RAPID REVISION BOOK

for Prelims - 2021

special edition

Extensive Coverage - Simple Presentation - Time bound Revision

Economy and Social Development



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From

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ECONOMY AND SOCIAL DEVELOPMENT

(Special Edition for Prelims 2021)

NON-BANKING FINANCIAL COMPANY (NBFC)

- A Non-Banking Financial Company (NBFC) is a company registered under the **Companies Act, 1956** engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).
- NBFCs lend and make investments and hence their activities are akin to that of banks; however, there are a few differences as given below:

1. NBFC cannot accept demand deposits;
2. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
3. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

- NBFCs whose asset size are of ₹ 500 cr. or more as per last audited balance sheet are considered as systemically important NBFCs. The rationale for such classification is that the activities of such NBFCs will have a bearing on the financial stability of the overall economy.
- NBFCs are categorized **a) in terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs**, **b) non deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND)** and **c) by the kind of activity they conduct.** Within this broad categorization the different types of NBFCs are as follows:

1. **Asset Finance Company (AFC)** : An AFC is a company which is a financial institution carrying on as its principal business the financing of physical assets supporting productive/economic activity, such as automobiles, tractors, lathe machines, generator sets, earth moving and material handling equipments, moving on own power and general purpose industrial machines. Principal business for this purpose is defined as **aggregate of financing real/physical assets supporting economic activity and income** arising therefrom is not less than 60% of its total assets and total income respectively.
2. **Investment Company (IC)** : IC means any company which is a financial institution carrying on as its principal business the acquisition of securities.
3. **Loan Company (LC):** LC means any company which is a financial institution carrying on as its principal business the providing of finance whether by making loans or advances or otherwise for any activity other than its own but does not include an Asset Finance Company.
4. **Infrastructure Finance Company (IFC):** IFC is a non-banking finance company a) which deploys at least 75 per cent of its total assets in infrastructure loans, b) has a minimum Net Owned Funds of ₹ 300 crore, c) has a minimum credit rating of 'A 'or equivalent d) and a CRAR of 15%.
5. **Systemically Important Core Investment Company (CIC-ND-SI):** It is an NBFC carrying on the business of acquisition of shares and securities.
6. **Infrastructure Debt Fund**: Non- Banking Financial Company (IDF-NBFC) : IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5-year maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.

7. **Non-Banking Financial Company** - Micro Finance Institution (NBFC-MFI): NBFC-MFI is a non-deposit taking NBFC having not less than 85% of its assets in the nature of qualifying assets which satisfy the following criteria:

a) loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding ₹ 1,00,000 or urban and semi-urban household income not exceeding ₹ 1,60,000;
b) loan amount does not exceed ₹ 50,000 in the first cycle and ₹ 1,00,000 in subsequent cycles;
c) total indebtedness of the borrower does not exceed ₹ 1,00,000;
d) tenure of the loan not to be less than 24 months for loan amount in excess of ₹ 15,000 with prepayment without penalty;
e) loan to be extended without collateral;
f) aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs;
g) loan is repayable on weekly, fortnightly or monthly instalments at the choice of the borrower

8. **Non-Banking Financial Company – Factors (NBFC-Factors):** NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income.
9. **Mortgage Guarantee Companies (MGC)** - MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ₹ 100 crore.
10. **NBFC- Non-Operative Financial Holding Company (NOFHC)** is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.

RBI SURPLUS

- **RBI surplus is the amount it transfers to the government every year**. This surplus is the amount left over after meeting all its expenses. As RBI is not required to pay income tax, it transfers the surplus amount to the government.

How does a central bank like the RBI make profits?

- The RBI is a **"full service" central bank**— not only is it mandated to keep inflation or prices in check, it is also supposed to manage the borrowings of the Government of India and of state governments; supervise or regulate banks and non-banking finance companies; and manage the currency and payment systems.
- While carrying out these functions or operations, it makes profits. Typically, the central bank's income comes from the returns it earns on its foreign currency assets, which could be in the form of bonds and treasury bills of other central banks or top-rated securities, and deposits with other central banks.
- It also **earns interest on its holdings of local rupee-denominated government bonds or securities**, and while lending to banks for very short tenures, such as overnight. It claims a management commission on handling the borrowings of state governments and the central government.
- Its **expenditure is mainly on the printing of currency notes and on staff,** besides the commission it gives to banks for undertaking transactions on behalf of the government across the country, and to primary dealers, including banks, for underwriting some of these borrowings.

What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?

- The RBI isn't a commercial organisation like the banks or other companies that are owned or controlled by the government – it does not, as such, pay a "dividend" to the owner out of the profits it generates.
- Although RBI was promoted as a private shareholders' bank in 1935 with a paid up capital of Rs 5 crore, the government nationalised it in January 1949, **making the sovereign its "owner".**
- What the central bank does, therefore, is transfer the "surplus" – that is, the excess of income over expenditure – to the government, in **accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934:** *"After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation fund [and for all other matters for which] provision is to be made by or under this Act or which are usually provided for by bankers, the balance, of the profits shall be paid to the Central Government."*
- The Central Board of the RBI does this in early August, after the July-June accounting year is over.

Is there an explicit policy on the distribution of surplus?

- No. But a Technical Committee of the RBI Board headed by **Y H Malegam,** which reviewed the adequacy of reserves and a surplus distribution policy, recommended, in 2013, a higher transfer to the government.
- Earlier, the RBI transferred part of the surplus to the Contingency Fund, to meet unexpected and unforeseen contingencies, and to the Asset Development Fund, to meet internal capital expenditure and investments in its subsidiaries in keeping with the recommendation of a committee to build contingency reserves of 12% of its balance sheet.
- But after the Malegam committee made its recommendation, in 2013-14, the RBI's transfer of surplus to the government as a percentage of gross income (less expenditure) shot up to 99.99% from 53.40% in 2012-13.

CURRENCY SWAP

- A currency swap contract (also known as a cross-currency swap contract) is a **derivative contract between two parties that involves the exchange of interest payments, as well as the exchange of principal amounts in certain cases, that are denominated in different currencies.**
- Although currency swap contracts generally imply the exchange of principal amounts, some swaps may require only the transfer of the interest payments.
- A currency swap consists of **two streams (legs) of fixed or floating interest payments** denominated in two currencies. The transfer of interest payments **occurs on predetermined dates**. In addition, if the swap counterparties previously agreed to exchange principal amounts, those amounts must also be exchanged on the maturity date at the same exchange rate.
- Currency swaps are p**rimarily used to hedge potential risks associated with fluctuations in currency exchange rates or to obtain lower interest rates on loans in a foreign currency**. The swaps are commonly used by companies that operate in different countries. For example, if a company is conducting business abroad, it would often use currency swaps to retrieve more favorable loan rates in their local currency, as opposed to borrowing money from a foreign bank.
- For example, a company may take a loan in the domestic currency and enter a swap contract with a foreign company to obtain a more favorable interest rate on the foreign currency that is otherwise is unavailable.

Types of Currency Swap Contracts

Similar to interest rate swaps, currency swaps can be classified based on the types of legs involved in the contract. The most commonly encountered types of currency swaps include the following:

- **Fixed vs. Float**: One leg of the currency swap represents a stream of fixed interest rate payments while another leg is a stream of floating interest rate payments.

- **Float vs. Float (Basis Swap):** The float vs. float swap is commonly referred to as basis swap. In a basis swap, both swaps' legs both represent floating interest rate payments.
- **Fixed vs. Fixed**: Both streams of currency swap contracts involve fixed interest rate payments.

GLOBAL MINIMUM TAX

Finance Ministers from the Group of Seven (G7) rich nations reached a landmark accord setting a global minimum corporate tax rate, an agreement that could form the basis of a worldwide deal.

The deal aims to end what U.S. Treasury Secretary Janet Yellen has called a "30-year race to the bottom on corporate tax rates" as countries compete to lure multinationals.

What is the need?

- Major economies are aiming to discourage multinationals from shifting profits — and tax revenues — to low-tax countries regardless of where their sales are made.
- Increasingly, income from intangible sources such as drug patents, software and royalties on intellectual property has migrated to these jurisdictions, allowing companies to avoid paying higher taxes in their traditional home countries.
- With its proposal for a minimum 15% tax rate, the Biden administration hopes to reduce such tax base erosion without putting American firms at a financial disadvantage, allowing competition on innovation, infrastructure and other attributes.

Where are the talks at?

- The **G7** talks is for broadening existing efforts.
- The **Organization for Economic Cooperation and Development** has been coordinating tax negotiations among 140 countries for years on rules for taxing cross-border digital services and curbing tax base erosion, including a global corporate minimum tax.
- The **OECD and G20 countries** aim to reach consensus on both by mid-year, but the talks on a global corporate minimum are technically simpler and less contentious. If a broad consensus is reached, it will be extremely hard for any low-tax country to try and block an accord.
- The minimum is expected to make up the bulk of the $50 billion-$80 billion in extra tax that the OECD estimates firms will end up paying globally under deals on both fronts.

How would a global minimum tax work?

- The global minimum tax rate **would apply to overseas profits**. Governments could still set whatever local corporate tax rate they want, but if companies pay lower rates in a particular country, their home governments could "top-up" their taxes to the minimum rate, eliminating the advantage of shifting profits.
- The OECD said that governments broadly agreed on the basic design of the minimum tax but not the rate. Other items still to be negotiated include whether investment funds and real estate investment trusts should be covered, when to apply the new rate and ensuring it is compatible with U.S. tax reforms aimed at deterring erosion.

What about that minimum rate?

- Talks are focusing around the U.S. proposal of a minimum global corporation tax rate of 15% - above the level in countries such as Ireland but below the lowest G7 level.
- Any final agreement could have major repercussions for low-tax countries and tax havens.
- The Irish economy has boomed with the influx of billions of dollars in investment from multinationals. Dublin, which has resisted EU attempts to harmonise its tax rules, is unlikely to accept a higher minimum rate without a fight.

- However, the battle for low-tax countries is less likely to be about scuppering the overall talks and more about building support for a minimum rate as close as possible to its 12.5% or seeking certain exemptions.

FDI IN INDIA

- Foreign direct investment (FDI) is **when a company takes controlling ownership in a business entity in another country**. With FDI, foreign companies are directly involved with day-to-day operations in the other country. This means they aren't just bringing money with them, **but also knowledge, skills and technology**.
- Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.
- FDI is an important monetary source for India's economic development. Economic liberalisation started in India in the wake of the 1991 crisis and since then, FDI has steadily increased in the country.

Routes through which India gets FDI

- **Automatic route:** The non-resident or Indian company does not require prior nod of the RBI or government of India for FDI.
- **Govt route:** The government's approval is mandatory. The company will have to file an application through Foreign Investment Facilitation Portal, which facilitates single-window clearance. The application is then forwarded to the respective ministry, which will approve/reject the application in consultation with the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce. DPIIT will issue the Standard Operating Procedure (SOP) for processing of applications under the existing FDI policy.

Sectors which come under the ' 100% Automatic Route' category are:

Agriculture & Animal Husbandry, Air-Transport Services (non-scheduled and other services under civil aviation sector), Airports (Greenfield + Brownfield), Asset Reconstruction Companies, Auto-components, Automobiles, Biotechnology (Greenfield), Broadcast Content Services (Up-linking & down-linking of TV channels, Broadcasting Carriage Services, Capital Goods, Cash & Carry Wholesale Trading (including sourcing from MSEs), Chemicals, Coal & Lignite, Construction Development, Construction of Hospitals, Credit Information Companies, Duty Free Shops, E-commerce Activities, Electronic Systems, Food Processing, Gems & Jewellery, Healthcare, Industrial Parks, IT & BPM, Leather, Manufacturing, Mining & Exploration of metals & non-metal ores, Other Financial Services, Services under Civil Aviation Services such as Maintenance & Repair Organizations, Petroleum & Natural gas, Pharmaceuticals, Plantation sector, Ports & Shipping, Railway Infrastructure, Renewable Energy, Roads & Highways, Single Brand Retail Trading, Textiles & Garments, Thermal Power, Tourism & Hospitality and White Label ATM Operations.

Government route

Sectors which come under the 'up to 100% Government Route' category are

- Banking & Public sector: 20%
- Broadcasting Content Services: 49%
- Core Investment Company: 100%
- Food Products Retail Trading: 100%
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Multi-Brand Retail Trading: 51%
- Print Media (publications/ printing of scientific and technical magazines/ specialty journals/ periodicals and facsimile edition of foreign newspapers): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%
- Satellite (Establishment and operations): 100%

FDI prohibition: There are a few industries where FDI is strictly prohibited under any route. These industries are

- Atomic Energy Generation
- Any Gambling or Betting businesses
- Lotteries (online, private, government, etc)
- Investment in Chit Funds
- Nidhi Company
- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc)
- Housing and Real Estate (except townships, commercial projects, etc.)
- Cigars, Cigarettes, or any related tobacco industry

FOREIGN PORTFOLIO INVESTMENT (FPI)

- FPI is a form of investment wherein investors hold assets and securities outside their country. These investments could include **stocks, bonds, exchange traded funds (ETFs) or mutual funds**. It is one way in which an investor can partake in a foreign economy.
- The reason FPI is watched carefully by experts is that it is an **indicator of the stock market's performance**.
- FPI also **enhances stock market efficiency a**nd ensures that there is a balance between value and the price of a stock.
- Emerging economies which show a potential for growth that is higher than the investor's country tend to see a high level of participation by foreign investors. Another factor that influences FPIs is an attractive growth rate.
- In India, foreign portfolio investment is regulated by the **Securities and Exchange Board of India (SEBI).**
- FPI in India refers to investment groups or **FIIs (foreign institutional investors) and QFIs (qualified foreign investors).**

Difference between FPI and FDI

- FDI refers to a scenario when a direct business interest is established overseas. This business interest could be a warehouse or manufacturing entity for example.
- An **FDI could lead to transfer of resources, knowledge and funds and involves a joint venture or setting up a subsidiary.**
- Foreign direct investment is **more long-term** than foreign portfolio investment and also bulkier.
- Foreign direct investments are **taken up by institutions or venture capital companies**. Foreign portfolio investment is merely investing in the securities or assets of another country.
- Talking about the stock market, FPI involves buying shares or bonds that are made available on the foreign country's exchange. FPI is liquid and can be bought and sold easily.
- While FPI involves investors who are passive, FDI is all about active investors. FPI is not a direct investment and is a short term form of investment when compared to FDI.

Categories of FPI (for investments into India): Earlier, FPI was divided into three categories, on the basis of their risk profile.

- **Category I or low-risk**: This kind of FPI includes government/government-related establishments like central banks and international agencies among others. An example could be a sovereign wealth fund or an SWF which is a fund owned by the state or its divisions.
- **Category II or moderate-risk**: This includes mutual funds, insurance firms, banks, and pension funds among others.

- **Category III or high-risk**: This type of foreign portfolio investment includes all other FPIs that don't fall into the first two categories. They could include charitable organisations such as trusts or societies, endowments or trusts among others.
- However, as per a new notification in the second half of 2019, SEBI has sought to reclassify the categories and simplify norms. Accordingly, FPIs would come under two categories. All those entities or funds that were earlier registered as Category III are now Category II, accordingly, and the Category I is a mix of the earlier Category I and II.

Benefits of FPI

- Foreign portfolio investments **boost demand for stock of companies** and help them when it comes to raising capital at low costs.
- The presence of FPI would mean a **significant rise in the depth of the secondary market**.
- From the investor's perspective, it helps an **investor add more diversity to their investments** and benefit from such a diversification.
- Investors can also gain the **benefit of exchange rate changes**.
- Overseas markets provide **investors a chance to a bigger market** that may also sometimes not be as competitive as their home market. This means they benefit from the lower competition in a foreign country.
- A huge **advantage of FPI is that it is liquid**, ensuring that the investor is empowered and can move fast when there are good opportunities.

Disadvantages

- To the country receiving FPI, i.e. the host, the unpredictability of such investments would mean a constant shift between markets over short periods. This gives rise to some amount of volatility.
- A sudden withdrawal of FPI could make an impact on the exchange rate. FPI may be risky at certain occasions, i.e. when there is political instability in a country.

EXPORT SURGE

India's exports grew by 67.39 per cent to USD 32.21 billion in May driven by healthy growth in sectors such as engineering, petroleum products and gems and jewellery, even as trade deficit widened to USD 6.32 billion, according to government data.

- Imports in May rose by 68.54 per cent to USD 38.53 billion, from USD 22.86 billion in May 2020. In May 2019, imports stood at USD 46.68 billion.
- India is thus a net importer in May 2021 with a trade deficit of USD 6.32 billion, an increase of 74.69 per cent over trade deficit USD 3.62 billion in May 2020 and reduction by 62.49 per cent over trade deficit USD 16.84 billion in May 2019, the ministry said.

Trade Deficit

- A trade deficit occurs when a country does not produce everything it needs and borrows from foreign states to pay for the imports. That's called the **current account deficit**.
- A trade deficit also occurs **when companies manufacture goods in other countries**. The raw materials for manufacturing that are shipped overseas for factory production count as an export. The finished manufactured goods are counted as imports when they're shipped back to the country. The imports are subtracted from the country's gross domestic product even though the earnings may benefit the company's stock price, and the taxes may increase the country's revenue stream.
- Initially, a trade deficit is not necessarily a bad thing. It can raise a country's standard of living because residents can access a wider variety of goods and services for a more competitive price. It can also reduce the threat of inflation since it creates lower prices.

- Over time, a trade deficit can cause more outsourcing of jobs to other countries. As a country imports more goods than it buys domestically, then the home country may create fewer jobs in certain industries. At the same time, foreign companies will likely hire new workers to keep up with the demand for their exports.

The Bottom Line

- A nation with a trade deficit spends more on imports than it makes on its exports. In the short run, a negative balance of trade curbs inflation. But over time, a substantial trade deficit weakens domestic industries and decreases job opportunities.
- A huge reliance on imports also leaves a country vulnerable to economic downturns. Currency devaluations, for example, make imports more costly. This situation stimulates inflation.

G-SECs

The Reserve Bank will conduct open market purchase of government securities of ₹1.2 lakh crore under the G-sec Acquisition Programme (G-SAP 2.0) in Q2:2021-22 to support the market.

What is a Government Security (G-Sec)?

- A Government Security (G-Sec) is a **tradeable instrument issued by the Central Government** or the State Governments. It **acknowledges the Government's debt obligation**.
- Such securities are **short term** (usually called treasury bills, with original maturities of less than one year) or **long term** (usually called Government bonds or dated securities with original maturity of one year or more).
- In India, the **Central Government issues both, treasury bills and bonds or dated securities** while the **State Governments issue only bonds or dated securities**, which are called the State Development Loans (SDLs).
- G-Secs carry practically no risk of default and, hence, are called **risk-free gilt-edged** instruments.

Treasury Bills (T-bills)

- Treasury bills or T-bills, which are money market instruments, are **short term debt instruments** issued by the Government of India and are presently issued in three tenors, namely, **91 day, 182 day and 364 day**.
- Treasury bills are **zero coupon securities** and **pay no interest**. Instead, they are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say, ₹1.80 and would be redeemed at the face value of ₹100/-.
- The return to the investors is the difference between the maturity value or the face value (that is ₹100) and the issue price.

Cash Management Bills (CMBs)

- In 2010, Government of India, in consultation with RBI introduced a new short-term instrument, known as Cash Management Bills (CMBs), to meet the temporary mismatches in the cash flow of the Government of India.
- The CMBs have the **generic character of T-bills but are issued for maturities less than 91 days**.

Dated G-Secs

- Dated G-Secs are securities which carry a **fixed or floating coupon** (interest rate) which is paid on the face value, on half-yearly basis.
- Generally, the tenor of dated securities ranges from 5 years to 40 years.

Advantages of G-Secs

- Besides providing a return in the form of coupons (interest), G-Secs offer the maximum safety as they carry the Sovereign's commitment for payment of interest and repayment of principal.
- They can be held in book entry, i.e., **dematerialized/ scripless form**, thus, obviating the need for safekeeping. They can also be held in physical form.
- G-Secs are available in a **wide range of maturities** from 91 days to as long as 40 years to suit the duration of varied liability structure of various institutions.
- G-Secs **can be sold easily in the secondary market** to meet cash requirements.
- G-Secs **can also be used as collateral** to borrow funds in the repo market.
- Securities such as **State Development Loans (SDLs) and Special Securities (Oil bonds, UDAY bonds etc) provide attractive yields.**
- The settlement system for trading in G-Secs, which is based on **Delivery versus Payment (DvP),** is a very simple, safe and efficient system of settlement. The DvP mechanism ensures transfer of securities by the seller of securities simultaneously with transfer of funds from the buyer of the securities, thereby mitigating the settlement risk.
- G-Sec prices are readily available due to a liquid and active secondary market and a transparent price dissemination mechanism.
- Besides banks, insurance companies and other large investors, smaller investors like Co-operative banks, Regional Rural Banks, Provident Funds are also required to statutory hold G-Secs.

HEADLINE INFLATION AND CORE INFLATION

- **Headline inflation** refers to the change in **value of all goods in the basket**.
- **Core inflation excludes food and fuel items** from headline inflation.
- Since the prices of fuel and food items tend to fluctuate and create 'noise' in inflation computation, **core inflation is less volatile than headline inflation.**
- In a developed economy, food & fuel account for 10-15% of the household consumption basket and in developing economies it forms 30-40% of the basket.
- **Headline inflation is more relevant for developing economies than developed economies**.

INSOLVENCY AND BANKRUPTCY CODE (AMENDMENT) ORDINANCE, 2021

- It amends the Insolvency and Bankruptcy Code, 2016.
- I**nsolvency is a situation where individuals or companies are unable to repay their outstanding deb**t.
- The Code provides a **time-bound process for resolving the insolvency of corporate debtors (within 330 days) called the corporate insolvency resolution process (CIRP)**.
- The **debtor himself or its creditors may apply for initiation of CIRP** in the event of a default of at least one lakh rupees. Under CIRP, a committee of creditors is constituted to decide regarding the insolvency resolution. The committee may consider a resolution plan which typically provides for the payoff of debt by merger, acquisition, or restructuring of the company. If a resolution plan is not approved by the committee of creditors within the specified time, the company is liquidated. During CIRP, the affairs of the company are managed by the resolution professional (RP), who is appointed to conduct CIRP.
- **Pre-packaged insolvency resolution**: The Ordinance introduces an alternate insolvency resolution process for micro, small, and medium enterprises (MSMEs), called the pre-packaged insolvency resolution process (PIRP). Unlike CIRP, **PIRP may be initiated only by debtors**. The debtor should have a base resolution plan in place. During PIRP, the management of the company will remain with the debtor.

- **Minimum default amount**: Application for initiating PIRP may be filed in the event of a default of at least one lakh rupees. The central government may increase the threshold of minimum default up to one crore rupees through a notification.
- **Debtors eligible for PIRP**: PIRP may be initiated in the event of a default by a corporate debtor classified as an MSME under the MSME Development Act, 2006. Currently, under the 2006 Act, an enterprise with an annual turnover of up to Rs 250 crore, and investment in plant and machinery or equipment up to Rs 50 crore, is classified as an MSME. For initiating PIRP, the corporate debtor himself is required to apply to the adjudicating authority (National Company Law Tribunal). The authority must approve or reject the application for PIRP within 14 days of its receipt.
- **Approval of financial creditors**: For applying for PIRP, the debtor needs to **obtain approval of at least 66% of its financial creditors** (in value of debt due to creditors) who are not related parties of the debtor. Before seeking approval, the debtor must provide creditors with a base resolution plan. The debtor must also propose the name of the RP along with the application for PIRP. The proposed RP must be approved by at least 66% of the financial creditors.
- **Proceedings under PIRP:** The debtor will submit the base resolution plan to the RP within two days of the commencement of the PIRP. A committee of creditors will be constituted within seven days of the PIRP commencement date, which will consider the base resolution plan. The committee may provide the debtor with an opportunity to revise the plan. The RP may also invite resolution plans from other persons. **Alternative resolution plans may be invited** if the base plan: (i) is not approved by the committee, or (ii) is unable to pay the debt of operational creditors (claims related to the provision of goods and services).
- A resolution plan must be **approved by the committee by a vote of at least 66% of the voting shares**. A resolution plan must be approved by the committee within 90 days from the commencement date of PIRP. The resolution plan approved by the committee will be examined by the adjudicating authority. If no resolution plan is approved by the committee, the RP may apply for termination of PIRP. The authority must either approve the plan or order termination of PIRP within 30 days of receipt. Termination of PIRP will result in the liquidation of the corporate debtor.
- **Moratorium:** During PIRP, the debtor will be provided with a moratorium under which certain actions against the debtor will be prohibited. These include filing or continuation of suits, execution of court orders, or recovery of property.
- **Management of debtor during PIRP**: During the PIRP, the board of directors or partners of the debtor will continue to manage the affairs of the debtor. However, the management of the debtor may be vested with the RP if there has been fraudulent conduct or gross mismanagement.
- **Initiation of CIRP**: At any time from the PIRP commencement date but before the approval of the resolution plan, the committee of creditors may decide to terminate PIRP and instead initiate CIRP in respect of the debtor (by a vote of at least 66% of the voting shares).

NATIONAL COMPANY LAW TRIBUNAL

- The National Company Law Tribunal is a **quasi-judicial body** in India that adjudicates issues relating to Indian companies.
- The tribunal was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India and is based on the recommendation of the **V. Balakrishna Eradi committee** on law relating to the insolvency and the winding up of companies.
- All proceedings under the Companies Act, including proceedings relating to arbitration, compromise, arrangements, reconstructions and the winding up of companies shall be disposed off by the National Company Law Tribunal.
- The NCLT bench is chaired by a **Judicial member** who is supposed to be a retired or a serving High Court Judge and a Technical member who must be from the Indian Corporate Law Service, ICLS Cadre.
- The National Company Law Tribunal is the adjudicating authority for the insolvency resolution process of companies and limited liability partnerships under the Insolvency and Bankruptcy Code, 2016.

- **No criminal court shall have jurisdiction to entertain any suit or proceeding in respect of any matter which the Tribunal or the Appellate Tribunal is empowered to determine by or under this Act** or any other law for the time being in force and no injunction shall be granted by any court or other authority in respect of any action taken or to be taken in pursuance of any power conferred by or under this Act or any other law for the time being in force, by the Tribunal or the Appellate Tribunal.
- The **tribunal has sixteen benches**, six at New Delhi (one being the principal bench) and two at Ahmedabad, one at Allahabad, one at Bengaluru, one at Chandigarh, two at Chennai, one at Cuttack, one at Guwahati, three at Hyderabad of which one is at Amaravathi, one at Jaipur, one at Kochi, two at Kolkata and five at Mumbai.
- Of the two new benches approved to be set up, one each in Indore and Amaravathi, the Indore bench is yet to be notified. Except the Bench at Amaravathi, all the benches have been notified as division benches. Justice M.M. Kumar, a retired Chief Justice of the Jammu & Kashmir High Court has been appointed president of the tribunal.
- The National Company Law Tribunal has the power under the Companies Act to adjudicate proceedings:
  - Initiated before the Company Law Board under the previous act (the Companies Act 1956);
  - Pending before the Board for Industrial and Financial Reconstruction, including those pending under the Sick Industrial Companies (Special Provisions) Act, 1985;
  - Pending before the Appellate Authority for Industrial and Financial Reconstruction; and
  - Pertaining to claims of oppression and mismanagement of a company, winding up of companies and all other powers prescribed under the Companies Act.
- Decisions of the tribunal may be appealed to the National Company Law Appellate Tribunal, the decisions of which may further be appealed to the Supreme Court of India on a point of law. The Supreme Court of India has upheld the Insolvency and Bankruptcy Code in its entirety.

HOUSEHOLD SAVINGS

For lakhs of households in the country, the Covid-19 pandemic has led to a decline in financial assets such as bank deposits, pension money, life insurance funds and currency holdings. While the RBI estimated an increase in debt of around 20 crore households, which contribute around 60% of gross savings in the economy, financial savings showed a decline of over 45% from June to December 2020.

THE BROAD TAKEAWAYS FROM THE ESTIMATE:

Financial savings

- When the pandemic first struck, household financial savings initially jumped In the first quarter of 2020-21, but went on to witness sequential moderation in the next two quarters.
- According to the RBI's preliminary estimate, household financial savings were at 8.2% of GDP in the third quarter, after being at 10.4% of GDP in the second quarter (ended September 2020) and 21% the June quarter.
- In absolute terms, net financial assets of households fell to Rs 4,44,583 crore in the December quarter from Rs 4,91,906 crore in the September quarter and Rs 8,15,886 crore in the June quarter.

Household deposits

- While overall bank deposits have been going up, the share of households has been coming down. The ratio of household (bank) deposits to GDP declined to 3.0% in the December quarter of 2020-21 from 7.7% in the previous quarter.
- In absolute numbers, household deposits fell from Rs 3,67,264 crore in September to Rs 1,73,042 crore in December. This could be, according to banking analysts, due to the tendency of households to withdraw cash to meet emergency needs. During April-June 2020, deposits had fallen to Rs 1,25,848 crore from Rs 4,55,464 crore in January-March.

- This suggests that when Covid infections shoot up, deposits of households decline, only to pick up partially when the situation improves and fall again when infections rise again later.

Currency holdings

- After the government announced a stringent lockdown in March last year, currency with the public increased by Rs 3.07 lakh crore between March and June, from Rs 22.55 lakh crore to Rs 25.62 lakh crore in the fortnight ended June 19, 2020. Now, currency with the public is at a record high of Rs 28.78 lakh crore, as per the latest RBI data.
- While currency with the public has been rising, its pace slowed since July, before gathering momentum once again in February 2021.
- Bankers say a rise in currency holdings indicates that people have started to accumulate cash in anticipation of more stringent lockdown measures, prompting more withdrawals at the ATM.

Life insurance funds

- The insurance industry has undergone a significant transformation since the pandemic struck, with demand for policies rising. Life insurers' new business premium income had declined 27.9% in April and May 2020. However, for the full fiscal 2020-21, premium income recovered and rose by 7.49%.
- Life insurance funds of households plummeted to Rs 33,549 crore in March quarter of FY2020. However, as infections and deaths increased, funds rose to Rs 1,23,324 crore in June quarter, Rs 1,42,422 crore in September quarter and Rs 1,56,320 crore in December quarter of FY2021.
- The insurance industry ended the last financial year at 9% growth in life and non-life combined. During the April-May period of the current fiscal, it has grown 17%.

Equity holdings

- Stock markets have progressively improved with the Sensex rising from 28,265 at the beginning of April 2020 to above 52,000 now.
- After the decline in March and the beginning of April 2020, the markets recovered but households' investment in equity declined.
- The share of savings in shares and debentures out of total household financial savings, which was 3.4% in FY20, is likely to increase in FY21 to 4.8-5% (or to 0.7 % of GDP from 0.4% of GDP in FY20), which is still much lower than 36.5% in the US, according to an SBI report.
- Mutual fund holdings of households contracted by Rs 51,926 crore in the March 2020 quarter but improved later, showing a growth of Rs 66,195 crore in June 2020, Rs 11,909 crore in September and Rs 65,312 crore in December.

Small savings

Household savings in small saving schemes like post office and National Savings Certificate remained unchanged at Rs 75,879 crore in the three quarters of FY 2021. Most of these schemes have a lock-in period, preventing investors from withdrawing from them.

Household debt

- The household debt to GDP ratio, which is based on select financial instruments, has been increasing steadily since end-March 2019. It rose sharply to 37.9% at end-December 2020 from 37.1% at end-September 2020.
- Households' liabilities to the banking sector contracted by Rs 1,38,472 crore in the June quarter of 2020, but increased to Rs 2,18,216 crore in December. The RBI had announced a moratorium on loan repayment last year.
- Despite higher borrowings from banks and housing finance companies, the flow in household financial liabilities was marginally lower in the December quarter of 2020-21 following a marked decline in borrowings from non-banking financial companies.

PURCHASING MANAGERS INDEX (PMI)

- The purchasing managers' index (PMI) is an **economic indicator based on surveys of businesses in a given sector.** The most common PMI surveys are the **manufacturing PMI** and the **services PMI.**
- Understanding the PMI can provide insight into recent market conditions and identify potential economic slowdowns.

What Is the Purchasing Managers' Index?

The purchasing managers' index consists of several different surveys of purchasing managers at businesses in manufacturing or services. These surveys are compiled into a single numerical result depending on one of several possible answers to each question.

The most common elements include:

- New orders
- Factory output
- Employment
- Suppliers' delivery times
- Stocks of purchases

Investors use PMI surveys as leading indicators of economic health, given their insight into sales, employment, inventory, and pricing. Manufacturing sector purchases tend to react to consumer demand and are often among the first visible signs of a slowdown.

How Does the PMI Work?

- The PMI is a **diffusion index**, meaning that it **measures change across multiple indicators**. A diffusion index is particularly useful for identifying **economic turning points**, such as unemployment reporting from the Bureau of Labor Statistics.
- The purchasing managers' index is a diffusion index that indicates whether economic conditions are better or worse at the companies surveyed.
- The formula used to calculate the PMI assigns weights to each common element and then multiplies them by **1 for improvement, 0.5 for no change, and 0 for deterioration**.
- Here is how the formula appears:

PMI = (P1*1) + (P2*0.5) + (P3*0)

P1 = Percentage of answers reporting improvement

P2 = Percentage of answers reporting no change

P3 = Percentage of answers reporting deterioration

- A **figure above 50 denotes an expansion** while **anything below 50 denotes a contraction** in activity. The higher the difference from this mid-point of 50, greater the expansion or contraction.
- Also, the rate of expansion can be judged by **comparing the PMI with that of the previous month reading**. If the latest figure is higher than previous month's, then manufacturing or services is expanding at a faster rate. If it is lower than previous month, then it is growing at lower rate.

Why is it important?

- The PMI is becoming one of the most tracked indicators of business activity across the world. It provides a reliable expectation of how an economy is doing as a whole — and manufacturing in particular.
- It is a **good gauge of boom and bust cycles** in the economy and closely watched by investors, business, traders and financial professionals besides economists. Also, the PMI, which is usually released at the start of the month, serves as a leading indicator of economic activity. It comes before the official data on industrial output, core sector manufacturing and GDP growth.

- Even central banks use the PMI to take decisions on interest rates. Besides influencing equity market movements, PMI releases also impact bond and currency markets.
- Since manufacturing sector is often where recessions begin and end, PMI manufacturing is always closely watched. A good reading of PMI enhances the attractiveness of an economy vis-a-vis other competing economies. Suppliers can decide on prices depending on PMI movements.

INDEX OF INDUSTRIAL PRODUCTION (IIP)

- Index of Industrial Production data or IIP as it is commonly called is an index that **tracks manufacturing activity in different sectors of an economy.**
- The IIP number measures the industrial production for the period under review, usually a month, as against the reference period.
- **IIP is a key economic indicator of the manufacturing sector** of the economy. There is a lag of six weeks in the publication of the IIP index data after the reference month ends.
- IIP index is **currently calculated using 2011-2012 as the base year**.

IIP Index Components:

- Electricity, crude oil, coal, cement, steel, refinery products, natural gas, and fertilisers are the **eight core industries** that comprise about **40 percent of the weight of items** included in the Index of Industrial Production.
- Mining, manufacturing, and electricity are the three broad sectors in which IIP constituents fall.

Who releases Index of Industrial Production or IIP data?

- In the case of Index of Industrial Production India, **IIP data is compiled and published by CSO every month**. CSO or Central Statistical Organisation operates under the Ministry of Statistics and Programme Implementation (MoSPI).
- The IIP index data, once released, is also available on the PIB website.

Who uses IIP data?

- The factory production data (IIP) is used by various government agencies such as the Ministry of Finance, the Reserve Bank of India (RBI), private firms and analysts, among others for analytical purposes.
- The data is also used to compile the **Gross Value Added (GVA) of the manufacturing sector** in the Gross Domestic Product (GDP) on a quarterly basis.

Where is IIP data sourced from?

- The **CSO uses secondary data** to reach the monthly IIP number. The data is sourced from various agencies in different ministries or departments of the government.
- The Department of Industrial Policy and Promotion (DIPP) is the source for the major chunk of data for the calculation.

IIP vs ASI

- While the IIP is a monthly indicator, the Annual Survey of Industries (ASI) is the prime source of long-term industrial statistics.
- The ASI is used to track the health of the industrial activity in the economy over a longer period. The index is compiled out of a much larger sample of industries compared to IIP.

INDEX OF EIGHT CORE INDUSTRIES

- It is **released 12 days before the IIP** is released.
- The **objective** of the Index of Eight Core Industries is to **give an advance indication on the production performance of the industries** which **are of 'core' nature** before the release of the IIP.
- The ICI measures the individual and collective performances of the production in these eight core industries.
- The ICI is used by policymakers including the Ministry of Finance, other Ministries, and Departments.
- It is also used by banks for financing infrastructure projects and the Reserve Bank of India (RBI).
- To calculate the ICI, the components covered under the eight core sectors are mentioned in the table below:

- **Coal** – Coal Production excluding Coking coal.
- **Electricity** – Actual Electricity Generation of Thermal, Nuclear, Hydro, imports from Bhutan.
- **Crude Oil** – Total Crude Oil Production.
- **Cement** – Production of Large Plants and Mini Plants.
- **Natural Gas** – Total Natural Gas Production.
- **Steel** – Production of Alloy and Non-Alloy Steel only.
- **Refinery Products** – Total Refinery Production (in terms of Crude Throughput).
- **Fertilizer** – Urea, Ammonium Sulphate (A/S), Calcium Ammonium Nitrate (CAN), Ammonium chloride (A/C), Diammonium Phosphate (DAP), Complex Grade Fertilizer and Single superphosphate (SSP).

- The ICI is **released every month**.
- The index is calculated by using the **Laspeyres formula** of the **weighted arithmetic mean of quantity relatives**.

	Industry	Weight
01	Coal	10.33
02	Electricity	19.85
03	Crude oil	8.98
04	Cement	5.37
05	Natural gas	6.88
06	Steel	17.92
07	Refinery products	28.04
08	Fertilizers	2.63
	Total	100

NASSCOM

- NASSCOM, a **not-for-profit industry association**, is the apex body for the 194 billion dollar IT BPM industry in India, an industry that had made a phenomenal contribution to India's GDP, exports, employment, infrastructure and global visibility.
- In India, this industry provides the highest employment in the private sector.
- Established in **1988** and ever since, NASSCOM's relentless pursuit has been to constantly support the IT BPM industry, in the latter's continued journey towards seeking trust and respect from varied stakeholders, even as it reorients itself time and again to remain innovative, without ever losing its humane and friendly touch.

- NASSCOM is focused on building the architecture integral to the development of the IT BPM sector through policy advocacy, and help in setting up the strategic direction for the sector to unleash its potential and dominate newer frontiers.

- NASSCOM's members, 3000+, constitute 90% of the industry's revenue and have enabled the association to spearhead initiatives at local, national and global levels. In turn, the IT BPM industry has gained recognition as a global powerhouse.

Strategic Imperative includes building the tech ecosystem and industry narrative with focus on:

- **Nurture India's Innovation Quotient**
- **Grow New Opportunities for Business**
- **Build Tech Capability and Ecosystem**
- **Champion Equal Opportunity and Diversity**
- **Drive Policy Advocacy**

FICCI

- The Federation of Indian Chambers of Commerce & Industry (FICCI) is a non-governmental trade association and advocacy group based in India.
- **Established in 1927**, **on the advice of Mahatma Gandhi by GD Birla and Purshottamdas Thakurdas**, it is the largest, oldest and the apex business organisation in India.
- It is a non-government, not-for-profit organisation.
- FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs. The chamber has an indirect membership of over 250,000 companies from various regional chambers of commerce.
- It is involved in **sector-specific business building, business promotion and networking**.
- It is headquartered in New Delhi.

ASSOCHAM

- The Associated Chambers of Commerce and Industry of India (ASSOCHAM) is a non-governmental trade association and advocacy group based in New Delhi, India.
- The organisation **represents the interests of trade and commerce in India**, and **acts as an interface between issues and initiatives.**
- The goal of this organisation is to promote both domestic and international trade, and reduce trade barriers while fostering conducive environment for the growth of trade and industry of India.
- **ASSOCHAM was established in 1920** by promoter chambers, representing all regions of India.
- It has completed 100 years of existence.
- The association has a special role in promoting international trade, and often hosts international trade delegates to India, along with sending delegations of Indian business groups to foreign locations. It also interacts with international counterpart organisations to promote bilateral economic issues.
- ASSOCHAM is a member of the International Chamber of Commerce, the World Business Organisation, through ICC, India.
- ASSOCHAM is authorised by the Government of India to issue **Certificates of Origin, certify commercial invoices, and recommend business visa.**

SEBI

- The Securities and Exchange Board of India was established on **April 12, 1992** in accordance with the provisions of the **Securities and Exchange Board of India Act, 1992**.

- The **Preamble** of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as *"...to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto".*
- SEBI India follows a **corporate structure**. It has a Board of Directors, senior management, department heads and several crucial departments.
- To be precise, it comprises of over 20 departments, all of which are supervised by their respective department heads, who in turn are administered by a hierarchy in general.
- The SEBI's hierarchical structure comprises of the following 9 designated officers –

- The Chairman – Nominated by the Indian Union Government.
- Two members belonging to the Union Finance Ministry of India.
- One member belonging to the Reserve Bank of India or RBI.
- Other five members – Nominated by the Union Government of India.

The below-mentioned list highlights some of the most important departments of SEBI –

- The Information Technology Department.
- The Foreign Portfolio Investors and Custodians.
- Office of International Affairs.
- National Institute of Securities Market.
- Investment Management Department.
- Commodity and Derivative Market Regulation Department.
- Human Resource Department.

Functions –

- To protect the **interests of Indian investors** in the securities market.
- To promote the **development and hassle-free functioning of the securities market**.
- To **regulate the business operations** of the securities market.
- To serve as a **platform for** portfolio managers, bankers, stockbrokers, investment advisers, merchant bankers, registrars, share transfer agents and other people.
- To **regulate the tasks** entrusted on depositors, credit rating agencies, custodians of securities, foreign portfolio investors and other participants.
- To **educate investors** about securities markets and their intermediaries.
- To **prohibit fraudulent and unfair trade practices** within the securities market and related to it.
- To **monitor company take-overs and acquisition** of shares.
- To **keep the securities market efficient and up to date** all the time through proper research and developmental tactics.

Powers –

- **Quasi-judicial powers**: In cases of frauds and unethical practices pertaining to the securities market, SEBI India has the power to pass judgements.

The said power facilitates to maintain transparency, accountability and fairness in the securities market.

- **Quasi-executive powers**: SEBI has the power to **examine the Book of Accounts and other vital documents** to identify or gather evidence against violations. If it finds one violating the regulations, the regulatory body has the power to impose rules, pass judgements and take legal actions against violators.
- **Quasi-Legislative powers**: To protect the interest of investors, the authoritative body has been entrusted with the power to formulate suitable rules and regulations. Such rules tend to encompass the listing obligations, insider trading regulations and essential disclosure requirements. The body formulates such rules and regulation to get rid of malpractices that are prevalent in the securities market.

- The Supreme Court of India and the Securities Appellate Tribunal tend to have an upper hand when it comes to the powers and functions of SEBI. All its functions and related decisions have to go through the two apex bodies first.

OPEC

- The Organization of the Petroleum Exporting Countries (OPEC) is a **permanent intergovernmental organization of oil-exporting developing nations** that **coordinates and unifies the petroleum policies** of its Member Countries.
- OPEC seeks to **ensure the stabilisation of oil prices in the international oil markets**, with a view to eliminating harmful and unnecessary fluctuations, due regard being given at all times to the interests of oil-producing nations and to the necessity of securing a steady income for them.
- Equally important is OPEC's role in securing an efficient, economic and regular supply of petroleum to consuming nations and a fair return on capital to those investing in the petroleum industry.
- OPEC was **founded on September 14, 1960**, the result of a meeting that took place in the Iraqi capital of **Baghdad,** attended by the **five Founder Members of the Organization: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.**
- Currently, the Organization comprises **13 Member Countries** – namely Algeria, Angola, Congo, Ecuador, Equatorial Guinea, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates and Venezuela.
- OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.
- The organization is committed to finding ways to ensure that oil prices are stabilized in the international market without any major fluctuations. Doing this helps keep the interests of member nations while ensuring they receive a regular stream of income from an uninterrupted supply of crude oil to other countries.

- OPEC recognizes the founding nations as full members. Any country that wishes to join and whose application is accepted by the organization is also considered a full member. These countries must have significant crude petroleum exports.
- Membership to OPEC is only granted after receiving a vote from at least three-quarters of its full members.
- Associate memberships are also granted to countries under special conditions.

OPEC PLUS

- The non-OPEC countries which export crude oil are termed as OPEC plus countries.
- OPEC plus countries include Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

MICROFINANCE INSTITUTIONS (MFIs)

- MFI is an organization that offers financial services to low income populations.
- These services include **microloans, micro-savings and microinsurance**.
- MFIs are financial companies that provide small loans to people who do not have any access to banking facilities.
- The definition of "small loans" varies between countries. In India, all loans that are below Rs.1 lakh can be considered as microloans.
- Microfinance sector has grown rapidly over the past few decades and currently it is serving around 102 million accounts (including banks and small finance banks) of the poor population of India.

- Different types of financial services providers for poor people have emerged - *non-government organizations (NGOs); cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale - offering new possibilities.*
- **Non-Banking Finance Company (NBFC)-MFIs** in India are regulated by **The Non-Banking Financial Company -Micro Finance Institutions (Reserve Bank) Directions, 2011** of the Reserve Bank of India (RBI).

MAJOR BUSINESS MODELS:

Joint Liability Group:

- This is usually an informal group that consists of 4-10 individuals who seek loans against mutual guarantee.
- The loans are usually taken for agricultural purposes or associated activities.

Self Help Group:

- It is a group of individuals with similar socio-economic backgrounds.
- These small entrepreneurs come together for a short duration and create a common fund for their business needs. These groups are classified as non-profit organisations.
- The National Bank for Agriculture and Rural Development (NABARD) SHG linkage programme is noteworthy in this regard, as several Self Help Groups are able to borrow money from banks if they are able to present a track record of diligent repayments.

Grameen Model Bank:

- It was the brainchild of Nobel Laureate Prof. Muhammad Yunus in Bangladesh in the 1970s.
- It has inspired the creation of Regional Rural Banks (RRBs) in India. The primary motive of this system is the end-to-end development of the rural economy.

Rural Cooperatives:

- They were established in India at the time of Indian independence.
- However, this system had complex monitoring structures and was beneficial only to the creditworthy borrowers in rural India. Hence, this system did not find the success that it sought initially.

Benefits:

- They provide **easy credit and offer small loans** to customers, without any collateral.
- It **makes more money available to the poor sections** of the economy, leading to increased income and employment of poor households.
- **Serving the under-financed section** such as women, unemployed people and those with disabilities.
- It **helps the poor and marginalised section** of the society by making them aware of the financial instruments available for their help and also helps in developing a culture of saving.
- Families benefiting from microloans are more likely to provide better and continued education for their children.

SMALL FINANCE BANKS

- Small Finance Banks are the financial institutions which provide financial services to the unserved and unbanked region of the country.
- They are **registered as a public limited company under the Companies Act, 2013**.

Objective

- **Access to financial services**: The main purpose behind having small finance banks is to expand access to financial services in rural and semi-urban areas. These banks can do almost everything that a normal commercial bank can do but at a much smaller scale.
- **Basic banking services**: It offer basic banking services, accept deposits and lend to underserved sections of customers, including small business units, small and marginal farmers, micro and small industries, and even entities in the unorganised sector.
- **Alternative institution**: Small finance banks have the potential to provide an alternative to some of the existing institutions with their mandated focus on small and medium businesses, the informal sector, small and marginal farmers and thus on increasing financial inclusion and serving a variety of unserved clients in the hinterland and tier three and four cities and towns.

Activities

- The small finance bank shall **primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections** including small business units, small and marginal farmers, micro and small industries and unorganised sector entities.
- It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own funds, such as the **distribution of mutual fund units, insurance products, pension products, etc.**
- The small finance bank **can also become an Authorised Dealer in foreign exchange business** for its clients' requirements.
- **Open banking outlets**: Small finance banks will have general permission to open banking outlets from the date of commencement of business subject to the condition that the **requirement of opening at least 25 percent of its banking outlets in unbanked rural centres**.
- **Restriction in the area of operations**: There will not be any restriction in the area of operations of small finance banks; however, preference will be given to those applicants who, in the initial phase, set up the bank in a cluster of under-banked States/districts, such as in the North-East, East and Central regions of the country.
- These applicants will not have any hindrance to expand to other regions in due course.
- It is expected that the small finance bank should primarily be responsive to local needs. After the initial stabilization period of five years, and after a review, RBI may liberalize the scope of activities of the small finance banks.
- The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not commingled with the banking business.

Capital Requirement

- The **minimum paid-up voting equity capital for small finance banks shall be Rs.200 crore**, except for such small finance banks which are converted from UCBs.
- In view of the inherent risk of a small finance bank, it shall be required to maintain a minimum capital adequacy ratio of 15 percent of its risk-weighted assets (RWA) on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time.

Foreign Shareholding

- The foreign shareholding in SFBs would be as per the Foreign Direct Investment (FDI) policy for private sector banks as amended from time to time.
- Currently, the aggregate FDI in a private sector bank from all sources will be allowed up to a maximum of **74% of the paid-up capital of the bank.**
- In the case of Foreign Institutional Investors (FIIs)/Foreign Portfolio Investors (FPIs), individual FII/FPI holding is restricted to below 10% of the total paid-up capital.

- The aggregate limit for all FIIs/FPIs/Qualified Foreign Investors (QFIs) cannot exceed 24% of the total paid-up capital. This can be raised to 49% of the total paid-up capital by the bank concerned through a resolution by its Board of Directors followed by a special resolution to that effect by its General Body.

Other Key Points

- SFBs need to **maintain a Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).**
- They are required to extend **75% of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending** by the Reserve Bank of India. At least 50% of its loan portfolio should constitute loans and advances of up to Rs. 25 lakh.
- SFBs can also **transit to a universal bank**, subject to fulfilling minimum paid-up capital/net worth requirements as applicable to universal banks.
- They cannot be a Business Correspondent (BC) for another bank. However, they can have their own BC network.

GREEN CONTRACTS

The increasing concerns about climate change once again point to the need for enhanced efforts towards achieving sustainable growth goals in India. While the massive levels of production, consumption and disposal of goods and services have their own set of benefits in a post-industrial society, they have also slowed down the replenishment cycle of limited resources.

- As both consumers and corporations reap the benefits of large-scale manufacturing and services, they must equally share the responsibilities relating to the loss of resources and reduce greenhouse gas emissions.
- Some corporations contribute a fair share to building a clean and sustainable future. But they can contribute in cutting down emissions through the process of green contracting.

Green contracts:

- 'Green contracts' refer to **commercial contracts which mandate that contracting parties cut down greenhouse gas emissions at different stages** of delivery of goods/services, including design, manufacturing, transportation, operations and waste disposal, as applicable to the industry.
- The process of implementing a green contract may **commence at the bidding stage itself**, when various interested companies participate in the tender process.
- In such a scenario, a **'green tender'** may prescribe necessary 'green qualifications', which can be considered when awarding the contract to a bidder. These green qualifications can range from using a pre-defined percentage of 'green energy' in service delivery to adequate on-site waste management, reducing carbon emissions by a certain level over period of time, etc.
- Once such a bidder is chosen, the contracting agreement between the parties can prescribe the **'green obligations' in detail**, thus making the obligations binding and enforceable in the eyes of the law. It is this obligatory nature of green contracts which sets the tone for the parties to cut down emissions.
- This can be achieved by contractual clauses providing for the use of good quality and energy-efficient infrastructure for production of goods/services, efforts in day-to-day operations such as reducing noise, air and water pollution and ensuring eco-friendly means of transportation like bicycles on site, establishing and maintaining a sustainable waste management system, and so on.
- One effective way to make sure that the service providers adhere to these contractual obligations would be to provide for measurement criteria and audit of the performance of the contractor with regard to these obligations. An organisation may also choose to contractually highlight non-performance of such obligations as a ground of contractual breach, with penalty prescriptions.
- Another way to make sure that these obligations under the green contracts resonate far is to make sure that they flow down to all levels of the supply chain engaged in the delivery of goods and services.

- Lastly, the economic cost of executing green contracts may be greater than a normal brown contract, but global entities operating in a changing environment need to take into consideration the greater environment costs at stake.

IPO

- An Initial Public Offering (IPO) is the **first sale of stocks issued by a company to the public**. Before an IPO, a company is considered a private company, usually with a small number of investors (founders, friends, family, and business investors such as venture capitalists or angel investors).
- When a company goes through an IPO, the **general public is able to buy shares** and own a portion of the company for the first time. An IPO is often referred to as **"going public,"** and the underwriting process is typically led by an investment bank.

Reasons

- Companies that are looking to grow often use an Initial Public Offering to raise capital. The biggest advantage of an IPO is the additional capital raised.
- The capital raised can be used to **buy additional property, plant, and equipment (PPE), fund research and development (R&D), expand, or pay off existing debt**. There is also an increased awareness of a company through an IPO, which typically generates a wave of potential new customers.

Types of IPO: There are two common types of IPO. They are:

Fixed Price Offering

- Fixed Price IPO can be referred to as the issue price that some companies set for the initial sale of their shares. The investors come to know about the price of the stocks that the company decides to make public.

Book Building Offering

- In the case of book building, the company initiating an IPO offers a 20% price band on the stocks to the investors. The interested investors bid on the shares before the final price is decided. Here, the investors need to specify the number of shares they intend to buy and the amount they are willing to pay per share.
- The lowest share price is referred to as floor price and the highest stock price is known as **cap price**. The ultimate decision regarding the price of the shares is determined by investors' bids.

GST COUNCIL

- The Goods & Services Tax Council is a **constitutional body** for making recommendations to the Union and State Government on issues related to Goods and Service Tax.
- The GST Council is **chaired by the Union Finance Minister** and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.
- The **Constitution (One Hundred and First Amendment) Act, 2016** introduced a national Goods and Services Tax (GST) in India from 1 July 2017.
- As per **Article 279A (1)** of the amended Constitution, the GST Council has to be constituted by the President within 60 days of the commencement of Article 279A. The notification for bringing into force Article 279A with effect from 12th September, 2016 was issued on 10thSeptember, 2016.
- As per Article **279A (4),** the Council will make recommendations to the Union and the States on important issues related to GST, like the goods and services that may be subjected or exempted from GST, model GST Laws, principles that govern Place of Supply, threshold limits, GST rates including the floor rates with bands, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.

The Goods and Services Tax Council shall make recommendations to the Union and the States on

a) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

b) the goods and services that may be subjected to, or exempted from the goods and services tax;

c) model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;

d) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

e) the rates including floor rates with bands of goods and services tax;

f) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;

g) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and

h) any other matter relating to the goods and services tax, as the Council may decide.

- The Goods and Services Tax Council shall **recommend the date** on which the goods and services tax be levied on **petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.**
- **One-half of the total number of Members** of the Goods and Services Tax Council **shall constitute the quorum** at its meetings.
- **Every decision** of the Goods and Services Tax Council shall be taken at a meeting, **by a majority of not less than three-fourths of the weighted votes** of the members present and voting, in accordance with the following principles, namely: —
  - the vote of the Central Government shall have a weightage of one third of the total votes cast, and
  - the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.
- The Goods and Services Tax Council shall establish a mechanism to adjudicate any dispute
  - between the Government of India and one or more States; or
  - between the Government of India and any State or States on one side and one or more other States on the other side; or
  - between two or more States, arising out of the recommendations of the Council or implementation thereof.

DIRECT TAX

- Direct taxes are type taxes that are paid straight or directly to the government, such as **income tax, poll tax, land tax, and personal property tax.** Such direct taxes are computed based on the ability of the taxpayer to pay, which means that the higher their capability of paying is, the higher their taxes are.

Types of Direct Taxes in India

- **Income Tax**: Depending on an individual's age and earnings, income tax must be paid. Various tax slabs are determined by the Government of India which determines the amount of Income Tax that must be paid. The taxpayer must file Income Tax Returns (ITR) on a yearly basis. Individuals may receive a refund or might have to pay a tax depending on their ITR. Huge penalties are levied in case individuals do not file ITR.
- **Wealth Tax:** The tax must be paid on a yearly basis and depends on the ownership of properties and the market value of the property. In case an individual owns a property, wealth tax must be paid and does not depend on whether the property generates an income or not. Corporate taxpayers, Hindu Undivided Families (HUFs), and individuals must pay wealth tax depending on their residential status. Payment of wealth tax is exempt for assets like gold deposit bonds, stock holdings, house property, commercial

property that have been rented for more than 300 days, and if the house property is owned for business and professional use.

- **Estate Tax:** It is also called as Inheritance Tax and is paid based on the value of the estate or the money that an individual has left after his/her death.
- Corporate Tax: Domestic companies, apart from shareholders, will have to pay corporate tax. Foreign corporations who make an income in India will also have to pay corporate tax. Income earned via selling assets, technical service fees, dividends, royalties, or interest that is based in India are taxable. The below-mentioned taxes are also included under Corporate Tax:

- **Securities Transaction Tax (STT):** The tax must be paid for any income that is earned via security transactions that are taxable.
- **Dividend Distribution Tax (DDT):** The Dividend Distribution Tax is a tax levied on dividends that a company pays to its shareholders out of its profits. The Dividend Distribution Tax, or DDT, is taxable at source, and is deducted at the time of the company distributing dividends. The dividend is the part of profits that the company shares with its shareholders. The law provides for the Dividend Distribution Tax to be levied at the hands of the company, and not at the hands of the receiving shareholder. However, an additional tax is imposed on the shareholder, who receives over Rs. 10 lakhs in dividend income in a financial year.
- **Fringe Benefits Tax**: Companies that provide fringe benefits for maids, drivers, etc., Fringe Benefits Tax is levied on them.
- **Minimum Alternate Tax (MAT)**: For zero tax companies that have accounts prepared according to the Companies Act, MAT is levied on them.

- **Capital Gains Tax:** It is a form of direct tax that is paid due to the income that is earned from the sale of assets or investments. Investments in farms, bonds, shares, businesses, art, and home come under capital assets. Based on its holding period, tax can be classified into long-term and short-term.

Any assets, apart from securities, that are sold within 36 months from the time they were acquired come under short-term gains. Long-term assets are levied if any income is generated from the sale of properties that have been held for a duration of more than 36 months.

Advantages of Direct Taxes

- **Economic and Social balance**: The Government of India has launched well-balanced tax slabs depending on an individual's earnings and age. The tax slabs are also determined based on the economic situation of the country. Exemptions are also put in place so that all income inequalities are balanced out.
- **Productivity**: As there is a growth in the number of people who work, the returns from direct taxes also increases. Therefore, direct taxes are considered to be very productive.
- **Inflation is curbed**: Tax is increased by the government during inflation. The increase in taxes reduces the necessity for goods and services, which leads to inflation to compress.
- **Certainty**: Due to the presence of direct taxes, there is a sense of certainty from the government and the taxpayer. The amount that must be paid and the amount that must be collected is known by the taxpayer and the government, respectively.
- **Distribution of wealth is equal**: Higher taxes are charged by the government to the individuals or organisations that can afford them. This extra money is used to help the poor in India.

Direct Taxes vs. Indirect Taxes

- Direct taxes refer to taxes that are filed and paid by an individual directly to the government. Indirect taxes, on the other hand, are taxes that can be transferred to another entity. Therefore, the burden of paying them can be put on another person's shoulders.
- Direct taxes can be evaded in the absence of proper collection administration. **Indirect taxes cannot be escaped** from because these are charged automatically on goods and services.
- **Direct taxes can help address inflation while indirect taxes can lead to inflation**.

- Direct taxes lessen the savings of earners, but indirect taxes encourage the opposite because they make products and services more expensive and unaffordable.
- Direct taxes are imposed only on people that belong to various income brackets. Indirect taxes, on the other, can be felt by everyone who buys goods and avails services.

CESS

- Cess is a tax **levied for a specific purpose and ought to be used for the same only**.
- The process of cess levying occurs after Parliament has **authorised its creation through an enabling legislation** that specifies the purpose for which the funds are being raised.
- However, the proceeds collected from cess levies and other charges are not being used lately for the purpose they were introduced.
- The latest audit of the Union Government's accounts tabled in Parliament has revealed that about 40% of all the cess collections in 2018-19 have been retained in the Consolidated Fund of India (CFI).

What Is A Cess?

- Different from the usual taxes and duties like excise and personal income tax, **a Cess is imposed as an additional tax besides the existing tax (tax on tax) with a purpose of raising funds** for a specific task.
- For example, the Swachh Bharat cess is levied by the government for cleanliness activities that it is undertaking across India.
- The Union government is empowered to raise revenue through a gamut of levies, including taxes (both direct and indirect), surcharges, fees and cess.
- A cess, generally paid by everyday public, is added to their basic tax liability paid as part of total tax paid.
- **Article 270 of the Constitution** allows cess to be **excluded from the purview of the divisible pool of taxes** that the Union government must share with the States.

Divisible Pool

- A divisible pool is a portion of Gross Tax Revenue (GTR) that is distributed between the Centre and the States.
- It **consists of all taxes, except surcharges and cess levied for specific purpos**e, net of collection charges.
- Post-Independence, the cess taxes were linked initially to the development of a particular industry, including a salt cess and a tea cess in 1953.
- Subsequently, the introduction of a cess was motivated by the aim of ensuring labour welfare.
- Some cess that exemplified this thrust were the iron ore mines labour welfare cess in 1961, the limestone and dolomite mines labour welfare cess of 1972 and the cine workers welfare cess introduced in 1981.

Types of Cess

- The introduction of the **The Goods and Services tax (GST)** in 2017 led to most cess being done away with and as of August 2018, there were only few cess that continued to be levied. These were:
- Cess on Exports
- Cess on Crude Oil
- Health and Education Cess
- Road and Infrastructure Cess,
- Other Construction Workers Welfare Cess,
- National Calamity Contingent Duty
- Duty on Tobacco and Tobacco Products

- The GST Compensation Cess.
- The Finance Minister Nirmala Sitharaman introduced a new cess — a Health Cess of 5% on imported medical devices — in the Finance Bill for 2020-2021.

SURCHARGE

- 'Surcharge' is an **additional charge or tax levied on an existing tax**. Unlike a cess, which is meant to raise revenue for a temporary need, **surcharge is usually permanent in nature**. It is levied as a percentage on the income tax payable as per normal rates. In case no tax is due for a financial year, then no surcharge is levied. The **revenue earned via surcharge is solely retained by the Centre** and, unlike other tax revenues, is not shared with States.
- Collections from **surcharge flow into the Consolidated Fund of India**.
- Currently, wealthy individuals and companies are liable to pay a surcharge on their tax outgo. Individuals earning a taxable income of over ₹1 crore have to shell out a surcharge amounting to 15 per cent of their tax outgo. So, if your taxable income is ₹1.2 crore, your income tax payable works out to ₹34.25 lakh. The 15 per cent surcharge will be computed on this amount, at ₹5.13 lakh. Thus, the total tax payable is ₹39.38 lakh without including cess.
- Partnership firms earning over ₹1 crore in taxable income pay a surcharge of 12 per cent. Domestic firms earning ₹1 crore to ₹10 crore pay a 7 per cent surcharge and those earning over ₹10 crore pay 12 per cent.

Why is it important?

- Surcharges, in India, are used to make the taxation system more 'progressive'. They are used to ensure that the rich contribute more to the tax kitty than the poor. Traditionally, the assumption has been that companies can pay higher taxes than individuals and corporate taxes have been subject to surcharge.

Why should I care?

- Individuals are subject to highest levy of surcharge compared to other tax payers. So if your total taxable income exceeds ₹1 crore, you must brace for much higher tax outgo. The surcharge levied is not eligible for any deductions or exemptions. If you are a high income earner, you must keep surcharge in mind when jumping jobs or negotiating for a pay rise. The moment your income exceeds the magic number of ₹1 crore, your tax outgo will shoot up. Considering the heavy burden, tax laws provide something called **'marginal relief'** to super rich tax payers. This provision is designed to make sure that the increase in income tax due to surcharge is not higher than the actual increase in income. In such cases, the surcharge is restricted to the increased income.
- To claim the marginal relief, your incremental tax should be greater than the income earned beyond ₹1 crore. For instance, if your income is ₹1,01,00,000, your tax would be ₹28,55,000. The surcharge on this works out to ₹4,28,250, taking your total outgo to ₹32,83,250. Here, the extra tax (₹4.28 lakh) is greater than the extra income earned beyond ₹1 crore (₹1 lakh). Once you claim marginal relief, your surcharge will be restricted to ₹1 lakh.
- The **bottom-line**: Levying surcharge on the wealthy is fine. But the concept mustn't be stretched so far that the super-rich find smart ways to skip taxes altogether.

FOREX RESERVE

India's forex reserves reach $588.02 billion.

- Regarded as the health meter of a country, Foreign Exchange reserves or Forex reserves are assets such as **foreign currencies, gold reserves, treasury bills,** etc. retained by a central bank or other monetary authority that checks the balance payments and influences the foreign exchange rate of its currency and maintains stability in financial markets.
- RBI is the custodian of the Foreign exchange reserves in India. In 2020, India's forex reserves crossed the $500-billion mark for the first time in history due to higher foreign direct investment, foreign institutional

investment. Low oil prices also helped reduce outflows. This gave India an adequate cushion to combat external shocks.

- The biggest contributor to this reserve is **foreign currency assets followed by the gold, SDR, and reserve with the International Monetary Fund**.

Purpose of the Foreign Exchange Reserve:

1. The most significant objective behind this is to ensure that RBI has backup funds if their national currency rapidly devalues or becomes altogether insolvent.
2. If the value of the Rupee decreases due to an increase in demand of the foreign currency, then RBI sells the dollar in the Indian money market so that depreciation of the Indian currency can be checked.
3. A country with a good stock of forex has a good image at the international level because the trading countries can be sure about their payments.
4. A good forex reserve helps in attracting foreign trade and earns a good reputation in trading partners.

PRODUCTION-LINKED INCENTIVE (PLI) SCHEME

- In order to boost domestic manufacturing and cut down on import bills, the central government introduced a scheme that aims to give **companies incentives on incremental sales from products manufactured in domestic units**.
- Apart from inviting foreign companies to set shop in India, the scheme also aims to encourage local companies to set up or expand existing manufacturing units.
- So far, the scheme has been rolled out for mobile and allied equipment as well as pharmaceutical ingredients and medical devices manufacturing. These sectors are labour intensive and are likely, and the hope is that they would create new jobs for the ballooning employable workforce of India.
- The objective is really to make India more compliant with our WTO (World Trade Organisation) commitments and also make it non-discriminatory and neutral with respect to domestic sales and exports.
- The PLI scheme is designed with four objectives:

1. Target **specific product areas**;
2. Introduce **non-tariff measures in order** to compete more effectively with cheap imports;
3. **Blend domestic and export sales** to make manufacturing competitive and sustainable; and
4. Promote **manufacturing at home** while encouraging investment from within and outside India.

- The reason it has caught on is that the application process is not complicated, and the incentive offered is very simple and tied to conditions that are specific and easy to calculate. The incentive is 4-6% of incremental sales with a defined base year.

Need

- According to experts, the idea of PLI is important as the government cannot continue making investments in these capital intensive sectors as they need longer times for start giving the returns. Instead, what it can do is to invite global companies with adequate capital to set up capacities in India.

Sectors currently have the PLI scheme

- The central government introduced the PLI scheme for mobile manufacturing as well as pharmaceutical ingredients and medical devices.
- As a part of the PLI scheme for mobile and electronic equipment manufacturing, an incentive of 4-6 per cent is planned for electronics companies which manufacture mobile phones and other electronic components such as transistors, diodes, thyristors, resistors, capacitors and nano-electronic components such as micro electromechanical systems.
- Similarly, the PLI scheme for pharmaceutical ingredients and medical devices seeks that applicants will commit a certain amount prescribed by the government as investment to build capacities in these areas.

CAPITAL EXPENDITURE

- Capital expenditure is the **money spent by the government on the development** of machinery, equipment, building, health facilities, education, etc.
- It also includes **the expenditure incurred on acquiring fixed assets** like land and investment by the government that gives profits or dividend in future.
- The Budget estimate of the government's capital expenditure for the year 2020-21 was Rs 1,084,748 crore.
- Capital spending is associated with investment or development spending, where expenditure has benefits extending years into the future. Capital expenditure includes money spent on the following:

- Acquiring fixed and intangible assets
- Upgrading an existing asset
- Repairing an existing asset
- Repayment of loan

Why is capital expenditure important?

- Capital expenditure, which leads to the **creation of assets are long-term in nature and allow the economy to generate revenue for many years** by adding or improving production facilities and boosting operational efficiency. It also increases labour participation, takes stock of the economy and raises its capacity to produce more in future.
- Along with the creation of assets, **repayment of loan is also capital expenditure, as it reduces liability**.
- However, the government has to be cautious with the expenditure. In the financial year 2019-20, capital expenditure was 14.2 per cent of Budget Estimates. The government had to cut public spending sharply towards the end of the financial year in order that the deficit target could be met. Total expenditure fell by 0.3 percentage points in 2018-19 over 2017-18. This includes a 0.4 percentage point slash in revenue expenditure and 0.1 percentage point hike in capital expenditure.

How is capital expenditure different from revenue expenditure?

- Unlike capital expenditure, which creates assets for the future, **revenue expenditure is one that neither creates assets nor reduces any liability of the government**.
- Salaries of employees, interest payment on past debt, subsidies, pension, etc. fall under the category of revenue expenditure. It is recurring in nature.

MONETARY POLICY

- Monetary policy refers to the policy of the central bank with regard to the use of monetary instruments under its control to achieve the goals specified in the Act.
- The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the **Reserve Bank of India Act, 1934.**

The goal(s) of monetary policy

- The **primary objective** of monetary policy is to maintain price stability while keeping in mind the objective of growth. Price stability is a necessary precondition to sustainable growth.
- In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the **flexible inflation targeting framework**.
- The amended RBI Act also provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years.
- The Central Government notified the following as factors that constitute failure to achieve the inflation target:(a) the average inflation is more than the upper tolerance level of the inflation target for any three

consecutive quarters; or (b) the average inflation is less than the lower tolerance level for any three consecutive quarters.

- Prior to the amendment in the RBI Act in May 2016, the flexible inflation targeting framework was governed by an Agreement on Monetary Policy Framework between the Government and the Reserve Bank of India of February 20, 2015.

The Monetary Policy Framework

- The amended RBI Act explicitly provides the legislative mandate to the Reserve Bank to operate the monetary policy framework of the country.
- The framework **aims at setting the policy (repo) rate** based on an assessment of the current and evolving macroeconomic situation; and modulation of liquidity conditions to anchor money market rates at or around the repo rate. Repo rate changes transmit through the money market to the entire financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth.
- Once the repo rate is announced, the operating framework designed by the Reserve Bank envisages liquidity management on a day-to-day basis through appropriate actions, which aim at anchoring the operating target – the **weighted average call rate (WACR)** – around the repo rate.
- The operating framework is fine-tuned and revised depending on the evolving financial market and monetary conditions, while ensuring consistency with the monetary policy stance. The liquidity management framework was last revised significantly in April 2016.

Instruments of Monetary Policy

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

- **Repo Rate:** The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility (LAF).
- **Reverse Repo Rate:** The (fixed) interest rate at which the Reserve Bank absorbs liquidity, on an overnight basis, from banks against the collateral of eligible government securities under the LAF.
- **Liquidity Adjustment Facility (LAF):** The LAF consists of overnight as well as term repo auctions. Progressively, the Reserve Bank has increased the proportion of liquidity injected under fine-tuning variable rate repo auctions of range of tenors. The aim of term repo is to help develop the inter-bank term money market, which in turn can set market based benchmarks for pricing of loans and deposits, and hence improve transmission of monetary policy. The Reserve Bank also conducts variable interest rate reverse repo auctions, as necessitated under the market conditions.
- **Marginal Standing Facility (MSF):** A facility under which scheduled commercial banks can borrow additional amount of overnight money from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a limit at a penal rate of interest. This provides a safety valve against unanticipated liquidity shocks to the banking system.
- **Corridor:** The MSF rate and reverse repo rate determine the corridor for the daily movement in the weighted average call money rate.
- **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate is published under Section 49 of the Reserve Bank of India Act, 1934. This rate has been aligned to the MSF rate and, therefore, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a share of such per cent of its Net demand and time liabilities (NDTL) that the Reserve Bank may notify from time to time in the Gazette of India.
- **Statutory Liquidity Ratio (SLR):** The share of NDTL that a bank is required to maintain in safe and liquid assets, such as, unencumbered government securities, cash and gold. Changes in SLR often influence the availability of resources in the banking system for lending to the private sector.

- **Open Market Operations (OMOs):** These include both, outright purchase and sale of government securities, for injection and absorption of durable liquidity, respectively.
- **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Surplus liquidity of a more enduring nature arising from large capital inflows is absorbed through sale of short-dated government securities and treasury bills. The cash so mobilised is held in a separate government account with the Reserve Bank.

DISTRICTS AS EXPORT HUB

- In order to implement the vision of the Prime Minister of India to convert each district into an export hub the Finance Minister in her Budget 2020-21 speech said that each district should develop as an export hub. She further said that efforts of the Centre and State Governments are being synergised and institutional mechanisms are being created.
- The Ministry of Commerce and Industry through **Directorate General of Foreign Trade (DGFT)** has been engaging with States/ UTs to initiate preparation and implementation of a **District Export Plan (DEP)** specific to each district in every State/ UT through an institutional structure at the district level. The institutional structure set up at the district level for implementation of the District Export Plan will be headed by the Chief/ District Development Officer with other relevant District Level Officers as members.
- The DGFT is also developing a portal that may be accessed on the DGFT website to enable the States to upload all information related to the products with export potential of every district.
- The preliminary exercise for the preparation of a DEP will include an assessment of a district to identify the current export profile and its further potential in the district. All key officers related to agriculture, horticulture, livestock, fisheries, handicrafts, handlooms and industry in the district and also the Lead Bank Manager will work towards the participation of key Export Promotion Councils, Quality and Technical Standards Bodies, Government of India departments like MSME, Heavy Industry, Revenue and Textiles will be part of the initial meetings. The initial meetings will be held under the Chairmanship of the Chief/ District Development Officer.
- Secretary, Commerce and Industry held a meeting last year with representative of all States/ UTs in New Delhi to synergise the efforts of the State/ UT Governments with those of the Department of Commerce and DGFT.
- Department of Commerce has mandated the **Regional Authorities (RAs) of DGFT** to work with the State Governments and District Level Officers including GM-DIC, Lead Bank Managers to promote each district as an export hub. Department of Commerce has also suggested to concerned state agencies including the district administration, District Industries Centres and the local Chambers of Industries to provide necessary support to this initiative.
- The DGFT RAs will act as a facilitator in promoting each district as an export hub and has drawn up a list where the products with export potential have been identified by them. The identification process is still ongoing.
- The District Export Plan will include the support required by the local industry in boosting their manufacturing and exports with impetus on supporting the industry from the production stage to the exporting stage. Informative material on various incentives provided by the Government of India and the respective State Government of exporters will be disseminated to the industry and other potential exporters.
- The DEP will also include strategy to **enhance logistics and infrastructure at the district level and better utilization of the Market Access Initiative (MAI) Scheme** of the Department of Commerce for inviting foreign buyers under reverse buyer-seller meets at the district level, suitably gathering district level commodity and services exports data including through GSTN and Customs ICEGATE System and publishing District Export Matrix for each district on a quarterly basis by the State Government. Relevant budgetary support to the DGFT RAs will be provided to make outreach at district level and prepare DEP.
- State/ UTs Government will be assisted in preparing an annual **"Export Ranking Index" of different districts in a particular State/ UT to rank each district on its export competitiveness.**

- Nine States/ UTs have notified the constitution of a State Level Export Promotion Committee (SLEPC). The States/ UTs that have notified the constitution of the SLEPC are Delhi, Uttarakhand, Tamil Nadu, Telangana, Karnataka, Himachal Pradesh, West Bengal, Tripura, Maharashtra, Goa and Gujarat.
- In order to prepare a district wise export data efforts have been made by DGFT and DGCI&S to look into the feasibility of preparing district level export data from the existing set up. The products identified, which has export potential, from the 750 districts in the country are leather articles, sand and stone articles, spices, garments, wool, food products, ceramics, cement, silk, carpet, glass items, metal crafts, sports goods, pharmaceuticals, engineering goods, auto parts, poultry products, vegetables, cut flowers, forest produce, bamboo products and scientific instruments.

UNFAIR TRADE PRACTICE

- An unfair trade practice means a trade practice, which, for the purpose of promoting any sale, use or supply of any goods or services, adopts unfair method, or unfair or deceptive practice.
- Unfair practices may be categorized as under:

1. **False Representation:** The practice of making any oral or written statement or representation which:
- Falsely suggests that the goods are of a particular standard quality, quantity, grade, composition, style or model;
- Falsely suggests that the services are of a particular standard, quantity or grade;
- Falsely suggests any re-built, second-hand renovated, reconditioned or old goods as new goods;
- Represents that the goods or services have sponsorship, approval, performance, characteristics, accessories, uses or benefits which they do not have;
- Represents that the seller or the supplier has a sponsorship or approval or affiliation which he does not have;
- Makes a false or misleading representation concerning the need for, or the usefulness of, any goods or services;
- Gives any warranty or guarantee of the performance, efficacy or length of life of the goods, that is not based on an adequate or proper test;
- Makes to the public a representation in the form that purports to be-
- a warranty or guarantee of the goods or services,
- a promise to replace, maintain or repair the goods until it has achieved a specified result,
- if such representation is materially misleading or there is no reasonable prospect that such warranty, guarantee or promise will be fulfilled
- Materially misleads about the prices at which such goods or services are available in the market; or
- Gives false or misleading facts disparaging the goods, services or trade of another person.

2. **False Offer of Bargain Price-**
- Where an advertisement is published in a newspaper or otherwise, whereby goods or services are offered at a bargain price when in fact there is no intention that the same may be offered at that price, for a reasonable period or reasonable quantity, it shall amount to an unfair trade practice.
- The '**bargain price'**, for this purpose means-
- the price stated in the advertisement in such manner as suggests that it is lesser than the ordinary price, or
- the price which any person coming across the advertisement would believe to be better than the price at which such goods are ordinarily sold.

3. **Free Gifts Offer and Prize Schemes:** The unfair trade practices under this category are:
- Offering any gifts, prizes or other items along with the goods when the real intention is different, or

- Creating impression that something is being offered free along with the goods, when in fact the price is wholly or partly covered by the price of the article sold, or
- Offering some prizes to the buyers by the conduct of any contest, lottery or game of chance or skill, with real intention to promote sales or business.

4. Non -Compliance of Prescribed Standards

- Any sale or supply of goods, for use by consumers, knowing or having reason to believe that the goods do not comply with the standards prescribed by some competent authority, in relation to their performance, composition, contents, design, construction, finishing or packing, as are necessary to prevent or reduce the risk of injury to the person using such goods, shall amount to an unfair trade practice.

5. Hoarding, Destruction, Etc.

- Any practice that permits the hoarding or destruction of goods, or refusal to sell the goods or provide any services, with an intention to raise the cost of those or other similar goods or services, shall be an unfair trade practice.

INITIAL PUBLIC OFFERING (IPO)

- An initial public offering (IPO) is the first time a company issues shares to the public. This is when a private company decides to go 'public'.
- In other words, a company that was privately-owned until then becomes a publicly-traded company.
- Before the IPO, a company has very few shareholders. This includes the founders, angel investors and venture capitalists. But during an IPO, the company opens its shares for sale to the public. As an investor, you can buy shares directly from the company and become a shareholder.

How are shares allocated in an IPO?

There are different investor categories when it comes to IPOs. This includes:

- Qualified Institutional Buyers (QIBs)
- Non Institutional Investors (NIIs)
- Retail Individual Investors (RIIs)
- The allocation of shares differs for all the above groups in an IPO. As an individual investor, you come under the last category.
- As an individual investor, you are allowed to invest in small lots worth Rs 10,000-15,000. You can apply for a maximum of Rs 2 lakh in an IPO. The total demand for shares in the retail category is judged by the number of applications received. If the demand is less than or equal to the number of shares in the retail category, you are offered a full allotment of shares.
- When the demand is greater than the allocation, it is known as **oversubscription**. Many times an IPO can be over-subscribed five times over. This means that the demand for shares exceeds the supply by five times!
- In such cases, the shares in retail category are offered to investors on the basis of a lottery. This is a computerised process that ensures impartial allocation of shares to investors.

Why does a Company go Public?

- To raise capital for growth and expansion
- Every company needs money to increase its operations, create new products or pay off existing debts. Going public is a great way to gain this much-needed capital for a company.
- Allowing owners and early investors to sell their stake to make money

- It is also seen as an **exit strategy for initial investors and venture capitalists**. A company becomes liquid through the sale of stocks in an IPO. Venture capitalists sell their stock in the company at this time to reap returns and exit from the company.
- Greater public awareness
- IPOs are 'star-marked' in the stock market calendar. There is a lot of buzz and publicity around these events. This is a great way for a company to publicise its products and services to a new set of customers in the market.

How is an IPO issued?

- During an initial public offering (IPO), a company issues its shares to public shareholders for the first time. In the previous article, we understood why a private company decides to launch an IPO and how investors can benefit by investing in them.
- The next questions that come to mind are: "How is an IPO issued?"

What is the IPO procedure?

- A private company has to take various steps in order to go public. They are:

Selecting an investment bank

- The first step is to select an investment bank as an underwriter. Here, the role of an investment bank is to help the company establish various details such as
- How much money the company hopes to raise
- The type of securities that will be offered
- The initial price per share

- For a large IPO, there can be multiple investment banks involved. In short, investment banks act as facilitators in the IPO process.

Creating the Red Herring prospectus

- The next step of the IPO process is to create the 'Red Herring Prospectus'. This is done with the help of underwriters. The prospectus includes various segments such as financial records, future plans for the company, potential risks in the market and expected share price range. Many times, underwriters go on road shows in order to attract potential institutional investors after they create the red herring prospectus.

SEBI approval

- The prospectus is presented to the Securities and Exchange Board of India (SEBI). If SEBI is satisfied, it green-lights the initial public offering (IPO) process. In addition, it also gives a date and time for the IPO. But in case SEBI is not satisfied, it asks for changes to be made before the prospectus can be shared with public investors.

Stock exchange approval

- Listing is the process where securities are allowed to deal on a recognised stock exchange. But for that to happen, the company needs to be approved by the exchange. For instance, the Bombay Stock Exchange (BSE) has a listing department whose purpose is to grant approval for securities of companies. The BSE has a list of criteria which needs to be followed for the company to be listed on its exchange.
- For example:

The minimum issue size should be Rs 10 crore.

The minimum market capitalization of the company should be Rs 25 crore.

The minimum post issue paid-up capital of the company should be Rs 10 crore.

Only if the company follows these criteria, it gets an approval from the BSE.

Subscription of shares

- Once all the formalities are done, the company makes the shares available to investors. This is done on the dates specified in the prospectus. Investors who wish to apply for shares have to fill out and submit the IPO application form.

Listing

- The shares are allotted to different investors based on the demand and price quoted in their IPO application forms. Once this is done, investors get the shares credited to their demat account. In case of oversubscription (if the demand for shares is higher than the number of shares floated by the company), investors may not get the number of shares they originally wanted. They may get fewer shares after a lottery is done. Some investors may not even get any shares. In such cases, these investors get a refund of their money.

HOW CAN YOU BENEFIT FROM AN IPO?

First-mover advantage

- This is especially true when reputed companies announce an IPO. You get a chance to buy the company's shares at a much lower price. This is because once the company's shares reach the secondary market, the share price may go up sharply.

High returns

- If the company has a potential to grow, buying shares in an IPO can be benefit you. Strong fundamentals of the company mean that it has a good chance of growing bigger. This can be advantageous to you as well. You stand a chance to earn good returns over the long-term.

Listing gains

- When a company gets listed on the stock market, it may be traded at a price that is either higher or lower than the allotment price. When the opening price is higher than the allotment price, it is known as listing gains.
- Generally, investors expect an IPO to perform well on listing due to factors such as market demand and positive bias. However, this does not always happen. It is possible for a stock price to drop by the end of the first trading day too.
- In reality, listing gains may not actually result in good returns for the investor in the long term. So, if you are a trader interested in quick returns, it may be suitable. But for long term investors, it is important to identify a company that can offer high returns five or even ten years down the line.
- **To sum up**: IPOs are big events in the stock market for a reason. By investing in the right company, you stand a chance to earn good returns in the long run. But the trick is to identify the good performers from the rest.

CRYPTOCURRENCY

- A cryptocurrency is a form of digital asset based on a network that is distributed across a large number of computers. This decentralized structure **allows them to exist outside the control of governments** and central authorities.
- The word "cryptocurrency" is derived from the encryption techniques which are used to secure the network.
- Blockchains, which are organizational methods for ensuring the integrity of transactional data, are an essential component of many cryptocurrencies.
- Many experts believe that blockchain and related technology will disrupt many industries, including finance and law.
- Cryptocurrencies face criticism for a number of reasons, including their use for illegal activities, exchange rate volatility, and vulnerabilities of the infrastructure underlying them. However, they also have been praised for their portability, divisibility, inflation resistance, and transparency.

Understanding Cryptocurrencies

- Cryptocurrencies are systems that allow for secure payments online which are denominated in terms of virtual "tokens," which are represented by ledger entries internal to the system. "Crypto" refers to the

various encryption algorithms and cryptographic techniques that safeguard these entries, such as elliptical curve encryption, public-private key pairs, and hashing functions.

Types of Cryptocurrency

- The first blockchain-based cryptocurrency was Bitcoin, which still remains the most popular and most valuable. Today, there are thousands of alternate cryptocurrencies with various functions and specifications. Some of these are clones or forks of Bitcoin, while others are new currencies that were built from scratch.
- Bitcoin was launched in 2009 by an individual or group known by the pseudonym "Satoshi Nakamoto." As of March 2021, there were over 18.6 million bitcoins in circulation with a total market cap of around $927 billion.
- Some of the competing cryptocurrencies spawned by Bitcoin's success, known as "altcoins," include Litecoin, Peercoin, and Namecoin, as well as Ethereum, Cardano, and EOS. Today, the aggregate value of all the cryptocurrencies in existence is around $1.5 trillion—Bitcoin currently represents more than 60% of the total value.

Advantages

- Cryptocurrencies hold the promise of making it easier to **transfer funds directly between two parties, without the need for a trusted third party like a bank or credit card company**. These transfers are instead secured by the use of public keys and private keys and different forms of incentive systems, like Proof of Work or Proof of Stake.
- In modern cryptocurrency systems, a user's "wallet," or account address, has a public key, while the private key is known only to the owner and is used to sign transactions. Fund transfers are completed with minimal processing fees, allowing users to avoid the steep fees charged by banks and financial institutions for wire transfers.

Disadvantages

- The semi-anonymous nature of cryptocurrency transactions makes them well-suited for a host of illegal activities, such as money laundering and tax evasion. However, cryptocurrency advocates often highly value their anonymity, citing benefits of privacy like protection for whistleblowers or activists living under repressive governments. Some cryptocurrencies are more private than others.
- Bitcoin, for instance, is a relatively poor choice for conducting illegal business online, since the forensic analysis of the Bitcoin blockchain has helped authorities arrest and prosecute criminals. More privacy-oriented coins do exist, however, such as Dash, Monero, or ZCash, which are far more difficult to trace.

PCA FRAMEWORK

- Reserve Bank of India PCA Framework for commercial banks.
- The Reserve Bank has specified certain regulatory trigger points, as a part of prompt corrective action (PCA) Framework, in terms of three parameters, i.e. **capital to risk weighted assets ratio (CRAR), net non-performing assets (NPA)** and **Return on Assets (RoA),** for initiation of certain structured and discretionary actions in respect of banks hitting such trigger points. The PCA framework is applicable only to commercial banks and not extended to co-operative banks, non-banking financial companies (NBFCs) and FMIs.
- The trigger points along with structured and discretionary actions that could be taken by the Reserve Bank are described below:

CRAR

1. CRAR less than 9%, but equal or more than 6% - bank to submit capital restoration plan; restrictions on RWA expansion, entering into new lines of business, accessing/renewing costly deposits and CDs, and

making dividend payments; order recapitalisation; restrictions on borrowing from inter-bank market, reduction of stake in subsidiaries, reducing its exposure to sensitive sectors like capital market, real estate or investment in non-SLR securities, etc.

2. CRAR less than 6%, but equal or more than 3% - in addition to actions in hitting the first trigger point, RBI could take steps to bring in new Management/ Board, appoint consultants for business/ organizational restructuring, take steps to change ownership, and also take steps to merge the bank if it fails to submit recapitalization plan.
3. CRAR less than 3% - in addition to actions in hitting the first and second trigger points, more close monitoring; steps to merge/amalgamate/liquidate the bank or impose moratorium on the bank if its CRAR does not improve beyond 3% within one year or within such extended period as agreed to.

Net NPAs

1. Net NPAs over 10% but less than 15% - special drive to reduce NPAs and contain generation of fresh NPAs; review loan policy and take steps to strengthen credit appraisal skills, follow-up of advances and suit-filed/decreed debts, put in place proper credit-risk management policies; reduce loan concentration; restrictions in entering new lines of business, making dividend payments and increasing its stake in subsidiaries.
2. Net NPAs 15% and above – In addition to actions on hitting the above trigger point, bank's Board is called for discussion on corrective plan of action.

ROA less than 0.25% - restrictions on accessing/renewing costly deposits and CDs, entering into new lines of business, bank's borrowings from inter-bank market, making dividend payments and expanding its staff; steps to increase fee-based income; contain administrative expenses; special drive to reduce NPAs and contain generation of fresh NPAs; and restrictions on incurring any capital expenditure other than for technological upgradation and for some emergency situations.

ASSET RECONSTRUCTION COMPANY

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

What is asset reconstruction?

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

What is securitisation?

- It is the acquisition of financial assets either by way of **issuing security receipts to Qualified Buyers** or any other means. Such security receipts would represent an undivided interest in the financial assets.

Who are Qualified Buyers?

- Qualified Buyers include Financial Institutions, Insurance companies, Banks, State Financial Corporations, State Industrial Development Corporations, trustee or ARCs registered under SARFAESI and Asset Management Companies registered under SEBI that invest on behalf of mutual funds, pension funds, FIIs, etc. The Qualified Buyers (QBs) are the only persons from whom the ARC can raise funds.

Working of the ARC

- The working of the ARC can be summarized by the following diagram:
- The business of asset reconstruction or securitisation may be commenced **only after obtaining a registration certificate under Section 3 of the SARFAESI Act, 2002.** The main requirement in this regard is that the 'net owned funds' as prescribed in the RBI Act should be Rs. 100 crore or more.

How will the ARC carry out the process of asset reconstruction?

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

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

NON PERFORMING ASSESTS

- Reserve Bank of India defines **NPA as any advance or loan that is overdue for more than 90 days**. "An asset becomes non-performing when it ceases to generate income for the bank," said RBI in a circular form 2007. To be more attuned to international practices, RBI implemented the 90 days overdue. Depending on how long the assets have been an NPA, there are different types of non-performing assets as well.

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.

HUMAN CAPITAL

- Human capital is an **intangible asset or quality not listed on a company's balance sheet**.
- It can be classified as the **economic value of a worker's experience and skills**. This includes assets like education, training, intelligence, skills, health, and other things employers value such as loyalty and punctuality.

- The concept of human capital recognizes that not all labor is equal. But employers can improve the quality of that capital by investing in employees—the education, experience, and abilities of employees all have economic value for employers and for the economy as a whole.
- Human capital is important because it is perceived to increase productivity and thus profitability. So the more a company invests in its employees (i.e., in their education and training), the more productive and profitable it could be.
- Human capital is typically managed by an organization's human resources (HR) department. This department oversees workforce acquisition, management, and optimization. Its other directives include workforce planning and strategy, recruitment, employee training and development, and reporting and analytics.

A Brief History of Human Capital

- The idea of human capital can be traced back to the 18th century. **Adam Smith** referred to the concept in his book "An Inquiry into the Nature and Causes of the Wealth of Nations," in which he explored the wealth, knowledge, training, talents, and experiences for a nation.
- Adams suggests that improving human capital through training and education leads to a more profitable enterprise, which adds to the collective wealth of society. According to Smith, that makes it a win for everyone.
- In more recent times, the term was used to describe the labor required to produce manufactured goods. But the most modern theory was used by several different economists including **Gary Becker and Theodore Schultz,** who invented the term in the 1960s to reflect the value of human capacities.
- Schultz believed human capital was like any other form of capital to improve the quality and level of production. This would require an investment in the education, training and enhanced benefits of an organization's employees.
- But not all economists agree. According to Harvard economist Richard Freeman, human capital was a signal of talent and ability. In order for a business to really become productive, he said it needed to train and motivate its employees as well as invest in capital equipment. His conclusion was that human capital was not a production factor.

Calculating Human Capital

- Since human capital is based on the investment of employee skills and knowledge through education, these investments in human capital can be easily calculated. HR managers can calculate the total profits before and after any investments are made.
- Any **return on investment (ROI)** of human capital can be calculated by dividing the company's total profits by its overall investments in human capital.

Human Capital and Economic Growth

- There is a strong relationship between human capital and economic growth. Because people come with a diverse set of skills and knowledge, human capital can certainly help boost the economy. This relationship can be measured by how much investment goes into people's education.
- Some governments recognize that this relationship between human capital and the economy exists, and so they provide higher education at little or no cost. People who participate in the workforce who have higher education will often have larger salaries, which means they will be able to spend more.

Does Human Capital Depreciate?

- Like anything else, human capital is not immune to depreciation. This is often measured in wages or the ability to stay in the workforce. The most common ways human capital can depreciate are through unemployment, injury, mental decline, or the inability to keep up with innovation.
- Consider an employee who has a specialized skill. If he goes through a long period of unemployment, he may be unable to keep these levels of specialization. That's because his skills may no longer be in demand when he finally reenters the workforce.

- Similarly, the human capital of someone may depreciate if he can't or won't adopt new technology or techniques. Conversely, the human capital of someone who does adopt them will.

TRIPS AGREEMENT

The TRIPS Agreement, which came into effect on 1 January 1995, is to date the most comprehensive multilateral agreement on intellectual property.

- The areas of intellectual property that it covers are: **copyright and related rights** (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); **trademarks including service marks**; **geographical indications** including appellations of origin; **industrial designs**; **patents** including the protection of new varieties of plants; the layout-designs of integrated circuits; and undisclosed information including trade secrets and test data.

The three main features of the Agreement are:

- **Standards:** In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each Member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the rights to be conferred and permissible exceptions to those rights, and the minimum duration of protection.
  - The Agreement sets these standards by requiring, **first**, that the substantive obligations of the main conventions of the **WIPO**, the Paris Convention for the Protection of Industrial Property **(Paris Convention)** and the **Berne Convention** for the Protection of Literary and Artistic Works (Berne Convention) in their most recent versions, must be complied with.
  - With the exception of the provisions of the Berne Convention on moral rights, all the main substantive provisions of these conventions are incorporated by reference and thus become obligations under the TRIPS Agreement between TRIPS Member countries. The relevant provisions are to be found in Articles 2.1 and 9.1 of the TRIPS Agreement, which relate, respectively, to the Paris Convention and to the Berne Convention.
  - **Secondly,** the TRIPS Agreement adds a substantial number of additional obligations on matters where the pre-existing conventions are silent or were seen as being inadequate. The TRIPS Agreement is thus sometimes referred to as a Berne and Paris-plus agreement.

- **Enforcement:** The second main set of **provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights.** The Agreement lays down certain general principles applicable to all IPR enforcement procedures. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.

- **Dispute settlement**. The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.
- In addition, the Agreement provides for certain basic principles, such as **national and most-favoured-nation treatment**, and some general rules to ensure that procedural difficulties in acquiring or maintaining IPRs do not nullify the substantive benefits that should flow from the Agreement. The obligations under the Agreement will apply equally to all Member countries, but developing countries will have a longer period to phase them in. Special transition arrangements operate in the situation where a developing country does not presently provide product patent protection in the area of pharmaceuticals.
- The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish. Members are left free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.

SOVEREIGN CREDIT RATING

A sovereign credit rating is an assessment of a country's creditworthiness. It shows the level of risk associated with lending to a particular country since it is applied to all bonds issued by the government.

- When evaluating the creditworthiness of a country, credit rating agencies consider various factors such as the **political environment, economic status, and its creditworthiness** to assign an appropriate credit rating.
- Obtaining a good credit rating is important for a country that wants to access funding for development projects in the international bond market. Also, countries with a good credit rating can attract foreign direct investments.
- The three influential rating agencies include **Moody's Services, Fitch Ratings, and Standard & Poor's**.
- Sovereign credit ratings are important for countries that want to access funds in the international bond market. Usually, a credit rating agency will evaluate a country's economic and political environment at the request of the government and assign a rating stretching from AAA grade to grade D.
- By allowing external credit rating agencies to review its economy, a country shows that it is willing to make its financial information public to investors. A country with high credit ratings can access funds easily from the international bond market and also secure foreign direct investment.
- A low sovereign credit rating means that a country faces a high risk of default and may have experienced difficulties in paying back debts. The level of sovereign credit risk depends on various factors, including a country's debt service ratio, import ratio, growth of domestic money supply, etc.
- Since sovereign credit ratings were introduced in the early 1900s, several countries have defaulted on their international bonds. For example, during the great depression, 21 nations defaulted on their debt obligations in the international bond market. Over the years, more than 70 nations have defaulted on either their domestic or foreign debts.

Determinants of Sovereign Credit Ratings

- Credit rating agencies use both qualitative and quantitative techniques to determine the sovereign credit rating of a country. A 1996 paper published by Richard Cantor and Frank Packer titled "Determinants and Impacts of Sovereign Credit Ratings" outlined various factors that explain the difference in credit ratings assigned by the various rating agencies. The factors include:

1. Per capita income

- Per capita income estimates the income earned per person in a specific area. It is calculated by taking the total income earned by individuals in a given area divided by the number of people residing in that area. A high per capita income increases the potential tax base of the government, which subsequently increases the government's ability to repay its debts.

2. GDP growth

- The GDP growth rate of a country refers to the percentage growth in the GDP of a country from one quarter to another as the economy navigates a business cycle. Strong GDP growth means that a country will be able to meet its debt obligations since the growth in GDP results in higher tax revenues for the government.
- However, if the growth rate is negative, it means that the economy is experiencing a contraction, and the country may fail to honour its debt obligation if the situation continues.

3. Rate of inflation

- Sovereign debts are susceptible to changes in the rate of inflation, and an increase in inflation will affect a country's ability to finance its debt. A high inflation rate points to structural problems in a country's

finances, and it is likely to cause political instability as the public becomes dissatisfied with the increasing inflation.

4. External debt

- Some countries rely heavily on external debts to finance their development and infrastructure projects. Increasing debt levels translate to a higher risk of default, which may affect its ability to access funding from international lenders. This burden increases if the foreign currency debts exceed the foreign currency income earned by a country in the form of exports.

5. Economic development

- Credit rating agencies consider the level of development when determining the sovereign credit rating of a country. Usually, once a country has reached a certain level of development or per capita income, it is considered less likely to default on its debt obligations. For example, economically developed nations are considered less likely to default compared to developing countries.

6. History of defaults

- A country that defaulted on its debt obligations in the past is considered to have a high sovereign credit risk by rating agencies. It means that countries with a record of defaults receive low ratings, making them less attractive to investors looking for low-risk investments.

ANTI-DUMPING DUTY

- An anti-dumping duty is a **protectionist tariff** that a domestic government imposes on foreign imports that it believes are priced below fair market value.
- In order to protect their respective economy, many countries impose duties on products they believe are being dumped in their national market; this is done with the rationale that these products have the potential to undercut local businesses and the local economy.
- While the intention of **anti-dumping duties is to save domestic jobs, these tariffs can also lead to higher prices for domestic consumers**.
- In the long-term, anti-dumping duties can reduce the international competition of domestic companies producing similar goods.
- The World Trade Organization (WTO) that deals with the rules of trade between nations also operates a set of international trade rules, including the international regulation of anti-dumping measures.

Role of the WTO in Regulating Anti-Dumping Measures

- The World Trade Organization (WTO) plays a critical role in the regulation of anti-dumping measures. As an international organization, the WTO does not regulate firms accused of engaging in dumping activities, but **it possesses the power to regulate how governments react to dumping activities** in their territories.
- Some government sometimes react harshly to foreign companies engaging in dumping activities by introducing punitive anti-dumping duties on foreign imports, and the WTO may come in to determine if the actions are genuine, or if they go against the WTO free-market principle.
- According to the WTO Anti-Dumping Agreement, **dumping is legal unless it threatens to cause material injury in the importing country domestic market.** Also, the organization prohibits dumping when the action causes material retardation in the domestic market.
- Where dumping occurs, the WTO allows the government of the affected country to take legal action against the dumping country as long as there is evidence of genuine material injury to industries in the domestic market. The government must show that dumping took place, the extent of the dumping in terms of costs, and the injury or threat to cause injury to the domestic market.

ANIMAL HUSBANDRY

- Animal husbandry refers to **livestock raising and selective breeding**. It is the management and care of animals in which the genetic qualities and behaviour of animals are further developed for profit. A large number of farmers depend upon animal husbandry for their livelihood.
- Animals provide us with a variety of food products which have high nutritional values. Therefore, they require a lot of care and attention.
- Animals are bred commercially in order to meet the high demand for food. Dairy products from animals like cows, buffaloes, goats, are rich sources of protein. These animals are called milch animals as they provide us with milk.
- Another set of animals that provide nutrient-rich food are hen, ducks, goose, etc. They provide us with eggs, which again are rich sources of protein.
- Animals like chicken, duck, ox, goat, pigs, etc. are bred for meat. Other than these domestic animals we have other sources of nutrients as well; they are marine animals. The seafood we eat has very high nutrient values. They are sources of a variety of nutrients like fat, proteins, vitamins and minerals.
- The care, breeding, management, etc. of animals are particularly monitored under the department of animal husbandry. Animal husbandry is a large scale business. The animals are bred, cared, reared and sheltered in a farm or region, which are specially built for them. Animal husbandry involves poultry, milk-farms, apiculture (bee agriculture), aquaculture, etc.

TYPES OF ANIMAL HUSBANDRY

Dairy Farming

- Dairy farming is the agricultural technique concerned with the long term production of milk, which is then processed to obtain dairy products such as curd, cheese, yoghurt, butter, cream, etc. It involves the management of dairy animals such as cows, buffaloes, sheep, goat, etc.
- The animals are taken care of against diseases and are inspected regularly by veterinary doctors. A healthy animal is physically, mentally and socially sound.
- These animals are milked by hand or by machines. The milk is preserved and converted into dairy products industrially, which are then used for commercial purposes.

Poultry Farming

- Poultry farming is concerned with raising and breeding of birds for commercial purposes. Birds like ducks, chickens, geese, pigeons, turkeys, etc. are domesticated for eggs and meat.
- It is very important to take care of the animals and maintain them in a disease-free environment to obtain healthy food from them. The eggs and meat are a rich source of protein.
- Sanitation and hygienic conditions need to be maintained. The faeces of birds are used as manure to improve soil fertility. Poultry farming provides employment to a large number of people and helps in improving the economy of the farmers.

Fish Farming

- Fish farming is the process of raising fish in closed tanks or ponds for commercial purposes. There is an increasing demand for fish and fish protein. Fish species such as salmon, catfish, cod, and tilapia are raised in fish farms.

Bee Farming

- Bee farming or apiculture is the practice of maintaining bee colonies by humans in man-made hives. Honey bees are reared on a large scale. The bees are domesticated for honey, wax, and to pollinate flowers.

They are also used by other beekeepers for the same purposes. The place where bees are kept is known as an apiary or a bee yard.

FISCAL POLICY

- Fiscal policy in India is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly.
- In recent times, the importance of fiscal policy has been increasing to achieve economic growth swiftly, both in India and across the world. Attaining rapid economic growth is one of the key goals of fiscal policy formulated by the Government of India. Fiscal policy, along with monetary policy, plays a crucial role in managing a country's economy.
- Through the fiscal policy, the government of a country controls the flow of tax revenues and public expenditure to navigate the economy. If the government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit. To meet additional expenditures, the government needs to borrow domestically or from overseas. Alternatively, the government may also choose to draw upon its foreign exchange reserves or print additional money.
- For example, during an economic downturn, the government may decide to open up its coffers to spend more on building projects, welfare schemes, providing business incentives, etc. The aim is to help make more of productive money available to the people, free up some cash with the people so that they can spend it elsewhere, and encourage businesses to make investments. At the same time, the government may also decide to tax businesses and people a little less, thereby earning lesser revenue itself.

Main objectives of Fiscal Policy in India:

- **Economic growth**: Fiscal policy helps maintain the economy's growth rate so that certain economic goals can be achieved.
- **Price stability**: It controls the price level of the country so that when the inflation is too high, prices can be regulated.
- **Full employment**: It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity

What is the difference between fiscal policy and monetary policy?

- The government uses both monetary and fiscal policy to meet the county's economic objectives. The central bank of a country mainly administers monetary policy. In India, the Monetary Policy is under the Reserve Bank of India or RBI. Monetary policy majorly deals with money, currency, and interest rates. On the other hand, under the fiscal policy, the government deals with taxation and spending by the Centre.

Importance of Fiscal Policy in India:

1. In a country like India, fiscal policy plays a key role in **elevating the rate of capital formation** both in the public and private sectors.
2. Through taxation, the fiscal policy **helps mobilise considerable amount of resources for financing** its numerous projects.
3. Fiscal policy also helps in **providing stimulus to elevate the savings rate**.
4. The fiscal policy gives adequate **incentives to the private sector** to expand its activities.
5. Fiscal policy aims to **minimise the imbalance in the dispersal of income and wealth**.

WHOLESALE PRICE INDEX

- Wholesale Price Index, or WPI, measures the changes in the prices of goods sold and traded in bulk by wholesale businesses to other businesses. WPI is unlike the Consumer Price Index (CPI), which tracks the prices of goods and services purchased by consumers.
- To put it simply, the **WPI tracks prices at the factory gate before the retail level**.
- The numbers are released by the **Economic Advisor in the Ministry of Commerce and Industry**. An upward surge in the WPI print indicates inflationary pressure in the economy and vice versa. The quantum of rise in the WPI month-after-month is used to measure the level of wholesale inflation in the economy.

What is the difference between WPI and CPI inflation?

- While WPI keeps track of the wholesale price of goods, the CPI measures the average price that households pay for a basket of different goods and services. Even as the WPI is used as a key measure of inflation in some economies, the RBI no longer uses it for policy purposes, including setting repo rates.
- The **central bank currently uses CPI or retail inflation as a key measure of inflation to set the monetary and credit policy.**

New series of WPI

- With an aim to align the index with the base year of other important economic indicators such as GDP and IIP, the base year was updated to 2011-12 from 2004-05 for the new series of Wholesale Price Index (WPI), effective from April 2017.

How do you calculate Wholesale Price Index?

- The monthly WPI number shows the average price changes of goods usually expressed in ratios or percentages.
- The index is based on the wholesale prices of a few relevant commodities available.
- The commodities are chosen based on their significance in the region. These represent different strata of the economy and are expected to provide a comprehensive WPI value.
- The advanced base year 2011-12 adopted recently uses 697 items.

Major components of WPI

- **Primary articles** are major components of WPI, further subdivided into Food Articles and Non-Food Articles.
  - Food Articles include items such as Cereals, Paddy, Wheat, Pulses, Vegetables, Fruits, Milk, Eggs, Meat & Fish, etc.
  - Non-Food Articles include Oil Seeds, Minerals and Crude Petroleum
- The **next major basket in WPI is Fuel & Power**, which tracks price movements in Petrol, Diesel and LPG
- The **biggest basket is Manufactured Goods**. It spans across a variety of manufactured products such as Textiles, Apparels, Paper, Chemicals, Plastic, Cement, Metals, and more.
- Manufactured Goods basket also includes manufactured food products such as Sugar, Tobacco Products, Vegetable and Animal Oils, and Fats.

WPI Food Index

- WPI has a sub-index called WPI Food Index, which is a **combination of the Food Articles from the Primary Articles basket, and the food products from the Manufactured Products basket**.

RECESSION

- A recession is when the **GDP growth rate of a country is negative for two consecutive quarters or more**. But a recession can be gauged even before the quarterly gross domestic product reports are out based on key economic indicators like manufacturing data, decline in incomes, employment levels etc.
- Although an economy can show signs of weakening months before a recession begins, the process of determining whether a country is in a true recession (or not) often takes time. A recession is short, but its impact can be long-lasting.

Why does recession occur?

- Understanding the sources of recessions has been one of the enduring areas of research in economics. There are a variety of reasons recessions occur. Some are associated with sharp changes in the prices, which lead to steep drop in spending by both the private and public sectors.
- Some recessions, like the 2008 global financial meltdown, are rooted in financial market problems. Sharp increases in asset prices and a rapid expansion of credit often coincide with accumulation of debt. As corporations and households get over-extended and face difficulties in meeting their debt obligations, they reduce investment and consumption, which in turn leads to a decrease in economic activity. Not all such credit booms end up in recessions, but when they do, these recessions are often costlier than others. In some countries with strong export sectors, recessions can be the result of a decline in external demand. Adverse effects of recessions in large countries—such as Germany, Japan, and the United States—are rapidly felt by their regional trading partners, especially during globally synchronized recessions.
- Some recessions are also a result of global shocks like the current coronavirus-triggered lockdowns, which shut down economic activity in many countries.

Impact of a recession

- One of the consequences of recession is **unemployment,** which tends to increase, especially among the low-skilled workers, due to companies and even government agencies laying off staff as a way of curtailing expenses.
- Another result of recession is **drop in output and business closures**. Fall in output tends to last until weaker companies are driven out of the market, then output picks up again among the surviving firms. With more people out of work, and families increasingly unable to make ends meet, there will be demands for increased government-funded social schemes. With drop in government revenues during recession, it becomes difficult to meet the increased demands on the social sector.
- The most popular, or most recommended, policy for any country to dig itself out of recession is expansionary fiscal policy, or fiscal stimulus. This can be usually a two-pronged approach – **tax sops and increased government spending.**

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

- RCEP is a free trade agreement (FTA) between the ten member states of the ASEAN and the 5 Asia-Pacific states with which ASEAN has existing FTAs. (Australia, China, Japan, South Korea and New Zealand). RCEP covers trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.
- **Note**: India was also party to the RCEP negotiations. However, India pulled out later since its concerns were not addressed.

Benefits of India joining RCEP

- **Effective utilisation of FTAs:** RCEP provides an avenue for India to complement India's existing free trade agreements with the ASEAN and some of its member countries.

- **Greater Regional Integration**: Enable India to strengthen its 'Act East" Policy; quite important because India is not a party to two important regional economic blocs - Asia-Pacific Economic Cooperation and the Trans-Pacific Partnership.
- **Harness Comparative Advantage** in areas such as ICT, Education and Healthcare.
- **Attract Investment** from RCEP member countries
- Opportunities for Integration into **Global Value Chains (GVCs).**

Challenges and Concerns with India's membership of RCEP

- **Adverse Trade Deficit**: India has around $104 billion trade deficit with the RCEP member countries, which is 65% of India's total trade deficit. The RCEP agreement forced India to eliminate tariffs on almost 90% of the imported goods over the next 15 years. Hence, India was apprehensive that RCEP agreement would lead to increase in its trade deficit, particularly with countries such as China.
- **Adverse impact of previous FTAs**: The FTAs with Japan and South Korea have led to substantial increase in import of goods into the domestic market leading to adverse impact on domestic manufacturing.
- **Base Year for Eliminating Tariffs**: The RCEP member countries demanded that the base year should be 2013 while India demanded that the base year should be 2019. It is to be noted that India has increased import duties on several products between 2014 and 2019 and hence adoption of 2019 as the base year would have led to lower reduction in the customs duties and offered protection to the Indian Domestic Industry.
- **Ratchet Clause:** Ratchet means a screw which turns only in one direction, up or down and not both ways. This concept is proposed to be applied in RCEP which will disallow the member country to increase the import duties, once reduced. The Indian Government wanted the RCEP member countries to adopt safeguard mechanism which should enable the countries to increase the tariffs on certain products when there is a surge in imports. However, the RCEP member countries wanted that once the tariffs on products is raised, it should not be allowed to reduced.
- **Adoption of liberalized Rules of Origin** would have affected India's interests.
- **Application of Investors to State Dispute Settlement (ISDS) mechanism**: Under multilateral trade and investment agreements such as RCEP, a third party forum is normally provided for to resolve such disputes. This means that the relevant laws and judiciary in India will no longer be able to intervene in such disputes.
- **Provisions against Data Localization** in the e-commerce chapter in the RCEP goes against India's interests.

Strategic dimension of RCEP

'Act East' policy : There is inconsistency of some of our recent moves, with the 'Act East' policy –

- One, not joining RCEP.
- Two, at the latest East Asia Summit (EAS), only India and the U.S. were not represented at a summit level [India was represented by the External Affairs Minister].
- In the preceding Foreign Ministers' meeting, our Minister of State was present, not the External Affairs Minister.

Greater influence of China:

- For China to be part and parcel of RCEP when it is not part of the Trans-Pacific Partnership [TPP] is a big thing. What it does is it formalises its economic network in this part of the world. When people are talking about re-shoring and looking at alternative supply chains, this ensures that will not have much traction.
- If we are looking at the TPP and a Biden administration in the U.S. perhaps coming back in some way, this becomes all the more important. You will have ***a symmetric situation, with China being part of***

one trading arrangement with the U.S. out of it, and the U.S. part of one arrangement with China out of it.

- That will leave India out in the cold.

Other strategic advantages:-

- Port building in Philippine etc.
- Leverage at international forum like WTO.
- Cooperation in dealing with black money, terrorism, extradition treaty etc.

Way Forward

1. ***Firstly,*** India has already signed FTAs with almost 12 countries which are part of RCEP. This includes 10 ASEAN Countries, Japan and South Korea. Hence, in the short-run, India can afford to remain outside RCEP until its core interests and concerns are addressed.
2. ***Secondly***, the Surjit Bhalla Committee has highlighted that FTAs signed by India have been a mixed bag so far. While there has been an overall increase in trade with our partner countries after signing FTA, the imports have increased at much faster pace as compared to exports, leading to increase in Trade Deficit. Hence, the committee has recommended that India needs to undertake review of its FTAs so that its interests and concerns are taken into account. The same goes even with the RCEP trade negotiations. India must continue to engage with the RCEP member countries in order to ensure that its core concerns are taken into account.
3. ***Thirdly,*** India has to realize that its track record of FTA utilization is quite poor at only around 25%. Hence, the Government must focus on enhancing its export competitiveness by addressing the infrastructural bottlenecks, build manufacturing capabilities, improving logistics supply chain, focus on R & D etc.

IMF

- The International Monetary Fund (IMF) is an organization of 190 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
- Created in 1945, the IMF is governed by and accountable to the 190 countries that make up its near-global membership.
- The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.

CREDIT RATING AGENCIES

- A credit rating agency is an entity which assesses the ability and willingness of the issuer company for timely payment of interest and principal on a debt instrument. The Rating is denoted by a simple alphanumeric symbol, for e.g. AA+, A-, etc.
- The rating is assigned to a security or an instrument issued by a company.
- Ratings are based on a comprehensive evaluation of the strengths and weaknesses of the company fundamentals including financials along with an in-depth study of the industry as well as macro-economic, regulatory and political environment.

Issuer Pay Model

- Under this Model, the Issuer i.e. the company pays the money to the Credit rating agencies (CRAs) in order to get credit rating for the instruments issued by it.

- In order to enable the CRAs to give the credit rating, the company provides all the necessary details such as company's balance sheet and business details. Based upon a thorough and detailed analysis of such details, the CRA issues credit rating to the instrument issued by the company.

Investor Pay Model

- Under this Model, the investor is required to pay the money to the CRA in order to know the credit rating.
- Hence, only those investors who are ready to pay for a rating can access the credit rating of the instrument. The credit rating issued by the CRA is not commonly available to all the investors free of cost.

Regulator pay Model

- Under this model, the money is paid by the regulator in the country in order to get the credit rating.
- Either the company or the investor need not pay for the credit rating. The credit ratings would be made available to all the investors.

Issuer Pay Model	Investor pays model	Regulator pays model
Advantages • Ratings are available to the entire market free of charge and will highly aid the small investors. • It gives the rating agencies access to high-quality information that enhances the quality of analysis. **Disadvantages** • It can lead to serious conflict of interest since the CRAs are paid by the company to get the rating. The CRAs may inflate the rating to satisfy the company. • It may lead to **'Rating Shopping'** which refers to the situations where an issuer approaches different rating agencies for the ratings and then choose to publish the most favourable ratings to disclose it to the public via media while concealing the lower ratings.	**Advantages** • It would avoid the serious conflict of interest of the CRAs. • This would enable the investors to get the credit rating based on the true and actual financial condition of the company. **Disadvantages** • Ratings would be available only to those investors who can pay for them and takes ratings out of the public domain and thus affects the small investors. • The company may not always share all the necessary information with the CRAs which then can have an adverse impact on the quality of the ratings. • It can pose serious conflict of interest involving the investors themselves. If investors are the payees, they can influence CRAs to give lower-than-warranted ratings to help them negotiate higher interest rates.	**Advantages** It eliminates the conflict of interest as seen in both Issuer Pay Model and Investor Pay Model. **Disadvantages** • The problem with this model lies in the choosing the CRA and payment to be fixed. • The CRA chosen by the regulator may not be able to provide the best credit rating. Further, if the regulator pays less amount of money to the CRA, the CRA may find it difficult to continue with its business and could have an adverse impact on the quality of the ratings issued.

UNCONVENTIONAL MONETARY POLICIES

Zero Interest Rate Policy (ZIRP)	Negative Interest Rate Policy (NIRP)	Helicopter Money
• This policy was **followed in USA from 2008** in the wake of financial crisis in order to inject money into the economy to promote economic growth. • Under this policy, the US Fed Bank provided loans to the banks at almost 0.25% rate of interest. The idea was to transmit lower rate of interest to the corporates and borrowers in order to spur demand. • This was also known as **Quantitative Easing**.	• This policy was followed in developed economies such as Japan, Denmark, Sweden, Switzerland etc. • Usually, the banks park their surplus reserves with the Central Bank and earn interest. • However, under the NIRP, the banks would be required to pay interest to the central bank if they park their surplus reserves. • The idea here is that the banks **should provide loans to the borrowers at cheaper rates** instead of parking their surplus reserves with the Central Bank.	• The adoption of Helicopter money was contemplated by Japan in order to overcome the 2008 financial crisis. • It is a hypothetical concept put forward by the economist, **Milton Friedman**. • This involves the central bank of the country printing currency notes and distributing it to the people free of cost. The idea here is to promote demand in the economy during recession. • It is different form ZIRP and NIRP, as under these two the people get loans at cheaper rate which increases the debt liability. • But in helicopter money since people receive money free of cost, it does not lead to increase in debt liability.

DISINVESTMENT

- Disinvestment refers to the mechanism in which the Government loses a part of its ownership of the PSUs through the sale of shares.
- The Disinvestment as a policy was adopted by the Government post 1991 LPG Reforms.
- The Department of Investment and Public Asset Management under the Ministry of Finance acts as the nodal agency for the Disinvestment in India.

Strategic Disinvestment

- According to the Department, strategic sale of a company has two elements:
  - Transfer of a block of shares to a Strategic Partner; and
  - Transfer of management control to the Strategic Partner.
- The strategic sale takes place when more than 51% of shares go to the private sector strategic partner. At the same time, it is not necessary that more than 51% of the total equity goes to the Strategic Partner for the transfer of management to take place. In other words, strategic sale can take place even if the private sector partner gets less than 51% shares.
- According to the strategic sale guidelines issued by DIPAM, after the transaction, the Strategic Partner may hold less percentage of shares than the Government but the control of management would be with partner.
- For instance, if in a PSU the shareholding of Government is 51% and the balance is dispersed in public holdings, then Government may go in for a 25% strategic sale and pass on management control, though the Government would post-transfer have a larger share holding (26%) than the Strategic Partner (25%).
- But the necessary condition is that the control of the firms should be with the strategic partner.

- **NITI Aayog**: Identifies CPSEs for Strategic Disinvestment; NITI Aayog advises on the mode of sale and percentage of shares to be sold; Core Group of Secretaries on Disinvestment (CGD) headed by Cabinet Secretary considers the recommendations of NITI Aayog; Decision by the Cabinet Committee on Economic Affairs (CCEA) on strategic disinvestment.

YIELD CURVE

- A yield curve is a graph that depicts yields (Interest rates) on bonds ranging from short-term debt such as one month to longer-term debt such as 30 years.
- Usually, in order to track the yield curve, the yields of the Government bonds are taken into consideration. The Yield curve may provide important clues related to present and future economic conditions in a country.

TYPES OF YIELD CURVE AND THEIR INTERPRETATION

Normal Yield Curve

- The yields on the bonds depends upon the risk involved. Higher the risks, higher would be the yields.
- Normally, the yields on short term maturity bonds is lower than that of long term maturity bonds. The higher yields on the long term maturity bonds can be attributed to increased risk in the longer term (say 30 years). Hence, under normal conditions, the yield curve is upwards sloping.
- A normal yield curve indicates yields on longer-term bonds may continue to rise, responding to periods of economic expansion.

Inverted Yield Curve

- When there are signs of slowdown in an economy, it would mean that the economy faces risk in the short term. However, in the long term, the economy may come back to normalcy. Hence, due to this, the yield on the short term bonds becomes higher than the yields of long term bonds.
- This is because the risks associated with the short term bonds is higher than the risks associated with long term bonds. Hence, an inverted yield curve points towards a probable economic recession.
- The present development in the US bond market has raised concerns that the inverted yield curve possibly points to global economic recession in future.

WAYS AND MEANS ADVANCES

- The RBI acts as banker to the government i.e. it lends money to the Central and State Government. Earlier, the government relied on ad-hoc Treasury bills to borrow money from RBI. However, it was replaced by Ways and Means advances in 1997.
- Ways and Means advances **acts as a loan facility to the central and state governments** to meet their cash requirements. This facility is availed by the Government due to the temporary mismatches in their receipts and expenditure. The loan taken by the government through ways and means advances need to be paid back in 90 days. The interest rate of WMA currently is the repo rate. The limits for WMA are mutually decided by the RBI and Government of India.
- When the WMA limit is crossed the government takes recourse to overdrafts, which are not allowed beyond 10 consecutive working days. The interest rate on overdrafts would be 2 percent more than the repo rate.

Reasons for replacing Ad-Hoc T-Bills with WMAs

- Earlier, under an agreement between RBI and Government, the central government needed to always hold certain amount of cash balances. The minimum cash limit was fixed in order to ensure smooth conduct of Government business and to ensure that government has sufficient cash to meet its operational requirements.
- However, if the cash balances reduced to below the threshold level fixed, the RBI provided the cash through the creation of ad-hoc treasury bills. The ad hoc Treasury Bills, which were meant to be

temporary, gained a permanent as well as a cumulative character. Further, ad-hoc treasury bills became an attractive source of financing Government expenditures since it was available at an interest rate which was below the market rate of interest.

- Thus, the ad-hoc treasury bills led to increase in the government borrowings leading to poor financial discipline.

Differences between ad-hoc Treasury Bills and WMA

- WMA would not be a source of financing Budget Deficit. It is only a mechanism to cover day-to-day mismatches in receipts and payments of the Government.WMA will also not be shown as a source of financing in the Budget estimates.
- Secondly, limits on WMA will be fixed and any excess withdrawal by Government beyond the limit will become permissible for not more than 10 consecutive working days.
- Thirdly, WMA will be charged at market related interest rate i.e. Repo rate.

WORLD BANK

- The World Bank is an international financial institution that provides loans to member countries of the purpose of economic growth and development.
- It comprises two institutions: The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

- The structure of World Bank comprises:

- **Board of Governors:** The World Bank comprises of 189 member countries. Every member country is represented by its Minister for Finance. All these representatives of the member countries form the Board of Governors, which is the highest decision making body of the World Bank. They meet once in a year at the Annual Meetings of the Boards of Governors of the World Bank Group.
- **Board of Executive Directors:** The Board of Governors delegate specific duties to 25 Executive Directors, who work on-site at the Bank and are responsible for day-to-day management of the World Bank. The five largest shareholders of the World Bank appoint an executive director, while other member countries are represented by elected executive directors.
- **World Bank President:** The World Bank President chairs meetings of the Boards of Directors and is responsible for overall management of the Bank.

How is the World Bank President appointed? The President of the World Bank is selected by the Board of Executive Directors for a five-year. As per the convention followed so far, the World Bank President has been an American Citizen, while the IMF President has been a European.

About World Bank Group: The World Bank Group consists of five organizations:

1. **The International Bank for Reconstruction and Development (IBRD)**: It lends loans to governments of middle-income and creditworthy low-income countries.
2. **The International Development Association (IDA):** It provides interest-free loans and grants to governments of the poorest countries.

   Note: Together, IBRD and IDA make up the World Bank.
3. **The International Finance Corporation (IFC):** It is the largest global development institution focused exclusively on the private sector. It helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

Note: The International finance corporation has enabled investments into India through the launch of Masala Bonds.

4. **The Multilateral Investment Guarantee Agency (MIGA):** It promotes foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. MIGA fulfills this mandate by offering political risk insurance (guarantees) to investors and lenders.
5. **The International Centre for Settlement of Investment Disputes (ICSID):** It provides international facilities for conciliation and arbitration of investment disputes. India is not a member of ICSID.

- **Reports published by World Bank**: 1. Doing Business Report; 2. Human Capital Index (HCI); 3. World Development Report; 4. Global Economic Prospects; 5. Logistics Performance Index; 6. Women, Business and Law.

MUTUAL FUNDS

- Mutual Fund Company pools money from the investors which in turn is invested in different financial instruments such as shares, bonds, debentures, commercial paper etc.
- A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) before it can collect funds from the public.

Types of Mutual Fund Schemes

- A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.
- An open-ended scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period.
- On the other hand, a close-ended scheme has a stipulated maturity period e.g. 3-5 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the new fund offer and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed.

What are Fixed Maturity Plans (FMPs)?

- FMPs are close-ended mutual funds that one can invest in only during a new fund offer (NFO).
- The FMPs typically invest in debt instruments such as Bonds, commercial papers etc. that have the same maturity as that of the FMP. For example, if the duration of FMP is of 2 years, it would invest in only those debt instruments that have maturity period of 2 years.
- Because of such a nature of investment, the FMPs do not face interest rate risks. However, they face credit risks as there could be default on the payment by the company which issues the debt instrument.

BIT

- Bilateral investment Treaties (BITs) are agreements between two countries for the reciprocal promotion and protection of investments in each other's territories by individuals and companies situated in either State. BITs encourage foreign investors to invest in a State and there by contributing towards overall developments and advancements of the economy.

Important features of BIT:

- **Fair and Equitable Treatment (FET)**: Mandates States to have a stable and predictable legal framework regulating investments which meets the reasonable expectations of the investors.
- **Full Protection and Security (FPS):** Mandates States to provide full protection and safety to foreign investments.
- **National Treatment:** The foreign investors should be treated at par with the domestic investors.

- **Most Favourable Nation Treatment (MFN):** Concession extended to foreign investor of a particular country would be extended to foreign investors of other countries.
- **Expropriation (Taking over property):** Bars the state from expropriating the foreign investments except under exceptional circumstances.
- **Repatriation of Investment and Returns**: Mandates the states to provide unrestricted power to the foreign investors to repatriate their investments and returns.
- **Investor State Dispute Resolution (ISDS):** Foreign investors can directly initiate arbitration proceeding against a State without approaching its own government. To handle such a dispute, an ad-hoc tribunal may be set up in accordance with the Arbitration rules of the United Nations Commission on International Trade Law

PROVISIONING COVERAGE RATIO

- Under provisioning norms laid down by the RBI, banks are required to set aside certain percentage of funds in order to cover risk arising from NPAs.
- The provisioning amount is defined in terms of percentage of bad assets and depends upon the asset quality. The percentage of bad asset that has to be 'provided for' is called provisioning coverage ratio. For example, if the provisioning coverage ratio is 25% for a particular category of bad loans, banks have to set aside funds equivalent to 25% of those bad assets out of their profits.
- Provisioning coverage ratio differs in terms of the quality of assets. For NPAs categorized as "Loss assets", bank has to set aside 100% of such loss assets out of its profit.

CAPITAL ADEQUACY RATIO (CAR)

- The CAR has been laid down by the BASEL committee on banking supervision under Bank of International Settlement located in Basel, Switzerland.
- It has been laid down to ensure financial stability and to prevent failure of banks.
- So far, 3 BASEL Norms have been laid down: Basel I (1998), Basel II (2004), Basel III (2009).
- **CAR = (Tier-1 Capital + Tier-2 Capital)/ RWAs * 100.**
- The Banks in India are required to maintain CAR of 9% (Tier-1 capital: 7% + Tier-2 Capital: 2%) along with Capital Conservation buffer (CCB) of 2.5%.
- Unlike the BASEL III norms, which stipulate capital adequacy of 10.5% (8%-CAR + 2.5% CCB) , the RBI has mandated to maintain capital adequacy of 11.5% (9%-CAR + 2.5%-CCB).

APPRENTICESHIP

- Apprenticeship training refers to a course of training in any industry or establishment. Apprenticeship training consists of basic training (theoretical instructions) and practical training at an actual work place.
- Apprentices get an opportunity of undergoing 'on the job' training and are exposed to real working conditions.
- Apprentices become skilled workers once they have acquired the knowledge and skills in a trade or occupation, which help them in getting wage or self-employment.
- It has been provided under **Apprentices Act, 1961**. All the establishments having work force (regular and contract employees) of 40 or more are mandated to engage apprentices undertake Apprenticeship Programmes in a range from 2.5% -10% of their workforce (including contractual employees) every year.
- For establishments having a workforce between 6 and 40, engagement of apprentices is optional. Establishments have a workforce of 5 or less are not permitted to engage apprentices.

National Apprenticeship Promotion Scheme

- The government has launched the National Apprenticeship Promotion Scheme (NAPS) in 2016 to promote apprenticeship training and incentivize employers who wish to engage apprentices.
- NAPS has replaced Apprentice Protsahan Yojna (APY). While APY provided sharing of 50% of the stipend as prescribed by the Government only for the first two years, NAPS has provision for sharing of expenditure incurred in both providing training and stipend to the apprentice

BIMAL JALAN COMMITTEE

- **Composition of Economic Capital**: The committee has defined Economic capital as a combination of realized equity and revaluation reserves. The realised equity is the total realised profits of the RBI while the revaluation reserves is the unrealised and notional profits of the RBI which may arise from changes in the valuation of Gold, Foreign Currency or foreign securities.
- **Purpose of Economic Capital**: The Committee has stated that realised equity could be used for meeting all risks and losses, while revaluation balances could be treated as risk buffers against market risks.
- **Adequacy of Economic Capital**: The realised equity should be maintained at within a range of 6.5 per cent to 5.5 per cent of the RBI's balance sheet, comprising 5.5 to 4.5 per cent for monetary and financial stability risks and 1.0 per cent for credit and operational risks. Further, any shortfall in revaluation balances would add to the requirement for realized equity.
- **Transfer Policy**: The Committee has stated that the surplus distribution policy must take into the account the total realised equity. Only if realized equity is above its requirement (6.5 per cent to 5.5 per cent), the entire net income should be transferable to the Government. If it is below the lower bound of requirement, risk provisioning will be made to the extent necessary and only the residual net income should be transferred to the Government.

DEVELOPMENT BANKS

- As the name suggests, these banks are specialised financial institutions that are set up so as to promote the socio-economic development in a country. These Banks provide long term credit at concessional rates to certain critical sectors such as Agricultural, Infrastructure, Industries etc.
- Most of the advanced economies such as USA, UK, Japan etc. had set up development banks in the past which enabled them to attain higher growth momentum. On similar lines, China has also set up development banks in the field of agriculture and Trade so as to promote growth and development.
- Some of the development Banks in India include NABARD (Agriculture and Rural Development), Industrial Finance Corporation of India (Industrial Development), SIDBI and MUDRA (MSME Development), EXIM Bank (Trade Development), National Housing Bank (Housing Infrastructure).

Difference between development banks and commercial banks

- **Source of Funds**: The Commercial Banks are majorly dependant on the depositors' money for extending funds while the development Banks are dependent on the Government's financial support.
- **Nature of Loans**: The Commercial Banks extend short-term loans while the development Banks extend long-term loans.
- **Nature of Role**: The role of the commercial banks is confined to the extension of loans while the role of development banks is much more multidimensional. The Development Banks also offer various kinds of assistance to the companies such as identification of projects for undertaking investment, ensuring that the companies invest in financially viable projects, offering managerial assistance for the execution of projects etc.

Nature of Assistance provided by the Development Banks: The Development Banks may offer the following kinds of assistance to the companies:

- Extend long term finance at concessional rates to the companies.

- Subscribe/buy the shares of the companies which are involved in financing of infrastructure, industrial or housing projects
- Partial Credit Guarantee on the repayment of the bonds issued by the companies. This means that if the company issuing the bond defaults on its payment, the Development Bank would repay back a certain amount of money to the investors. This is known as **Credit Enhancement**. Such kind of guarantee on the repayment of loans reduces the risk enabling the companies to borrow money at lower rates of interest.

Benefits of Development Banks

- **Meet Investment Needs**: The Government has set a vision to realise $ 5 trillion by the end of 2024-25. In this regard, the Economic Survey has recommended that Indian economy has to shift gears from consumption expenditure to Investment, wherein the private sector investment should become the main engine of growth of Indian Economy. The setting up of the development Banks would boost the credit creation in the economy leading to higher investment by the private sector.
- **Reduce Pressure on Commercial Banks**: The Financial System in India is not diversified and it is basically dominated by the Indian Banks. The Banks have mainly relied on short-term deposits for lending to long term infrastructural projects leading to Asset-Liability Mismatch and higher NPAs. The developed economies have diversified financial market consisting of Banks (for meeting short-term credit requirements) and bond market (for meeting long term credit requirements). The setting up of development Banks would deepen the bond market (through credit enhancement) and reduce pressure on the commercial banks leading to diversified financial market.
- **Lower Cost of Capital**: As stated before, the credit enhancement provided by the development Banks would enable the companies to raise loans at lower rates of interest leading to decrease in the cost of capital.
- **Reduce Foreign Currency Exposures**: Presently, some of the Infrastructural and housing finance companies borrow loans from overseas market. The depreciation in the value of Rupee may put additional burden on them and expose them to fluctuations in the exchange rate. The development banks would enable these companies to raise loans in the domestic market and reduce the foreign currency exposure.

CODE ON SOCIAL SECURITY BILL 2020

This bill seeks to provide social security benefits such as Provident Fund, Insurance etc. to the workers. It seeks to replaces nine laws related to social security. These include the Employees' Provident Fund Act, 1952; the Maternity Benefit Act, 1961; and the Unorganised Workers' Social Security Act, 2008.

Social Security Entitlements

- **Provision:** The 2020 Bill states that the central government through notification provide that Industries employing workers above a certain threshold level would be required to make contributions towards various social security benefits such as Provident Fund, Insurance etc.
- **Reasons for Opposition:** Presently, the threshold level for the contribution towards Social Security scheme has been provided under the law itself. For example, Employees Provident Fund Act, 1952 is applicable to all Industries employing more 20 people. The EPF is not compulsory for all employees. Only those who earn up to Rs 15,000 a month have to contribute 12% of their basic salary plus dearness allowance to EPF. The employer contributes an equal percentage (12%) to the corpus out of which 3.67% goes to the EPF and the rest 8.33% goes towards employees' pension scheme (EPS).

However, the 2020 Bill gives the discretionary power to the Government to lay down the criteria for the eligibility for the contribution to Social Security Schemes. This has been criticised on account of following reasons:

1. Excessive Delegated Legislation.
2. Exclusion of Informal Workers in the Small-Scale Industries from Social Security benefits

3. Against the Idea of Universal Social Security put forward by National Commission on Labour.

Expanded Coverage of Workers

- **Provision**: The government can make provisions for registration of various categories of workers- Unorganised, Gig Workers and Platform workers. It can also notify schemes for their social security. **Gig workers** refer to workers outside the traditional employer-employee relationship. **Platform workers** are those who access organisations or individuals through an online platform and provide services or solve specific problems.
- **Reasons for Opposition:** Lack of Clarity in the definition of Unorganised Worker, Gig Worker or Platform Worker. For example, Ola Cab Driver can be considered to be belonging to all the 3 different categories simultaneously.

Mandatory Linking with Aadhaar

- **Provision:** Employee or a worker (including an unorganised worker) must provide his Aadhaar number to receive social security benefits

1. **Reasons for Opposition:** This may violate the Supreme Court's judgement in Puttaswamy Case. In its judgement, the Court had ruled that the Aadhaar card/number may only be made mandatory for expenditure on a subsidy, benefit or service incurred from the Consolidated Fund of India.

CODE ON WAGES, 2019

- It seeks to regulate wage and bonus payments in all employments where any industry, trade, business, or manufacture is carried out. The Code replaces the following four laws: (i) *the Payment of Wages Act, 1936;* (ii) *the Minimum Wages Act, 1948;* (iii) *the Payment of Bonus Act, 1965;* and (iv) the *Equal Remuneration Act, 1976*.
- **Coverage:** The Code will apply to all employees. The central government will make wage-related decisions for employments such as railways, mines, and oil fields, among others. State governments will make decisions for all other employments.
- **Floor wage:** According to the Code, the central government will fix a floor wage, taking into account living standards of workers. Further, it may set different floor wages for different geographical areas.
- The minimum wages decided by the central or state governments must be higher than the floor wage. In case the existing minimum wages fixed by the central or state governments are higher than the floor wage, they cannot reduce the minimum wages.
- **Fixing the minimum wage:** The Code prohibits employers from paying wages less than the minimum wages. Minimum wages will be notified by the central or state governments.
- While fixing minimum wages, the central or state governments may take into account factors such as: (i) skill of workers, and (ii) difficulty of work.

How the Code on Wages would benefit?

- **Expansion in coverage of Employees:** The Code proposes to do away with the concept of bringing specific jobs under the Act by the Centre and states and mandates that minimum wages be paid for all types of employment – irrespective of whether they are in the organized or the unorganized sector.
- **Introduction of National Minimum Wage:** The Code introduces a national minimum wage which will be set by the central government. This will act as a floor for state governments to set their respective minimum wages.
- **Easier compliance of law:** The Code introduces the concept of a 'facilitator' who will carry out inspections and also provide employers and workers with information on how to improve their compliance with the law. Further, there are 12 definitions of wages in the different Labour Laws leading to litigation besides difficulty in its implementation. The definition has been simplified and is expected to reduce litigation and will entail at lesser cost of compliance for an employer.

Concerns with Code on Wages 2019

- **Poor Consolidation of Labour Laws:** The Code on Wages, 2019 seeks to consolidate and simplify four laws into a single code. While the previous four pieces of legislation had a total of 119 sections, the new Code has 69 sections. However, the reduction in the number of sections is not on account of synergistic consolidation, but rather on account of Delegated legislation.
- Earlier, the number of provisions were incorporated in the act itself, but now under the Code on wages 2019, these provisions have been converted into rules to be formulated by the Government. Hence, if we combine the Code of wages 2019 along with the rules formulated under it, it would be much bulkier and more complex as compared to previous 4 laws.
- **Violation of Article 50**: Code of Wages 2019 provides that an officer (not below the rank of an under-secretary to the government) will be notified with power to impose a penalty in the place of a judicial magistrate. This is in clear violation of Article 50 of the Indian Constitution, which calls for separation of Executive from the Judiciary.
- **Provisions on Penalty**: The penalties/fines imposed under the Code on wages, 2019 are quite meagre and hence may not be sufficient enough to discourage the firms from violation of the law. Further, the violations under the law are considered to be compoundable offences and not non-compoundable. (Compoundable offences are usually non-serious in nature and hence can be compromised between the two parties. However, non-compoundable offences cannot be compromised). Hence, the law can be considered to be mere paper tiger.

Exemptions from Violation of Provisions: The Code exempts employers from penal provisions if they were able "to prove that they had used due diligence in enforcing the execution of the code and it was the other person who had committed the offence without his knowledge or consent.

INDUSTRIAL RELATIONS (IR) CODE BILL

The Code provides for the recognition of trade unions, notice periods for strikes and lock-outs, standing orders, and resolution of industrial disputes. It subsumes and replaces three labour laws: The Industrial Disputes Act, 1947; the Trade Unions Act, 1926; and the Industrial Employment (Standing Orders) Act, 1946.

Provision: The 2020 Bill introduces provisions on fixed term employment. Fixed term employment refers to workers employed for a fixed duration based on a contract signed between the worker and the employer.

Benefits of Fixed Term Employment:

- Allow employers the flexibility to hire workers for a fixed duration and for work that may not be permanent in nature.
- Fixed term contracts are negotiated directly between the employer and employee and reduce the role of a middleman such as an agency or contractor.
- Benefit the worker since the Code entitles fixed term employees to the same benefits (such as medical insurance and pension) and conditions of work as are available to permanent employees.
- Improve the conditions of temporary workers in comparison with contract workers who may not be provided with such benefits.

Reasons for Opposition:

- Unequal bargaining powers between the worker and employer could affect the rights of workers.
- Employer has the power to renew contracts and hence lead to job insecurity
- The Bill does not restrict the type of work in which fixed term workers may be hired. Therefore, they may be hired for roles offered to permanent workmen.

Recommended improvements

- The **Second National Commission on Labour (2002)** had recommended that no worker should be kept continuously as a casual or temporary worker against a permanent job for more than two years.
- The **International Labour Organisation (ILO)** has highlighted that several countries restrict the use of fixed term contracts by: (i) limiting renewal of employment contracts (Example- Vietnam, Brazil and China allow two successive fixed term contracts), (ii) limiting the duration of contract (Example- Philippines limits it up to a year), or (iii) limiting the proportion of fixed term workers in the overall workforce.
- These recommendations of the Second National Commission on Labour and ILO need to be incorporated in the 2020 Bill.

Applicability of Standing Orders:

- **Provision:** The 2020 IR Code bill provides that all industrial establishment with 300 workers or more must prepare standing orders on the matters related to: (i) classification of workers, (ii) manner of informing workers about work hours, holidays, paydays, and wage rates, (iii) termination of employment, and (iv) grievance redressal mechanisms for workers.
- **Reasons for Opposition**: The IR Code bill 2019 was applicable to establishments employing more than 100 workers. The threshold for the applicability to Industries has been increased to 300 in the IR Code Bill 2020. This means that Small Scale Industries employing less than 300 workers would no longer be required to lay down standing orders and hence may lead to exploitation of workers.

Closure and Lay-off

- **Provision:** Under the 2019 Bill, an establishment having at least 100 workers was required to seek prior permission of the government before closure, lay-off, or retrenchment. Lay-off refers to an employer's inability to continue giving employment to a worker in the face of adverse business conditions. Retrenchment refers to the termination of service of a worker for any reason other than disciplinary action. The 2020 Bill provides that prior permission will be required for establishments with at least 300 workers.
- **Reason for Opposition**: Increase in threshold from 100 to 300; Enable small scale Industries to hire and fire workers at will.

Strikes and Lockouts

- **Provision:** The 2020 Bill requires all persons to give a prior notice of 14 days before a strike or lock-out. This notice is valid for a maximum of 60 days. The Bill also prohibits strikes and lock-outs: (i) during and up to seven days after a conciliation proceeding, and (ii) during and up to sixty days after proceedings before a tribunal.
- **Reason for Opposition**: Impacts the ability of the workers to carry out Strike or lock-out; Decreases their bargaining power.

Power to Exempt Industries

- **Provision:** Provides the government with the power to exempt any new industrial establishment or class of establishment from any or all of its provisions if it is in "Public Interest".
- **Reason for Opposition:** Factories Act, 1948 permitted exemptions from its provisions only in cases of public emergency and limited such exemption to three months. However, under the IR Code Bill 2020 there is no limit on time duration for which Industries can be exempted. Further, the term "Public Interest" could be interpreted broadly and hence government has wide discretion in providing exemptions.

OCCUPATIONAL SAFETY, HEALTH AND WORKING CONDITIONS CODE BILL

The Code seeks to regulate health and safety conditions of workers. It subsumes and replaces 13 labour laws relating to safety, health and working conditions. These laws include: Factories Act, 1948; Mines Act, 1952; Dock Workers Act, 1986; Contract Labour Act, 1970; and Inter-State Migrant Workers Act, 1979.

Threshold for Coverage of Establishments

- **Provision:** The 2020 Bill defines a factory as any premises where manufacturing process is carried out and it employs more than: (i) 20 workers, if the process is carried out using power, or (ii) 40 workers, if it is carried out without using power.
- **Reasons for Opposition:** Safety Standards should be applicable to all Industries irrespective of size.

- **Power to Exempt Industries**
- **Provision:** Empowers the Government to exempt any new factory from the provisions of the Code in order to create more economic activity and employment.
- **Reasons for Opposition**: Factories Act, 1948 provided for exemption only in cases of Public Emergency and for a limited time duration of 3 months. The new provision has led to higher discretionary powers to Government.

Benefits for Inter-State Migrants

Provision: Benefits for Inter-State Migrant Workers in the form of:

- Option to avail PDS either in Native State or state of employment.
- Insurance and Provident Fund Benefits
- Create a database of Inter-State Migrant Workers

Reasons for Opposition: Need to implement 'One-Nation One Ration Card' faster; Need to have proper coordination between Centre and States.

TRADE AGREEMENTS

1. **Preferential Trade Agreement (PTA)**: It is agreement whereby the countries may decide to reduce the customs duty on commonly agreed goods. Usually, the list of goods on which the customs duty is to be reduced is part of **Positive List**. In general PTAs do not cover substantially all trade. **Example:** India-Afghanistan PTA (2003)
2. **Free Trade Agreement (FTA)**: It is a **bilateral agreement** whereby the countries may decide to reduce or eliminate the customs duty on commonly agreed goods. Usually, the list of goods on which the customs duty would not be reduced is part of **Negative list** and on all other goods the customs duty is eliminated. Normally, the FTAs cover trade in goods or trade in services. FTAs can also **cover other areas** such as intellectual property rights (IPRs), investment, government procurement and competition policy, etc. **Example:** India-ASEAN FTA in Goods
3. **Comprehensive Economic Cooperation Agreement (CECA)/Comprehensive Economic Partnership Agreement (CEPA)**: These terms describe agreements which consist of an integrated package on goods, services and investment along with other areas including IPR, competition etc. The **India Japan CEPA** is one such example and it covers a broad range of other areas like trade facilitation and customs cooperation, investment, competition, IPR etc.
4. **Custom Union**: In a Customs union, member countries may decide to **trade at zero duty among themselves**, however they maintain common customs duty against rest of the world. An example is **Southern African Customs Union (SACU)** amongst South Africa, Lesotho, Namibia, Botswana and Swaziland.

5. **Common Market**: Integration provided by a **Common market is one step deeper** than that by a Customs Union. A common market is a **Customs Union** with provisions to facilitate free movements of labour and capital.
6. **Economic Union**: Economic Union is a Common Market extended through further harmonization of fiscal/monetary policies and shared executive, judicial and legislative institutions among the member countries. **European Union (EU)** is an example.

BANKING TERMS

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

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

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

As the asset quality deteriorates, the PCR increases. The PCR for different categories of assets is as shown below:

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

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

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

- **SMA-0**: Principal or interest payment not overdue for more than 30 days but account showing signs of incipient stress
- **SMA-1**: Principal or interest payment overdue between 31-60 days
- **SMA-2**: Principal or interest payment overdue between 61-90 days
- **Note:** If the Principal or interest payment is overdue for more than 90 days, then the loan is categorized as NPA.

Leverage Ratio (LR): The Basel Committee on Banking Supervision (BCBS) introduced Leverage ratio (LR) in the **2010 Basel III package of reforms**. The Formula for the Leverage Ratio is **(Tier 1 Capital/ Total Consolidated Assets) ×100** where Tier 1 capital represents a bank's equity.

It is to be noted that the **Tier 1 capital adequacy ratio (CAR) is the ratio of a bank's core tier 1 capital to its total risk-weighted assets**.

On the other hand, **leverage ratio is a measure of the bank's core capital to its total assets**.

Thus, the Leverage ratio uses tier 1 capital to judge how leveraged a bank is in relation to its consolidated assets whereas the tier 1 capital adequacy ratio measures the bank's core capital against its risk-weighted assets.

Liquidity Coverage Ratio (LCR): A failure to adequately monitor and control liquidity risk led to the Great Financial Crisis in 2008. To improve the banks' short-term resilience to liquidity shocks, the Basel Committee on Banking Supervision (BCBS) introduced the LCR as part of the Basel III post-crisis reforms.

- The LCR is designed to ensure that banks hold a **sufficient reserve of high-quality liquid assets** (HQLA) to allow them to survive a period of significant liquidity stress lasting 30 calendar days.
- HQLA are cash or assets that can be converted into cash quickly through sales (or by being pledged as collateral) with no significant loss of value.
- The LCR requires banks to hold a stock of HQLA at least as large as expected total net cash outflows over the stress period of 30 days.

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

- **Total net cash outflows** are defined as the total expected cash outflows minus the total expected cash inflows arising in the stress scenario.

EXCHANGE TRADED FUND (ETF)

- ETF is a fund that is created by pooling together assets and then dividing this cumulated asset into individual units that are traded on the stock exchange. The value of the ETF comes from the value of the underlying assets (shares of stock, bonds, foreign currency, etc.). These ETFs are listed in the stock exchanges are similar to like shares and can be traded like ordinary shares. In nature, the ETFs are index funds because they comprise of shares of different companies.
- A bond ETF invests in a basket of bonds in the underlying index. It can invest in the government, corporate, or public sector unit bonds.

Features of Bharat Bond ETF

- The Bharat ETF will be a basket of bonds issued by CPSE/CPSU or any other Government organization. These Bonds will be tradable on secondary market.
- The unit size of Bharat bond ETF has been kept at smaller value of Rs 1000 to attract retail investors. Each ETF will have a fixed maturity date with 2 maturity series - 3 years and 10 years. The index will be constructed by an independent index provider, National Stock Exchange.

BENEFITS OF BHARAT BOND ETF

For Investors

- Safety as they are investing in government bonds;
- Liquidity as they are tradable on exchange;
- Since unit value is only Rs. 1000 it provides for easy and low-cost access to bond markets thereby increasing the participation of retail investors who are currently not participating in bond markets due to liquidity and accessibility constraints.

For CPSEs

- Additional source of meeting their borrowing requirements apart from bank financing.
- It will expand their investor base through retail participation which can increase demand for their bonds.
- With increase in demand for their bonds, these issuers may be able to borrow at reduced cost thereby reducing their cost of borrowing over a period of time.

Overall Impact: This is expected to eventually increase the size of bond ETFs in India leading to achieving key objectives at a larger scale - deepening bond markets, enhancing retail participation and reducing borrowing costs.

WTO: DISPUTE SETTLEMENT MECHANISM

Settling disputes is the responsibility of the Dispute Settlement Body which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish "panels" of experts to consider the case, and to accept or reject the panels' findings or the results of an appeal.

- **First stage**: Consultation (up to 60 days). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves.
- **Second stage**: If consultations fail, the complaining country can ask for a panel to be appointed. The panel's final report should normally be given to the parties to the dispute within six months. The report becomes the Dispute Settlement Body's ruling or recommendation unless a consensus rejects it. This entire process should be completed within 1 year.
- **Appeal Stage**: Either side can appeal a panel's ruling. Each appeal is heard by three members of a permanent seven-member Appellate Body set up by the Dispute Settlement Body and broadly representing the range of WTO membership. Members of the Appellate Body have four-year terms. They have to be individuals with recognized standing in the field of law and international trade, not affiliated with any government. The appeal can uphold, modify or reverse the panel's legal findings and conclusions. The Dispute Settlement Body has to accept or reject the appeals report and rejection is only possible by consensus.

STAND-UP INDIA SCHEME

The "Stand-up India Scheme" has been launched to promote entrepreneurship among Scheduled Caste/Schedule Tribe and Women for loans in the range of Rs. 10 Lakhs to Rs. 100 Lakhs. The Scheme is expected to benefit large number of such entrepreneurs, as it is intended to facilitate at least two such projects per bank branch (Scheduled Commercial Bank) on an average one for each category of entrepreneur.

The broad features of the scheme are as under: -

- Composite loan between Rs. 10 lakhs and upto Rs.100 lakhs, inclusive of working capital component for setting up any new enterprise.
- Debit Card (RuPay) for Withdrawal of working capital.
- Credit history of borrower to be developed.
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs. 10,000 crores.
- Handholding support for borrowers with comprehensive support for pre loan training needs, facilitating loan, factoring, marketing etc.
- Web Portal for online registration and support services.

FISCAL DEFICIT

The Government is said to incur deficit if its expenditure is higher than its revenue. The Government deficit is mainly measured in 3 different ways:

- **Revenue Deficit (RD):** It is calculated as (Revenue Expenditure- Revenue Receipts) i.e. it highlights the deficit in the revenue account.
- **Fiscal Deficit (FD)**: It denotes the total borrowings of the Government for the entire financial year. The borrowed money may be used for meeting revenue expenditure (maintenance related expenses) as well as Capital expenditure (Creation of new assets).
- **Primary Deficit (PD)**: It is calculated as Fiscal Deficit- Interest payments.

RELATIONSHIP BETWEEN FISCAL DEFICIT AND ECONOMIC GROWTH

The developing countries such as India usually generate less amount of tax revenue. However, they are required to undertake higher amount of expenditure for the social sector (such as Education, health etc.) as well as for creating new assets and infrastructure.

Hence, they would be required to borrow money in order to meet their expenditure requirements. However, a higher amount of borrowings can increase the rate of inflation in the economy and can hence pose an adverse risk. Thus, there should be a limit on the Government's borrowings so that it does not lead to Inflation in future.

At the same time, the borrowed money should be ideally used for creating new assets and infrastructure (Capital Expenditure) rather than meeting its day-to-day maintenance related expenditure (revenue expenditure). This is because the money spent on the Capital expenditure has much higher returns unlike the maintenance related expenditure. For instance, higher investment in development of ports and airports can have a number of benefits such as creation of employment opportunities, development of infrastructure, boosting of exports etc. which in turn enhances the ability of the government to repay the borrowed money.

Thus, the Fiscal Deficit is said to be desirable in a country like India if it fulfills 2 conditions:

1. There must be limit on the fiscal deficit so that higher fiscal deficit does not lead to increase in Inflation.
2. The Fiscal Deficit must ideally be used for financing the creation of assets.

Present Scenario in India

In order to ensure Fiscal Discipline and to keep fiscal deficit under check, the Parliament has formulated the Fiscal responsibility and Budgetary Management Act, 2003. Under this act, the Government has been mandated to keep the fiscal deficit at 3% of GDP by the end of 31st March 2021. At the same time, the Government has been given freedom to exceed the Fiscal deficit target by 0.5% on account of certain factors. These factors are ***national security, war, collapse of agriculture, structural reforms and decline in the GDP growth of a quarter by 3%.***

The Government has committed itself to keeping the Fiscal deficit under check by undertaking various expenditure rationalization measures. However, the Government has been spending a higher share of its fiscal deficit for the revenue expenditure rather than capital expenditure. This clearly shows that the Government has failed to optimally utilize its borrowings for undertaking expenditure for the creation of new assets. This has to be reversed by reducing the revenue deficit and by ensuring that a higher share of Fiscal deficit is used for capital expenditure.

Way Forward: In order to counter the present economic slowdown, some of the economists have highlighted that Government should not unduly be worried about the Fiscal Deficit. The Government must focus on providing fiscal stimulus measures by undertaking higher expenditure for the creation of new assets. Such higher expenditure has the potential to create more employment opportunities and boost the declining demand in the Indian economy leading to increase in the GDP growth in future.

LONG TERM REPO OPERATIONS

- The Repo rate is the rate at which the banks borrow mainly short term loans from the RBI. Under Repo mechanism, the banks sell their G-Secs to the RBI with an agreement to repurchase the G-Sec at a future date and at fixed price. The rate at which the banks repurchase the G-Secs from the RBI is known as the Repo rate.
- Depending upon the maturity period of the loans, there are different types of Repos in India. These are:

Overnight Repos: (Maturity period of 1 day);

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

- The overnight repos are available to the Banks from the RBI from Monday to Friday. However, the term repos are available to the Banks only when the RBI notifies about the Term Repos (Usually 2-3 days in a

week). Further, the interest rate on the term repos is not same as the Repo rate. The Interest rate on the Term repos is determined through auction and hence is usually higher than the Repo rate.

Long Term Repo Operations (LTRO)

- It is a new policy tool used by the RBI to inject more liquidity into the Economy. It is considered to be similar to the term repos, but with a longer maturity period of 1 year and 3 years. Through the LTRO, the RBI seeks to inject long term liquidity into the economy at a lower interest rate. This is so because the interest rate on the LTRO is fixed at the Repo rate (which is considered to be much lower than the rate of interest on the 1 year or 3 year loans).
- Some of the basic features of the LTRO include:

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

Interest Rate: Repo Rate.

Method of Operations: The LTROs would be carried out through e-Kuber (The e-Kuber is the Core Banking Solution of the RBI which enables each bank to **connect their single current account** across the country. The e-Kuber is also used by RBI to execute various transactions with banks such as carrying out overnight and term repos, reverse repos etc.)

Need for LTROs

The RBI has consistently been reducing the Repo rates to inject liquidity into the economy. However, the Banks have not reduced the rate of interest on loans commensurately due to the poor monetary policy transmission. Further, the rate of interest on the long-term loans has remained much higher and has hindered the investment rates within India. Hence, the RBI has carried out the LTROs for the following purposes:

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

RUPEE DEPRECIATION

- Rupee Depreciation refers to decrease in the value of Rupee with respect to other currencies such as dollar, euro, pound etc. For Example: Earlier $1= Rs 65; Now $1= Rs 73
- As shown in the example, due to the change in the exchange rate, one would be required to pay Rs 8 more to get the same dollar.
- Hence, the dollar value is said to have appreciated and rupee value depreciated.

Why does the Rupee value depreciate? The value of the currency depends mainly on demand and supply. For Example:

Higher demand for Dollar (More Outflow) and Lower Supply of Dollar (Less Inflow of Dollar)

Thus, Rupee may depreciate on account of following factors:

Impact of Rupee Depreciation on Economy

1. **Impact on Imports and Exports**
   - In the event of Rupee Depreciation, the imports become costly while exports become competitive.
   - For example, Earlier $1 = Rs 65; Now $1 = Rs 73
   - Now, to import goods worth $1, importers would be required to pay Rs 8 more. Similarly, on exporting goods worth $1, exporters would earn Rs 8 More. Hence, Rupee depreciation adversely affects the importers while it benefits the exporters.
2. **Impact on Balance of Trade and Current Account:** India is majorly import-dependent country. Hence, costlier imports adversely affect the Trade balance and hence it leads to the widening of Current

Account Deficit. It is to be noted that even though the Exports from India may increase during Rupee depreciation, it does not have much impact on Indian Economy since the imports are much higher than Exports.

3. **Impact on Inflation Rate:** The higher value of imported goods drives up the rate of Inflation in India leading to import-led inflation. According to RBI's Report, 5% depreciation of the currency would add about 15 basis points to domestic inflation.
4. **Impact on Forex Reserves:** The RBI intervenes in the forex market in order to reduce volatility in the exchange rate. The RBI sells dollars from forex reserves in order to check Rupee depreciation. Hence, this leads to decrease in volume of Forex reserves.
5. **Impact on External Commercial Borrowings (ECBs):** Raising money via the ECB route has emerged as a favourite mechanism among companies. However, depreciating rupee poses risk to external commercial borrowing (ECB) as the cost of borrowing goes up.

MERCHANT DISCOUNT RATE (MDR)

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

- **Government's Initiative:** In December 2019, the Government decided to waive off MDR charges on transactions done through RuPay and BHIM-UPI payments in order to push digital payments. This came into effect from Jan 1, 2020. The government has indicated that the Reserve Bank of India will absorb these costs from the savings that will accrue on account of handling less cash as people move to these digital modes of payment.

Critical Analysis of Government's Initiative:

Positives: Bring down cost of digital payments done through RuPay and BHIM-UPI; Encourage adoption of indigenously developed payment tools; Promote Cashless economy; Nudge other payment operators such as Visa, Mastercard to bringdown their commission etc.

Negatives:

- Financial burden on the RBI: Rs 1800 crores.
- Loss to NPCI
- Banks have shifted to other payment service providers such as Visa, Mastercard to earn commission on digital payments.
- Number of fintech companies such as PayTM, Googlepay etc. have integrated UPI into their apps for facilitating digital payments. The waiver on MDR charges through UPI would lead to reduced profits, discourage innovation and hurt the fintech sector. Zero MDR charges would thus prevent growth of Fintech companies which in the long run could hurt the digital payments ecosystem.

What needs to be done?

- **Committee on Digital Payments under the chairmanship of Ratan P Watal:** MDR should be high enough for new players to be incentivized to enter the digital payments ecosystem and low enough that merchants are encouraged to adopt digital payments.
- **Nandan Nilekani Committee on deepening digital payments:** Let the MDR be market-determined.

Further step: Government should provide for a lower MDR on QR code / UPI/ RuPay Debit card transactions. This should be accompanied by tax incentives to merchants who accept electronic transactions and promote incentive schemes to improve popularity of QR code transactions in the country.

MONETARY POLICY TRANSMISSION

- Monetary policy transmission refers to the process through which changes in the policy rates (such as Repo) by the RBI leads to commensurate changes in the rates of Interest of the Banks. As the Repo rate increases, the rate of Interest on the deposits and loans also increases. Similarly, as the repo rate decreases, the rate of interest decreases.
- In case of India, while increase in Policy rates get transmitted immediately, the rate cuts get transmitted with a significant amount of lag. So, even when the RBI reduces the Repo rate, the Banks may continue to maintain higher rates of Interest on loans. As seen recently, this inefficiency in the monetary policy transmission hinders the credit creation in the economy during the economic slowdown.

Reasons for poor Monetary Policy Transmission:

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

PAYMENT AND SETTLEMENT SYSTEM

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

- **Payment systems under RBI:** Real Time Gross Settlement (RTGS) and National Electronics Fund Transfer (NEFT). The RTGS system is used for high-value transactions wherein minimum transaction amount should be Rs 2 lakhs and above.
- **Payment systems under National Payments Corporation of India (NPCI):** Umbrella organization for operating retail payments and settlement systems. It is an initiative of RBI and Indian Banks' Association (IBA).
- **RuPay Contactless**: Allows cardholders to wave their card in front of contactless payment terminals without the need to physically swipe or insert the card into a point-of-sale device.
- **Unified Payments Interface**: Real-time interbank payment system for sending or receiving money.
- **BHIM App**: BHIM is a mobile app for Unified Payments Interface. The BHIM apps has 3 levels of authentication.
- **Bharat BillPay**: One-stop ecosystem for payment of all bills
- **Immediate Payment Service**: Real time interbank payment system

- **National Financial Switch:** Network of ATMs in India.
- **BharatQR:** A common QR code built for ease of payments
- **Card Networks operated by Non-Banks**: Visa, MasterCard, American Express etc.

BORROWING POWERS OF CENTRE AND STATES

*The Constitution of India confers the power of borrowing on both the **Centre (Article 292)** and the **States (Article 293).** However, the center and states are not placed on equal footing with respect to borrowing powers.*

- **Borrowing Powers of the Centre:** The Central Government has unrestricted powers of borrowing in India and from abroad subject only to such limits as may be fixed by the Parliament by law (Article 292).
- **Borrowing Powers of State**: The borrowing powers of the States are limited (Article 293). Within India, a State may raise loans from the Government of India or float public loans. However, a State cannot raise a public loan without the consent of the Government of India if there is still outstanding any part of a loan which has been advanced to it by the Government of India. Since all the State Governments have been and continue to be indebted to the Central Government, the Central Government effectively controls the amount of public debt raised by State Governments.
- This constitutional mechanism has been used by the Central Government to ensure that State Governments do not exceed annual borrowing limits that are set at the beginning of every year. Presently, these limits are set in accordance with a formula that ensures that the fiscal deficit of no State exceeds 3% of Gross State Domestic Product.

Can States borrow from outside India? They have no power to raise loans outside India.However, some of the international agencies such as IBRD, IDA, ADB etc. provide loans for funding various projects. In such cases, the central Government acts as a facilitator and enables the states to borrow from such agencies. Further, in 2017, the Central Government enabled the financially sound states to borrow directly from external agencies subject to fulfilment of certain conditions. The guarantee for such loans is given by the State Government. The Government of India acts as counter-guarantor.

PUBLIC DEBT

According to IMF, the combined Public Debt of the Centre and States which remained at 70% of the GDP since 1991 is projected to increase to almost 90% because of the increase in the expenditure due to COVID-19.

- **Debt Position of the Central Government:** The Fiscal deficit represents the Government's borrowings for a single financial year. However, the Public Debt represents the total accumulated borrowings which have not been repaid back so far. The Debt position of the central Government can be analyzed by looking at the total liabilities of the Central Government. The Total liabilities of the Central Government include debt contracted against the Consolidated Fund of India, technically defined as Public Debt, as well as liabilities in the Public Account.
- The Total liabilities of the central Government as on 2019-20 stands at 46.5% of India's GDP. The liabilities are categorized under two heads- Public Debt and Liabilities under Public Account of India.
- Depending upon the source of Government's borrowings, the Public Debt is categorized into Internal and External Debt.
- Some of the major sources of Internal Debt are:
- **Treasury Bills**: Instruments to raise short-term loans
- **Dated Securities**: Used for raising long term loans
- **Ways and means advances (WMA)**: Borrowings from the RBI to meet immediate cash requirements which can arise due to temporary mismatches in receipts and expenditure.
- **Sovereign Gold Bonds**: Government securities denominated in terms of Gold.
- **Bank Recapitalization Bonds**: Bonds issued by the Government to raise loans for undertaking recapitalization of Public Sector Banks (PSBs)

- **Securities issued against NSSF**: The money collected under various small savings schemes such as Post office Deposits, National Savings Certificate, PPF etc. is deposited under National Small Savings Fund (NSSF) which is maintained as part of Public Account of India. Certain percentage of funds under the NSSF is used to investment in special G-Secs and hence considered to be Government's borrowings.

Important Note: Presently, major part of Internal debt is dominated by market borrowings i.e. Treasury Bills and Dated Securities. It is followed by Securities issued against NSSF.

SCHEDULED BANKS

The RBI has excluded six public sector banks from the Second Schedule of the RBI Act, 1934 following their merger with other banks. The six banks are Syndicate Bank, Oriental Bank of Commerce (OBC), United Bank of India, Andhra Bank, Corporation Bank, and Allahabad bank.

Definition of Scheduled Bank: The definition of the Scheduled Bank has been provided under the RBI Act, 1934. According to the act, a scheduled Bank is one which is

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

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

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

Based upon fulfilment of these requirements, in 2016, the RBI had given approval for 2 new Banks- IDFC and Bandhan Bank.

GIG ECONOMY

- It refers to the form of economy in which the organizations employ contractual, non-permanent employees instead of permanent employees. The Gig-economy workers range across the spectrum of professions, from the highly paid to below-minimum-wage. This trend is very strong in advanced economies like the US wherein a large number of firms hire contractual workers on a short-term basis.
- **Note:** Gig workers as workers outside the traditional employer-employee relationship. On the other hand, Platform workers are defined as those who access organisations or individuals through an online platform and provide services or solve specific problems. Hence, there is a considerable amount of overlapping between the Gig workers and Platform workers. For example, Ola Cab Driver can be considered to be belonging to both these categories of workers.
- **Difference between Normal Employees and Gig/Platform workers**: In the case of an ordinary employer-employee relationship, the employer dictates when, where, and how the work is carried out. Whereas Gig/Platform workers have complete control over those aspects subject to the terms of the contract. They are only responsible for ensuring that the expected result is met.

Reasons for the development of Gig Economy

- Rapid growth of the digital communication wherein the workforce is highly mobile and work can be done from anywhere without any geographical barriers.
- Adoption of Gig Economy reduces the operating costs of the firms since the companies would not be liable to pay pension and other social security benefits.

- Flexibility to the workers wherein they can switch jobs frequently and choose work which suits their area of interest.
- Recent slowdown in the formal employment creation has also boosted the development of Gig Economy.

Protection provided to Gig/Platform Workers under Social Security Code 2020: The Code on Social Security, 2020 provides for the registration of all the Gig workers and Platform workers. It calls upon the Central and State Governments to formulate schemes to ensure social security benefits such as Insurance for the Gig workers. It also empowers the Government to set up Social Security Funds for their benefit. The contribution to these funds may be funded from contributions of Centre, State and aggregator platforms such as Uber, Zomato etc.

Concerns/ Challenges

- **Lack of Labour Rights:** Platform workers often have limited control over their work (for instance, in some cases they cannot set prices, they are required to wear uniforms, they cannot choose the order of their tasks, etc.). This in turn makes them prone to the exploitation of the platform-based companies.
- **Greater control by Employees:** It is being said that the Gig/Platform workers enjoy higher level of freedom and flexibility in their work. However, these advantages get over-shadowed by their higher dependence on the platforms. Take for instance, if a person wants to work a cab driver or food delivery agent, he needs to own vehicle. Since, poor people do not have access to loans, they come to be dependent on the platforms for the loans provided by them. This in turn reduces the flexibility associated with the Gig Economy. The Workers would have to work according to the needs and requirements of the Platform companies.
- **No Guaranteed Benefits:** The Industrial workers are automatically guaranteed social security benefits such as Provident Funds, Insurance, Maternity benefits etc. However, such benefits are not automatically extended to Gig Workers. The Central and State Governments are required to come up with schemes to provide these benefits. So, the social security benefits for the Gig Workers depend upon the political will of the Government.
- **No Guaranteed Contribution by Aggregator Platforms**: The Code on Social security mandates the Industries employing workers above a certain threshold level to compulsorily contribute towards social security benefits such as Provident Fund and Insurance. However, as far as Gig Workers is concerned, the language in the code does not provide for compulsory contribution by the aggregator platforms. Hence, it is left open to the Government whether to seek contribution from the aggregator platforms or not.
- **No legal Rights for Gig Workers:** The Industrial workers are given legal rights over the various aspects of work such as Payment of Minimum wages, safe working conditions, right to strike, right to form trade Unions etc. However, such rights have not been recognised in case of Gig workers.

BUYBACK OF SHARES

The Central Government has asked at least 8 PSUs to consider share buy-backs in the present financial year including NTPC, Coal India.

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

Mechanism for Buy back of Shares: In a buy-back, the company generally offers its shareholders an option to tender a portion of their shares within a certain time frame and at a specified price. This price compensates the shareholders for tendering their shares rather than holding on to them.

Reasons for the buyback of the shares:

- To enable the promoters to increase their stakes in the company.
- To improve earnings per share;
- To provide an additional exit route to shareholders when shares are undervalued or are thinly traded;
- To enhance consolidation of stake in the company;

- To return surplus cash to shareholders;
- To support share price during periods of sluggish market conditions;

Why has the Government asked the PSUs to go for buyback of shares?

- Buyback of shares can be considered as mechanism for undertaking disinvestment of Government's ownership in PSUs. For example, let's say, a particular PSU has total share capital of Rs 100 crores (10 crore shares of Rs 10 each). Out of total 10 crore shares, 6 crore shares are held by Government and remaining 4 crore shares are held by Public. This translates into 60% ownership for the Government and 40% ownership of the Public.
- If the PSU buys back 2 crore shares from the Government, then the total shares of the company would be reduced to 8 crores. Out of which, 4 crore shares would be with Government and remaining 4 crore shares with Public. This translates into 50% ownership for the Government and 50% ownership of the Public.

How will it help the Government?

1. The Government has set an ambitious disinvestment target of Rs 2.1 lakh crores for the present financial year. However, the economic slowdown would make it difficult for the Government to meet its disinvestment target. In this regard, to a certain extent, buyback of shares would help the Government to raise revenue by undertaking disinvestment.
2. Some of these PSUs are sitting on cash surpluses, but unable to undertake capital expenditure due to the prevailing economic slowdown. The Government wants to use this surplus cash to boost demand.

BASE EROSION AND PROFIT SHIFTING (BEPS)

- It refers to tax avoidance strategy wherein the companies take undue advantage of the tax exemptions in order to pay less tax.
- As part of tax avoidance strategy, the Multinational companies **shift their profits from high tax jurisdictions to low tax jurisdictions (tax havens)** in order to pay less tax.
- This leads to erosion of the tax base of the high tax jurisdictions. This causes significant revenue losses for the high tax jurisdictions.
- A report published by OECD in 2017 has stated that BEPS is responsible for tax losses of around $200bn globally. Some of the tools of the BEPS are misuse of DTAA, Round Tripping, Treaty Shopping.

DTAA

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

GOVERNMENT DEFICIT

The Government is said to incur deficit if its expenditure is higher than its revenue. The Government deficit is mainly measured in 3 different ways:

- **Revenue Deficit (RD):** It is calculated as (Revenue Expenditure- Revenue Receipts) i.e. it highlights the deficit in the revenue account.
- **Fiscal Deficit (FD)**: It denotes the total borrowings of the Government for the entire financial year. The borrowed money may be used for meeting revenue expenditure (maintenance related expenses) as well as Capital expenditure (Creation of new assets).
- **Primary Deficit (PD)**: It is calculated as Fiscal Deficit- Interest payments.

Major Sources of Borrowing for the Centre

- **Treasury Bills**: Instruments to raise **short-term loans**. They are issued in three tenors of 91 days, 182 days and 364 days. Treasury bills are zero coupon securities and pay no interest. Instead, they are issued at a discount and redeemed at the face value at maturity. For example, a 91 day Treasury bill of Rs 100/- (face value) may be issued at say Rs 98, that is, at a discount of say, Rs 2 and would be redeemed at the face value of Rs 100/-.
- The return to the investors is the difference between the maturity value (Rs 100) and the issue price (Rs 98).
- **Dated Securities**: Used for raising long term loans. In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs). G-Secs carry practically no risk of default and, hence, are called risk-free gilt-edged instruments.
- **Ways and means advances (WMA)**: Borrowings from the RBI to meet immediate cash requirements which can arise due to temporary mismatches in receipts and expenditure.
- **Sovereign Gold Bonds**: Government securities denominated in terms of Gold.
- **Bank Recapitalization Bonds**: Bonds issued by the Government to raise loans for undertaking recapitalization of Public Sector Banks (PSBs)
- **Securities issued against NSSF**: The money collected under various small savings schemes such as Post Office Deposits, National Savings Certificate, PPF etc. is deposited under National Small Savings Fund (NSSF) which is maintained as part of Public Account of India. Certain percentage of funds under the NSSF is used to investment in special G-Secs and hence considered to be Government's borrowings.
- **Important Note**: Presently, major part of Government's borrowings is dominated by market borrowings i.e. Dated Securities and Treasury Bills. It is followed by Securities issued against NSSF.

Relationship between Fiscal Deficit and Economic Growth

- The developing countries such as India usually generate less amount of tax revenue. However, they are required to undertake higher amount of expenditure for the social sector (such as Education, health etc.) as well as for creating new assets and infrastructure. Hence, they would be required to borrow money in order to meet their expenditure requirements.
- However, a higher amount of borrowings can increase the rate of inflation in the economy and can hence pose an adverse risk. Thus, there should be a limit on the Government's borrowings so that it does not lead to Inflation in future.
- At the same time, the borrowed money should be ideally used for **creating new assets and infrastructure (Capital Expenditure)** rather than meeting its **day-to-day maintenance related expenditure (revenue expenditure).** This is because the money spent on the Capital expenditure has much higher returns unlike the maintenance related expenditure. For instance, higher investment in development of ports and airports can have a number of benefits such as creation of employment opportunities, development of infrastructure, boosting of exports etc. which in turn enhances the ability of the government to repay the borrowed money.
- Thus, the Fiscal Deficit is said to be desirable in a country like India if it fulfills 2 conditions:

1. There must be limit on the fiscal deficit so that higher fiscal deficit does not lead to increase in Inflation.
2. The Fiscal Deficit must ideally be used for financing the creation of assets.

PUBLIC PRIVATE PARTNERSHIP

- PPP refers to a contractual arrangement between a government or a government-owned entity on one side and a private sector entity on the other wherein the private sector entity provides for public assets or public services. This is done through investments or management undertaken by the private sector entity for a specified period of time.

- There is a well-defined allocation of risk between the private sector and the public entity, whereby the private entity receives performance linked revenues in fulfilment of pre-determined performance standards.

Essential Features of PPP

- Private sector is responsible for carrying out or operating the project and takes on a substantial portion of the associated project risks during the operational life of the project.
- Role of Public sector is to monitor the performance of the private partner and enforce the terms of the contract
- Private sector's costs may be recovered in whole or in part from charges related to the use of the services provided by the project, and may be recovered through payments from the public sector.
- Public sector payments are based on performance standards set out in the contract
- Asset reverts to the Government/ public authority at the end of the contract period.

Need for PPP in India

- **Vision of $ 5 Trillion Economy**: It is estimated that India would need to spend $4.5 trillion on infrastructure by 2030 to sustain its growth rate. However, the Government's financial resources are quite constrained and at the same time, the Government has limited capacity to meet infrastructure gaps such as congested roads and ports, inadequate hospitals / wastewater treatment facilities and slow trains.
- **Boost Demand and Employment Creation**: Infrastructure creation is labour absorbing, which boosts employment and income generation in the economy and further spurs domestic demand.
- **Equitable risk allocation and mitigation**: PPP projects allow sharing of different kinds of risks between the private and public sector
- **Increased Urbanisation:** According to World Bank data, in the last decade, urban population in India has increased at an annual rate of 2.4%. By 2030, it is estimated that around 42% of India's population would be urbanised from the current 31%. Plugging the deficiency in infrastructure will smoothen the process of urbanisation by promoting ease of living and facilitating economic activity.
- **Changing Demography in India:** India is expected to have the world's largest working-age population of 1.03 billion by 2030 compared with 0.97 billion in China and 0.22 billion in the US. By 2030, India will have a median age of 31 years versus 43 years for China and 40 years for the US. The Economic survey 2018-19 has highlighted that the share of working-age population would increase from 50% (2011) to 59% (2041), while the share of senior citizens would increase from 8% (2011) to 16% (2041). The changed demography will need the converged development of a host of infrastructure facilities such as housing, water sanitation services, digital and transportation needs.
- **Climate change and disaster resilience**: Building Climate Resilient infrastructure is critical for people's well-being, quality of life, and economic prospects.
- **Complementary roles and drivers**: The public sector is predominantly driven by the 'public good', while the private sector by 'profit'. PPP projects allow both the sectors to cooperate and enable both of them to meet their goals.

Initiatives taken by Government to boost PPP

- **Viability Gap Funding (VGF) Scheme:** The scheme aims at supporting infrastructure projects that are economically justified but may not be financially viable (for example, Construction of Highway between two cities with lower traffic volume).
- The Scheme provides Viability Gap Funding in the form of Grant (*not in terms of loan*) up to 20% of the Total Project Cost (TPC).
- The State Government or Government entity that owns the project may provide additional grants out of its budget up to further 20% of the TPC.

- Recently, as part of Aatma Nirbhar Bharat Package, the Finance Minister has announced that in order to boost Social Infrastructure, the Government will enhance the quantum of Viability Gap Funding (VGF) up to 30% each of Total Project Cost as VGF by the Centre and State/Statutory Bodies.
- For other sectors, VGF existing support of 20 % each from Government of India and States/Statutory Bodies shall continue.

- **India Infrastructure Project Development Fund (IIPDF):** PPP projects need to incur significant project development costs in the form of carrying out feasibility studies, Environment Impact Assessment, Project documentation etc. In this regard, IIPDF provides funding to Central, State and local bodies to carry out various activities related to project development.
- **Public Private Partnership Appraisal Committee:** Inter-secretarial team led by Secretary, Department of Economic Affairs. Set up to streamline the procedure for approval of PPP projects, ensure speedy appraisal of projects, eliminate delays and adopt international best practices. The PPP cell in the Department of Economic Affairs (DEA) acts as Secretariat for Public Private Partnership Appraisal Committee (PPPAC).
- **India Infrastructure Finance Company (IIFC):** Dedicated institution for financing infrastructure with focus on PPP projects.
- **National Infrastructure Investment Fund (NIIF):** Quasi-Sovereign Wealth Fund to provide financing to infrastructure projects.

GEOGRAPHICAL INDICATION (GI) TAG

- A GI is primarily an agricultural, natural or a manufactured product (handicrafts and industrial goods) originating from a definite geographical territory. Such a name conveys an assurance of quality and distinctiveness which is essentially attributable to its origin in that defined geographical locality.
- GI tag is covered under WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).
- India has enacted the Geographical Indications of Goods (Registration and Protection) Act, 1999 to promote and protect GI tags in India.

Benefits: A geographical indication right enables those who have the right to use the indication to prevent its use by a third party. It provides legal protection to Indian Geographical Indications which in turn boost exports. It promotes economic prosperity of producers of goods produced in a geographical territory.

Application for the registration of a geographical indication: Any association of persons, producers, organisation or authority established by or under the law can apply for registration of GI Tag. The applicant must represent the interest of the producers.

Validity: The registration of a geographical indication is valid for a period of 10 years. However, it can be renewed from time to time for further period of 10 years each.

How is GI Tag different from a trademark?

- A trademark is a sign which is used in the course of trade and it distinguishes goods or services of one enterprise from those of other enterprises.
- Whereas a geographical indication is an indication used to identify goods having special characteristics originating from a definite geographical territory.

MINIMUM SUPPORT PRICE

The Central government has hiked the minimum support price (MSP) for common paddy to ₹1,940 a quintal for the coming kharif season, close to 4% higher than last year's price of ₹1,868.

The decision was taken by the Cabinet Committee on Economic Affairs.

- In a bid to **encourage crop diversification**, there were slightly higher increases in the MSP for pulses, oilseeds and coarse cereals. Both tur and urad dal saw the MSP rise by ₹300, a 5% increase to ₹6,300 a

quintal, while the highest absolute increase was for sesamum, whose MSP rose 6.6% to ₹7,307. Groundnut and nigerseed saw an increase of ₹275 and ₹235 respectively. However, maize saw a minimal hike of just ₹20 to ₹1,870 a quintal.

MSP

- The MSP is the rate at which the government purchases crops from farmers, and is based on a **calculation of at least one-and-a-half times the cost of production incurred by the farmers.**
- This year, the MSP for bajra was set at 85% above the cost of production, while the MSP for urad and tur will ensure 60% returns. The MSPs for the remaining crops were mostly set around the stipulated 50% above the cost of production.
- **CACP recommends MSP for twenty two (22) crops and Fair & Remunerative Price (FRP) for sugarcane**. Apart from Sugarcane for which FRP is declared by the Department of Food &Public Distribution, twenty two crops covered under MSP are Paddy, Jowar, Bajra, Maize, Ragi, Arhar, Moong, Urad, Groundnut-in-shell, Soyabean, Sunflower, Seasamum, Nigerseed, Cotton, Wheat, Barley, Gram, Masur (lentil), Rapeseed/Mustardseed, Safflower, Jute and Copra.
- In addition, **MSP for Toria and De-Husked coconut** is fixed by the Department on the basis of MSP's of Rapeseed/Mustardseed and Copra respectively.
- Besides, announcement of MSP, the Government also organizes procurement operations of these agricultural commodities through various public and cooperative agencies such as **Food Corporation of India (FCI), Cotton Corporation of India (CCI), Jute Corporation of India (JCI), Central Warehousing Corporation (CWC), National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), National Consumer Cooperative Federation of India Ltd. (NCCF), and Small Farmers Agro Consortium (SFAC)**.
- Besides, State Governments also appoint state agencies to undertake PSS operations.

APMC

- Agricultural Produce Market Committees (APMC) is the marketing boards established by the state governments in order to eliminate the exploitation incidences of the farmers by the intermediaries, where they are forced to sell their produce at extremely low prices.
- All the food produce must be brought to the market and sales are made through auction. The market place i.e. Mandi is set up in various places within the states. These markets geographically divide the state. Licenses are issued to the traders to operate within a market. The mall owners, wholesale traders, retail traders are not given permission to purchase the produce from the farmers directly.
- **Why APMC Act is Essential for Farmers?** The legislation of 1964 had undergone several modifications over the years to protect farmers against abuse and exploitations by middlemen at the time of price discovery, weighing and measurement of produces or while making payment after the transaction.
- Far-reaching changes were incorporated into the APMC Act such as creation of a revolving fund to implement the Floor Price Scheme to protect the interests of farmers, allowing contract farming companies to procure directly from farmers with a predetermined agreed price and so on. e-marketing initiative of the State Department of Agriculture Marketing is considered as a novel one and emulated by several States.
- **What is APMC Yard?** Agricultural Produce Market Committee (APMC) Yard / Regulated Market Committees (RMC) Yard is any place in the market area managed by a Market Committee, for the purpose of regulation of marketing of notified agricultural produce and livestock in physical, electronic or other such mode. The place shall include any structure, enclosure, open space locality, street including warehouse/silos/pack house/cleaning, grading, packaging and processing unit present in the Market Committee of the defined market area.
- **What is Minimum Support Price?** The minimum support price is an agricultural product price set by the Government of India to purchase directly from the farmer. This rate is to safeguard the farmer to a minimum profit for the harvest, if the open market has lesser price than the cost incurred.

- **What was the need of introducing MSP?** On the path of the Green Revolution, Indian policymakers realised that the farmers needed incentives to grow food crops. Otherwise, they won't opt for crops such as wheat and paddy as they were labour-intensive and didn't fetch lucrative prices. Hence, to incentivise the farmers and boost production, the MSP was introduced in the 1960s.

FOOD CORPORATION OF INDIA (FCI)

- The Food Corporation of India is a **statutory body** created and run by the Government of India.
- It is under the ownership of **Ministry of Consumer Affairs, Food and Public Distribution**, Government of India formed by the enactment of **Food Corporation Act, 1964**.
- Its top official is designated as Chairman who is a civil servant of the IAS cadre.
- It was set up in 1965 with its initial headquarters at Chennai. Later this was moved to New Delhi.

Mandate:

- Effective price support operations for **safeguarding the interests of the poor farmers**.
- **Distribution of foodgrains** throughout the country for Public Distribution System (PDS).
- Maintaining a satisfactory **level of operational and buffer stocks** of foodgrains to ensure National Food Security.
- **Regulate market price** to provide foodgrains to consumers at a reliable price.

Operations

- The Food Corporation of India procures rice and wheat from farmers through many routes like paddy purchase centres/mill levy/custom milling and stores them in depots. FCI maintains many types of depots like food storage depots and buffer storage complexes and private equity godowns and also implemented latest storage methods of silo storage facilities which are located at Hapur in Uttar Pradesh, Malur in Karnataka and Elavur in Tamil Nadu.
- The stocks are transported throughout India by means of railways, roadways and waterways and **issued to the state government nominees at the rates declared by the Government of India for further distribution under the Public Distribution System (PDS)** for the consumption of the ration card holders. (FCI itself does not directly distribute any stock under PDS, and its operations end at the exit of the stock from its depots).
- The **difference between the purchase price and sale price, along with internal costs, are reimbursed by the Union Government in the form of food subsidy**. At present the annual subsidy is around $10 billion.
- FCI by itself is not a decision-making authority; it does not decide anything about the MSP, imports or exports. It just implements the decisions made by the Ministry of Consumer Affairs, Food and Public Distribution and Ministry of Agriculture.
- Food Corporation of India recently ventured into procurement of pulses in various regions from the crop year 2015–16, and pulses are procured at market rate, which is a sharp deviation from its traditional minimum support price-based procurement system.
- In 2014, Government of India set up a high-level committee under the chairmanship of Hon'ble Member of Parliament and former Minister of Food and Consumer Affairs and Public Distribution Shri Shanthakumar to recommend viable solutions regarding restructuring and reorienting the role of Food Corporation of India, and the committee submitted its report to the government. Many of the committee recommendations are under various stages of implementation.
- On 27 November 2019, Cabinet Committee on Economic Affairs (CCEA) approved to increase the authorized capital of Food Corporation of India (FCI) from existing Rs. 3,500 crores to Rs. 10,000 crores.

FOOD MANAGEMENT POLICY

- The main elements of the Government's food management policy are **procurement**, **storage** and **movement of foodgrains**, **public distribution** and **maintenance of buffer stocks**.
- The foodgrain management policy in India is detailed in the **Targeted Public Distribution System (TPDS) (Control) Order, 2015**.
- **Procurement operations are seasonal** –
  - **Kharif Marketing Season (KMS) starts from 1st October and lasts upto 30 September next year**. Paddy/ Rice and coarse grains like jowar, bajra, ragi & maize are procured during the KMS.
  - The **Rabi Marketing Season (RMS) starts from 1 April and lasts upto 31 March next year**. Mostly, wheat and sometimes barley is procured during RMS. [The kharif cropping season is from July – October during the south-west monsoon and the Rabi cropping season is from October-March (winter).]
- Before the start of every marketing season, **Department of Food and Public Distribution convenes a meeting of State Food Secretaries** to make advance arrangements for procurement of foodgrains/coarse grains.
- In this meeting, issues like **procurement centres to be opened by Food Corporation of India (FCI) /State Agencies, arrangement of storage space, evacuation plan for foodgrains and arrangement of packaging material** are discussed. Based on the estimates given by the State Food Secretaries, the targets of total procurement for the Central Pool are worked out in the meeting.
- Under the existing procurement policy of the Government of India (GOI), foodgrains for the Central Pool are procured by various agencies such as **FCI, State Government Agencies (SGAs) and private rice millers**.
- Before the start of each procurement season, Govt. of India announces **uniform specification for quality of wheat, paddy, rice and coarse grains**.
- **Quality Control Division of FCI** ensures procurement of foodgrains from procurement centres strictly in accordance with Govt. of India's uniform quality specifications.
- Procurement of **wheat and paddy** for the Central Pool is carried out on **open ended basis** (i.e., accepting all the grains that are sold to it by farmers) at the declared Minimum Support Price (MSP) fixed by the GOI.
- In addition, States/ Union Territories (UTs) which are presently under Decentralised Procurement (DCP) scheme also procure foodgrains for the Central Pool, but directly store and distribute them under **Targeted Public Distribution System [TPDS] and Other Welfare Schemes (OWS)** based on the allocation made by the GOI. Any surplus stock over their requirement is taken over by FCI and in case of any shortfall in procurement against allocation made by the GOI, FCI meets the deficit out of the Central Pool.
- In order to give relief to the farmers affected by the unprecedented rains & hailstorms, Central Government may (This was done, for instance, in 2015 for wheat procurement) relax quality norms for the procurement and also reimburse the amount of value cut on such relaxation to the States so that farmers get full Minimum Support Price (MSP).
- The procured food grains are taken over from **State Government Agencies (SGAs) and private rice millers into the Central Pool by FCI** and are moved from the procuring states to the consuming states for distribution to the consumers and for creation of buffer stock in various states. Food grains of the Central Pool are stored by FCI in both its own godowns and at hired godowns in different parts of the country. FCI, if so required, may use warehouse receipts as collateral for financing its operations.

Allocation, Off-take of Foodgrains and Central Issue Prices

- The function of distribution of foodgrains to the consumers is carried out by the State Governments through Targeted Public Distribution Scheme [TPDS] and Other Welfare Schemes (OWS).
- The foodgrains are also disposed off by FCI and State Governments, based on allocation of the GOI through sale under **Open Market Sales Scheme (OMSS)** [i.e., selling foodgrains at predetermined prices in the open market from time to time to enhance the supply of grains especially during the lean

season and thereby to moderate the open market prices especially in the deficit regions. Wheat and Rice are also allocated to State Governments for retail sale through non-PDS Channels under OMSS.].

- Based on the allocation made by the GOI, State Governments lift (off-take) the food grains from the Central Pool for distribution to the consumers through TPDS and OWS. Distribution of food grains for BPL, AAY and APL is carried out by the State Governments through TPDS, with a network of many Fair Price Shops (FPS) spread throughout the country. The State Governments are responsible for identification of beneficiaries and issue of ration cards.
- Food grains from the Central Pool are issued to States at **Central Issue Price (CIP)** for distribution under TPDS to serve families of BPL, APL and AAY at rates fixed by the GOI. Ministry of Consumer Affairs, Food &Public Distribution Government of India, fixes the **Central Issue Prices (CIP) of wheat and rice which is uniform throughout the country**.

Movement of Food Grains

- In order to ensure availability of foodgrains for TPDS and OWS, and to maintain reasonable levels of buffer stocks at various strategic locations throughout the country, FCI undertakes transportation of foodgrain (wheat and rice) from surplus States to the deficit States and also within the States by rail, road and riverine modes. About 90% of all India movement is undertaken by railways and rest by road and waterways.
- On an average of 25 lakh bags (each one is 50 KG) of foodgrains are transported every day from the procuring areas to the consuming areas, covering an average distance of 1500 Kilometre.
- **All India Movement Plan** is prepared on monthly basis at FCI headquarters keeping in view the quantity available in surplus States, quantity required by consuming States, likely procurement in procuring States, vacant storage capacity both in consuming and procuring States, and monthly allocation/off-take.
- An online tracking system for movement of foodgrains and depot management was launched in March 2016. The system would provide various types of data regarding stock position, movement, quality and quantity on line. It would also generate SMS alerts to depot officials, area manager and other decision making authorities. All the data are available on dashboard also for top management to monitor centrally so as to help in automatic reconciliation and generation of MIS reports about foodgrain management.

Buffer Stock Policy of the GOI

- The concept of buffer stock was first introduced during the **IV Five Year Plan (1969-74).**
- Buffer stock of food grains in the Central Pool is maintained by the GOI for

1. meeting the prescribed **minimum buffer stock** norms for food security,
2. **monthly release** of food grains for supply through TPDS and Other Welfare Schemes,
3. meeting **emergency situations** arising out of unexpected crop failure, natural disasters, etc. and
4. **price stabilisation** or market intervention to augment supply so as to help moderate the open market prices.

- While four months requirement of food grains for issue under TPDS and OWS are earmarked as **operational stocks**, the surplus over that is treated as buffer stock and physically both buffer and operational stocks are merged into one and are not distinguishable.
- According to the present practice, the GOI treats the food stock over and above the minimum norms as excess stock and liquidates them from time to time through exports, open market sales or additional allocations to states. The buffer stock figures are normally reviewed after every five years.
- The total annual stock of foodgrains in the Central Pool is distributed over different quarters of the year depending upon offtake and procurement patterns. The seasonality of production and procurement is thus a decisive factor in determining the minimum norm of food grains stocks required in a particular quarter of the year.

Open Market Sale Scheme (Domestic)

- In addition to maintaining buffer stocks and making a provision for meeting the requirement of the Targeted Public Distribution Scheme and Other Welfare Schemes (OWS), FCI on the instructions from the Government, sells wheat and rice in the open market from time to time to enhance the supply of wheat and rice especially during the lean season and to moderate the open market prices especially in the deficit regions.
- For transparency in operations, the Corporation has switched over to **e- auction for sale under Open Market Sale Scheme (Domestic).** The FCI conducts a weekly auction to conduct this scheme in the open market using the platform of commodity bourse **NCDEX (National Commodity and Derivatives Exchange Limited).** The State Governments/ Union Territory Administrations are also allowed to participate in the e-auction, if they require wheat and rice outside TPDS & OWS.
- The present form of OMSS comprises 3 schemes as under:

1. Sale of wheat to bulk consumers/private traders through e-auction.
2. Sale of wheat to bulk consumers/private traders through e-auction by dedicated movement.
3. Sale of Raw Rice Grade 'A' to bulk consumers/private traders through e-auction.

NCDEX

- National Commodity & Derivatives Exchange Limited (NCDEX) (NCDEX/the Exchange) is a leading agricultural commodity exchange in India, with a market share of 78.0% in the agricultural commodity segments, based on average daily turnover (by value).
- The Exchange has maintained its leadership position since 2005, in the agricultural commodity derivatives market. Further, the Exchange is a professionally managed company, which is driven by technology.

Current Shareholders

- Life Insurance Corporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD), National Stock Exchange of India Limited (NSE), Canara Bank, Punjab National Bank (PNB), CRISIL Limited, Indian Farmers Fertiliser Cooperative Limited (IFFCO), Shree Renuka Sugars Limited, Jaypee Capital Services Limited, Build India Capital Advisors LLP, Oman India Joint Investment Fund, Investcorp Private Equity Fund I (formerly known as IDFC Private Equity Fund III), Star Agriwarehousing and Collateral Management Limited and shareholding by individuals.
- The Exchange has a broad based bouquet of permitted commodities aggregating to a total of **23** (which is also the highest), and includes commodities such as pulses, spices and guar, which are not traded on any platforms in the global scenario, and are economically relevant to India, forming an important component of India's global trade.
- The Exchange was incorporated as a **public limited company on April 23, 2003**, pursuant to a certificate of incorporation and commenced its business pursuant to a certificate for commencement of business dated May 9, 2003, each granted by the Registrar of Companies, Maharashtra at Mumbai.
- The Exchange was registered with the **Forward Markets Commission** as a recognised association under **The Forward Contracts (Regulation) Act, 1952**.
- With effect from **September 28, 2015, the Exchange became a deemed recognized stock exchange** under the Securities Contracts (Regulation) Act, 1956.
- NCDEX is **regulated by Securities and Exchange Board of India (SEBI)**. NCDEX is subjected to various laws of the land like the Securities Contracts (Regulation) Act, 1956, Companies Act, Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, SEBI (Listing Obligations and Disclosure Requirements) Regulations, Stamp Act, Contract Act and various other legislations.
- NCDEX headquarters are located in Mumbai and offers facilities to its members from the centres located throughout India.

- As of March 31, 2021, NCDEX offered future contracts for 23 agricultural commodities and 1 non-agricultural commodity, 1 Indices contract and options contracts for 7 agricultural commodities, on the Exchange platform.

NABARD

- National Bank for Agriculture and Rural Development (NABARD) is an **apex regulatory body for overall regulation and licensing of regional rural banks and apex cooperative banks** in India.
- It is under the jurisdiction of **Ministry of Finance**.
- The bank has been entrusted with "matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India".
- NABARD is active in **developing & implementing Financial Inclusion**.
- NABARD was established on the recommendations of **B. Sivaramman Committee** (by Act 61, 1981 of Parliament) on 12 July 1982 to implement the **National Bank for Agriculture and Rural Development Act 1981.**
- It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC). It is one of the premier agencies providing developmental credit in rural areas.
- NABARD is India's **specialised bank for Agriculture and Rural Development in India**.
- International associates of NABARD include World Bank-affiliated organisations and global developmental agencies working in the field of agriculture and rural development. These organisations help NABARD by advising and giving monetary aid for the upliftment of the people in the rural areas and optimising the agricultural process.

Roles

- Serves as an **apex financing agency for the institutions** providing investment and production credit for promoting the various developmental activities in rural areas
- Takes measures towards **institution building** for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
- **Co-ordinates the rural financing activities** of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, state governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation.
- Undertakes **monitoring and evaluation of projects refinanced** by it.
- NABARD **refinances the financial institutions** which finances the rural sector.
- NABARD partakes in **development of institutions** which help the rural economy.
- NABARD also keeps a check on its client institutes.
- It regulates the institutions which provide financial help to the rural economy.
- It provides training facilities to the institutions working in the field of rural upliftment.
- It regulates and supervise the cooperative banks and the RRB's, through out entire India.
- NABARD **supervises** State Cooperative Banks (StCBs), District Cooperative Central Banks (DCCBs), and Regional Rural Banks (RRBs) and conducts statutory inspections of these banks.
- NABARD's refinance fund from World Bank and Asian Development Bank to state co-operative agriculture and rural development banks (SCARDBs), state co-operative banks (SCBs), regional rural banks (RRBs), commercial banks (CBs) and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally given to individuals.
- Through assistance of **Swiss Agency for Development and Cooperation**, NABARD set up the **Rural Innovation Fund.**

- Rural Innovation Fund is a fund designed to support innovative, risk friendly, unconventional experiments in these sectors that would have the potential to promote livelihood opportunities and employment in rural areas. The assistance is extended to Individuals, NGOs, Cooperatives, Self Help Group, and Panchayati Raj Institutions who have the expertise and willingness to implement innovative ideas for improving the quality of life in rural areas.

- NABARD also started direct lending facility under **'Umbrella Programme for Natural Resource Management'** (UPNRM). Under this facility financial support for natural resource management activities can be provided as a loan at reasonable rate of interest.

FARMERS' PRODUCE TRADE AND COMMERCE (PROMOTION AND FACILITATION) ACT, 2020

- The farmers have been given the freedom to carry on Inter-state or Intra-state trade of agricultural produce. The farmers are allowed to sell their produce outside the APMCs in the trade area. The trade area could be - Farm gate, Factory premises, Warehouses, cold storage etc. The produce could be sold directly to wholesale or retail trader, exporter, food processing Industry, end-consumer etc. No market fee/ cess would be imposed on the sale of agricultural produce outside the APMCs in the trade area. Thus, the Farmers have been given the freedom to sell their produce whomsoever and wherever they want within India.
- It also provides for a dispute resolution mechanism in the form of **conciliation Board to be set up by Sub-Divisional Magistrate** at the district level.
- **Note:** The APMCs set up by the states would continue to remain. So, the new act seeks to set up parallel market in addition to existing APMCs. The new market would have no restrictions which we normally associate with the APMCs.

Benefits:

- Liberalise the agricultural marketing and bring farmers directly in contact with exporters, food processors and consumers.
- Higher price realisation for farmers by doing away with multiple middlemen and intermediaries.
- Boost Food Processing Industries who had to earlier rely on middlemen and traders to procure raw materials.
- Streamline agricultural supply chain and reduce the post-harvest losses.
- Do away with the cascading effect of multiple fees on agricultural produce and thus benefit the end-consumers.
- Higher Price realisation for farmers--> Boost Investment in Agriculture--> Higher productivity--> Make farming more profitable.

Concerns raised by various stakeholders:

- **Farmers:** May be Forced to sell in trade area below the MSP; Possibility of exploitation by the MNCs; Trade area remains highly fragmented and unregulated; Small and marginal farmers have low marketable surplus and hence would have lower bargaining power in the trade area.
- **State Governments**: Emergence of trade area as an alternate to APMCs would lead to loss of revenue; Agriculture is a subject placed under the state list and hence the Centre cannot encroach upon the legislative domain of the States.

Point to Note: Centre has passed three farm acts by invoking **Entry 33 in the concurrent list** which provides for regulation of trade and commerce of agricultural commodities. This entry was added through the first constitutional amendment Act. While the states argue that Centre does not enjoy legislative competence to make laws on agriculture, the Centre has counter argued that it can do so under Entry 33 of Concurrent list.

This matter is sub-judice as the matter is pending before the Supreme Court. The SC has sought Centre's reply on pleas challenging the constitutional validity of farm laws

FARMERS (EMPOWERMENT AND PROTECTION) AGREEMENT ON PRICE ASSURANCE AND FARM SERVICES ACT, 2020

Promote Contract Farming and ensure fair and remunerative prices; It also provides for a dispute resolution mechanism in the form of conciliation Board to be set up by Sub-Divisional Magistrate at the district level.

Benefits of Contract Farming:

- **Streamlines the supply chain by** connecting the farmers directly with the buyers and reduce post-harvest losses.
- **Enhancement of Incomes** by integrating farmers with bulk purchasers such as exporters and food processing industries.
- **Access to Inputs** such as Seeds, Capital, Fertilisers, technology etc.
- **Promote higher Investment** by providing price certainty.
- **Address Rural Indebtedness** by reducing dependence of the farmers on moneylenders for meeting their credit needs
- **Boost to Food Processing** by providing access to good quality raw materials and hence provide greater fillip to the sector.

Potential Problems related to Contract Farming

- **Exclusionary in Nature** due to fragmented land holdings and lower marketable surplus of small and marginal farmers; Exclude women farmers.
- **Exploitation of Farmers** due to lower bargaining power; Could lead to development of Monopsony market (one buyer dealing with multiple sellers and thus benefitting buyer).
- **Adverse Impact on Environment**: Promote Monoculture farming; Promote harmful agricultural practices such as excessive water usage, fertilizer consumption; Destruction of forests and wildlife etc.

Steps to be taken for better application

- Insertion of a provision in Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 to state that the price paid to the farmer shall not be less than the MSP for such crops where MSP has been notified.
- Strengthen Conciliation Boards at the district level to streamline the dispute resolution.
- Increase the Market Density in line with recommendations of M.S. Swaminathan Committee
- Link all the markets with the E-NAM
- Organize Small and Marginal Farmers into FPOs

AMENDMENTS TO ESSENTIAL COMMODITIES ACT (ECA), 1955

- **Purpose:** Used by the Government to regulate the production, supply and distribution of commodities which are declared as essential under the act. The list of items under the Act includes drugs, fertilizers, pulses and edible oils, and petroleum and petroleum products. The Central Government may add or remove a commodity from the schedule in consultation with the State Governments.
- **How does it work?** If the Centre finds that a certain commodity is in short supply and its price is increasing, it can notify stock-holding limits on it for a specified period. Anybody trading or dealing in a such a commodity, be it wholesalers, retailers or even importers are prevented from stockpiling it beyond a certain quantity. This improves supplies and brings down prices.

How Essential Commodities Act hinders the agricultural marketing?

- **Fails to realize stocking is essential**: The fear of bringing the agricultural commodities under the act has prevented the traders and processors from undertaking bulk procurement of agricultural commodities during bumper harvest season. Further, since almost all crops are seasonal, ensuring round-the-clock supply requires adequate build-up of stocks during the season.
- **Poor investment in Storage infrastructure**: With frequent stock limits, traders have not invested in better storage infrastructure.
- **Adverse impact on Food Processing Industry** since Stock limits curtail their Operations.
- **Impact on agriculture exports:** Whenever the Government declares an agricultural commodity as essential, it imposes a number of restrictions on it including ban of export of such commodities.
- **Outdated Act**: This act was enacted in 1955 when we used to frequently face shortage of agricultural commodities and hence it required Government to crackdown on black marketing and hoarding and bring down the prices. However, now situation has changed completely. Now, we have surplus production of agricultural production. Hence, accordingly, we must give the necessary freedom to the traders, aggregators and food processing industries to undertake bulk procurement of the agricultural commodities.

New Announcement:

- **Regulation of Agricultural Commodities:** It provides that the central government may regulate the supply of certain food items including cereals, pulses, potatoes, onions, edible oilseeds, and oils, only under extraordinary circumstances. These include: (i) war, (ii) famine, (iii) extraordinary price rise and (iv) natural calamity of grave nature.
- **Stock limit:** Imposition of any stock limit on agricultural produce must be based on price rise. A stock limit may be imposed only if there is: (i) a 100% increase in retail price of horticultural produce; and (ii) a 50% increase in the retail price of non-perishable agricultural food items. The increase will be calculated over the price prevailing immediately preceding twelve months, or the average retail price of the last five years, whichever is lower.

Critical analysis of the Amendment to ECA

1. Government's prerogative to impose stockholding limits during exceptional circumstances may deter private sector investment in supply chain infrastructure
2. May give a free hand to the large traders to involve in black marketing; need to ensure this does not happen.

FARMER PRODUCER ORGANISATIONS (FPOs)

- Farmer producer organisations (FPOs) are agricultural cooperatives that are emerging as a practical approach towards empowering a great number of smallholder farmers and ensuring their prosperity. In countries where agriculture is the primary source of income for millions of farmers, they play a significant role in improving marginalised farmers' access to resources, which further helps boost their agri-productivity and their incomes.
- Over the past decade, the Government of India has introduced various initiatives through agencies including **Small Farmers' Agri-Business Consortium (SFAC)** and **National Bank for Agriculture and Rural Development (NABARD), National Commodity and Derivatives Exchange (NCDEX),** and the various State Governments and NGOs.
- Presently, these agencies have established over 5,000 FPOs across the country with up to a thousand members in each of these organisations. Several of these FPOs have been successful in making agriculture profitable for thousands of farmers. Besides, the Indian Government introduced a new Central Sector Scheme that aims to create and promote 10,000 FPOs. Under the new scheme, the members of FPOs can avail relevant benefits such as **Credit Guarantee Fund** and advisory services from **Cluster Based Business Organization (CBBO)** and the **National Project Management Agency (NPMA).**

Finding strength in numbers

- Small farmers as individuals face diverse challenges such as poor income, limited or no access to the right inputs, inadequate knowledge of modern farming techniques, and a lack of direct market access, among several others. In many underdeveloped or developing countries, several small farmers primarily produce for their subsistence and sell small quantities of the harvest when they face a need. These farmers often approach farming as a way of life rather than a business opportunity, which severely limits them from achieving the full potential of their farms. However, with the right support and guidance, they can bring about a tremendous transformation in the agriculture and food sector. This is made possible by farmer producer organisations that mobilise farmers in large numbers, build their capacity, and leverage their collective strength to enhance production capabilities and marketing opportunities.
- For both governmental and non-governmental entities alike, an FPO is a means of actively engaging farmers in the development process. It provides an **organised system to transfer modern-day technology,** absorb them efficiently into rural development programs, and monitor their socio-economic progress. It also plays a critical role in creating sustainable employment for youth and women, and progress towards reducing poverty for millions of people.
- The collective strength of this producer-led organisation offers several advantages: -

Firstly, it considerably improves their bargaining power by creating forward and backward linkages in the supply chain and enables them to benefit from economies of scale. By aggregating both their demand and supply, the members will now be able to purchase agri-inputs and sell their commodities at competitive prices.

Secondly, farmer producer organisations can facilitate linkage with various stakeholders, which allows members to gain better access to technical, technological, and financial support. As a result, the members of FPOs can adopt better agricultural practices, enjoy hassle-free financial support from banks, and leverage the infrastructure that is made available to them through the organisation. All of this combined makes it possible for them to significantly enhance their productivity and, therefore, the income too. The FPOs also empower them to hedge against potential commodity price fluctuations during harvest by leveraging available platforms.

Thirdly, organising producers into collectives makes it convenient for governments to bring them into the folds of digitisation and empower them with the benefits of various developmental policies. In the last few years, the Indian government has introduced several measures, such as the **Equity Grant Fund Scheme**, the **Scheme for Creation of Backward and Forward Linkages, the Credit Guarantee Fund Scheme, and the National Rural Livelihoods Mission (NLRM)** to promote and strengthen the FPOs. The objective of these measures is to make the agriculture sector more sustainable and prosperous by making effective use of the available resources.

The role of the private sector

- The last decade witnessed the launch of thousands of startups in the agriculture space. From delivering technological solutions that improve agri-productivity to ensuring superior market linkage, these organisations have been adding immense value to smallholder farmers in numerous developing nations.
- With farmer producer organisations being recognised as pathways to alleviate poverty and to encourage small farmers to adopt sustainable, climate-smart farming practices, several agritech startups are working towards effectively providing these farmers with as much assistance as possible.
- The structure of FPOs is such that it facilitates faster adoption of technology by its members, which goes a long way in transforming agri-food production within a comparably shorter period of time. The use of digital technologies helps the producer organisations achieve supply chain efficiency and provide the buyers of the produce with adequate quality and food safety assurances.

The road ahead for farmer producer organisations

- While FPOs continue to face several setbacks and are struggling to operate viably in many countries, continued support from governments and other organisations can ensure their sustainability in the long run. Their survival and prosperity are also highly crucial to bring about transformation in the food and agriculture sector in developing and underdeveloped countries, which is imperative to guarantee food

security for future generations. With the implementation of the right policies, and with the support of all actors in the ecosystem, FPOs will soon be able to achieve sustainability and reap optimal benefits for its shareholders.

BHARATNET PROJECT

- The Bharat Net project has the underlying objective of providing high-speed broadband to all the panchayats in the country. It is the revamped version of **National Optical Fibre Network (NOFN)** which was launched in October 2011.
- BharatNet Project is regarded as a highly scalable network infrastructure, giving net accessibility to every person without any discrimination.
- The project is being funded by the **Universal Service Obligation Fund (USOF).** This fund is raised through the imposition of **'Universal Access Levy (UAL)',** which is a percentage of the revenue earned by the operators under various licenses. This fund was established with the object of improving telecom services in the remote and rural areas of India.
- **Bharat Broadband Network Limited (BBNL)** has been entrusted with the responsibility for the establishment, management and operation of the project.
- Connectivity to Gram Panchayats by optimal mix of media.
  - ✓ Underground OFC
  - ✓ Aerial OFC
  - ✓ Radio
  - ✓ Satellite
- ✓ Last mile architecture (Wi-Fi) to be set up at GP level through Viability Gap Funding (VGF) in PPP model for accessing the network by citizens.
- The list of services that can be provided through the BharatNet includes E-Governance, E-Healthcare, Public Internet access, E-Commerce etc.

Technology

- **GPON (Gigabit Passive Optical Network) technology** will be used for BharatNet Project. GPON is an open standard technology which brings fiber cabling and signals to the end user using a point-to-multipoint scheme that enables a single optical fiber to serve multiple users.
- This architecture of GPON uses passive (unpowered) optical splitters, reducing the cost of equipment compared to point-to-point architectures.
- GPON helps to connect Blocks to GPs on point to multi-point connections. Further, this technology has low power consumption equipment and hence is suitable for Rural India.

Implementation

- The plan for the project is to be implemented in three phases with the first phase providing broadband connectivity through optic fibre cable to one lakh gram panchayats.
- The second phase will extend the cables to 2, 50,000 gram panchayats. This phase also includes laying of OFC over electric poles. This is a new element of the BharatNet strategy as the mode of connectivity by aerial OFC has several advantages, including lower cost, speedier implementation, easy maintenance and utilization of existing power line infrastructure. The last mile connectivity to citizens is proposed to be provided creating Wi-Fi hotspots in gram panchayats
- The third phase involves future proofing of the Network to meet the requirements of Internet of Things (IoT) and 5G services, to be completed by 2023.

PRADHAN MANTRI MATSYA SAMPADA YOJANA

- PMMSY is designed to address critical gaps in fish production and productivity, quality, technology, post-harvest infrastructure and management, modernization and strengthening of value chain, traceability, establishing a robust fisheries management framework and fishers' welfare.
- **Target:** Enhance fish production by an additional 70 lakh tonne by 2024-25, increasing fisheries export earnings to Rs.1 lakh crores by 2024-25, doubling of incomes of fishers and fish farmers, reducing post-harvest losses from 20-25% to about 10% and generation of additional 55 lakhs direct and indirect gainful employment opportunities in fisheries sector and allied activities.
- **Approach**: 'Cluster or Area based approaches' and creation of Fisheries clusters through backward and forward linkages.
- **Nature of Scheme:** PMMSY is an umbrella scheme with two separate Components namely (a) Central Sector Scheme (CS) and (b) Centrally Sponsored Scheme (CSS).
- **Funding Pattern**: Central Sector Component: 100% funding by Centre; Centrally sponsored component: 60: 40 (in case of North Eastern and Himalayan States: 90:10).

FOOD PRIZE INDEX (FPI)

- The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. Hence, in a way, it could be considered to be similar to Consumer Price Index (CPI) or Wholesale Price Index (WPI) which are used for the measurement of Inflation within Indian Economy. However, FFPI tracks the ***international prices*** of the most commonly traded food commodities.
- **Commodity Groups Covered:** 5 commodity groups which include Meat, Dairy, Cereals, Vegetable oil and Sugar. These commodities represent about 40 percent of gross agricultural food commodity trade. They are chosen for their high and strategic importance in global food security and trade.
- **Weightage Assigned**: Each of the Commodity groups is assigned a weightage in proportion to its share in the global trade in agricultural commodities.

Base Year: A three-year period is chosen to minimize the impact of variation in both internationally traded prices and quantities. Earlier, the Base year was 2002-04, but now it has been changed to 2014-16. The base period 2014–16 was chosen as the new base as it was considered the most representative period for most markets in the past ten years.

BALTIC DRY INDEX

- The Baltic Dry Index (BDI) is an economic indicator issued daily by the London- based Baltic Exchange. The index provides an assessment of the price of moving the major raw materials by sea. The Baltic Dry Index takes into account the freight rates for bulk commodities such as coal, iron ore and grain.
- **Importance of Baltic Dry Index:** Changes in the Baltic Dry Index can provide investors with important clues related to global supply and demand trends.
- It is often considered a leading indicator of future economic growth.
- If the Index increases, it means that the freight rates have increased which indicate higher demand for raw materials such as Coal, Iron-ore etc. Hence, an increase in the index value would point to increased economic activity and hence higher economic growth.
- Similarly, if the index decreased, it would point to decreased economic activity and hence lower economic growth in future.

Other Indices for tracking Freight rates: The Baltic Dirty Tanker Index tracks freight rates for crude oil and the Baltic Clean Tanker Index tracks freight rates for petroleum products.

RENEWABLE PURCHASE OBLIGATION (RPO)

- DISCOMs are required to purchase certain percentage of electricity from various renewable energy sources.
- RPO is laid down under Electricity Act, 2003 and National Tariff Policy 2016.
- **Types of RPOs:** Solar RPO and Non-Solar RPO. Recently, Government declared that procurement of power from large Hydropower Projects (more than 25 MW) and Ocean Energy would be considered as Non-Solar RPO.
- Annual Targets for RPO are laid down by State Electricity Regulatory Commissions (SERCs). Long term targets laid down by Ministry of Power.
- **Present Targets:** Long Term target to be met by 2022. Total RPO: 21% (Solar RPO: 10.5% + Non-Solar RPO: 10.5%)

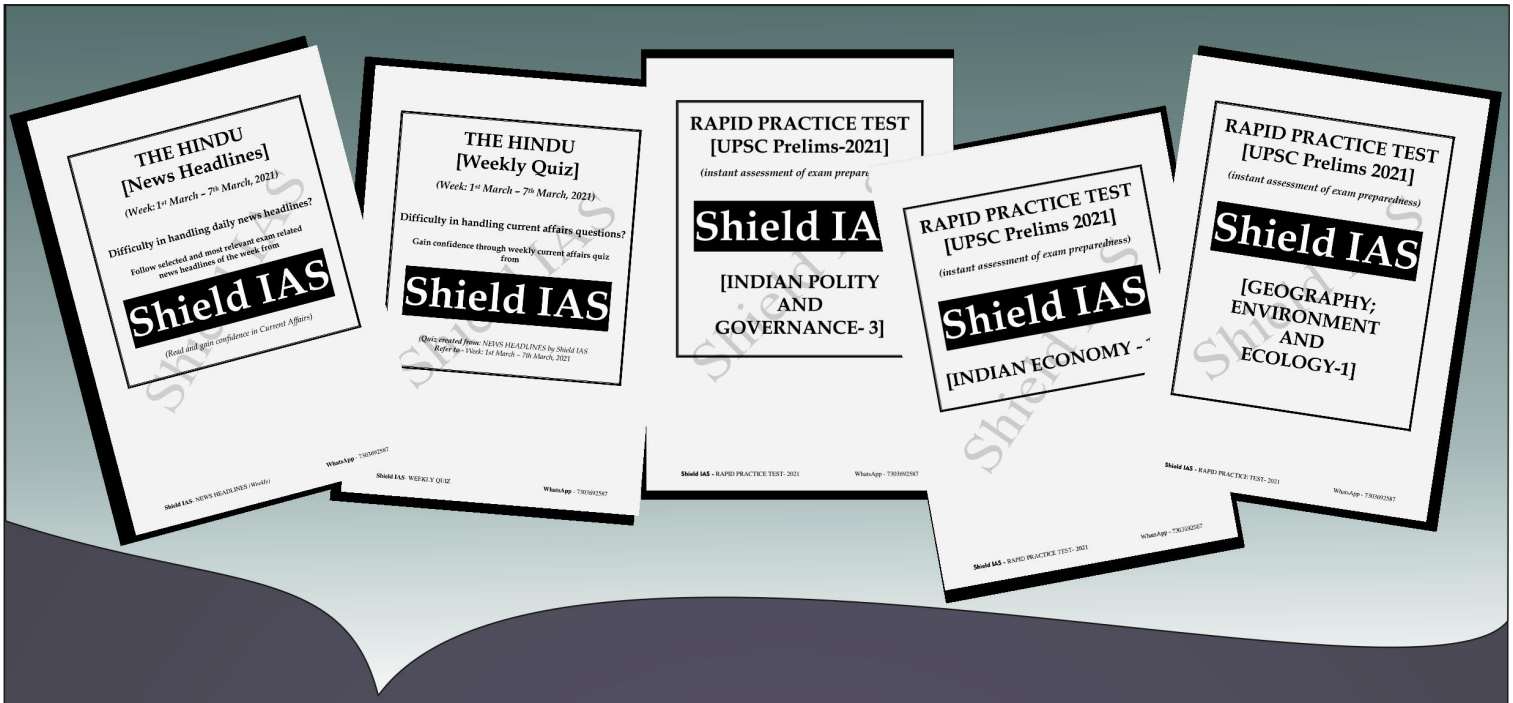
Renewable Energy Certificates (RECs): DISCOMs that exceed their RPO obligations can sell RECs to other DISCOMs that fail to meet RPO target. 1 REC is equal to 1 Mwh.

NATIONAL TECHNICAL TEXTILES MISSION

Components

- **Component -l (Research, Innovation and Development):** Promote both Fundamental and applied research for the development of new technical textiles.
- **Component -II (Promotion and Market Development**): Aims at average growth rate of 15-20% per annum taking the level of domestic market size to 40-50 Billion USD by the year 2024 from the Current $ 16 bn.)
- **Component - III (Export Promotion):** Export promotion of technical textiles enhancing from the current annual value of approximately Rs.14000 Crore to Rs.20000 Crore by 2021-22 and ensuring 10% average growth in exports per year upto 2023-24.
- **Component- IV (Education, Training, Skill Development):** Promote technical education at higher engineering and technology levels related to technical textiles.

Shield IAS



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