safety and Standards Act, 2006 of the Food Safety and Standards Authority of India.
- ▣ Priority status to MSME processing units: Government of India has accorded top priority for the development of the food processing industry in the country and has set up a Special Fund of Rs. 2000 crore in NABARD to make available affordable credit for establishing designated Food Parks and also for setting up of individual food/agro processing units in the designated Food Parks.

Issues

▣ Supply Side Bottlenecks

- Small and dispersed marketable surplus due to fragmented holdings, low farm productivity, high seasonality, perishability and intermediation result in lack of distribution on supply and quality, and in turn, impede processing and exports.

▣ Infrastructure Bottlenecks

- More than 30 per cent of the produce from farm gate is lost due to inadequate cold chain infrastructure (covering only 1 per cent of total F&Vs production) and inadequate logistics. About 80 per cent of the 217 lakh tonnes cold storage capacity is engaged by potatoes while other F&Vs account for only 0.2 per cent.
- Likewise, instead of using specialised transportation for perishables like reefer vans, their logistics predominantly rely on traditional modes, commonly used for grains. Yet, development of cold chains and logistics infrastructure remains an unviable investment option, on account of, lack of critical scale and high operating costs (twice than in the West).
- The food processing industry has a high concentration of unorganised segments, representing almost 75 per cent across all product categories. Thus, explaining the inefficiencies in the existing production system, ascribed to the debility of small regional players to invest in technology up gradation and diversify into alternate product categories.

▣ Deficiencies in the Regulatory Environment

- Lack of integration & clarity: Numerous laws, under the jurisdiction of different Ministries and departments, govern food safety and packaging. The multiplicity of legislation leads to contradictions in specifications, conflicting approach, lack of co-ordination and administrative delays.

- For instance, manufacturers of packaged food products such as jams and squashes are obligated to comply with quality standards and label declarations prescribed under multiple legislations such as The Standards of Weights & Measures (Packaged Commodities) Rules, Prevention of Food Adulteration (PFA) and Fruit Products Order (FPO). Correspondingly, FPO allows usage of Class II sweeteners in Fruit Products, whereas PFA does not.

❑ Lack of Holistic Approach

- Despite conferring numerous incentives for establishing new processing units, proportionate results have not been achieved. This can be credited to the absence of vital peripheral infrastructural linkages and legislation for contract and corporate farming, inadequate implementation of the APMC Act and cumbersome procedures to avail grants. Also, unlike for small scale industries, fewer schemes have been designed to promote scale by incentivising large scale investors.
- Besides these, inherent anomalies such as mounting cost of finance, lack of skilled and trained manpower, inadequate quality control and packaging units and high taxes and duties, thwart development of FPI.

Notable Trends in the Indian Food Processing Sector

❑ Frozen and processed Goods:

- Frozen processed foods offer both convenience and nutrition
- The increase in spending capacities and the concurrent time-paucity has led to the continuous development of such frozen processed food products as frozen vegetables (e.g. peas, potato, corn, etc.), and such non-vegetarian products as chicken, fish, and meat products. Food processing market accounts for 32 per cent of the total food market in India.

❑ Sensible Snacking:

- Domestic consumers are now tuned in to the greater variety of foods available, thanks to both wider variety in offerings as well as their own international exposure. ITC and Pepsico are shifting their focus on healthier snacks as the market for healthy snacks is growing with double speed.

❑ Product Innovation as the Key to Expansion:

- It is now the norm for food processing companies to offer value-addition; those who hitherto offered solely milk have now added other dairy products to their repertoire.
- This helps the processors to not only reduce wastage, but also expand uses and realise higher returns. In 2015, Bonhomia has announced to launch 'Boho' coffee machines, the company is the first one to manufacture coffee and tea capsule in India.

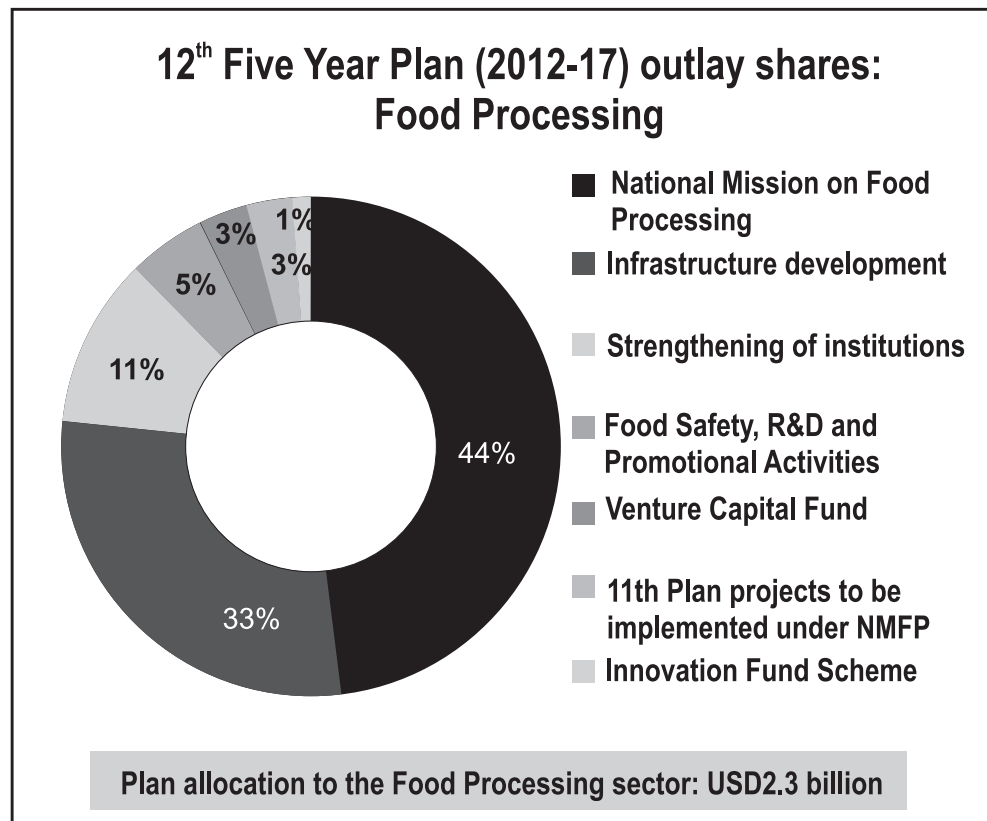
❑ Changing consumer tastes:

- Wide array of products, coupled with increasing global connectivity, has led to a change in the tastes and preference of domestic consumers.
- This trend has been bolstered by rising incomes, increasing urbanisation, a young population, and the emergence of nuclear families. Consumer preference is moving towards healthier snacks.

❑ Entry of international companies:

- Liberalisation and growth of organised retail have made the Indian market more attractive for global players

- With a large agriculture sector, abundant livestock, and cost competitiveness, India is fast emerging as a sourcing hub of processed food. Danone, Nestle, Kraft Foods, Mondelez International, Heinz are the international players in food processing market in India
- **Rising demand on Indian products in international market:**
 - Strategic geographic location and continuous increase in raw material production help India to supply cheaper products to other countries.
 - Companies like Haldiram's and Bikarnervalva have a presence in over 70 countries, whereby they provide Indian snacks.
- **Higher consumption of Horticulture Crops:**
 - There is a surge in demand for fruits & vegetables as a result of a shift in consumption.
 - Accordingly, Indian farmers are also shifting production towards horticulture crops to cash in on the growing demand.
- **Emphasis on Healthier Ingredients:**
 - Food processing companies are serving health and wellness as a new ingredient in processed food, given that health conscious consumers prefer food products with lower carbohydrate content and with low cholesterol edible oils. e.g. zero-per cent transfat snacks and biscuits, slim milk, whole wheat products, etc. ITC is planning to launch multigrain Bingo to increase its share in healthy snacks market.
- **Packaging as a Purchase Influencer and Communicator:**
 - Food packaging has enabled today's consumers to look for various options, and compare the value offerings thereof, before making a purchase.
 - Packaging has also helped enhance 'carry ability' of products and increase their shelf life.
- **A Shift from Usefulness in Processing to Usefulness to Consumers:**
 - Product innovation is always needed as consumers not only prefer safe ingredients and additives but also useful ones
 - This creates opportunities mainly in product innovation, specialised products, and product extensions for the various existing food processors as well as new entrants
 - Consumers have become aggressive in demanding better, safer, and convenient food products and are willing to pay a higher price for health and convenience.
- **Strengthening Procurement via Direct Farmer-Firm Linkages:**
 - Contract farming has been operational in India for a long time now; however, the experience of the private sector players involved therein has been a mixed bag of successes and failures.
 - Largely, it has helped both the processing companies, via increasing sales and therefore augmenting their incomes, as well as providing access to better technology and fetching better prices by securing an assured market for Indian farmers. examples include Nestlé, PepsiCo, Venky's, Milkfed, and Mahagrapes, among others.
 - Create new infrastructure for irrigation; conserve soil fertility with balanced use of fertilizer; and provide value addition and connectivity from farm to markets.
 - Provide legal framework for dispute resolution and re-negotiations in PPP projects and public utility contracts. Private sector plays an important role in the development of infrastructure, many of which are implemented in the Public Private Partnership (PPP) mode. Government has announced three new initiatives to reinvigorate this sector.



- ▶ A Public Utility (Resolution of Disputes) Bill will be introduced during 2016-17 to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts;
- ▶ Guidelines for renegotiation of PPP Concession Agreements will be issued, keeping in view the long term nature of such contracts and potential uncertainties of the real economy, without compromising transparency
- ▶ A new credit rating system for infrastructure projects which gives emphasis to various in-built credit enhancement structures will be developed, instead of relying upon a standard perception of risk which often result in mispriced loans.
- ▶ FDI policy has to address the requirements of farmers and food processing industry. A lot of fruits and vegetables grown by our farmers either do not fetch the right prices or fail to reach the markets. Food processing industry and trade should be more efficient. 100% FDI will be allowed through FIPB route in marketing of food products produced and manufactured in India. This will benefit farmers, give impetus to food processing industry and create vast employment opportunities.
- ▶ Fund has been allocated for the development of indigenous cattle breeds and an equal amount has been set for starting a blue revolution in inland fisheries. It has also been decided to provide for a lock-in period of eight years for use of assets in instances where deduction under Section 35 A of the Income Tax Act has been claimed.
- ◉ The government has introduced several schemes to provide financial assistance in the form of grants and subsidies for the setting up and modernization of food processing units, the creation of infrastructure, support for research and development and human resource development as well as other promotional measures to encourage growth within the processed food sector.

Bhavantar Bhugtan Yojana

■ What is it?

- It's a scheme, to cushion farmers from price crashes. If prices fall, the government will pay farmers the deficit, hence 'bhavantar'.
- Unique is that farmers get compensated for fair average quality (FAQ) and near-FAQ crop as well.
- It's a massive incentive for farmers to go for oilseed production in which country lags. We import 15 million tonnes of edible oil a year.

■ Why Need of Such Scheme?

- To understand this let us have brief look on MSP and its shortcomings.
- Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices. The minimum support prices are announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP). MSP is price fixed by Government of India to protect the producer-farmers against excessive fall in price during bumper production years.

■ How is it different from minimum support price?

- In MSP, there are a lot of overhead costs that the government has to bear. In most crops, it ranges from 30-40% because of storage and handling costs, and waste.
- In Bhavantar, on the other hand, the state's cost has come down to just 18% — and it goes straight to the farmer, not to transporters and chowkidars as in MSP.
- Bhavantar ensures profit to farmers, without the need to stock their produce and incur maintenance and transportation costs.
- Madhya Pradesh is the largest producer of pulses and oilseeds — 28% of the total production in the country. India is not self-reliant in this. On an average, the Union government imports pulses and oilseeds worth Rs 90,000 crore every year while in paddy and wheat, the country is more than self-reliant. So only oilseeds and pulses covered under the scheme and not paddy or wheat.

■ Price Stabilization Fund

- Price Stabilisation Fund (PSF) refers to any fund constituted for the purpose of containing extreme volatility in prices of selected commodities. The amount in the fund is generally utilised for activities aimed at bringing down/up the high/low prices say for instance, procurement of such products and distribution of the same as and when required, so that prices remain in a range.
- India first created a price stabilisation fund for some export oriented plantation crops in 2003, and this ceased to exist in 2013. Another fund was created in 2015 for perishable agricultural and horticultural commodities, but initially limited to support potato and onion prices only.

■ Market Intervention Scheme

- Market Intervention Scheme (MIS) is a price support mechanism implemented on the request of State Governments for procurement of perishable and horticultural commodities in the event of a fall in market prices. The Scheme is implemented when there is at least 10% increase in production or 10% decrease in the ruling rates over the previous normal year.

■ Benefits of Price Deficit Financing Scheme

- Simple and easy method to protect farmers against price crash. Under Bhavantar Bhugtan Yojana, primary agricultural co-operative societies are required to help farmers to register which already has huge presence among farmers unlike FCI.

- Reduce the wastage of crops in transportation, storage and handling.
- Increase the saving of exchequer as the government would pay only differential and also save on logistics cost.

❑ Shortcomings

- Benefits of MSP are generally reaped by big farmers. Small farmers are generally not aware about market mechanism.
- Only 6-8% of farmers are covered under the scheme.
- Inefficiencies of Food Corporation of India, lack storage capacity, thus amounts to huge wastage of grains every year.
- Procurement mostly limited to cereals like Wheat and Rice.
- To overcome these shortcomings there was need of another scheme.

❑ Challenges

- Primary agricultural co-operative societies need to be upgraded to handle the registration process.
- Small and marginal farmers may not have knowledge to upload the details of crops and yield which is mandatory under scheme.
- Digital connectivity and Aadhar-linked bank accounts are pre-requisites, putting remote regions to disadvantage.
- Differential payment would be made with a delay.

Way forward

- Uttar Pradesh, Haryana, Chhattisgarh, Maharashtra, Karnataka, Odisha and Telangana have shown interest in this scheme.
- Government of India also starting a market assurance scheme for oilseeds and pulses from this Rabi season, in which it will probably give the option of price deficit payment to farmers.
- Madhya Pradesh government also trying to bring Onion under Bhavantar scheme from this Rabi season.

Conclusion

- A deficiency price payment scheme is ad hoc mechanism and not remedy. Because neither the centre nor state governments are putting in the political capital to reform India's inefficient agriculture markets where the bulk of the produce is traded. Prices are decided in a non-transparent way by a cartel of traders.
- A well-functioning agriculture market where spot, future and forward markets are integrated and work seamlessly is the way ahead.

Operation Greens–Objective & benefits

Introduction

It aims to promote farmer producer organisations, processing facilities, agri-logistics and professional management. It also aims to aid farmers and help control and limit erratic fluctuations in the prices of

tomatoes, onions and potatoes (TOP). It is essentially price fixation scheme which aims to ensure that farmers are given the right price for their produce. The idea behind it is to double the income of farmers by the end of 2022.

■ The Main Objectives of Operation Green

- The main objective of this project is to reduce price volatility of commodities, thereby helping farmers augment incomes on a sustainable basis.
- It also aims to provide these vegetables to consumers at affordable prices.
- Operation Greens looks to ensure that farmers receive at least 60 per cent of what consumers pay.
- With this scheme there would be busts in commodity prices.
- It aims to avert situations where farmers have been forced to dump potatoes and tomatoes on roads.
- It will be checking the prices from rising very high so that it compelled the government to ban exports.
- It looks to de-stocking and conduct income tax raids on traders.

● From TOP to TOTAL:

- ▶ The scope of short term measures originally applicable to Tomato, Onion and Potato crops were expanded to 41 notified fruits & vegetables w.e.f. June 2020 as a part of Aatmanirbhar Bharat Abhiyan Package.
- ▶ In Budget Announcement 2021-22, the scope of long term strategy i.e. Value Chain Development Projects was expanded from TOP crops to 22 perishables which include 10 fruits, 11 vegetables (including TOP crops) and 1 marine product i.e. Shrimp.
- ▶ Operation Greens – Convergence with Kisan Rail and KrishiUdan:
- ▶ Kisan Rail: Kisan Rail ensures agro-products reach from one corner to another corner of the country in a quick time by faster transportation benefitting both the farmers and the consumers.
- ▶ Krishi-Udan: Krishi Udaan Scheme stands converged with Operation Greens through air freight subsidy of 50 per cent for the agri-perishables of NER (North-Eastern Region) States and four Himalayan States/UTs.

■ Basic Principles Behind Operation Greens

- First: Linking of major consumption centres to major production centres with a minimal number of intermediaries, i.e., map mega consuming centres and link their retail networks with the producing centres of each commodity.
- To achieve above target, Farmers can be organised in farmer producer organisations (FPOs). NABARD and SFAC (Small Farmers' Agribusiness Consortium) together have about 3,000 FPOs, which could be the starting points for the aggregation of commodities, assaying, sorting, grading, and even packing with bar codes, reflecting their traceability. The Agricultural Produce Market Committee Act will have to be changed to allow direct buying from FPOs, and giving incentives to these organisations, private companies and NGOs to build back end infrastructure as was done in the case of milk. The announcement of tax concessions to FPOs for five years is a welcome step in that direction, if it encourages building such critical infrastructure.
- Second: Investment in logistics, starting with modern warehouses that can minimise wastage. For example: cold storage of onions, where wastage is reduced to less than 10 per cent, compared to the 25-30 per cent wastage in traditional storage facilities on farmers' fields.
- Third: It is linking the processing industry with organised retailing. On an average, about one-fourth of the produce must be processed. India is way behind on this curve compared to most South-east Asian countries. Dehydrated onions, tomato puree and potato chips should become cheap, so that an average household can use them. Processing industry adds value and absorbs surpluses.

Proposed Benefits

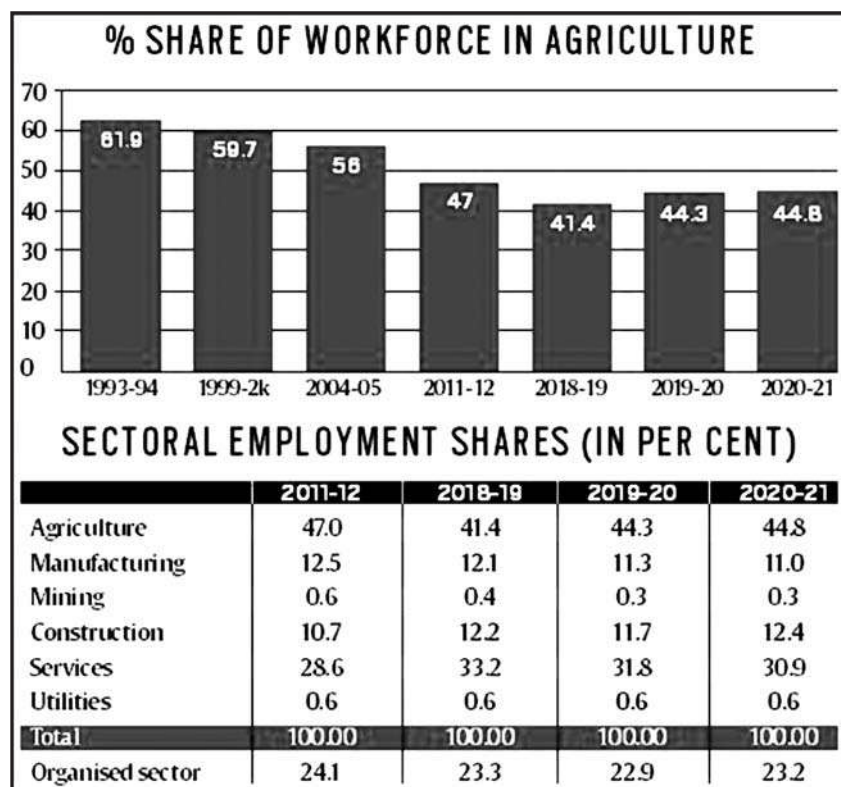
- It may help in doubling the income of farmers by the end of 2022.
- It aims to ensure farmers are given the right price for their produce. The MSP regulation has a key role to play here. The announcement to set minimum support price of all kharif crops at 1.5 times the cost of production will increase the farmers' income and for consumers, tax incentives will be given under Operation Greens.
- The government aims to focus on basic ingredients and not on additional commodities in agriculture.
- It shall promote Farmer Producers Organizations (FPOs), agri-logistics, processing facilities and professional management in the sector.

Declining Trend in Casual Labour in Agriculture Sector

Context:

- CPHS data shows reverse migration to agriculture continues even in 2020-21. "The share of agriculture in total employment jumped to 39.4% in the year from 38% in 2019-20 while the share of manufacturing dropped sharply from 9.4% to 7.3%," it said, adding employment in construction has however recovered. Its share in total employment shot up to 15.9% in 2020-21 from 15.4% in 2018-19 and 13.5% in 2019-20.

What is Periodic Labour Force Survey (PLFS) of the NSSO?



- These surveys were the prime source for statistics about employment and unemployment situation in the country. From 2017 onwards, a nationwide Labor Force Survey called Periodic Labour Force Survey (PLFS) was launched by the NSSO.

- The PLFS was aimed to provide quarterly employment and unemployment data. Report of the PLFS was expected in December 2018 but was postponed.
- Quarterly changes of various indicators of the labour market in urban areas as well as to generate the annual estimates of different labour force indicators both in rural and urban areas are the supplementary objectives of the PLFS.

Analysis

- ▣ According to NSSO data, the rural casual labour segment — farm and non-farm — shows an overall slide of 7.3 per cent in male and 3.3 per cent in female employment since 2011-12
- ▣ A bulk of this loss, almost 3 crore, was in casual farm labour since the fall in households dependent on non-agricultural casual labour was negligible (from 13.5 per cent to 12.9 per cent)
- ▣ The PLFS 2017-18 report identifies a 4 per cent rise in self-employed farm labour.
- ▣ Since it is unlikely that casual labourers became landholders overnight, this may be partly explained by a stagnation in agriculture leading to reduced hiring capacity of the landowner.
- ▣ It looks like that the hired casual labour is getting substituted by household (self) labour.

▣ Why the issue is gaining importance?

- For the first time since 1993-94, the actual size of India's male workforce, has shrunk. Data from the NSSO's Periodic Labour Force Survey 2017-18, account for 28.6 crore employed male in the country.
- This is the first instance of a drop in the male workforce that steadily swelled from 21.9 crore in 1993-94 to 30.4 crore in 2011-12 when the last NSSO survey was conducted.
- This suggests fewer men were employed in 2017-18 compared with five years ago.
- While the employment loss in the rural segment hurt the women most (68 per cent), men suffered more (96 per cent) job losses in the urban areas.

▣ Why this should be a worry?

- A shrinking workforce suggests an increase in the number of unemployed, and also points to fewer new job opportunities.
- Given India's demography and labour force growth over the decades, this should be a cause for concern.

▣ Labour at Farm vs. Worker with skills:

- In India, while contribution of agriculture to GDP has been declining, agriculture still remains mainstay of the rural economy by employing almost half of the population.
- However, the gap between job seekers in rural areas and employment opportunities in agriculture has been widening and non-farm sector has become an increasingly important source of livelihood.
- ILO has observed a significant shift towards non-farm employment in rural areas, and this shift happened predominantly among economically weaker sections of the rural society.
- Access to land was an important determinant in this process of rural employment diversification.
- However, this diversification has generally been offset by low capacity augmentation in education (Economic Survey 2018-19 highlighted Learning Poverty Count and Learning Poverty Gap) and skill building exercise.
- Most of these initiatives have been marred by poor implementation and vested corrupt interests.
- Until 2006, the situation was little better because Among non-farm activities, construction was one of the predominant forms of employment to a considerable section of workers due to the fact that it did not necessarily ask for any specific skill.

- It was due to the option of seasonal employment which allowed workers to take up agricultural activities during peak seasons.
- However, recession and slowdowns have greatly impacted demand creation in this sector as well and that has cumulatively led to the decline in Worker's productive engagement.

❑ Can MGNREGA bridge the gap?

- It is in Sto when and where did the trail was missed.

Feminization of Agriculture

As per the 2011 census, approximately 33.7% of rural males migrate in search of employment and better economic opportunities. The increasing migration of rural men has led to the feminization of the agriculture sector, with the participation of women in agriculture and allied activities becoming more significant.

- ❑ **Feminization** is a process in which more and more women become involved in an activity where there is traditionally more men.
- ❑ There are two types of feminization of agriculture, namely: feminization of agricultural labour (labour feminization) and feminization of farm management (managerial feminization).
 - Feminization of agricultural labour is the process by which increasingly more of on-farm work is done by women.
 - Feminization of farm management occurs in two ways. First, when women increasingly become primary decision makers on the farm; or second when they gain greater access to agricultural income (dominate the execution of specific agricultural activities in which income is collected); Ex. marketing of crops and livestock.

❑ Major reasons behind Feminisation

- **Increasing Rural to Urban Migration:** Due to lack of opportunities in rural areas there is substantial male migration to urban areas. This male migration forcing women to fill in for them in the agricultural fields.
- **Gender Wage Differentials:** Men are paid more than women. When they can get more by working elsewhere, a low-income pursuit is left for women.
- **Poverty:** There is increase in prices of food items and other household basic needs. The state of poverty pushes the women members to work in the agricultural fields to supplement the income levels of the family.
- **High demand for agricultural laborers:** Traditional way of agriculture is followed which is labor intensive, and hence a high level of demand for laborers already persists in the agricultural sector. It is further intensified by the aforementioned rural to urban migration.
- **Increasing feminization of old age:** Due to greater life expectancy, women outlive men and hence widows end up heading a family and taking to the agricultural fields.
- **Cultural acceptance:** Agriculture has traditionally been an acceptable avenue of work for women in rural areas, otherwise infamous for many a stigmas when it comes to women's employability in workplaces.
- **Liberalisation:** Liberalization policies have resulted in higher input costs, lower farmgate prices, and significant cuts in access to credit and extension services for the smallholder sector that produces mostly food for local and regional markets. The decline in the profitability of food production and in food security has forced low-income and low-asset rural households to seek other income sources (off-farm employment) in order to maintain the household. Livelihood diversification include out-migration of both women and men and employment in the agri-business industry.

- **Development of horticulture sector:** The labour-intensive nature of horticultural production motivated the industry to hire women workers who command lower wages, particularly in the rural sector. The global market and international competition drives product prices down, keeping wages low, but more importantly, keeping the labor market flexible.

■ Important Facts

- In India women constitutes about 65% of agricultural labour and 74% of total rural workforce. But they are either labeled “agricultural laborers” or “cultivators” and not as “Farmer”.
- As per Census 2011, out of total female main workers, 55% were agricultural labourers and 24% cultivators.
- The UNDP report indicates that 67% of world's work is done by women. They grow 50% of the world total food.
- The process of agricultural feminization has multi-dimensional implications.

■ Some Benefits of Feminization of Agriculture

- The women's greater involvement in agriculture has led to increase in family's income, availability of food for human consumption, increase in food production and assurance of food security.
- It also helps in improving the health of children as women have more tendencies to spend for family.
- Thus, the development policy should address the persistent problem of improving women's access to productive resources: land, credit, and labor. Women face constraints as effective producers in the rural economy. As more women become the principal supporters of their households, these constraints not only prejudice women's physical and emotional health, they also have impact on household welfare.
- The Economic Survey 2017-18 also stressed on the need for an ‘inclusive transformative agricultural policy’, aimed at gender-specific interventions.
- **Training to women** should be given on farming practices through various campaigns. Two Farmer-centric initiatives are:
 - ▶ Biotech-KISAN (Krishi Innovation Science Application Network)
 - ▶ Cattle Genomics
- Need to improve literacy among women farmers so that they can understand technology related to farming like GM-seeds, organic farming, e-NAM as well as their rights.
- Need to provide health insurance and promote some scheme specifically for women farmers. Mother and Child Tracking System (MCTS), Mission Indradhanush, etc, is a good initiative.
- We need to have a strong tenancy act throughout the country and some specific provision should be there for women.

Government Initiatives

- Ministry of rural development launched the scheme named “Mahila Kisan Sashaktikaran Parayojana” for women farmers.
- Govt. has also launched the Digitization of land records programme.
- Himachal Pradesh launched scheme “Entrepreneurial Development of Women Farmers”.
- Recently, GoI started programme: Training to Women Engaged in Agriculture Sector.
- To ensure main-streaming of women in the agriculture sector, the government is earmarking at least 30% of the budget allocation for women beneficiaries in all ongoing schemes-programmes and development activities.

- ❑ Rashtriya Mahila Kisan Diwas
- ❑ National Mission on Sustainable Agriculture (NMSA)
- ❑ Paramparagat Krishi VikasYojana
- ❑ Mahila Kisan Sashaktikaran Pariyojana (MKSP)

Way Forward

- ❑ Rural women are responsible for the integrated management and use of diverse natural resources to meet the daily household needs. This requires that women farmers should have enhanced access to resources like land, water, credit, technology and training which warrants critical analysis in the context of India.
- ❑ There should be more focus on women self-help groups (SHG) to connect them to micro-credit through capacity building activities and to provide information and ensuring their representation in different decision-making bodies.
- ❑ The National Commission for Women's (NCW) Mahila Kisan Adhikar Manch (MAKAAM – Forum for Women Farmers' Rights) and UN Women have to come together in a unique partnership to collectively review legislation and policy frameworks, and advocate for removing barriers, as well as for creation of an enabling ecosystem for women farmers to realize their rights.
- ❑ Women do not have the same access to agricultural services and resources (such as agricultural extension, input suppliers, product markets, and credit institutions) as men. Policies are needed to ensure that women participate in and benefit from the dissemination of technology and knowledge needed for commercial agriculture and food production.

Conclusion

Agriculture can be an important engine of growth and poverty reduction and also agriculture cannot survive without women. So, the agricultural policies and programmes should be formulated to meet the agricultural needs of the women farmers in order to increase their productivity.

PM KISAN–Achievements and issues

About PM–KISAN scheme

- ❑ Objective of scheme: To supplement the financial needs of the Small and Marginal Farmers in procuring various inputs to ensure proper crop health and to protect them from falling in the clutches of moneylenders for meeting such expenses and ensure their continuance in the farming activities.
- ❑ Benefits: Financial benefit of Rs. 6,000 per year payable in three equal instalments of Rs 2000 every 4 months.
- ❑ Coverage: Initially, the scheme covered only the small and marginal farmers with land holdings of up to 2 hectares. Later, it was extended to all land-owning farmers irrespective of the size of their land holdings. It does not provide benefit to the tenants and sharecroppers.
- ❑ Identification of Beneficiaries: The entire responsibility of identification of beneficiary farmer families' rests with the State / UT Governments.

What are the achievements of the scheme?

- Over the last three years, benefits under the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) have been granted to about 11.78 crore farmers, and funds amounting to Rs 1.82 lakh crore have been released in various instalments to eligible beneficiaries of this scheme across India.
- PM Kisan Samman Nidhi is a big support for India's farmers. More than 1.80 lakh crore rupees have been transferred directly to the accounts of the farmers.
- The National Informatics Centre joined with the Ministry of Electronics and Information Technology to develop and design the PM-KISAN Mobile App.
- Physical Verification Module: Every year, a mandatory physical verification of 5% of beneficiaries is performed in accordance with the scheme's provisions.

What are the issues identified in the scheme?

- Inadequate financial support:** The impact of PM-KISAN can only be realised through financial support that provides farmers with adequate purchasing power to meet their daily basic necessities. Also, the cash transfer is not linked to the size of the farmer's land.
- Lack of Farmer Data Base:** Many states like West Bengal, have delayed or did not submit the data related to farmers.
- Not reaching all farmers:** PM-KISAN is not pro-poor since recipients of the scheme seemed to be better off than the general rural population even before the lockdown. E.g., two categories of undeserving beneficiaries were identified- ineligible farmers (44.41%) and income tax payee farmers (55.58%). A major chunk of these belonged to five states — Punjab, Assam, Maharashtra, Gujarat and Uttar Pradesh.
- Exclusion of Landless farmers:** The scheme excludes even poor rural households that do not own land.
 - Exclusionary in general:** Recently, a RTI reply from Ministry of Agriculture revealed that PM-KISAN payments worth ₹1,364 crore have been wrongly made to more than 20 lakh undeserving beneficiaries.
- Implementation issues:** it is an ambitious scheme that has the potential to deliver significant welfare outcomes but the top-down approach of the government ignores governance constraints.
- Structural issue:** If the budgetary allocations shift decisively in favour of cash transfers, they will be a cause for great concern for other long-term budgetary commitments in agricultural markets and areas of infrastructure such as irrigation.

Way Forward

- Raising Economic Support:** The impact of a welfare measure such as PM-KISAN can only be realised through financial support that provides farmers with adequate purchasing power to meet their daily basic necessities. E.g. RythuBandhu in Telangana provides ₹4,000 per acre to each farmer in each season.
- More freedom to states:** A bottom-up strategy and well-planned implementation mechanism would allow weaknesses to be identified and rectified at the local level.
- Better timing of providing instalments:** Reports highlight that farmers receiving PM-KISAN benefits in the agricultural peak season are more likely to spend it on agriculture, and those getting it in the off-season are more likely to spend it on consumption
- Technology Choices for Farmers:** It is realised that the adoption of technology for resolving liquidity issues is just one cog in the wheel. Knowledge and extension support is also needed to bring about adoption.

- ❑ **Back-end Support:** The scheme needs back-end infrastructure and institutions in place to be effective. Adoption of modern technologies is one of the most promising strategies to increase farm incomes.

Conclusion

- ❑ A direct transfer scheme like PM-KISAN is a game-changer and can have significant effects if it is timely, not transaction cost heavy and is provided with complementary inputs such as extension services.

AGRI INDEBTNESS IN INDIA

The All-India Debt and Investment Surveys (AIDIS), carried out by the National Statistical Office (NSO) are among the most important nationally representative data sources on the rural credit market in India. Recently published, the AIDIS report reveals that non-institutional sources have a strong presence in the rural credit market, notwithstanding the high costs involved in borrowing from them. Inadequate access to affordable credit lies at the heart of rural distress.

Reasons for increasing indebtedness

According to the latest 'Situation Assessment of Agricultural Households and Land Holdings of Households in Rural India, 2019-More than half of India's agricultural households were in debt, with an average outstanding of Rs 74,121.

- ❑ **Backwardness of Agriculture:** Indian agriculture is an uncertain business. It virtually depends on unreliable rains for the supply of water. If there are no rains or untimely rains, the entire crop is lost and the credit invested in the agriculture goes waste. As a result, the loan taken for the productive purposes also becomes a burden, leading to indebtedness of the farmers.
- ❑ **Poor risk mitigation mechanism:** Crop Insurance uptake is still low in India due to lack of awareness and delays in claim payments.
- ❑ **Excessive Burden of Land Revenue and Rent:** The small and marginal farmers, tenants and agricultural labourers still heavily depend upon informal sources of finance to meet their credit needs and pay very high rates of interest, which pushes them into debt cycle.
- ❑ **Ancestral/Inherited Debt:** Most of the rural debts of the present day are inherited from the past and which increases with the passage of time. An inheritor is liable to the repayment of the debt only to the extent of the property inherited by him.
 - Despite this law, the rural people continue to repay the debts of their forefathers, as they are not fully conversant with law as they are illiterate. As these people are bound by the traditions and values they regard it as their sacred social duty to repay the debts of their forefathers.
- ❑ **Farm loan waivers:** With more agriculture loans being waived-off, it is easier for farmers to take loans without the fear of repaying the amount if there is a loss.
- ❑ **Litigation:** Generally, the agriculturists in India are involved in various kinds of disputes related to land, property, etc., which force them to go to a court of law. Often, they view it important to win the case as it is related to the family prestige and honour. Such litigations involve heavy expenditure and time. In order to meet these needs, the agriculturists take loans that they are not able to repay and are caught into indebtedness.

What is the impact of Indebtedness?

- ❑ Deterioration of Agriculture: As a result of indebtedness, the condition of agriculture also deteriorated, because most of the farmers had to work on their moneylender's land as servants. The farmers also cannot give proper attention to the lands where they have cultivated. So it leads to the deterioration of agriculture.
- ❑ Lowering of Economic Standard: Due to indebtedness, farmers' purchasing power are reduced, they cannot meet their own and their family's basic need. With this, economic standard of the farmer considerably comes down and down.
- ❑ Increase in Landless Labour: Increase in landless labour is also because of rural indebtedness. Once a farmer is in the trap of the moneylenders, gradually the amount with Interest goes on increasing. A stage comes when the poor farmer has no other alternative but to sell his small piece of land to the moneylender and joins the ranks of landless labour.
- ❑ Enhanced rural poverty and impact on overall socioeconomic growth in agricultural households in terms of educational and health outcomes.

Government initiatives to reduce indebtedness:

- ❑ Pradhan Mantri Fasal BimaYojana (PMFBY) provides a comprehensive insurance cover against failure of insured crops due to non-preventable natural risks, thus providing financial support to farmers.
- ❑ Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) Scheme has been implemented to provide an assured income support to all farmers, irrespective of the size of their land holdings subject to the exclusion factor.
- ❑ To bring small, marginal, tenant farmers, oral lessees, etc. into the fold of institutional credit, Joint Liability Groups (JLGs) have been promoted by banks.
- ❑ The Union Cabinet in 2020 approved a new pan India Central Sector Scheme called Agriculture Infrastructure Fund.

Way forward

- ❑ The panchayats and such other village level institutions should try to solve the village disputes and try to prevent them from going to the courts of law, which need heavy expenditure.
- ❑ Information regarding the laws and their implementation should be given to the villagers so that they do not get into the clutches of the moneylenders for generations.
- ❑ Establishing Financial Literacy and credit Counselling Centres (FLCCs): Training can be provided to banks SHG federations, agri clinics and other similar institutions to educate farmers about sustainable debt practices.
- ❑ Setting up of a "Money Lenders Debt Redemption Fund" as a one-time measure for providing long-term loans by banks to farmers to enable them to repay their debts to the moneylenders.
- ❑ Local Civil Society Organisations, NGOs or Panchayati Raj Institutions could be involved in arriving at negotiated settlements with the moneylenders
- ❑ Adequate credit facilities on reasonable terms should be arranged to the farmers. Co-operative credit is a good solution in this regard. Private lending should be eliminated in this field.

SUGAR MILL ISSUE

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

Issues associated with Sugar Mills

- ❑ Sugarcane competes with a variety of other food and cash crops, including cotton, oil seeds, rice, and others. This has an impact on the availability of sugarcane to mills, and sugar output varies from year to year, producing price volatility and losses in times of surplus production owing to low pricing.
- ❑ In comparison to other of the world's leading sugarcane producing countries, India's output per hectare is exceedingly low.
 - **For example**, India's production is just 64.5 tonnes per hectare, but Java's yield is 90 tonnes and Hawaii's yield is 121 tonnes.
- ❑ Sugar production is a seasonal industry with a relatively brief crushing season that lasts between 4 and 7 months every year. It results in financial losses for workers, as well as a lack of full utilisation of sugar mills.
- ❑ In India, the average rate of sugarcane sugar recovery is less than ten percent, which is quite low when compared to other major sugar producing countries.
- ❑ The high cost of manufacturing is due to the high cost of sugarcane, inefficient technology, uneconomic production processes, and expensive excise tax.
- ❑ To balance the supply-demand gap, the government has used a variety of policy interventions like export duties, stock limits on sugar mills, and changes in meteorological rules, among others. However, these restrictions have resulted in low sugar prices, causing sugar mills to fall behind on payments and sugarcane growers to owe dues.

About Sugarcane Pricing Policy

- ❑ **Sugar pricing policy**
 - **Minimum Selling Price (MSP):** In exercise of the powers conferred by the Essential Commodities Act, 1955, Centre notified Sugar Price (Control) Order, 2018 under which the Centre fixes the MSP after taking into account the FRP of sugarcane and minimum conversion cost of the most efficient mills.
 - **Public Distribution System:** At present, sugar is distributed at a subsidised rate of Rs 13.5 per kg to 2.5 crore families under the Antyodaya Anna Yojana (AAY).
 - **Export policy:** India's export subsidy includes Production Assistance Scheme, Buffer Stock Scheme and Marketing and Transportation Scheme.
- ❑ **Fair and Remunerative Price (FRP):** With the amendment of the Sugarcane (Control) Order, 1966 in 2009, the concept of Statutory Minimum Price (SMP) of sugarcane was replaced with the FRP.
 - The FRP is the minimum price that sugar mills have to pay sugarcane farmers to insulate them from increasing input costs.
 - It is linked to a basic recovery rate of sugar and determined on the basis of recommendations given by the Commission for Agricultural Costs and Prices (CACP).
 - State-Advised Prices (SAPs), generally higher than the FRP, is declared by States including Uttar Pradesh for sugarcane considering the cost of production and productivity levels.

Benefits of new guidelines

- ❑ Uniformly applicable for SDF loans availed by all types of concerns, including Co-operative Societies, Private Limited Companies and Public Limited Companies, it will bring benefits like:
- ❑ Relief to financially weak sugar mills through 2 years of moratorium and 5 years of repayment.

- ❑ Waiver of additional interest in full will be given to the eligible sugar factories.
- ❑ The rate of interest will be changed to the interest rate as per the prevailing bank rate on the date of approval of the rehabilitation package as per SDF Rule 26 (9) (a).

Way forward

- ❑ There is a need to deploy remote sensing technologies to map sugarcane areas. Despite the importance of sugarcane in the water, food and energy sectors in India, there are no reliable sugarcane maps for recent years and in time series.
- ❑ Research and development in sugarcane can help address the issues like low yield and low sugar recovery rates.
- ❑ The Rangarajan Committee has suggested a Revenue Sharing Formula to fix cane price factoring in the price of sugar and other by-products.
- ❑ Further, in case the cane price, arrived at by the formula, drops below what the government considers as a reasonable payment, it can bridge the gap from a dedicated fund created for the purpose and a cess can be levied to build up the fund.
- ❑ The government should encourage ethanol production. It will bring down the country's oil import bill and help in diversion of sucrose to ethanol and to balance out the excess production of sugar.

Conclusion

- ❑ The sugar business is a significant agro-based sector that has an influence on the rural livelihoods of over 50 million sugarcane farmers and around 5 lakh sugar mill workers. Various ancillary activities such as transportation, trade servicing of machinery, and the supply of agricultural inputs also generate employment. After Brazil, India is the world's second largest producer of sugar and the world's largest consumer. The yearly production of the Indian sugar industry is currently valued at over Rs. 80,000 crores.

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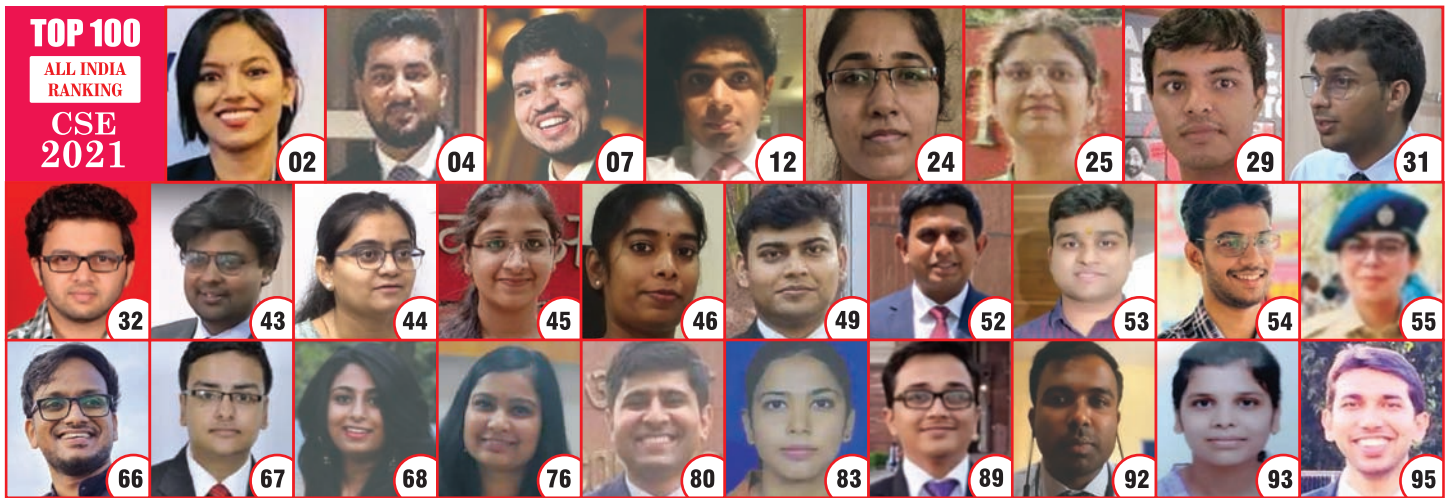
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