INDIAN ECONOMY

MAINS-2020

by

VIVEK SINGH

/VivekSingh_Economy

SHUBHRA RANJAN IAS STUDY

Note for the Students

- *This booklet contains 55 topics (62 pages) related to current and static expected issues in Indian Economy. But it is advised that students **must** cover the entire static syllabus from whichever source they have referred till now or you may also refer the book on Indian Economy by "Vivek Singh" (4th edition).*

- *UPSC is **changing pattern** and asking offbeat questions and for that you need a balanced approach covering the entire syllabus including static and current.*

- *The **original copy** of this booklet can be downloaded from the telegram channel "**Economy by Vivek Singh**" link "**/VivekSingh_Economy**"*

- *Any further information/clarification will be updated on the above channel.*

- *Anyone who wants personal guidance regarding **economy mains** then they can contact Vivek Singh sir on telegram userid **@viveksingheconomy** or mail id **viveksingheconomy@gmail.com***

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1. Farmers' Produce Trade and Commerce Act 2020

Salient features:

- Has overriding powers in case of any inconsistency with APMC acts of States
- Any farmer/trader is free to do trade (buy/sell) his produce (including milk, livestock etc.) across India (but outside APMCs or State regulated mandis). It will include trade at any place like the farm gate, (processing) factory premises, warehouses, cold-storages etc. or any online market platform
- No market fee/cess/levy, or any other charge, shall be levied on any farmer/trader in physical mandi or electronic trading platform for trade/commerce happening outside the state APMC mandi
- The trader should make payment to the farmer on the same day of transaction
- Separate dispute resolution mechanism where the farmer or the trader may seek conciliation from a Conciliation Board appointed by Sub-Divisional Magistrate

Impact:

- Will help in the creation of "one nation one market" by directly connecting farmers with buyers without any intermediary
- Will reduce wastage, increase efficiency and will unlock value for our farmers and help in increasing their income
- Will result in timely payment to farmers and will reduce exploitation of farmers
- Since, outside the APMC mandi trade will not have any tax by States, it will result in competition for State APMC Mandis and will force them to improve
- As there will not be any tax outside the APMC mandi, it will result in cheaper agri-products for the consumer without reducing the prices for the farmers
- As there will be more private mandis, it will result in better prices for farmers due to increased competition
- Opening of private mandis will result in more business opportunities for the Commission agents (arathiyas) and other stakeholders (who already have experience of agri trade) where they can venture out to offer additional services that can be useful to local farmers like seed/soil testing facilities, sorting/grading facilities, warehousing, cold storage and processing facilities and hence job creation.
- Timely settlement of disputes

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2. Electronic-National Agriculture Market (e-NAM)

Salient features:

- e-NAM is a Govt. electronic market platform and is linked to the APMC mandi at the backend
- There are taxes on trade through e-NAM also as it is done through physical APMC mandis
- If a farmer has to sell his produce on e-NAM platform, he needs to bring his produce to the physical APMC mandi or FPO collections centers. Then the agent in the mandi does the online auction of various agri-commodities (of a specified quality) every day and then whatever price is discovered, the farmer will get the money in his account and then the buyer can take the produce from the physical APMC mandi or FPO center.
- The most challenging aspect for implementing e-NAM has been to ensure homogeneity across states and dealing with the number of APMC mandis to be interconnected electronically through e-NAM.

NITI Aayog has launched an index called "Agricultural Marketing and Farmer Friendly Reforms Index (AMFFRI) which ranks States based on the degree of reforms they have undertaken in agricultural marketing where Maharashtra has scored 1st rank in 2016.

3. Farmer Producer Organizations (FPOs)

- Indian agriculture is dominated by marginal and small farmers, who suffer serious disadvantage in terms of scale, uneconomic lot for marketing and price risk. Small sized farmers are also disadvantaged in terms of bargaining power in various transactions in the input and output markets. These handicaps can be overcome by organizing farmers under some institutional mechanism like the farmers producers organizations (FPOs).
- FPOs can be a company, a cooperative society, Trust or any other form of legal entity which provides for sharing of profits/benefits among the farmers. Ownership control is always with the members/farmers and management is through the representatives of the members. **The main aim of an FPO is to ensure better income for the farmers through an organization of their own.**
- FPOs enable member farmers to reap the benefits of economies of scale in purchase of inputs, processing and marketing of their produce and can also provide access to timely and adequate credit facilities and linkages to market
- Small Farmers Agribusiness Consortium (**SFAC**), National Co-operative Development Corporation (**NCDC**) and **NABARDD** are promoting and helping in establishment of FPOs
- SFAC is running **Equity Grant Fund (EGF)** Scheme, under which it is providing equity equal to the amount of shareholders/farmers equity in the FPO subject to cap of Rs. 10 lac
- In order to ensure access of FPOs to credit from mainstream Banks and Financial Institutions, a **Credit Guarantee Fund (CGF)** has been established by NABARD and NCDC which will provide suitable credit guarantee cover to accelerate flow of institutional credit to FPOs by minimizing the risk of financial institutions for granting

loan to FPOs so as to improve their financial ability to execute better business plans leading to increased profits.

- NABARD provides loan to FPO members without any collateral for contribution towards share capital up to a cap of Rs. 25000 per member. NABARD also provides credit support for business operations of FPOs. NABARD also provides technical, managerial and financial support for hand-holding, capacity building and market intervention efforts of the FPO.

- SFAC and NABARD provide training to top management of FPOs to enable them to function effectively. Further, Indian Council of Agricultural Research (ICAR) is providing technical support to FPOs through Krishi Vigyan Kendras (KVKs).

- There is some minimum number of member requirements to form an FPO depending on the legal form of PO (cooperative/company/Trust). Studies have shown that an FPO will require about 700 to 1000 active producers/farmers as members for sustainable operation.

- The primary producers have skill and expertise in producing. However, they generally need support for marketing of what they produce. **The FPO will basically bridge this gap**. The FPO will take over the responsibility of any one or more activities in the value chain of the produce **right from procurement of raw material to delivery of the final product** at the ultimate consumers' doorstep. In brief, **the PO could undertake the following activities:**

  - Procurement of inputs
  - Disseminating market information
  - Dissemination of technology and innovations
  - Facilitating finance for inputs
  - Aggregation and storage of produce
  - Primary processing like drying, cleaning and grading
  - Brand building, Packaging, Labeling and Standardization
  - Quality control
  - Marketing to institutional buyers
  - Participation in commodity exchanges
  - Export

- An FPO will support the farmers in getting more income by undertaking any/many/all of the activities above. By aggregating the demand for inputs, the FPO can buy in bulk, thus procuring at cheaper price compared to individual purchase. Besides, by transporting in bulk, cost of transportation is reduced. Thus, reducing the overall cost of production. Similarly, the PO may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce. The PO can also provide market information to the producers to enable them hold on to their produce till the market price become favourable. **All these interventions will result in more income to the primary producers**.

- Income derived by an FPO through agricultural activities is treated as agricultural income and is **exempted from taxation**.

- Centre has planned to set up more than 10,000 FPOs by 2024. Presently there are more than 1000 FPOs registered and functioning. *(Example: Potato papad making by Kashi Vishwanath Farmer Producer Company Limited, Varanasi)*

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4. Farmers Agreement on Price Assurance and Farm Services Act 2020 *(it is basically Contract Farming Agreement)*

Salient features:

- The farmers (including FPOs) can enter into farming agreements with buyers (also called Sponsors) for sale of farm produce (including dairy and livestock etc.) and provision of farm services (like supply of seeds, inputs, machinery, technology by buyers to farmers)
- Farming Agreements entered under this Ordinance between farmer (including FPOs) and buyer shall be exempt from the application any State Act
- Minimum period of the agreement will be one crop season and maximum five years
- The acceptable quality and grade may be provided in the agreement to be signed between the farmer and the buyer
- The price to be paid to the farmer for the produce should be mentioned in the farming agreement, and in such case where price is subject to variation then it should have two parts. One is a guaranteed minimum price component and an additional amount linked to APMC prices, or any electronic trading platform or any benchmark prices.
- The buyer should make payment of agreed amount at the time of accepting the delivery of farming produce
- Any stocking limit issued under Essential Commodities Act 1955 or any other Act shall not be applicable to the produce purchased under this agreement
- This farming agreement can be linked with insurance or credit instrument to ensure risk mitigation or flow of credit to the farmer or buyer
- Every State may notify a 'Registration Authority' to provide for electronic registry of registration of farming agreements
- Every farming agreement shall provide for a conciliation process and formation of a conciliation board to resolve the disputes

Impact:

- This was earlier prohibited by most of the states, so it has given freedom to farmers
- Farmers cannot be forced to sign the agreement for long time (max 5 years) and will prevent exploitation of farmers
- As the prices are mentioned in the agreement, farmers will be protected of their income
- Farmers will be ensured of timely payment
- Buyers and sellers (farmers) can sign agreement for sale of produce without any hiccups as the terms and conditions of the agreement are standardized by Govt.
- A dedicated State agency (Registration Authority) will help both farmers and buyers and no one can be denied in future of the terms and conditions signed in the agreement and will minimize disputes
- Timely settlement of disputes outside the courts will the farmers

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5. Essential Commodities Act 1955

[The Essential Commodities Act 1955 provides for the regulation and control of production, distribution and pricing of commodities which are declared as essential for maintaining or increasing supplies or for securing their equitable distribution and availability at fair prices. Exercising powers under the Act, various Ministries/Departments of the Central Govt. and under the delegated powers, the State Governments/UT Administrations can issue orders for regulating production, distribution, pricing and other aspects of trading in respect of the commodities declared as essential.]

Amendments done in 2020:

- Supply of food stuffs including cereals, pulses, potato, onions, edible oilseeds and oils can be regulated **only under** extraordinary circumstances which may include war, famine, extraordinary price rise & natural calamity of grave nature, as notified by the Central Govt.

- **Stocking limit** restrictions can be imposed **only in case** of extraordinary price rise (100% increase in case of perishables and 50% increase in case of non-perishable food stuffs over the price prevailing immediately preceding 12 months, or average retail price of last five years, whichever is lower). But the good thing is that, regulation regarding stocking limit shall not apply to a **processor or "value chain participant**" of any agriculture produce, if the stock limit of such person does not exceed the overall ceiling of installed capacity of processing, or the demand for export in case of an **exporter.**

  ["Value chain participant", in relation to any agricultural product, means and includes a set of participants, from production of any agricultural produce in the field to final consumption, involving processing, packaging, storage, transport and distribution, where at each stage value is added to the product.]

Impact:

- This Act was enacted at a time when India was facing scarcity in food production and was dependent on import of foodstuffs and there was a need to prevent hoarding and black marketing. But now the situation has changed and we have moved from an era of food scarcity to become a major exporter of agri-commodities.

- The stocking regulation under the Act has hurt private investments in agri-infrastructure because of which there is huge wastage of food items every year. The amendments will remove unnecessary regulation and will help attract private and foreign investments in the supply chain infrastructure like warehouse/cold storage/packaging of agri-commodities.

- Exporters & food processors are exempt from stocking limit which will help in development of modern food processing infrastructure and smooth supply chain for exporters

- The freedom to produce, hold, move, distribute and supply will lead to vertical integration in the agriculture supply chain and achieve economies of scale resulting in lower prices of agri-products for the consumers

- It will transform the farm sector and increase the farmers' income

- While liberalizing the regulatory environment, the govt. has insured that interest of consumers is safeguarded. During war, famine, any natural calamity or extra ordinary price rise, the supply of agricultural food stuffs can be regulated and Govt. can impose stocking limit also in case of excessive price rise.

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6. Model Agriculture Tenancy Law 2016

Land leasing laws relating to rural agricultural land in Indian states were enacted during decades immediately following the independence. At the time, the abolition of Zamindari and redistribution of land to the tiller were the highest policy priorities. Top leadership of the day saw tenancy and sub-tenancy as integral to the feudal land arrangements that India had inherited from the British. Therefore, tenancy reform laws that various states adopted sought to not only transfer ownership rights to the tenant but also **either prohibited or heavily discouraged leasing and sub-leasing of land**.

The original intent of the restrictive tenancy laws no longer holds any relevance. Today, these restrictions have detrimental effects on not only the tenant for whose protection the laws were originally enacted but also on the landowner and implementation of public policy. The tenant lacks the security of tenure that she would have if laws permitted her and the landowner to freely write transparent contracts. In turn, this discourages her from making long-term investments in land and also leaves her feeling perpetually insecure about continuing to maintain cultivation rights. Furthermore, it deprives her of potential access to credit by virtue of being a cultivator. Landowner also feels a sense of insecurity when leasing land with many choosing to leave land fallow. The latter practice is becoming increasingly prevalent with landowners and their children seeking non-farm employment.

Keeping these things in mind, Central Government got a model act drafted on land leasing by the committee (Chairman **Dr. Haque**) constituted by the NITI Aayog in April 2016 and has forwarded it to States to implement it. It secures the rights of landowners while allowing tenant farmers access to facilities like insurance, credit and compensation for crop damage.

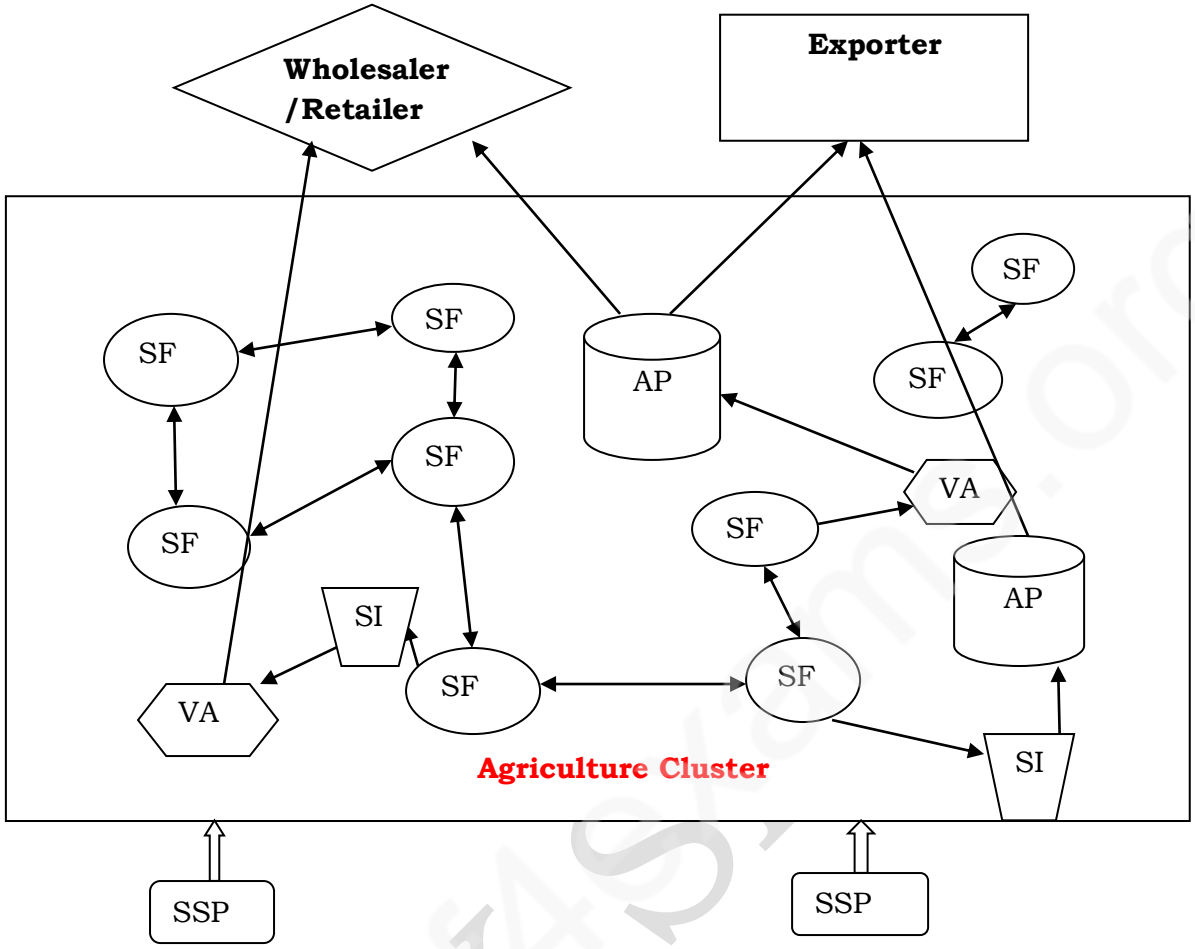
Important features of the model Act:

- The model law enables tenant farmers and share croppers to avail bank credit, crop insurance and disaster relief benefits.
- The model law allows consolidation of farm land so that small plots of land that are economically unviable can be leased out *(using tractors and farm equipment is not economically viable for small plots of 2-3 acres)*. Large operational holdings will reduce the cost of cultivation and increase profitability of farming.
- The duration of the lease and the consideration amount will be decided mutually by the owner and the tenant.
- There will be no ceiling on the amount of land that can be leased out or consolidated as the state wants market forces to determine the size of operational holdings.
- Under the new law, land can also be leased out for allied activities like livestock or animal husbandry for a maximum period of five years.
- The Model Act proposes quicker litigation process in case of disputes, by suggesting recourse through criminal proceedings and special tribunal. The dispute settlement will be taken up at the level of the Gram Sabha, Panchayat and Tehsildar and are kept outside the jurisdiction of courts.

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7. Agriculture based clusters



SF: Small Farmer
AP: Agro Processing Units
SI: Storage Infrastructure
VA: Value Addition (sorting/grading/pre-cooling)
SSP: Support Service Provider (Public, private, NGOs)
Horizontal Relationship (⟷)
Vertical Relationship (⟶)
Support Relationship (⟹)

Salient features:

- Agriculture in the twenty-first century is reinventing itself as a new global business reshaped by globalization, standardization, high-value production, massive growth in demand, retail and packaging innovations, and a ramp up in efficiency. Faced with constant productivity and market pressures, the "new agriculture" needs new tools to enhance its competitiveness and innovation capacity. One of these tools is the promotion of agriculture based clusters.

- **A cluster can be defined as the geographical concentration of industries which gain advantages through co-location. Agriculture Clusters (ACs) are simply a concentration of producers, agro-industries, traders and other private and public actors engaged in the same industry and inter-connecting and building value networks, either formally or informally, when addressing common challenges and pursuing common opportunities.**

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- Agriculture clusters is based on creation of "**value networks**" which is the aggregation of:
    - **Vertical relationships** among suppliers of raw materials/production inputs, agricultural producers, processors and exporters, branded buyers and retailers
    - **Horizontal relationships** among producers, which take the form of producer groups, self help groups or farmers producers organization (FPOs)
- ACs seem to generate a number of advantages for small producers and agribusiness firms, from **agglomeration economies** to improving access to local and global markets, to higher value addition production. Consequently, ACs raise the competitive advantage of farmers and agribusiness firms as they increase their current productivity and their innovative capacity.
- Clusters promotes "co-opetition" (a balance between competition and cooperation)
- ACs constitutes an important tool for the economic and social development of a given territory. They can have positive impacts on income enhancement, employment generation and well-being of workers and entrepreneurs of the cluster and, more generally, they offer great potential for improving the local economy.

Our Prime Minister in his address to the Indian Chamber of Commerce in June 2020 highlighted the role of agriculture based clusters in rural development.

Challenges for Agri-clusters:

- Presence of large number of small and marginal farmers (86%)
- Regulatory hurdles like APMCs and land leasing
- How to better meet consumer demands at the same time increase efficiency and productivity
- The need to introduce market driven innovation and new technologies
- Increasingly stringent environmental regulations

Example of agro-based clusters:

- Jute based industries in the rural parts of west Bengal
- Bamboo and organic food-based processing facilities in North-east
- Mega Food Parks in Punjab, Uttarakhand and few other states are an example of agro-based clusters as it connects farmers, suppliers, food-processors and retail chains in an-agricultural setting

NITIN VIKRAM SINGH

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8. Agriculture Export Policy 2018

"India is the largest producer of milk in the world. It is also the second largest producer of rice, wheat, sugarcane and fruits and vegetables. India is the largest exporter of rice and second largest exporter of beef and cotton. In FY 2018-19, Indian agri-exports were $39 billion against imports of $20 billion. This is nothing short of a wonder for a country which used to be dependent on US imports for its cereals in mid -1960's."

In order to provide an impetus to agricultural exports, the Government has come out with a comprehensive "Agriculture Export Policy" aimed at doubling the agricultural exports and integrating Indian farmers and agricultural products with the global value chains.

Objectives of the Agriculture Export Policy:

- To double agricultural exports from $ 30+ Billion (2017-18) to $ 60+ Billion by 2022 and reach US$ 100 Billion in the next few years thereafter
- To diversify our export basket, destinations and boost high value and value added agricultural exports including focus on perishables
- To strive to double India's share in world agri exports by integrating with global value chain at the earliest

Key recommendations of the policy:

- Stable Trade Policy Regime: Any kind of export restriction (viz. MEP, export duty, export ban, etc.) should not be used as a tool to control domestic inflation and the export policy should be consistent and predictable

- Infrastructure and Logistics: Expenses towards logistics handling in India is about 14% to 15% of the cost of exports as compared to 8% - 9% in some of the developed economies. Robust infrastructure remains a critical component of a strong agricultural value chain, which involves pre-harvest and post-harvest handling facilities, storage & distribution, processing facilities, roads and world class exit point infrastructure at ports.

- Cluster Development: Export oriented cluster development across States will be key to ensuring surplus produce with standard physical and quality parameters which meet export demands.

- Promoting Value Added Exports: India's export basket is dominated by products with little or no processing or value addition. Industry estimates also suggest a significant quantity of our exports head to countries which conduct limited value addition and re-export it. There is a huge demand for processed products in the global market. India can look at exports of a whole range of value- added fruits and vegetables, ready to eat products etc.

- Ease of Doing Business: Exporters reveal that lengthy and cumbersome documentation and operational procedures at ports are a constant challenge. There is a requirement to implement 24x7 single window clearances of perishable exports at key ports across nation.

- Developing Sea Protocol: A sea protocol indicates at what maturity level harvesting can be done for transportation by sea. Philippines has been shipping Bananas to the Middle East which takes around 18 days while India has only been able to ship produce around 2-4 days transit period. Thus, developing sea protocol will go a long way in promoting trade.

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9. Doubling Farmer's Income

The government is planning to double the farmers' (real) income by the year 2022-23, measured from the agricultural year (1st July - 30th June) 2015-16. It has to be noted that growth in agricultural output does not translate into a proportionate growth in farmers' income because of the **price factor**. The experience shows that in some cases, growth in output brings similar increase in farmers' income but in many cases farmers' income did not grow much with increase in output. Farmers' welfare is more linked to **farmers' income** (Output X Price) rather than the agricultural output.

To double the farmers' income, **Dalwai Committee has recommended the following seven measures:**

1. Improvement in productivity of crops:

2. Improvement in livestock productivity:

3. Increase in **cropping intensity:** Cropping intensity is calculated by dividing the Gross Cropped Area with Net Sown Area. That means if on one acre of land, crops are grown twice a year then cropping intensity is 2. In India, the overall cropping intensity is less than 2, and this is because of less irrigation facilities, which must be increased if we want to increase farmers' income.

4. Resource use efficiency or saving in cost of production:

5. Diversification towards high value crops: Diversification towards high value crops (HVC) offers great scope to improve farmers' income. Average productivity of HVCs (fruits, vegetables, fibre, spices, sugarcane) was estimated as Rs. 1,42,000 lakhs per hectare as compared to Rs. 41,000 per hectare for staple crops (cereals, pulses, oilseeds).

6. Improvement in 'terms of trade' for farmers: Terms of trade of agriculture as compared to other sector means how the agri commodities prices are increasing/changing with respect to other commodities. As the prices of agri products are increasing less as compared to the overall inflation in the country, this is hurting farmers' relative income.

7. Shifting cultivators from farm to non-farm occupations: Approximately 50% of the labour force is involved in agricultural activities contributing just 15% of the GDP. This shows over-dependence of workforce on agriculture with significant underemployment. This also reveals large difference in per worker productivity between agriculture and non-agriculture sectors. Thus, income of farmers can be improved substantially **by shifting workforce away from agriculture as the available farm income will then be distributed to less number of workforce**.

The recent agriculture reforms will help in better price realization by the farmers which will ultimately lead to achieve the target of doubling farmers' income.

Govt. of India changed the name of "Ministry of Agriculture" to "Ministry of Agriculture and Farmers Welfare" to signify that it now focuses on farmers income (welfare) and not just on agriculture production.

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10. Zero Budget Natural Farming (ZBNF)

- Natural farming is a system where the laws of nature are applied to agricultural practices. This method works along with the natural biodiversity of each farmed area, encouraging the complexity of living organisms, both plants, and animals that shape each particular ecosystem to thrive along with food plants.

- The word **'budget' refers to credit and expenses**, thus the phrase '**Zero Budget**' **means without using any credit, and without spending any money on purchased inputs**. 'Natural farming' means farming ***with* Nature and *without* chemicals**.

Features of ZBNF

- The premise of ZBNF is that soil has all the nutrients plants need. To make these nutrients available to plants, we need the intermediation of microorganisms. For this, "**four wheels of ZBNF**" have been suggested:
  - **Bijamrit** is the microbial coating of seeds with formulations of cow urine and cow dung
  - **Jivamrit** is the enhancement of soil microbes using an inoculum of cow dung, cow urine, and jaggery
  - **Mulching** is the covering of soil with crops or crop residues which creates humus and encourages the growth of friendly microorganisms
  - **Waaphasa** is the building up of soil humus to increase soil aeration

- According to ZBNF principles, plants get 98% of their supply of nutrients from the air, water, and sunlight. And the remaining 2% can be fulfilled by good quality soil with plenty of friendly microorganisms. (Just like in forests and natural systems)
- The system requires cow dung and cow urine obtained from Indian breed cow only. Desi cow is apparently the purest as far as the microbial content of cow dung, and urine goes.
- In ZBNF, multi-cropping is encouraged over single crop method.

Similarities between Organic Farming and ZBNF:

- Organic and natural farming both systems discourage farmers from using any chemical fertilizers, pesticides on plants and in all agricultural practices.
- Both farming methods encourage farmers to use local breeds of seeds, and native varieties of vegetables, grains, pulses and other crops.
- Both farming methods promote nonchemical and homemade pest control methods.

Differences between Organic Farming and ZBNF:

- In organic farming, organic fertilizers and manures like compost, vermicompost, cow dung manure, etc. are used and added to farmlands from external sources. While in natural farming decomposition of organic matter by microbes and earthworms is encouraged right on the soil surface itself, which gradually adds nutrition in the soil, over the period.

- Organic farming requires basic agro practices like ploughing, tilling, mixing of manures, weeding, etc. to be performed. While in natural farming there is no ploughing, no tilting of soil and no fertilizers, and no weeding is done just the way it would be in natural ecosystems.
- Organic farming is still expensive due to the requirement of bulk manures, and it has an ecological impact on surrounding environments; whereas, natural agriculture is an extremely low-cost farming method, completely molding with local biodiversity.

Subhash Palekar, who has coined the term ZBNF is training farmers in different states regarding the techniques of ZBNF. But experts claim that yield is less in ZBNF.

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11. Protected Cultivation

- Protected cultivation is the most contemporary approach to produce, mainly, horticulture crops qualitatively and quantitatively and has spread extensively the world over in the last few decades. It is also known as **Controlled Environment Agriculture (CEA)** and is highly productive, encourages water and land conservation as well as protects the environment.

- The technology involves **cultivation of horticulture crops in a controlled environment wherein factors like the temperature, humidity, light, soil, water, fertilizers etc. are manipulated as per the requirement of the crop** to attain the maximum produce as well as allow a regular supply of them even during off-season.

- Crops grown in the poly houses are protected from intense heat, bright sunlight, strong winds, hailstones and cold waves. Every factor influencing a crop can be controlled in a poly house. High tech poly houses even have heating systems as well as soil heating systems to purify the soil of unwanted viruses, bacteria etc.

- Protected cultivation of high-value horticultural crops have great potential to enhance income especially of small farmers in India which can help them to produce more crops each year from their land, particularly during off-season when the prices are higher.

Protected cultivation can have different types/structures:

Polyhouse/Greenhouse



Shade Net



Mulching



Advantages of protected cultivation:

- Better quality of produce
- Higher productivity
- Efficient use of resources
- Better insect and disease control and reduced use of pesticides
- Production of exotic (non-native) and off-season vegetables and for raising quality seedlings

Challenges to protected cultivation:

- High cost of initial infrastructure (capital cost)
- Non-availability of skilled human power and lack of technical knowledge
- Requires close supervision and monitoring.
- Repair and maintenance are major hurdles.
- Requires assured marketing, since the investment of resources like time, effort and finances, is expected to be very high

Ministry of Agriculture and Farmers' Welfare is providing various investment (project cost) subsidies for the creation of different structures like polyhouses, shadenet etc. through various schemes like Mission for Integrated Development of Horticulture, National Horticulture Mission, Horticulture mission for North East & Himalayan States.

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12. National Livestock Mission

Government of India launched the National Livestock Mission in 2014-15 for the sustainable and continuous growth of the livestock sector. The Mission is designed to cover all the activities required to ensure quantitative and qualitative improvement in livestock production systems and capacity building of all stakeholders. This mission has been formulated with the objective of sustainable development of the livestock sector, focusing on improving availability of quality feed and fodder, risk coverage, effective extension, improved flow of credit and organization of livestock farmers/rearers. Given the high contribution of protein items in inflation, the growth of this sector has to match the rising demand reflected in increasing share of these items in consumption expenditure.

National Livestock Mission has four sub-missions as follows:

- Sub-Mission on Fodder and Feed Development: It will address the problems of scarcity of animal feed resources, in order to give a push to the livestock sector making it a competitive enterprise for India, and also to harness its export potential. The major objective is to reduce the deficit to nil.

- Sub-Mission on Livestock Development: Under this sub-mission there are provisions for productivity enhancement, entrepreneurship development and employment generation, strengthening of infrastructure of state farms with respect to modernization, automation and bio security, conservation of threatened breeds, minor livestock development, rural slaughter houses, fallen animals and livestock insurance.

- Sub-Mission on Pig Development in North-Eastern Region: There has been persistent demand from the NE States seeking support for all round development of piggery in the region. For the first time, under the National Livestock Mission, a Sub-Mission on Pig Development in North-Eastern Region is provided wherein Government of India would support the State Piggery Farms, and importation of germplasm so that eventually the masses get the benefit as it is linked to livelihood and contributes in providing protein-rich food in 8 States of the NE Region.

- Sub-Mission on Skill Development, Technology Transfer and Extension: The extension machinery at field level for livestock activities is very weak. As a result, farmers are not able to adopt the technologies developed by research institutions. The emergence of new technologies and practices require linkages between stakeholders and this sub-mission will enable a wider outreach to the farmers. All the States, including NER States may avail the benefits of the multiple components and the flexibility of choosing them under National Livestock Mission for a sustainable livestock development.

A separate ministry "Ministry of Fisheries, Animal Husbandry and Dairying" has been carved out of "Ministry of Agriculture and Farmers' Welfare" which emphasizes the focus of government in these areas.

Department of Animal Husbandry and Dairying, under "Ministry of Fisheries, Animal Husbandry and Dairying" recently released the 20th Livestock Census report, as per which the livestock population has increased by 4.6% to 54 crore from the previous livestock census and Uttar Pradesh has the highest Livestock population.

Share of livestock in GDP is around 5%

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13. National Bamboo Mission

The National Bamboo Mission envisages promoting holistic growth of bamboo sector by adopting **area-based**, **regionally differentiated strategy** and to increase the area under bamboo cultivation and marketing. Under the Mission, steps have been taken to increase the availability of quality planting material by supporting the setting up of new nurseries and strengthening of existing ones. **To address forward integration, the Mission is taking steps to strengthen marketing of bamboo products, especially those of handicraft items.**

Objectives:

- To increase the area under bamboo plantation in non forest Government and private lands to supplement farm income and contribute towards resilience to climate change as well as availability of quality raw material requirement of industries. The bamboo plantations will be promoted predominantly in farmers' fields, homesteads, community lands, arable wastelands, and along irrigation canals, water bodies etc.
- To improve post-harvest management through establishment of innovative primary processing units near the source of production, primary treatment and seasoning plants, preservation technologies and market infrastructure.
- To promote product development keeping in view market demand, by assisting R&D, entrepreneurship & business models at micro, small and medium levels and feed bigger industry.
- To rejuvenate the under developed bamboo industry in India.
- To promote skill development, capacity building, awareness generation for development of bamboo sector from production to market demand.
- To realign efforts so as to reduce dependency on import of bamboo and bamboo products by way of improved productivity and suitability of domestic raw material for industry, so as to enhance income of the primary producers.

67% of the Bamboo in India is grown in North East States and Govt. is providing support/ subsidy for establishment of Bamboo based clusters in North Eastern States.

14. Mission on Integrated Development of Horticulture

- Mission for Integrated Development of Horticulture (MIDH) is a Centrally Sponsored Scheme for the holistic growth of the horticulture sector covering fruits, vegetables, root & tuber crops, mushrooms, spices, flowers, aromatic plants, coconut, cashew, cocoa and bamboo.
- Under MIDH, Government of India (GOI) contributes 60%, of total outlay for developmental programmes in all the states except states in North East and Himalayas, 40% share is contributed by State Governments.
- In the case of North Eastern States and Himalayan States, GOI contributes 90%.
- In case of National Horticulture Board (NHB), Coconut Development Board (CDB), Central Institute for Horticulture (CIH), Nagaland and the National Level Agencies (NLA), GOI contributes 100%.
- MIDH also provides technical advice and administrative support to State Governments/ State Horticulture Missions (SHMs) for the Saffron Mission and other horticulture related activities like Rashtriya Krishi Vikas Yojana (RKVY).

The strategy of the MIDH will be on production of quality seeds and planting material, production enhancement through productivity improvement measures along with support for creation of infrastructure to reduce post-harvest losses and improved marketing of produce with active participation of all stake holders, particularly farmer groups and FPOs.

India's horticulture production is estimated at 315 MT in 2019-20, surpassing the food grain production of 295 MT for the consecutive 8 years.

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15. National Mission on Agriculture Extension

Extension services, also called rural advisory services constitute a key input for improving the productivity in agriculture by providing timely advisory services to farmers to adopt best practices, technology, meet with contingencies, market information etc. In India, there are multiple agencies offering agricultural extension/advisory services.

- The **Department of Agriculture and Cooperation (DAC), along with NABARD**, has introduced a scheme for establishment of agri-clinics / agri-business centres / ventures by the agricultural graduates.
- The **ICAR** is also associated in agriculture extension activities through Krishi Vigyan Kendras (**KVKs**) and the Institute Village Linkage Programme (IVLP) all over the country.
- **FPOs**, **NGOs** and the **corporate sector**

National Mission on Agricultural Extension & Technology (NMAET), launched during the 12th plan period, **consists of 4 Sub Missions**:

1. **Sub Mission on Agricultural Extension (SMAE):** Adoption of quality seeds is the most cost-effective means for increasing agricultural production and productivity. Agri Clinics, Agri business centres, Kisan Call Centres will be used for providing extension services.
2. **Sub-Mission on Seed and Planting Material (SMSP):** The Sub-Mission will cover the entire gamut of seed chain from nucleus seed to supply to farmers for sowing. SMSP also envisages strengthening of Protection of Plant Varieties and Farmers' Rights Authority (PPV&FRA) in order to put in place an effective system for protection of plant varieties, rights of farmers and plant breeders and to encourage development of new varieties of plants.
3. **Sub Mission on Agricultural Mechanization (SMAM):** There is a strong co-relation between farm power availability and agricultural productivity. Therefore, Sub-Mission on Agricultural Mechanization focuses on farm mechanization. The Sub-Mission will mainly cater to the needs of the small and marginal farmers and to the regions where availability of farm power is low to offset the adverse economies of scale and high cost of individual ownership through institutional arrangements such as Custom Hiring Centers, mechanization of selected villages, subsidy for procurement of machines etc.
4. **Sub Mission on Plant Protection and Plant Quarantine (SMPP):** The mission envisages increase in agricultural production by keeping the crop disease free using scientific and environment friendly techniques through promotion of Integrated Pest Management.

The aim of the Mission is to restructure & strengthen agricultural extension to enable delivery of appropriate technology and improved agronomic practices to the farmers.

'Custom Hiring Centers (CHC): CHCs are basically a unit comprising a set of costly, advance and bigger farm machinery, implements and equipments (used for tillage, sowing, planting, harvesting, reaping, threshing, plant protection, inter cultivation and residue management) meant for custom hiring (on rental basis) by farmers on rental basis who could not afford to purchase the high-end agriculture machineries and equipment. Govt. through SMAM is providing funds/subsidy to Rural level entrepreneurs, SHGs etc. to set up CHCs. Under the SMAM scheme, subsidy is being provided by Govt. @ of 40% of the project cost to individual farmers up to a project cost of Rs.60 lakh and 80% to the group of farmers up to a project cost of Rs. 10 lakh for setting up Custom Hiring Centres.

As per Economic Survey 2019-20, farm mechanization in India is only about 40 per cent as compared to about 60 per cent in China and around 75 per cent in Brazil.

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16. Agriculture Infrastructure Fund

(Launched under Aatma Nirbhar Bharat Package)

Agriculture Infrastructure Fund is a Central Sector Scheme which shall provide **medium to long term debt financing facility** for investment in viable projects for **post-harvest management Infrastructure and community farming assets through interest subvention and financial support**.

- Under the scheme, Rs. One Lakh Crore will be provided by banks and financial institutions as loans to Primary Agricultural Credit Societies (PACS), Marketing Cooperative Societies, Farmer Producers Organizations (FPOs), Self Help Group (SHG), Farmers, Joint Liability Groups (JLG), Multipurpose Cooperative Societies, Agri-entrepreneurs, Start-ups, Aggregation Infrastructure Providers and Central/State agency or Local Body sponsored Public Private Partnership Projects.

- For all the loans under this financing facility, Government will provide **interest subvention of 3%** per annum for loans up to Rs. 2 crore and the subvention will be available for a maximum period of seven years.

- Further, credit guarantee coverage will be available to borrowers from this financing/fund facility under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme for a loan up to Rs. 2 crore and the **fee** for this coverage will be **paid by the Government**.

- The total budgetary support from Govt. of India against **subvention and guarantee** will be Rs. 10,736 crores.

- The scheme by way of facilitating formal credit to farm and farm processing-based activities is expected to create numerous job opportunities in rural areas. The duration of the Scheme shall be from FY2020 to FY2029 (10 years).

17. Animal Husbandry Infrastructure Development Fund

(Launched under Aatma Nirbhar Bharat Package)

- The purpose of the Animal Husbandry Infrastructure Development Fund (AHIDF) is to incentive investments for establishment of dairy and meat processing and value addition infrastructure and establishment of animal feed plant in the private sector.

- The eligible beneficiaries under the Scheme would FPOs, MSMEs, Not for Profit Companies, Private Companies and individual entrepreneur with minimum 10% (margin) money contribution by them for the project and the balance 90% would be the loan component to be made available by scheduled banks.

- Government of India will provide 3% interest subvention (4% to beneficiaries from aspirational districts) to eligible beneficiaries.

- There will be 2 years moratorium period for principal loan amount and 6 years repayment period thereafter.

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18. SAMPADA

(Scheme for Agro-Marine Processing and Development of Agro-processing clusters)

The objective of SAMPADA scheme is to supplement agriculture, modernize processing (of marine and agri-produce) and decrease agri-waste. With an allocation of Rs. 6,000 crore, the scheme is expected to leverage investment and create a handling capacity of 33.4 Million Tonne, benefiting 20 lakh farmers and in the process generating 5 lakhs of direct and indirect jobs in the country by the year 2019-20.

SAMPADA is an umbrella scheme incorporating ongoing schemes of the government like:

- Mega Food Parks, Integrated Cold Chain and Value Addition Infrastructure, Food Safety and Quality Assurance Infrastructure, etc.

And also new schemes like:

- Infrastructure for Agro-processing Clusters, Creation of Backward and Forward Linkages, Creation of Food Processing & Preservation Capacities

Advantages:

- The implementation of SAMPADA will result in creation of modern infrastructure with efficient supply chain management from farm gate to retail outlet
- It will not only provide a big boost to the growth of food processing sector in the country but also help in providing better prices to farmers and is a big step towards doubling of farmers' income
- It will create huge employment opportunities especially in the rural areas
- It will also help in reducing wastage of agricultural produce, increasing the processing level, availability of safe and convenient processed foods at affordable price to consumers and enhancing the export of the processed foods

- *42 Mega food parks are being set up with an allocated investment of $2.38 billion out of which 20 have become operational as of now.*
- *232 cold chain projects are being setup to develop supply chain infrastructure out of which 160 projects have become operational.*

PM Matsya Sampada Yojana (PMMSY)

The PMMSY is implemented as an umbrella scheme with two separate Components namely (a) Central Sector Scheme (CS) and (b) Centrally Sponsored Scheme (CSS). The scheme will bring about **Blue Revolution** through sustainable and responsible development of fisheries sector in India.

The objectives of the scheme are:

- Harnessing of fisheries potential in a sustainable, responsible, inclusive, equitable manner
- Developing Marine, inland fisheries and aquaculture
- Enhancing of fish production and productivity through expansion, intensification, diversification and productive utilization of land and water
- Modernizing and strengthening of value chain - post-harvest management and quality improvement
- Development of infrastructure - fishing harbours, cold chains, markets etc.
- Doubling fishers and fish farmers' incomes and generation of employment
- Enhancing contribution to Agriculture GVA and exports
- Social, physical and economic security for fishers and fish farmers
- Robust fisheries management and regulatory framework
- Govt. will register "***Sagar Mitra***" to provide fisheries extension services and will encourage formation of **Fish Farmers Producer Organizations** to help achieve the PMMSY goals

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19. Tomato Onion Potato (TOP)

Objectives:

- Enhancing value realization of TOP farmers by targeted interventions to strengthen TOP production clusters and their FPOs, and linking/connecting them with the market.
- Price stabilization for producers and consumers by proper production planning in the TOP clusters and introduction of dual use varieties.
- Reduction in post-harvest losses by creation of farm gate infrastructure, development of suitable agro-logistics, and creation of appropriate storage capacity linking consumption centers.
- Increase in food processing capacities and value addition in TOP value chain with firm linkages with production clusters.
- Setting up of a market intelligence network to collect and collate real time data on demand and supply and price of TOP crops.

Strategy:

The scheme will have two-pronged strategy of Price stabilization measures (for short term) and integrated value chain development projects (for long term).

- Short term Price Stabilization Measures:

  NAFED will be the Nodal Agency to implement price stabilization measures. MoFPI will provide 50% of the subsidy on the following two components:

  - Transportation of Tomato Onion Potato (TOP) Crops from production to storage
  - Hiring of appropriate storage facilities for TOP Crops

- Long Term Integrated value chain development projects

  - Capacity Building of FPOs & their consortium
  - Quality production
  - Post-harvest processing facilities
  - Agri-Logistics
  - Marketing / Consumption Points
  - Creation & Management of e-platform for demand and supply management of TOP Crops

Under Aatma Nirbhar Bharat Abhiyan, Govt. of India has introduced the scope of this scheme from TOP to TOTAL for all fruits and vegetables.

*In Oct. 2020, Ministry of Food Processing Industries gave 50% subsidy on transportation of notified fruits and vegetables through '**Kisan Rail**' trains under TOP to TOTAL scheme.*

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20. Fertilizer Subsidy

Urea Subsidy (under New Urea Policy): There are around 30 companies involved in domestic urea production and 3 companies are allowed to import urea into the country. No new capacity has been added in the past 17 years due to lack of an appropriate policy framework. It has led to the stagnation of domestic production of urea at 25 million tonnes (MT), but the consumption has increased to around 33 MT, implying 8 MT of imports.

Presently Govt. **intervenes** in the production and distribution of urea in the following ways:

- Govt. sets a controlled Maximum Retail Price (MRP) at which urea must be sold to the farmers which is Rs. 5.36/kg (imported/ international price is approximately Rs. 20/kg).
- Government provides subsidy to urea plants based on the difference between the MRP and cost of production (**group-based norms**) and is paid to the fertilizer company.
- Only three companies are allowed to import urea into India (***canalisation***).
- About half of the movement of fertilizer is **directed** (regulated) i.e. the government tells manufacturers and importers how much to import and where to sell their urea.

DAP (P) and MOP(K) (Nutrient Based Subsidy)

The subsidy regime in DAP and MOP fertilizers is called Nutrient Based Subsidy (NBS) which is in effect since 2010. Under this regime, the producers and importers of DAP and MOP fertilizers receive subsidy based on the amount of nutrient (N, P & K) present in a given amount of fertilizer. Per kg of subsidies on DAP and MOP fertilizers are hence fixed by the government **every year** and they do not vary with the market prices. The market prices (at which farmers purchase) of these fertilizers are **deregulated** (but are adjusted with fixed nutrient subsidy given by the government) i.e. manufacturers are **free to decide the market price** at which they want to sell. This means that the producers and importers are **free to sell these fertilizers at any price but since** they receive a **fixed subsidy** from the Govt. and due to competition in the market, they reduce the market price in proportion to the subsidy. The government involvement in DAP and MOP fertilizers is limited to paying producers and importers a fixed nutrient-based subsidy which works out to be roughly 35 percent of the cost of production.

DBT in Fertilizer: In **January 2018**, Government implemented DBT facility for fertilizer subsidies in all States/UTs. The DBT model in fertilizers is different from the conventional system of DBT being implemented in LPG. Under DBT system in fertilizer subsidies, the farmers/beneficiaries continue to receive Urea at statutory subsidized prices (Rs. 5.36/kg) and P&K fertilizers at subsidized prices in the market. The fertilizer companies which earlier used to receive subsidy on receipt of fertilizers at the district level; now get the subsidy only after the fertilizers are sold to farmers by the retailers through Point of Sale (PoS) machines through biometric authentication by Aadhar Card or Voter ID Card or Kisan Credit Card.

Government has done a study to implement Direct Cash Transfer, DCT (which is basically the DBT being implemented in case of LPG) where farmers will be purchasing the fertilizers at the market price and govt. will be transferring the cash amount in the farmers account. But most of the farmers do not want this mechanism of DCT, as the farmers will have to pay upfront market price which may be quite high and they will have to wait for the government money in their account which is generally delayed and in some case it has not come. To remove this problem of upfront payment of market price by farmers, government is planning to create **e-wallet account** for every farmer and transfer the money before the sowing season in the e-wallet of every farmer and upon the actual purchase by farmers it will be adjusted and carry forwarded to next year.

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21. National Technical Textiles Mission

Technical textiles are textiles materials and products manufactured primarily for specific scientific functions and industrial applications rather than for its look and beauty (aesthetic properties) is described as technical textiles. In a nutshell, technical textiles are any fibre, yarn or fabric produced with a particular purpose and finish for a well-defined end use. For example, a 100% cotton plain weave fabric with antimicrobial finish can be used as a medical textile whereas the same 100% cotton fabric with the fragrant finish can be used as home textile or a cloth textile fabric.

Function wise, Technical textiles are categorized into four main aspects:

1) Mechanical functions: Pliability, resilience, tenacity and resistances are considered
2) Exchange functions: Substitutes, materials used for separation, heat transfer, and absorptions are looked for
3) Utility (for day to day living) functions: Eco systems and health care products are wisely pooled together to form utility functions
4) Protective functions: It includes fabrics which protect/shield us against electrical, IR, UV and chemical harshness

Product wise, Technical Textiles products are divided into 12 broad categories like Agrotech, Buildtech, Clothtech, Geotech, Hometech, Indutech, Mobiltech, Meditech, Protech, Sportstech, Oekotech and Packtech depending upon their application areas. For example, in aggrotech, the textile material is used in all types of fibre yarns and fabrics used in the area of farming, gardening, fish rearing, landscaping and forestry.

Indian textile segment is estimated at $16 billion which is approximately 6% of world market size of $250 billion. **Penetration level of technical textiles is low in India at 5-10%,** against 30-70% in advanced countries. However, the annual average growth of the segment is 12% in India, as compared to 4% world average growth.

National Technical Textile Mission

CCEA approved setting up of "National Technical Textiles Mission" at a total outlay/budget of Rs. 1480 crore, (it was proposed in the budget 2020-21) which will be implemented for four years starting from 2020-21 and will have four components:

Component I: It will focus on **research and development and innovation**. The research will be at both, fibre level and application-based in geo, agro, medical, sports and mobile textiles and development of bio-degradable technical textiles. Research activities will also focus on development of indigenous machinery and process equipment.

Component II: The mission will focus on promotion and development of market for technical textiles. It will aim at average growth of 15-20% per year taking the level of **domestic market** size to $40-50 Billion by the year 2024; through market development, market promotion, international technical collaborations, investment promotions and 'Make in India' initiatives.

Component III: This component aims at **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 up to 2023-24 till the mission ends. An Export Promotion Council for Technical Textiles will be set up for effective coordination and promotion activities in the segment.

Component IV: This component will promote **technical education** at higher engineering and technology levels related to technical textiles and its application areas covering engineering, medical, agriculture etc. Skill development will be promoted and adequate pool of highly skilled manpower resources will be created.

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22. Migrant Labour: Issues and reforms

According to the 2011 census, there are 5.6 crore migrant labourers from the States of Uttar Pradesh, Bihar, Jharkand, Rajasthan and Madhya Pradesh traversing state borders for informal contract work in more developed parts of the country . Though there is no official data available, it is estimated that currently there are at least 10 crore migrant labourers, accounting for 10% of India's GDP.

The following are issues faced by migrant labour:

- They are treated as second-class citizens
- Lack of proper accommodation, low standard of living, low wages, inaccessibility to state given services due to lack of identity proof and other documents
- Usually unable to speak the lingua franca of where they migrate to, rarely represented by any union or social movement, they are easily harassed by employers, government institutions and by other workers
- This vulnerability makes them more easily controlled, cheap and dispensable
- Unlike farmers, who benefit from several government schemes and labourers in rural areas who benefit from MNREGA — migrant labourers receive no formal government support

"The enduring economic disparities surfaced under the public gaze when the nationwide lockdown in India was announced following the Covid-19 global pandemic. The economic divide was discernible in the images of India's rich and middle class clapping hands on the terraces and balconies of their homes and the gloomy images of millions of poor walking on the roads with their kids, bereft of food, water and public transport, to reach home."

In order to protect the interests of migrant labourers and avoid their exploitation, the **Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, was passed in 1979** which has now been replaced by **The Occupational Safety, Health and Working Conditions Code, 2020.** The following are the various features/benefits for migrant labourers incorporated in the new Code, 2020:

- An inter-state migrant worker has been defined as who is employed in an establishment in another state and whose wages does not exceed **Rs. 18,000/month** or any higher amount notified by the Central Government.
- The Central Government and the State Governments shall maintain the database/record for inter-State migrant workers
- It shall be the responsibility of the contractor or the employer to ensure suitable conditions of work for the inter-state migrant worker
- Extend all benefits to the inter-state migrant worker which is available to any other worker regarding provident fund, insurance, medical check-up etc.
- The employer shall pay, to every inter-state migrant worker, in every year a lump sum amount of fare to and fro journey to his native place from the place of his employment
- The government shall make scheme to provide an option to the inter-State migrant worker for availing benefits of PDS either in his native state or where he is employed

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23. Fixed Term Employment

Fixed Term Employment is a contract in which an enterprise hires a labour for a specific period of time or a specific task (ex. a project) and the payment is fixed in advance and is not altered till the term expires. Such contracts are not given for routine jobs and are usually given out for jobs which are temporary in nature. After the term expires the worker will leave the job and there is no case of firing of worker and he gets all the benefits of regular/permanent workers.

Till now, companies used to hire **Contract Workers** through an external agency i.e. contractor (basically the contractor has a pool of labours which they provide to the companies on contract basis for non-core activities), and the company pays compensation to the contractor/agency which then forwards the payment to the contract labourers. But in-between, the contractor deducts a hefty amount and do not pass all the benefits provided by the companies to the contract workers. In case of contract labour, the labour is **not on the "payroll"/employee of the company** but is of the employee of the contractor.

In case of "**Fixed Term Employment**", the Company can hire the labour for a particular project or for a particular time and the labour such hired will be on the **payroll of the company** and the company will pay direct salary to the labour and company will offer all such benefits like PF, gratuity, medical insurance etc. and other social security benefits to the labour. And once the Project is over or the time period is over, the company will ask the labour to leave. The clause (that companies need permission to fire workers if it has more than 300 workers) will not be applicable on "fixed term employment" workers as they were hired at the first place only for that particular project or fixed time period.

Central Govt. had introduced "Fixed term employment" provisions in the existing labour acts but States did not notify that provision. The new Industrial Relations Code 2020 which was passed by the parliament recently has included fixed term employment for all industries **which will now ensure a pan-India implementation.**

Positives of fixed term employment:

- Industries will have the flexibility in employment and will lead to more job creation in the formal sector
- Industries can hire workers for a fixed term directly without going through the contractor
- As per the newly enacted Labour Codes, fixed term employment workers should get wages and allowances equal to that of permanent worker
- The fixed term employment worker will be eligible for all statutory benefits like PF, gratuity, medical insurance which are available to a permanent worker proportionately according to the period of service

Negatives of fixed term employment:

Due to the introduction of “fixed term employment”, there is a risk that companies may convert even their permanent/regular workers into "Fixed Term Employment" as there is no issue of hiring and firing of the "fixed term" workers. The fixed term workers will have to automatically leave after the term or task is over and if the company wants them to stay for more, then the companies can always extend their term.

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24. Minimum Wages

- Central government announces National Floor Level Minimum Wage (NFLMW) which is **non-statutory** but acts as a benchmark that pulls up the wages of the workers. NFLMW does not operate as a conventional floor wage to protect the lowest paid workers. Currently NFLMW is Rs. 176/day.

- India was one of the first developing countries to introduce minimum wages with the enactment of the Minimum Wages Act way back in 1948. The Act protects both regular and casual workers. Minimum wage rates are set both by the Central and State governments for employees working in selected 'scheduled' employment. Minimum wages have been set for different categories of workers according to skill levels, locations and occupations.

- Complex Minimum Wage System in India
  - ❖ The first set of complexity arises from issues related to its coverage.
    There are nearly 429 scheduled employments and 1,915 scheduled job categories for unskilled workers for which minimum wages is set.

  - ❖ The second set of complexities arises from the lack of uniform criteria for fixing the minimum wage rate.
    In some states minimum wages are linked to the cost of living through a variable dearness allowance (VDA), whereas other states do not include VDA component.

  - ❖ The third set of complexities arises from the fact that Minimum Wages Act does not cover all wage workers.
    One in every three wage workers in India is not protected by the minimum wage law. Some major vulnerable categories – such as domestic workers – are presently covered only in 18 States and UTs.

- The main justification for persisting with different levels of minimum wages across states is that they reflect different levels of economic development. The proliferation of minimum wage rates and scheduled employments is a strong deterrent for compliance.

- A simple system covering as many workers as possible, understood by all, and easily enforceable is the key to improve the effectiveness of minimum wage. India's growth story has been powered by private consumption. Therefore, with more than 90% workers in informal economy, a well-designed minimum wage system can reduce inequalities in incomes, bridge gender gaps in wages and alleviate poverty.

- But keeping the minimum rate at a much higher level may hurt investment in labour-based industries in India as India will lose competitiveness in terms of cheap labour.

Pls also check the provision of minimum wages as per the new labour codes.

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25. (New) Labour Codes

*Central government has merged the existing labour laws into four labour codes. These four labour codes have become **acts** but **has not come into force yet**.*

1. The Code on Wages, 2019

It has replaced (repealed) four previous acts viz:

- *Payment of Wages Act, 1936*
- *Minimum Wages Act, 1948*
- *Payment of Bonus Act, 1965*
- *Equal Remuneration Act, 1976*

- The central government shall fix **floor wage** (which will be applicable for both organized and unorganized sector) taking into account minimum living standards of a worker in such manner as may be prescribed. Provided that different floor wage may be fixed for different geographical areas. State governments will fix the minimum wages (which may be different for different skill-category of workers) for their states which cannot be lower than the floor wage (of the central government). The code also provides that there would be a review/ revision of minimum wages at intervals not exceeding five years. Further, the rate of wages for overtime work shall not be less than **twice** the rate for normal wages. MGNREGA wages have been kept outside the purview of Code on Wages.

- In case the employee is removed, dismissed, retrenched, resigns or becomes unemployed due to closure of an establishment, the wages are required to be paid within two working days.

- The Code has expanded the definition of "employer" as well as "employee", resulting in a broad based applicability of the regulations and is now applicable to employees in both **organized** and **unorganized** sectors.

- The provisions of the previous Minimum Wages Act and the Payment of Wages Act used to apply only to workers drawing wages below a particular **ceiling** and working in **scheduled employments** only. However, under the Code, the minimum wages and the payment of wages provisions cover **all establishments, employees and employers.**

- The definition of "wages" includes basic pay, dearness allowance and retaining allowance. It specifically excludes components such as statutory bonus, utilities (light, water, medical etc.), conveyance allowance, house rent allowance, overtime allowance etc. The specified exclusions however **may not exceed 50%** of the total **remuneration**. This is aimed at ensuring that companies do not adopt compensation structures which result in wages being reduced below 50% of the total compensation.

- All employees whose wages do not exceed a specific monthly amount (to be notified by the central or state government) will be entitled to an **annual bonus**. Bonus is payable on higher of minimum wage or the wage ceiling fixed by the appropriate government for payment of bonus. Minimum bonus prescribed under the Code is 8.33 percent and the maximum bonus payable is 20 percent of the wages.

- The cut-off date for salary disbursement has been advanced to the 7th of the subsequent month.

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2. **The Occupational Safety, Health and Working Conditions Code, 2020**

It has replaced (repealed) 13 previous acts including The Factories Act 1948.

- The code deals with the duties of the employer in respect of workplace safety and working conditions, and makes issue of **employment letter** a must for all employees, a move that will promote formalisation of employment.

- The code specifies leave and working hours (which is **limited at 8 hours**, and any overtime requires workers' consent and wages have to be doubled), requires health and safety norms including adequate lighting and ventilation and other welfare facilities such as separate toilets for male, female and transgender employees.

- A manufacturing unit will be defined as a factory if it employs **20 workers** (and uses electricity) or **40 workers** (without using electric power)

- The government may, in public interest, **exempt** any new industrial establishment from "all or any of the provisions" of the Codes in the interest of increased economic activity and employment generation.

- **Employment of women** has been allowed in all establishments for all types of works and in the night shift, subject to their consent and requires employers to provide adequate safeguards. This will promote gender equality.

3. **The Code on Social Security, 2020**

It has replaced (repealed) 9 previous Acts.

- The Code proposes social security benefits to all employees and workers in the country (around 50 crores) including those in the **unorganized sector** leading to universalization of social security.

- "**Social Security Fund**" will be created to fund social security schemes for extending benefits like death and accident insurance, maternity benefit and pension cover to all of the 90% (basically informal) of the country's over 50 crore workforce who do not till now come under any sort of social security cover.

- Scheme will be framed for unorganized workers, gig workers, platform workers and even those self-employed and the members of their families for providing benefits. Establishments will be allowed to join Employees' Provident Fund Organization (EPFO) and Employees' State Insurance Corporation (ESIC) on voluntary basis even if they have fewer workers (less than 20 in case they use electricity or less than 40 in case they do not use electricity).

- EPFOs coverage would be applicable on all establishments having 20 workers. Earlier it was applicable only on establishments included in the relevant Schedule.

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4. **The Industrial Relations Code, 2020**

The new Act replaces the following previous acts (some provisions will be repealed as and when the code comes into effect and some provisions may be repealed in future):

- *The Trade Unions Act, 1926*
- *The Industrial Employment Act, 1946*
- *The Industrial Disputes Act, 1947*

- A much larger segment of firms – those with workers up to **300** (as against 100 earlier) will be able to resort to closure and retrenchment/ lay off without prior government permission. And the state governments are authorized to increase this 300 threshold just by a **notification**.

- Companies having more than 300 workers need to apply for approval to layoff any worker, but if authorities do not respond to their request then it will be **deemed approved**.

- The government may, in public interest, **exempt** any (existing or new) industrial establishment from "all or any of the provisions" of the Codes for a specified period.

- The Code **prohibits** the employment of **contract workers** in any **core activity**, and specifically permits employment in a specified list of **non-core** activities including canteen, security and sanitation services.

- **Fixed Term Employment** has been made applicable for all industries which will help those businesses that witness seasonal spurt/change in activities.

- Requirement of mandatory **14-day notice** for strikes and lockouts will now apply to all units which was earlier for just public utility firms.

- Definition of strike has been amended to include 'mass casual leave' within its ambit. Concerted **casual leave** on a certain day by **50% or more workers** will be treated as a strike.

- Proliferation of Trade Unions will be curbed, as only those unions with support of more than **51% of the workers** on the muster roll of the unit concerned will have the right to negotiate the terms with the management.

- Encourages resolution of disputes through negotiation.

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Arguments in favour of labour laws

- The new labour codes were the demand of the changing time and changing requirements as some of the labour laws dates back to pre-independence period. It balances the labour welfare and industry welfare.

- Will simplify the labour laws and ensure a conducive environment for doing business which will immensely help the country in brining much needed economic growth and will help in employment generation.

- Will promote investment and will create harmonious industrial relations in the country.
- As a relaxation to small enterprises, the Occupational Safety Code (which prescribes safety standards and maximum work hours) exempts small establishments from its purview.

- Labour issue is in the Concurrent list of the Constitution and therefore states have been given the flexibility to make changes in the labour laws as they wish to attract companies for investment. Many essential features which were present in the previous laws are no longer specified in the new labour Codes but have been **delegated** to be prescribed by the government through **Rules** (for example retrenchment threshold, social security schemes, safety standards etc.)

- The labour reform was two decades in the making. It drastically reduces complexity and internal contradictions, increases flexibility & modernizes regulations on safety/working conditions.

Criticism

- Tilted in favour of the employers and would adversely affect industrial peace
- Bargaining power of the worker has been diluted
- The power given to States to exempt provisions of the codes can have serious implications on workers' rights and safety

Key Points/Highlights of Labour Laws

- Gives industries flexibility in doing business and hiring & firing
- Make industrial strikes difficult while promoting fixed term employment
- Reduces influence of trade unions
- Reduction of cost & complexity in compliance
- Lead to formalization of jobs resulting in increase in wages to employees
- Universalization of minimum wages and making it statutory rights
- Universalization of social security by expanding benefits to informal sector workers

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26. Make in India

- Govt. of India launched the "Make in India" campaign in Sept. 2014 which is the first of its kind for the manufacturing sector as it addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism and other pertinent factors
- It contains a vast number of proposals including easier norms and rules designed to get foreign companies to set up shop and make the country a manufacturing powerhouse
- The initiative targets 25 sectors to make India a manufacturing hub

The main targets under the scheme are:

- Increase in manufacturing sector growth to 12-14% per annum
- Increase in the share of manufacturing in country's GDP from 15% to 25% by 2025
- Create 100 million additional jobs by 2022 in manufacturing sector
- Increase in domestic value addition and technological depth in manufacturing
- Enhance the global competitiveness of the Indian manufacturing sector
- Create appropriate skill sets among rural migrants & urban poor for inclusive growth

Challenges faced by the "Make in India" Initiative":

- **Labour Productivity is low**: India's manufacturing sector's productivity is low and the skills of the labour force are insufficient. According to McKinsey's report, the Indian workers in the manufacturing sector are, on average, almost four to five times less productive than their counterparts in Thailand and China.
- **Investment from shell companies:** The major part of the FDI inflow is neither from foreign nor direct. Rather, it comes from Mauritius-based shell companies that are suspected to be investing black money from India.
- **The size of the industrial units is small** and therefore, it cannot attain the desired economies of scale. It also cannot invest in modern equipment and develop supply chains.
- **Complicated Labour laws:** The Indian labour laws were conceived during the independence period and are based on import-substitution and statist (state intervention and control) model of economic development which are not suited to the present time of highly competitive world. *(New labour laws have still not come into effect)*
- **Lack of Transportation:** Government has not been able to add enough railway track which can provide cheaper mode of transportation for goods in bulk across the country
- **Costly Electricity:** India lacks in providing cheaper and consistent electricity which is a must for a manufacturing enterprise
- **Delay in Land Acquisition:** The land acquisition process in India takes around 3 to 4 years as compared to two years in other emerging economies. *(DPIIT has created a National **Land Bank Portal** which will map around 5 lakh hectares of land, spread across various industrial belts and special economic zones. This will allow Govt. to offer land to private investors right away, rather than having to wait for the lengthy process of land acquisition)*

Successful Examples of Make in India: Manufacturing of railway coaches (Indian Coach Factory Chennai, Rail Coach Factory Kapurthala), defence manufacturing (HAL Tejas Light Combat Aircraft), mobile phone manufacturing (Samsung mobile factory in Noida) and automobiles (India is set to become the world's 3rd largest auto market by 2020) are quite successful examples of make in India initiative.

Defence Manufacturing: *India is among top 5 military spenders and one of the emerging defence manufacturing hubs in the world. To support the growth of the defence sector and enhance manufacturing capacity in the sector, two Defence Industrial Corridors are being set up in India, one in Uttar Pradesh and the other in Tamil Nadu.*

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27. Micro, Small & Medium Enterprises (MSMEs)

MSME sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring equitable distribution of national income and wealth and leading to socio economic development of the country. MSMEs don't compete with large scale industries rather they **complement** them as ancillary units and play critical role in manufacturing value chains. They also play a key role in the development of economies with their effective, efficient, flexible and innovative entrepreneurial spirit.

Certain facts regarding MSMEs

- Contributes 30% to India's output/GDP
- Contributes 45% to manufacturing output/GDP
- Contributes 40% of to exports
- Around 6.34 crore MSMEs (90% are informal) employing more than 11 crore workers

Challenges faced by MSMEs

- Absence of adequate and timely banking finance
- Limited capital and knowledge
- Non-availability of suitable technology
- Low production capacity and not able to exploit economies of scale
- Ineffective marketing strategy
- Constraints on modernization & expansions
- Non availability of skilled labour at affordable cost
- Follow up with various government agencies to get payment and resolve problems

Steps taken by Govt. to support/reform MSMEs

- Udyog Aadhar Number: MSMEs can file one page registration form (Udyog Aadhar Memorandum) that would constitute a self- declaration format under which the MSME will self-certify its existence, bank account details, promoter/owner's Aadhaar detail and other basic details, based on which MSMEs will be issued a unique identifier i.e. "Udyog Aadhar Number" which enable MSMEs to seek information and apply online about various services being offered by all Ministries and Departments. ***(based on KV Kamath committee report)***
- ASPIRE: Government has launched A Scheme for Promoting Innovation and Rural Entrepreneurs (ASPIRE) with the objective of setting up a network of technology centers and incubation centers to accelerate entrepreneurship and promote start-ups for innovation and entrepreneurship in rural and agriculture-based industries.
- Employment Exchange: Government of India has launched Employment Exchange for Industries to facilitate match making between prospective job seekers and employers
- Government has created a framework for revival and rehabilitation of MSMEs
- Cheaper access to credit: Ministry of MSME has decided that a new scheme viz. "Interest Subvention Scheme (@ 2%) for Incremental credit to MSMEs 2018" will be implemented over 2018-19 and 2019-20.
- Faster access to credit: MSMEs are provided in-principle approval of working capital and term loan worth Rs. 1 lakh to Rs. 1 crore in 59 minutes
- Change in definition of MSMEs: MSMEs can expand their business up to a turnover of Rs. 250 crore (and investment up to Rs. 50 cr) and can still enjoy the benefits of being MSMEs

U K Sinha *Committee proposed long-term solutions/reforms for MSMEs for its economic and financial sustainability out of which some have been implemented.*

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28. Production Linked Incentive Scheme (PLIS)

Govt. has launched this scheme for manufacturing of mobiles, medical devices and pharmaceuticals and is planning to extend this scheme for eight more sunrise sectors which has export potential.

Explanation of PLIS scheme: If a company's sales of goods manufactured in India increases from a particular year (considered as base year) then the Company will get an incentive of 4% to 6% on incremental/additional sales. For example earlier a company was selling goods worth Rs. 1 lakh in a year and now its sales increased to Rs. 1.2 lakh. Then the company will get incentive of 4% on Rs. 20,000 = Rs. 800. There is condition of additional investment in plant and machinery also under this scheme.

In similar way it is being implemented for pharma sector also. Under this scheme for pharma sector, around 53 active pharmaceutical ingredients (APIs) — covering 41 products — have been identified by the government, for which companies will be eligible for financial incentives based on their additional sales, provided they set up indigenous Greenfield investment.

The scheme intends to boost domestic manufacturing of identified Key Starting Materials (KSMs), Drug Intermediates and APIs by attracting large investments in the sector and thereby reduce India's import dependence in critical APIs.

Fact: *Indian pharmaceutical industry is the third largest in the world by volume and 14th largest in terms of value. India contributes 3.5 per cent of total drugs and medicines exported globally. Despite these achievements, India is significantly dependent on import of some basic raw materials (from China), viz., bulk drugs and APIs used to produce finished dosage formulations.*

Trade Margin Rationalization (TMR)

Trade margin is the difference between the price at which manufacturers/importers sell to stockists/distributors and the price charged to consumers (MRP) and TMR entails a cap on this margin.

The requirement of TMR comes into picture as the market place is skewed, where suppliers lure hospitals into buying and pushing their brands, based on profits to be made (by suppliers) and not on the basis of cost savings to be made on procurement cost by a hospital, thus leading to an artificial inflation of medical device prices. The main aim of rationalization of trade margins in medical devices should be not only to help consumers, but also allow rationalized and reasonable profits for traders, importers, distributors, and wholesalers & retailers, and create a level playing field for domestic industry vis-à-vis foreign manufacturers. Businesses need profits to grow and serve their clients adequately, but profiteering (excessive unfair profit) should be a strict no-no for healthcare delivery. We also have a responsibility towards the society where poor people should be able to afford medical devices like stents etc. at affordable prices.

When trade margins are capped, the manufacturers' margins are not impacted. So, there is no issue of quality of medical devices getting compromised or innovation getting stifled.

Government is now contemplating two formulae—one suggested by the Niti Aayog to fix trade margins on medical devices at 65%, and other by the Department of Pharmaceuticals (DoP) that seeks to fix trade margins at 50 %. Some kind of price caps already exists for medical devices like stents etc.

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29. E - Commerce

E-Commerce includes buying, selling, marketing or distribution of (i) goods, including digital products and (ii) services; through electronic network. Delivery of goods, including digital products, and services may be online or through traditional mode of physical delivery.

E-commerce and benefit to exports

- Electronic commerce helps in minimizing costs of marketing, advertising
- e-Commerce provides opportunity to sellers or traders and consumers to communicate and connect beyond the limitations of geography and time
- It helps in improving outreach to new markets and consumers. Apparel, textile and jewellery exporters are few examples.
- E-commerce has helped in better value realization for exporters because of reduction in costs due to multiple intermediaries in the traditional set-up

E-Commerce and the MSME Sector

- E-commerce (marketplace) is an excellent platform for Indian MSMEs to grow, as it allows them to expand and scale up their reach by getting access to world market and enjoying a level playing field.
- It opens up a global market for product categories such as diamonds, gems and jewellery, finished leather goods, granite and marble, handloom products, and handicrafts, and allows small-scale industries in India to reach an international consumer base
- Digitization has ensured that many small industries, which were previously isolated, have now become a part of a larger economy.
- Amazon has partnered with Federation of Indian MSMEs to help MSMEs to tap into opportunities in the e-commerce sector and sell their products online.

E-commerce and inequality

- We are witnessing a new digital world. In this world, the presence of network effects means size begets size: be it an e-commerce platform, social media network or search engine. The presence of 'network effects' means that in the era of data, the larger the firm, the greater the access to potential sources of data and greater the likelihood of its success.
- Greater access to data provides a greater digital capital to a corporation, granting it an advantage over its competitors. Without access to adequate data, MSMEs and start-ups remain at a disadvantage to develop a large number of innovative solutions.
- While people had hoped that the internet era would be a tool to minimize inequality and would give greater access to a larger number of sellers, benefit smaller sellers etc., reality has been somewhat different. While consumers have had access to benefits of increased competition by way of lower prices and greater variety, selling at loss and 'cash burning' and capital burning had anti-competitive consequences.
- A handful of companies today dominate the digital economy. They are successfully exploiting the significant **first mover's advantage** in the data-driven ecosystem. Once a certain scale is reached, it becomes virtually impossible for the 'second mover', on its own to, make an entry in this ecosystem.

E-commerce and WTO: India has thus far not been a party to negotiations on e-Commerce at the multilateral level. These negotiations, under WTO, are intended to create binding obligations on all the WTO member countries regarding (among other things) permanently accepting the moratorium on imposing customs duties on electronic transmissions. By agreeing to the permanent moratorium (India has agreed not to impose customs duty temporarily for the time being), countries which have tariff schedules, which allow putting duties on these kinds of products, will give up these rights forever and lose revenues.

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30. National Policy for Skill Dev. And Entrepreneurship

- *Today, India is one of the youngest nations in the world with more than 62% of India's population is in the working age group of 15 to 59 years*
- *Our country presently faces a dual challenge of paucity of highly trained workforce, as well as non-employability of large sections of the conventionally educated youth, who possess little or no job skills.*

National Policy for Skill Development and Entrepreneurship 2015 supersedes the policy of 2009.

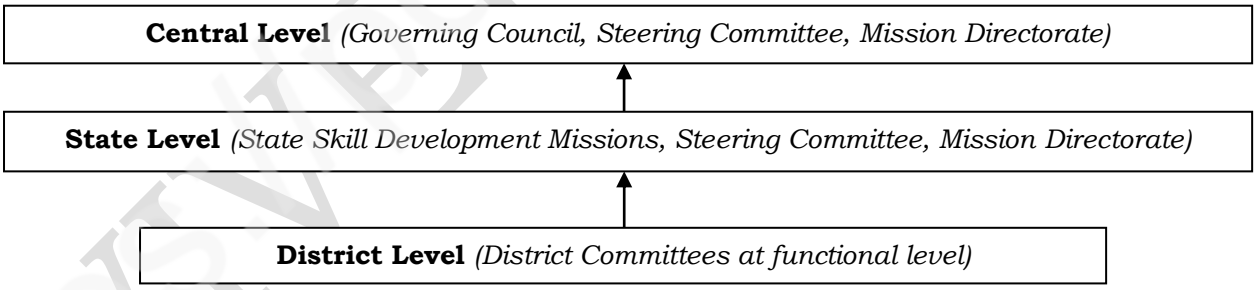
Vision: To create an ecosystem of empowerment by Skilling on a large Scale at Speed with high Standards and to promote a culture of innovation based entrepreneurship which can generate wealth and employment so as to ensure Sustainable livelihoods for all citizens in the country.

Objective: to empower the individual, by enabling her/him to realize their full potential through a process of **lifelong learning** where competencies are accumulated via instruments such as credible certifications, credit accumulation and transfer, etc. As individuals grow, the society and nation also benefit from their productivity and growth.

Mission

- Create a demand for skilling across the country
- Correct and align skilling with required competencies
- Connect the supply of skilled human resources with sectoral demands
- Certify and assess in alignment with global and national standards

The objectives and targets under the Policy will be met in mission mode approach and for that National Skill Development Mission was launched on 15th July 2015 (**World Youth Skills Day 15th July**) to implement and coordinate all skilling efforts in the country towards the objectives laid down in the policy. The Mission is housed under the Ministry of Skill Development and Entrepreneurship (MSDE) and the key institutional mechanism for achieving the objectives of the Mission has been divided into a three-tier structure:



Some initiatives of Government of India for Skilling:

- Pradhan Mantri Kaushal Vikas Yojana
- Pradhan Mantri Kaushal Kendra
- Jan Sikshan Sansthan
- Skill Acquisition and Knowledge Awareness for Livelihood Promotion ("**SANKALP**")
- Aspirational Skilling Abhiyan
- National Apprenticeship Promotion Scheme (**NAPS**)
- Skill Strengthening for Industrial Value Enhancement (**STRIVE**)
- **PRIME:** Ministry of Electronics and Information Technology has partnered with NASSCOM to create an online platform to upskill IT professionals in emerging technologies such as AI, Blockchain, Cybersecurity, IoT etc. to increase their employability called **Future Skills PRIME** (Programme for Reskilling/Upskilling of IT Manpower for Employability).

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31. Startups and policy enablers for innovation

As per Ministry of Commerce and Industry (DPIIT), an entity shall be considered as a Startup:

- *Up to a period of ten years from the date of its incorporation*
- *Turnover of the entity since its incorporation has not exceeded Rs. 100 crores in any FY*
- *The entity is working towards innovation, development or improvement of products or process or services, or if it is a scalable business model with a high potential of employment generation and wealth creation*

Government of India has launched various schemes over the past few years to promote a culture of entrepreneurship, innovation and startups in the country:

- **Stand Up India:** It is aimed at promoting entrepreneurship and job creation at the grassroots level, especially keeping in mind the SCs/STs and women

- **Start Up India:** Aimed at promoting bank financing for startup ventures to boost entrepreneurship and encourage job creation. Rural India's version of Startup India has been named Deen Dayal Upadhyaya Swaniyojan Yojana

- **Atal Innovation Mission (AIM):** Govt's flagship initiative to promote a culture of innovation and entrepreneurship in the country. AIM's objective is to develop new programmes and policies for fostering innovation in different sectors of the economy, provide platform and collaboration opportunities for different stakeholders create awareness and create an umbrella structure to oversee innovation ecosystem of the country.

- **Chunauti:** Govt. of India (MeitY) launched Project "Chunauti" (challenge) - Next Generation Startup Challenge Contest to further boost startups and software products with special focus on Tier-II towns of India. It aims to identify around 300 startups working in identified areas and provide them seed fund of up to Rs. 25 Lakhs and other facilities.

- **Priority Sector Lending (PSL):** Startups have now been included under the priority sector lending rules of RBI for credit from banks

- **Tax exemption:** Startups can avail tax holiday for 3 consecutive financial years out of its first ten years since incorporation

- **State Rankings:** DPIIT provides ranking of States based on the various policy initiatives regarding promotion and support of startups

- Knowledge Involvement in Research Advancement through Nurturing (**KIRAN**) Scheme

- The **Biotechnology Ignition Grant (BIG)** scheme

- **Govt. Connect:** Dept. of Animal Husbandary & Dairying has conducted a grand challenge in association with Startup India to award top startups with Rs. 5 lakhs in 5 categories

- **Corporate Connect:** Facebook in partnership with Startup India disbursed cash grants of $50,000 each to the top 5 selected startups

With more than 70,000 startups registered, India has the 3rd largest startup ecosystem in the world. As per the Economic Survey 2019-20, Maharashtra, Karnataka and Delhi are the top three performers in terms of State-wise distribution of recognized startups in India.

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32. AatmaNirbhar Bharat Vision/Philosophy and 5 pillars

Corona has resulted in one of the biggest and most unprecedented crises that the world is grappling today. It has impacted almost every country on the earth infecting more than 1.2 crore people and causing 6 lakh deaths. World all over is engaged in a battle to save precious lives.

As a nation today we stand at a very crucial juncture. Such a big disaster is a signal for India and it has brought a message and an opportunity for India. For example, when the Corona crisis started, there was not a single PPE kit made in India. The N-95 masks were produced in small quantity in India. Today we are in a situation to produce 2 lakh PPE and 2 lakh N-95 masks daily and we are exporting it too. We were able to do this because India turned this crisis into an opportunity.

We have been hearing since the last century that the 21st century belongs to India. We have seen how the world was before Corona and the global systems in detail. When we look at these two periods from India's perspective, it seems that the 21st century is the century for India. This is not our dream, rather a responsibility for all of us. The state of the world today teaches us that a (AtmaNirbhar Bharat) "Self-reliant India" is the only path.

But, today the meaning of the word self-reliance has changed in the global scenario. The debate on Human Centric Globalization versus Economy Centralized Globalization is on. India's fundamental thinking provides a ray of hope to the world. The culture and tradition of India speaks of self-reliance and the soul is *VasudhaivaKutumbakam.*

India does not advocate self-centric arrangements when it comes to self-reliance. India's self-reliance is ingrained in the happiness, cooperation and peace of the world.

This is the culture which believes in the welfare of the world, for all the living creatures and the one which considers the whole world as a family. Its premise is **'माता भूमिः पुत्रो अहम् पृथिव्यः' (land is our mother and we are her son)**-the culture that considers the earth to be the mother. And when the Bharat Bhumi, becomes self-sufficient, it ensures the possibility of a prosperous world. India's progress has always been integral to the progress of the world.

India's goals and actions impact the global welfare. When India is free from open defecation, it has an impact on the image of the world. Be it TB, malnutrition, polio, India's campaigns have influenced the world. International Solar Alliance is India's gift against Global Warming. The initiative of International Yoga Day is India's gift to relieve stress. Indian medicines have given a fresh lease of life to the people in different parts of the world.

These steps have brought laurels for India and it makes every Indian feel proud. The world is beginning to believe that India can do very well, so much good for the welfare of mankind can give.

The question is - how?

The answer to this question is – A Combined resolve of 130 crore citizens for a self-reliant India i.e. Aatma Nirbhar Bharat. Today we have the resources, we have the power, and we have the best talent in the world. We will make the best products, will improve our quality further, make the supply chain more modern, we can do this and we will definitely do it.

And this magnificent building of self-reliant India will stand on five Pillars.

- **First Pillar is Economy,** an economy that brings Quantum Jump rather than Incremental change.
- **Second Pillar is Infrastructure,** an infrastructure that became the identity of modern India.
- **Third Pillar is Our System**. A system that is driven by technology which can fulfill the dreams of the 21st century; a system not based on the policy of the past century.

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- **Fourth Pillar is Our Demography.** Our Vibrant Demography is our strength in the world's largest democracy, our source of energy for self-reliant India.

- **The fifth pillar is Demand.** The cycle of demand and supply chain in our economy, is the strength that needs to be harnessed to its full potential. In order to increase demand in the country and to meet this demand, every stake-holder in our supply chain needs to be empowered. We will strengthen our supply chain, our supply system built up with the smell of the soil and the sweat of our labourers.

But today's Aatma nirbhar Bharat is different as compared to the self-sufficiency model of development followed in the post-independence period in the following ways:

- In the post-independence period, we restricted our private sector and most of the industries were reserved for Govt. But today we are encouraging entrepreneurs and businesses and are disinvesting the PSUs and opening all the sectors for private businesses like coal, railway, defence, space etc.

- In the past we had **license raj** which required every industry to take govt. permission but today we are focusing more on ease of doing business and giving timely clearance.

- In the past we followed **import substitution** and isolationism and did not focus on exports but today we are willing to participate in the global supply chain and encouraging exports.

- In the post-independence period, we restricted foreign capital (FDI/FPI) and devoid ourselves of foreign technology, but today India is willing to attract foreign capital in every sector for 'Make in India'.

- We are supporting our MSME enterprises by providing them credit guarantee and other hand holding support rather than reserving products which could be produced only by MSMEs, which we did in the period before 1991. This will help our MSMEs to participate in the global supply chain and become competitive rather than making them inefficient.

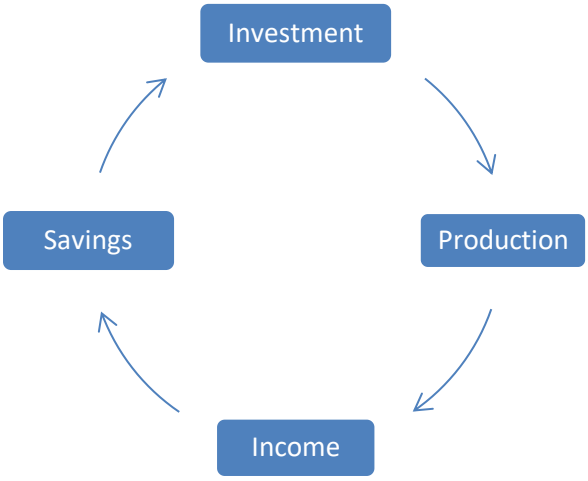
Thus today's "Aatma nirbhar Bharat" reflects upon the idea of 'self-reliance' given by Swami Vivekananda in the second half of the 19th Century, which was about resilience, leveraging internal strengths, personal responsibility, and a sense of national mission. Atmanirbhar Bharat is not just a slogan but a vision with deep roots in India's intellectual tradition and it means standing up confidently in the world, and not about isolationism behind "narrow domestic walls".

In Indian culture, it is said that 'सर्वम् आत्म वशं सुखम्' i.e. what is in our control, is happiness. Self-reliance leads to happiness, satisfaction and empowerment. Our responsibility to make the 21st century, the century of India, will be fulfilled by the pledge of self-reliant India. This responsibility will only get energy from the life force of 130 crore citizens. This era of self-reliant India will be a new vow for every Indian as well as a new festival. Now we have to move forward with a new resolve and determination. When ethics are filled with duty, the culmination of diligence, the capital of skills, then who can stop India from becoming self-reliant? We can make India a self-reliant nation. We will make India self-reliant.

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33. Investment led growth model and virtuous/vicious cycle



The produced items must be exported abroad because higher savings will not allow the produced items to be purchased/ consumed within the country. The demand of the production/ output should come from export market.

Important features of Investment led growth model

- *As per Economic Survey 2018-19, international experience, especially from high-growth East Asian economies, suggests that such growth can only be sustained by a "**virtuous cycle**" of savings, investment and exports catalyzed and supported by a favourable demographic phase.*

- Investment, especially private investment, is the "key driver" that drives demand, creates capacity, increases labour productivity, introduces new technology, allows creative destruction (those firms which are less efficient gets closed down), and generates jobs.

- The triggering macro-economic "**key driver**" that catalyses the economy into a virtuous cycle becomes critical and that key driver, in case of India, is the investment that can create a self-sustaining virtuous cycle. This investment can be both government investments in infrastructure (as such investment crowds in private investment) and private investment in itself.

- **Exports must form an integral part of the growth model because higher savings preclude (prevent) domestic consumption as the driver of final demand. Similarly, job creation is driven by this virtuous cycle.**

- While the claim is often made that investment displaces jobs, this remains true only when viewed within the silo of a specific activity. When examined across the entire value chain, capital investment fosters job creation as the production of capital goods, research & development and supply chains generate jobs.

- When the economy is in a virtuous cycle, investment, productivity growth, job creation, demand and exports **feed into each other** and enable **animal spirits** in the economy to thrive. In contrast, when the economy is in a "**vicious cycle**", moderation/reduction in these variables dampens each other and thereby dampens the animal spirits in the economy.

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34. Poverty Eradication: Public Services or Income Support

Poverty is defined as a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living. Poverty was around 66% when the British left India, and the population during the time was 33 crore. By 2011-12, the poverty level was reduced to 29.5%, (Rangarajan Report) or 36 crore people in absolute terms. More number of people lived in poverty in 2011-12 than population of India at Independence.

There has been focus on poverty since last fifty years *(Indira Gandhi gave the slogan "Garibi Hatao" in 1971)*, but still we have not been able to eradicate it. This is because the approach of public policy to the problem has been to initiate schemes which could serve as no more than a palliative, as suggested by the term 'poverty alleviation' commonly used in the discourse over time. These schemes failed to go to the root of poverty, which is **capability deprivation** that **leaves an individual unable to earn sufficient income through work or entrepreneurship**. **Income poverty is a manifestation of the deprivation, and focussing exclusively on income shortfall can address only the symptom.**

Poverty is capability deprivation. **Health, education and physical infrastructure** are central to the capabilities of individuals and the extent of their presence in a society determines whether the poor will remain so or exit poverty permanently. The scale at which these inputs would be required to endow all Indians with the requisite capabilities makes it more than likely that we would have to rely on public (Govt.) provision.

Rather than Universal Basic Income (UBI), from the perspective of eliminating poverty, Universal Basic Services (UBS) from public/Govt. sources are needed. The original case for a UBI came from European economists. This is not entirely surprising. **Europe is perhaps saturated with publicly provided UBS**. Also, the State in some of its countries is immensely wealthy. **So, if a part of the public revenues is paid out as basic income, the project of providing public services there will not be affected**. This is not the case in India, **where the task of creating the wherewithal for providing public services has not even been seriously initiated.**

There is a crucial role for services in eliminating the capability deprivation that is poverty. **As these services cannot always be purchased in the market**, **income support alone cannot be sufficient to eliminate poverty.** It is in recognition of the role of services in enabling people to lead a productive and dignified life that the idea of multi-dimensionality has taken hold in the thinking on poverty globally. **At a minimum these services would involve the supply of water, sanitation and housing apart from health and education**. It has been estimated that if the absence of such services is accounted for, poverty in India would be found to be far higher than recorded at present. The budgetary implication of the scale at which public services would have to be provided, if we are to eliminate multi-dimensional poverty, may now be imagined. This allows us to appraise the challenge of ending effective poverty and to assess the potential of the income-support schemes proposed by the main political parties.

There are no short cuts to ending poverty, but ending it soon is not insurmountable either, if we can focus more on income generation rather income support.

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35. Generic Drugs & Compulsory Licenses

Generic Drugs: A generic drug is a medication that has exactly the same **active ingredient** as the brand name drug and yields the same therapeutic effect. It is the same in dosing, safety, strength, quality, the way it works, the way it is taken, and the way it should be used. Generic drugs do not need to contain the same **inactive ingredients** as the brand name product, say colour or taste can be different.

However, a generic drug is generally marketed after the brand name drug's patent has expired, which may take up to 20 years. So, during the protection period of 20 years, the patent owner tries to recover its cost which it has spent on research and development and the drug is quite costly during this time as it is produced only by the patent owner under its brand name and others can't manufacture and sell. After the protection period is over, any company can sell the generic versions of the drug and there is fierce competitive which ultimately reduces the price of the drug.

But the (Indian Patent Act 1970) patent laws provide a remedy to the high price issue of branded drugs in the form of licenses to the generic manufacturers even during the protection period of 20 years. This remedy is available in the form of voluntary and compulsory licensing of the drug.

1. **Voluntary License**: Under this arrangement, a patent holder may give license (on its own) to the third party to manufacture, import and distribute generic versions of the pharmaceutical product and much more. The licensee of the patent will act as an agent of the company. The terms in a voluntary license may set price ranges, royalty from the distribution of the sales etc. [There is no legal provision given under Patent Act 1970 as this license access is done through mutual contractual agreement.]

2. **Compulsory License**: If the patent owner is exploiting its monopoly position and not manufacturing and supplying the branded drugs in the market or if the drug is not being made available at a reasonably affordable price in the market then government can give compulsory licenses in two ways:

a) If a manufacturer himself approaches the government that he can produce the drug (generic versions) at a very cheap price, but only after the negotiation between patent owner and manufacturer has failed for voluntary license. [Section 84 of Patent Act 1970]

b) In case of National emergency (pandemic like Covid-19) or extreme urgency, Govt. can give notification that it will give compulsory licenses to any manufacturer who wants to manufacture generic versions of the drug with such terms and conditions. [Section 92 of Patent Act 1970]

But in both the cases of compulsory license mentioned above, the manufacturer (the compulsory license holder) will have to pay royalty to the patent owner as decided by the government. "Trade Related Aspects of Intellectual Property Rights" (TRIPS) under WTO allows for compulsory licenses.

India can think of giving Compulsory Licenses for some Covid-19 vaccines under section 92 of the Patent Act 1970.

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36. Public Private Partnership (PPP) and Indian Railway

Rail Route to higher growth:

Increase in public infrastructure investment like railway, affects the economy in two ways:

- In the short run, it boosts aggregate demand and crowds in (pulls in) private investment due to the complementary nature of infrastructure services
- In the long run, a supply side effect also kicks in as the infrastructure-built feeds into the productive capacity of the economy

Railways are found to possess strong **backward linkages** (i.e. when we develop railway, it requires iron and steel as well as engineers therefore these industries will also develop with the growth of railways). Increasing investment in railway by Rs. 1 would increase output in the economy by Rs. 3.3. This large multiplier has been increasing over time and the effect is greatest on the manufacturing sector i.e. it will be good for "Make in India" also.

Further there are sectors where railway services are input to production i.e. **forward linkages** (with the development of railways other industries like power plant, tourism will also get developed where railways is used as input). A Rs. 1 push in railways will increase the output of other sectors by about Rs. 2.5. This forward linkage effect has declined over time but this is largely due to the capacity constraint in the railways which has led to reliance on other modes of transport mainly road.

Combining forward and backward linkage effects suggests a very large multiplier (over 5) of investment in railways i.e. Rs. 1 increase in railways investment would increase economy wide output (GDP) by more than Rs. 5. ***(As per Economic Survey 2014-15)***

Also, rail transportation has a number of favourable characteristics as compared to road transportation. It is six times more energy-efficient than road and three times more economical. The social costs in terms of environmental damage or degradation are significantly lower in case of rail transport.

Foreign Investment in railway up to 100%

On 27th August 2014, Government of India notified100% FDI through automatic route in ***railway infrastructure****, but not in* ***train operations and safety****.*

Railways are a capital intensive (i.e. huge amount of funds are required for development) sector and its growth depends heavily on availability of funds for investment in rail infrastructure. Currently, internal revenue sources (profit generated from Indian railway) and Govt. funding through budget are insufficient to meet the capital requirement of the cash strapped rail sector. Increased foreign investment cap of 100% in building and maintenance of rail infrastructure will help in bringing the required capital for the highly congested rail infrastructure.

Bibek Debroy Committee Report on Railway Reforms

Railway is going through its biggest reform since independence as proposed by "Bibek Debroy Committee". The Indian Railway will be separated into two:

- Railway Infrastructure Corporation (RIC), and
- Indian Railway Trains (IRT)

As Indian Railway Trains (IRTs) are public service provider of railway transport services, there will be private trains also running on the infrastructure provided by RIC. So basically, on RIC infra, both Govt trains (IRTs) and private trains will run.
Since both govt. and private trains will be running, it will require a "Regulatory Body", whose role will not be merely to set tariffs, but also ensure fair competition (such as access to track) between IRTs (govt. trains) and private train operators. The Railway ministry will

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set up broad policy and the regulatory body will implement the principles of competition determined by the policy and the present Railway Board will become a corporate Board for just the IRTs.

Dedicated Freight Corridors (DFCs)

Ministry of Railways has established "Dedicated Freight Corridor Corporation of India Ltd." in 2006, a Special Purpose Vehicle for planning, development, mobilization of financial resources and construction, maintenance and operation of the eastern and western DFCs.

Eastern Corridor: Ludhiana – Mugalsarai- Sonnagar-Kolkata (1835 Km)
(Ludhihana-Mugalsarai section funded by World Bank
Mugalsarai-Sonnagar section funded by Ministry of Railway
*Sonnagar-Kolkatta section funded by **PPP)***
Western Corridor: Delhi – Rewari – Vadodara – Mumbai (1483 Km) (funded by Japan)

Total cost of the two corridors is Rs. 1 lakh crore and is expected to be completed by next year. There will be centralized control of operations on the DFC and double stacking containers will be running along these corridors. The operation and maintenance cost is expected to be half on DFC as compared with present IR network. It has been planned to build multimodal logistics park along the corridors to provide complete transport solutions to the customers.

PPP in Dedicated Freight Corridor: When a section of the railway line or DFC is built on PPP model then all the clearances and land acquisition is done by Indian railway (IR) and design, build, construction & maintenance of the track is done by the private player. Freight is collected by the Indian Railway (IR) and 50% of the freight of that section is given by IR to the private party. The private party is selected through tendering process. If 50% of the freight (which is going to the private party) is not expected to cover the full construction and maintenance cost then the private party will ask for Viability Gap Funding (VGF) from IR and that private party which asks for minimum funding will be selected. If 50% of the freight is expected to cover the full construction and maintenance cost then that private party will be selected which will give the maximum one time premium (funds) to the IR.

Railway Platform Modernization

Indian Railways has adopted three models for station redevelopment.

- One is the PPP model, under which a project is planned, statutory clearances obtained and a developer is chosen to upgrade a facility. Habibganj, in the suburbs of Bhopal, is the country's first railway station to be redeveloped as a PPP project.
- The second is collaboration with foreign governments to develop stations.
- The third model is the **Swiss Challenge** method, where bidders have the freedom to design and develop a project on their own. Under this method, the company whose project plan is accepted is given the opportunity to work on the project at the price quoted by the lowest bidder. If it does not accept this, then the project is given to the lowest bidder.

*As per Economic Survey 2019-20, the share of transport sector in Gross Value Addition (GVA) for 2017-18 was about 4.77% of which the share of road transport is the largest at 3.06%, followed by the share of the **Railways (0.75%)**, air transport (0.15%) and water transport (0.06%).*

*Report of the Task Force on **National Infrastructure Pipeline** has projected total infrastructure investment of Rs. 102 lakh crore (**13% in rail infra**) during the period FY 2020 to 2025 in India.*

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37. Road Sector

The road projects in India are mainly built on the following models:

(i) Engineering Procurement and Construction (**EPC**): The government gives the contract only to build the road to a private contractor based on submission of the tender by the party at the lowest cost. Private party builds the road and hands it over to the government who then maintains the road. *(It is not a PPP model)*

(ii) **BOT - Toll**: The private party is selected to build, maintain and operate the road based on the party submitting the tender for maximum sharing of toll revenue to the government. In case the revenue from toll is expected to be not enough to cover the cost of the project then the government gives one-time support in terms of upfront grant called Viability Gap Funding (VGF) and the private party is selected based on who asks for minimum VGF. All the traffic and commercial risk lies with the private party and the private party is dependent on toll for its revenues. *(It is a PPP model)*

(iii) **BOT - Annuity**: The private party is selected to build, maintain and operate the road project based on the party submitting the tender asking for minimum annual payment from the government for the entire term of the contract. The private party recovers all the cost of construction and maintenance of the project from the government yearly and there is no traffic and commercial risk to the private party. Toll collection right will be of the government and it may or may not collect toll. *(It is a PPP model)*

The major drawback of the annuity model is, the private party bears almost the entire cost of the project during the initial construction period but it receives payment from the government in equal annual installments and it takes a long time for the private party to recover cost and become profitable. And because of this private party were becoming reluctant to participate under the Annuity model. Hence, central government approved a **fourth** model for the road sector in **January 2016**.

(iv) **Hybrid Annuity** Model: It is a mix of Annuity and EPC model. 40% of the bid project cost shall be payable by the government to the private party during the construction period (generally 2-3 years) linked to the physical progress of the project. Rest 60% of the cost will be paid annually by the government after the completion of construction i.e. during the operation and maintenance period. The benefit of hybrid annuity is that, while the private partner continues to bear the construction and maintenance risks as in Toll and Annuity projects, it is required only to partly bear the financing risk. *(It is a PPP model)*

(v) **TOT model**: Under this model, bidder quoting the maximum upfront amount (to be given to NHAI) wins the bid. The successful bidder will be responsible to collect the toll for the lease period (generally for 30 years) and will operate and maintain the road. NHAI is giving the public-funded highway projects through the TOT model to mobilize funds for highway construction by transferring these operational projects on a long-term lease basis to domestic and foreign investors. NHAI uses the upfront receivables exclusively for funding construction of highways. *(It is a PPP model)*

NHAI has recently started awarding the already constructed EPC road projects (on which NHAI was collecting the toll) to private companies on Toll – Operate – Transfer (TOT) model.

As per the National Transport Development Policy Committee Report, road transport is approximately handling 69% and 90% of the countrywide freight and passenger traffic, respectively.

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38. Multi Modal Logistics Park

Multimodal transport refers to the transport of goods from one point to another via more than one mode of transport. Multimodal Logistics can be viewed as the chain that interconnects different links or modes of transport – air, sea, and land into one complete process that ensures an efficient and cost-effective door-to-door movement of goods under the responsibility of a **single transport operator**, known as a Multimodal Transport Operator (MTO), on one contract/transport document.

Why Multi Modal Logistics Parks? Multi Modal Logistics Parks are the way forward for reducing logistics costs in India. They are expected to bring down logistics costs by serving four functionalities - Freight aggregation and distribution, Multi Modal freight transportation, Storage and Warehousing with modern, mechanized warehousing space satisfying the special requirements of different commodity groups and value-added services such as customs clearance with bonded storage yards, warehousing management services, etc.

Developing a network of multimodal logistics parks to act as logistics hubs will address the issues of unfavourable modal mix, inefficient fleet mix and an underdeveloped material handling infrastructure. Logistics parks are expected to help transition from the current situation **of point-to-point freight movement to an ideal situation of hub and spoke model** of freight movement.

Advantages of Multi Modal Logistics Park (MMLPs)

- MMLPs help in reducing transportation costs by using the right mode for the movement of goods.
- Since MMLPs help in reducing the transit time of the goods, it helps in reducing the inventory cost both for logistics operators as well as for the ultimate user of the transport mode.
- As the transit time is less, MMLPs help in the proper utilization of the assets like rail infrastructure, roads, warehouses etc. and the goods vehicles and the other infrastructure are free to be used for the other businesses. Thus, per unit cost of the transportation of goods is reduced considerably.
- It helps in the optimal modal choice and balanced growth of all the modes of transport.

Challenges in logistics:

- Indian logistics market suffers from higher costs due to poor quality of road and rail infrastructure
- Large number of small and unorganized players exist in road transportation, with no industry consolidation and hence lack economies of scale
- Rail freight tariffs in India are among the highest in the world
- Rail freight lacks reliability and is deficient in terms of quality of operations, speed, and customer orientation
- There are inadequacies in gateway and hinterland connectivity of air freight and ports through rail and road
- There are inefficiencies and delays in loading and unloading of vessels at the ports

The Centre is reportedly planning to build 35 multi-modal logistics parks by investing more than ₹50,000 crore.

***On 20th Oct 2020,** the Union Minister Nitin Gadkari laid the foundation stone for the **first-ever** 'Multi Modal Logistics Park' in **Assam** at a cost of Rs. 694 crores, which will provide direct connectivity through road, rail, air and waterways.*

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39. Commercial Coal Mining

In 1973, coal sector was nationalized (through Coal Mines Nationalization Act 1973) that means only Govt. companies could extract and sale coal. But if a private company had a steel plant and wanted coal then Ministry of Coal used to give that private company a coal block/mine and the company was allowed to extract coal but it could use that coal only for its steel plant and couldn't use in another of its own steel plant and couldn't sell to someone else (this is called captive mining). This means private companies used to get coal blocks even after 1973 but only for captive mining purpose. And this too was based on recommendation of a committee where no transparency was there and huge corruption. And in Sept 2014, Supreme Court declared this policy of allocation of coal blocks on recommendation basis as null and void.

So, in Feb 2015, Govt. came up with a new act, Coal Mines Special Provisions Act 2015, where it said that now captive mines will be electronically auctioned on per tonne basis (the company which will commit maximum rupees to govt. per tonne of coal extracted will get the block). And it also introduced a clause for commercial mining (opposite of captive mining) which means private companies can bid for block and can extract coal **and sell in market**. But in Feb 2015, Govt. did not notify this clause. This clause was notified in Feb 2018.

Till now, Public sector undertaking Coal India Ltd. was so far the lone commercial miner in the country for over four decades. The company accounts for 80% of India's coal output while the rest is met through captive mining and imports.

Impact on Economy:

- This is the most ambitious reform of the coal sector since its nationalization in 1973
- This move will bring efficiency and competition in coal production, attract investments and best-in-class technology including for 'safe and efficient mining', and help create more direct and indirect jobs in the sector
- The new law gives highest priority to transparency, ease of doing business and ensures that natural resources are used for national development
- As the entire revenue from the auction of coal mines for sale of coal would accrue to the coal bearing States, this methodology shall incentivize them with increased revenues which can be utilized for the growth and development of backward areas (in the states of West Bengal, Odisha, Jharkhand, Chattisgarh) and their inhabitants including tribals
- Till now we used to spend billions of dollars of our foreign exchange reserves every year for import of coal even if our country is endowed with the fourth largest coal reserves. The volume growth and cost reduction from commercial coal development will reduce imports and help in keeping import prices in check.
- This reform will lead to industry consolidation and rise of large vertically-integrated energy companies with interests in coal mining, power generation, transmission and distribution to retail supply.
- It will also help stressed power plants to attempt a turnaround/profit through better fuel management and cheaper prices.
- The utilities and manufacturing sector too will benefit from lower energy costs.

*In Sept. 2020, Govt. auctioned 43 blocks (as part of Aatma Nirbhar Bharat reform package) for **commercial mining** on **revenue sharing basis** which means that the company quoting maximum share of the revenue to the Govt. will be selected.*

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40. Metro rail policy 2017

Urban Rail, popularly referred to as Metro Rail, has seen substantial growth in India in the recent years. More cities are experiencing the need for metro rail to meet their day today mobility requirements. Metro rail, though being capital intensive, provides the much-needed high capacity rapid transit in the cities. Though they have a life of 100 years and beyond, due to the nature of construction, the flexibility in design changes after the construction is very limited. Hence, they should be decided upon with due care and after a systematic and unbiased analysis of different alternatives and should be planned and executed with a longer future perspective. Being a high capacity transport system, they are most suited for growing cities having prospective increase in population over several years.

As per global practice, urban transport projects, including urban rail, are treated as public projects which deliver public good. Therefore, appraisal of metro rail projects should entail economic and social cost benefit analysis. Metro rail projects provide larger economic and social benefits to the society in terms of:

- Reduction in cost and time of travel,
- Substantial reduction in per capita pollution emissions resulting in reduction in chronic diseases and bringing down noise pollution
- Reduction in road accidents
- Catalyzing the economic development and improving the livability of the city

The Metro Rail Policy seeks to ensure that metro projects are initiated for sound reasons. The policy states that "the metro project can be proposed only if it is found to be more cost effective as opposed to other mass transit projects such as **tramways, light rail transit, or bus rapid transit system (BRTS)**". The policy also states that for an integrated approach in planning and management of urban transport, State Governments should constitute Unified Metropolitan Transport Authority (UMTA) as a statutory body which would prepare Comprehensive Mobility Plan for the city, organize investments in urban transport infrastructure, establish effective coordination among various urban transport agencies etc.

Financing: The following are the various options under which a State government implementing a Metro Rail project can avail central financial assistance.

- PPP with central assistance under the Viability Gap Funding (VGF) Scheme
- Grant by GoI in which 10% of the project cost will be given as lump sum central assistance
- The project will be undertaken under the equal ownership of GoI and respective State Govt.

But in all the above cases private participation (Public Private Partnership) wherever feasible either for complete provisioning of metro rail or for some unbundled components of the project like implementation, operation and maintenance, fare collection etc. will form an essential requirement for all metro rail project proposals seeking central financial assistance.

Last Mile Connectivity (Feeder System to Metro Rail): One of the key aspects of the policy is the last mile connectivity. Every proposal for Metro Rail should necessarily include proposals for feeder systems that help to enlarge the catchment area of each metro station at least to 5 kms. Last mile connectivity through pedestrian pathways, Non-Motorized Transport infrastructure, and induction of facilities for para-transit modes will be essential requirements for availing any central assistance for the proposed metro rail projects. State governments will be required to commit provisioning of feeder systems for the metro rail proposed for availing central financing assistance.

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41. Electricity Reforms

Universal and round-the-clock access to affordable electricity is a prerequisite for India's sustained economic growth. India is currently the **world's third-largest producer of electricity** with an installed capacity of **371 GW**. Going ahead, rapid growth and urbanization will drive up the demand for electricity manifold, necessitating a healthy, efficient and consumer-centric power sector. It is in this light that Government has proposed certain reforms in the form of amendments to The Electricity Act 2003, with the following broad objectives:

- Ensure consumer centricity
- Promote Ease of Doing Business
- Enhance sustainability of the power sector
- Promote green power

Proposed reforms:

1. Determination of tariffs purely on costs basis without taking into account subsidies, which would be directly paid to consumers. This could solve DISCOMs chronic cash-flow woes, enabling them to invest in improving infrastructure and clear outstanding dues. This should also ensure financial discipline across the value chain of the power sector. *(Most DISCOMs today are beset with operational inefficiencies and acute financial crunch, with high Aggregate Technical and Commercial (AT&C) losses averaging around 22%).*

2. Strengthening the regulatory ecosystem for dispute resolution, Government has proposed establishment of Electricity Contract Enforcement Authority. It will have the powers of (including but not limited to) attachment and sale of property, arrest and detention in prison and appointment of a receiver to enforce performance of contracts related to purchase or sale or transmission of power between a generating company, distribution licensee or transmission licensee.

3. To improve quality of supply, an option is proposed to be provided to DISCOMs to authorize another person as a sub-license to supply electricity in any particular part of its area, with the permission of the State Electricity Regulatory Commission.

4. Since, it is in our long term interest to promote green power and India is also a signatory to the Paris Climate Agreement, it has been proposed to have a separate policy for the development and promotion of generation of electricity from renewable sources of energy.

5. Provisions have been added to facilitate and develop trade in electricity with other countries.

The proposed reforms reflect the Government's intent to create a robust power sector for fuelling post-pandemic economic recovery. The proposed reforms can infuse much-needed momentum into the power sector if properly implemented and this needs the Centre and states to work in unison. This is an opportunity for the central and state governments to bury political motives and cooperate in the larger national interest for a vibrant power sector.

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42. Oil and Gas policy (HELP)

Currently, the country faces a situation where oil and gas constitute a major and increasing share of total imports. Oil production has stagnated while gas production has declined. There was a need for concerted policy measures to stimulate domestic production. Keeping in view this objective, the Govt. implemented a new policy regime in **March 2016** for exploration licensing for **new blocks**, the **Hydrocarbon Exploration and Licensing Policy (HELP)**. The following are its key features: -

- There will be a uniform licensing system which will cover all hydrocarbons, i.e. oil, gas, coal bed methane etc. under a single license and policy framework.

- An 'Open Acreage Licensing Policy' (OALP) will be implemented whereby a bidder may apply to the Govt. seeking exploration of any block not already covered by exploration. The Govt. will examine the proposal and if it is suitable for award, Govt. will call for competitive bids after obtaining necessary environmental and other clearances. This will enable a faster coverage of the available geographical area.

- Contracts will be based on "**revenue sharing**" model. Bidders will be required to quote % of revenue share to the Govt. in their bids which will be a key parameter for selecting the winning bid. In this model the operator will have to share the revenue with the government from the first year of production notwithstanding the operator is making a profit or loss. This model does not require auditing of costs incurred by the operator but is more risky for investors as it requires sharing of the revenues with the government from the first year itself before the operators have recovered their costs and even if they are making losses.

- The contractor will have **freedom for pricing and marketing of gas** produced in the domestic market on arm's length basis.

- In order to incentivize offshore exploration/production which involves higher risks and costs, a graded system of reduced royalty will be applicable. For shallow water royalty will be 7.5%, for deep water 5% and for ultra-deep-water royalty will be 2%.

Advantages:

- The new policy regime marks a generational shift and modernization of the oil and gas exploration policy. It is expected to stimulate new exploration activity for oil, gas and other hydrocarbons and eventually reduce import dependence.
- It is also expected to create substantial new job opportunities in the petroleum sector.
- The introduction of the concept of **revenue sharing** is a major step in the direction of "**minimum government maximum governance**", **as it will not be necessary for the Government to verify the costs incurred by the contractor.** Marketing and pricing freedom will further simplify the process.
- These will remove the discretion in the hands of the Government, reduce disputes, avoid opportunities for corruption, reduce administrative delays and thus stimulate growth.

*As per Economic Survey 2019-20, India is the **third largest** energy consumer in the world after USA and China. However, India's oil production is one of the lowest among the major economies of the world and has been declining over a period of time.*

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43. National Policy on Bio Fuels 2018

Biofuels *are fuels/energy derived from biomass which is basically organic material that comes from plant and animals and it is a renewable source of energy. Biofuels can be produced from any carbon source that can be replenished rapidly such as plant (or may be animals).*

Vision and Goals of the National Policy on Biofuels 2018:

The Policy aims to increase usage of **biofuels** in the energy and transportation sectors of the country during the coming decade. The Policy aims to utilize, develop and promote domestic feedstock and its utilization for production of biofuels thereby increasingly substitute fossil fuels while contributing to National Energy Security, Climate Change mitigation, apart from creating new employment opportunities in a sustainable way. Simultaneously, the policy will also encourage the application of advance technologies for generation of biofuels.

The Goal of the Policy is to enable availability of biofuels in the market thereby increasing its blending percentage. **Currently the ethanol blending percentage in petrol is around 2.0% and biodiesel blending percentage in diesel is less than 0.1%. An indicative target of 20% blending of ethanol in petrol and 5% blending of biodiesel in diesel is proposed by 2030.** This goal is to be achieved by:

- reinforcing ongoing ethanol/biodiesel supplies through increasing domestic production
- **setting up Second Generation (2G) bio refineries**
- development of new feedstock for biofuels
- Development of new technologies for conversion to biofuels
- Creating suitable environment for biofuels and its integration with the main fuels

[Current blending target of bio-ethanol with petrol is 5%, which Govt. has planned to increase it to 10% by 2022 and 20% by 2030.]

Import and export of biofuels:

- Indigenous production of biofuels would be encouraged by a set of practical and judicious incentives. The Policy emphasizes development of domestic Biofuel Industry and Feedstock. **Allowing import will adversely affect domestic biofuels and hence import of biofuels will not be allowed.**

- The policy encourages augmenting indigenous feedstock supplies for biofuel production utilizing the wastelands for feedstock generation. However, depending upon availability of domestic feedstock and blending requirement, **import of feedstock for production of bio diesel would be permitted to the extent necessary**.

- As the domestic biofuels availability is much lower than the Country's requirement, export of biofuels **will not be allowed**.

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44. Monetization of Deficit and Deficit Financing

Before 1997, Govt. of India used to finance its deficit directly from RBI by issuing ad hoc Treasury Bills to RBI. So, Govt. used to issue bonds to RBI, which in return used to print currency and gives it to Govt., which used to create a debt on Govt. of India. This is called (direct) **monetization of deficit** from RBI and it's a primary market transaction between Govt. and RBI.

But this practice was stopped in 1997 by signing a historic agreement between Govt. of India and RBI and a scheme of 'Ways and Means Advance' (WMA) was started wherein govt. can take advances to accommodate temporary mismatches in the government's receipts and payments. So, basically direct monetization of deficit was stopped since then (1997). [Fiscal Responsibility and Budget Management (FRBM) Act 2003 also prohibits direct monetization of deficit but allows it in exceptional circumstances.]

And, it was also agreed that henceforth, the RBI would operate **only in the secondary market** through the Open Market Operation (OMO) route. The implied understanding also was that the RBI would use the OMO route not so much to support government borrowing but as a liquidity instrument to manage the balance between the policy objectives of supporting growth, checking inflation and preserving financial stability.

> *"**Deficit Financing**": It generally means that Govt. is having deficit (as expenses are more than receipts) which can be financed from different sources like from market borrowing or borrowing from abroad or there can also be the case that Govt may ask RBI to finance its deficit by printing more money. (So, in deficit financing there can be various options to finance Govt.'s deficit and one of the options could be from RBI by printing cash)*

Impact of "monetization of Deficit"

- Helps in increasing aggregate demand in the economy thereby resulting in economic growth
- Results in increase in debt on Government thereby impacting overall macro-economic stability and may result in ratings downgrade
- Increases inflation due to increased money supply
- Increased money supply may result in depreciation of rupee which can lead to flight of capital from the country
- RBI can be seen as losing control over its monetary policy
- As such there is no issue if it is done once in exceptional circumstances but in India the problem is once it is done, then it will lure future governments of an easy route of financing their deficit

45. Recent RBI measures to ease liquidity

- Targeted Long Term Repo Operation (TLTRO)
- Operation Twist
- Difference between repo rate and reverse repo rate increased to 0.65%
- CRR reduced from 4% to 3% and MSF borrowing increased to 3% of SLR
- Liquidity Coverage Ratio (LCR) for banks was brought down from 100% to 80%
- RBI provided special refinance facility to NABARD, SIDBI and NHB to meet sectoral needs
- Currency Swap

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46. Monetary policy transmission and external benchmark

- Base Rate was introduced in July 2010 replacing the Benchmark Prime Lending Rate (BPLR) system. Base Rate used to be the minimum rate below which Scheduled Commercial Banks were not allowed to lend. RBI used to publish guidelines for calculation of Base Rate and every bank used to calculate their own base rate. But the main criteria to calculate base rate was bank's **average cost of deposits/funds**.

- On **1st April 2016**, RBI introduced a new methodology for calculation of the Base Rates based on **marginal** cost of funds rather than average cost of funds. This new methodology is called Marginal Cost of Funds based Lending Rate (MCLR). Here the main criteria to calculate MCLR are the new rates on deposits rather than the past average.

*When RBI reduces the repo rate, generally banks reduce their deposit rate. Earlier the calculation of lending rate was based on **average cost of deposits** to the banks. So, due to reduction in repo rate and further reduction of deposit rates by banks, the average cost of deposits of the banks did not reduce immediately (it used to reduce in future when new depositors used to deposit money at lower deposit rate) because still banks need to pay the higher deposit rate to all its **previous** depositors. In the new method (of MCLR) banks will calculate the lending rate based on marginal cost of deposits i.e. the new deposit rate or new cost of deposit. So, when RBI will reduce the repo rate and banks reduce the deposit rate, the marginal cost of deposits will get reduced and the banks will have to generally reduce the lending rates). This was expected to help in better monetary policy transmission.*

But, the transmission of policy (repo) rate changes to the lending rate of banks under the MCLR framework was also not very satisfactory due the various reasons like:

- Banks feared that they will lose the depositors/customers if they will reduce the deposit rate first, and since deposit rate was not reduced, MCLR was also not coming down.
- Government offering higher interest rates on its own small savings schemes like Kisan Vikas Patra, Sukanya Samriddhi Scheme, PPF etc.

Hence, RBI made it mandatory for banks to link all new floating rate personal or retail **loans** and floating rate **loans** to MSMEs to an **external benchmark** effective October 1, 2019. Banks can choose one of the four external benchmarks – repo rate, three-month treasury bill yield, six-month treasury bill yield or any other benchmark interest rate published by Financial Benchmarks India Pvt. Ltd. Banks are not mandated to link their **deposit rates** with an external benchmark rate.

Now, suppose Axis Bank links its home loan rate as per following:

Home Loan = repo rate + 3% (3% is called the Spread)

Here, the loan rate is linked to repo rate, which is an **external** benchmark, on which Axis Bank do not have any control. So, the moment RBI changes the repo rate, it will automatically get transmitted to the lending rate at the same moment for the new loans (and within 3 months for the existing loans as per RBI mandate).

Banks are free to decide the components of spread and the amount of spread. But in general, the **spread** consists of credit risk premium, business strategy, operational costs of banks etc. and can be changed only after three years.

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47. Emergency Credit Line Guarantee Scheme

1. ECLG scheme is a loan facility for which 100% guarantee would be provided by National Credit Guarantee Trustee Company (NCGTC) to Banks/NBFCs/Financial Institutions for lending to MSMEs.

2. *It will be extended in the form of additional working capital loan or term loan facility to MSMEs/Pradhan Mantri Mudra Yojana borrowers/Self employed/ Professions who have taken loans for business purposes.

3. This facility will be available to those who have already borrowed (till 29th Feb 2020) but have not been able to repay and their outstanding (yet to be paid) loan is less than Rs. 50 crore and their Turnover (annual sales) is less than 250 crores. The maximum the businessmen can borrow is up to 20% of the outstanding loan. (For ex, if some business had borrowed Rs. 60 crore and the amount that is yet to be repaid is Rs. 40 crores then they can borrow Rs. 8 crores (20% of Rs. 40 crore). The scheme will be applicable from May 23rd 2020 to 31st Oct 2020 or until Rs. 3 lakh crore has been sanctioned.

4. The scheme is a specific response to the unprecedented crisis resulting from Covid-19, which has impacted the small business the most and thereby enabling MSMEs to meet their operational liabilities and restart their business. The main objective of the scheme is to provide an incentive to Banks/NBFCs/FIs to increase access to and enable availability of additional funding facility to MSME/business borrowers.

5. The total loan that will be given through this scheme by Banks/NBFCs/FIs would be up to Rs. 3 lakh crore. Government will pay Rs. 41,600 crore to NCGTC to provide guarantee on loans worth maximum Rs. 3 lakh crore (as all the loans will not be default, so Rs. 41,600 crore may be sufficient to provide guarantee for Rs. 3 lakh crore loan). NCGTC will not charge anything from lending institutions to provide guarantee.

6. It is a pre-approved loan (you will be asked to take loan and if u don't want you can opt out) and hence no processing charges and no collateral will be required from the borrowers. It is a 100% credit guarantee scheme which means the total amount of loan given under the scheme will be guaranteed by NCGTC.

7. The interest rate charged by Banks/NBFCs/FIs will be capped under the scheme.

8. National Credit Guarantee Trustee Company (NCGTC) is a company registered under Company's Act 2013 under which there are various Trusts which manages guarantee funds. NCGTC is a Govt company under Department of Financial Services, Ministry of Finance.

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48. Insolvency and Bankruptcy Code (IBC) 2016

Important features:

- Earlier, for the resolution of stressed assets there were different forums like High Courts, Company Law Boards, Board for Industrial and Financial Reconstruction and Debt Recovery Tribunals (DRT), which had overlapping jurisdictions, which gave rise to systemic delays and complexities in the recovery/resolution process. The IBC has overcome these challenges and has reduced the burden on the courts as all litigation is now filed under the code before NCLT for corporate insolvency and before DRT for individual insolvency.
- The resolution process could be initiated by a corporate debtor who has defaulted on dues or by creditors, whether financial or operational but there is a thrust on creditor driven insolvency resolution.
- Time bound (in normal cases 180 days and in complex cases 270 days) and market linked resolution of stressed assets.
- During the resolution process, management of the company passes on to resolution professionals who will prevent any siphoning off funds or manipulation by debtors.
- IBC tries for maximization of value of assets by prioritizing **resolution** (where the company will continue to function) rather than **liquidation** (company cease to exist and assets are sold in the market). Some business ventures will always fail, but they will be handled rapidly and swiftly which will promote entrepreneurship, availability of credit, and balance the interests of all stakeholders.
- The code makes it easier to exit or attempt revival of a business, thereby improving the NPA scenario for the financial services sector. Entrepreneurs and lenders will be able to move on, instead of being bogged down with decisions taken in the past.
- The IBC has provided a major stimulus to ease of doing business, enhanced investor confidence and has given a boost to both foreign and domestic investors as they now look at India as an attractive investment destination.
- The implementation of IBC has helped in pushing economic growth higher by a few percentage points by saving various companies from premature death.

Performance:

- The success of the IBC is not just in numbers, rather its performance lies in the behavioral change of the companies (debtors). Credible threat of the IBC process that a company may change hands has changed the behaviour of the debtors. Thousands of debtors are settling defaults in early stages of the life cycle of a distressed asset.

- 190 companies have been rescued till Dec 2019 through resolution plans under IBC. They owed Rs. 3.8 lakh crore to creditors but the realizable value of the assets available with them, when they entered the IBC process, was only Rs. 0.77 lakh crore. Creditors recovered Rs 1.6 lakh crore, which is 207 per cent of the realizable value of assets of the companies. Any other option of recovery or liquidation would have recovered at best 100 per cent of the realizable value i.e. Rs. 0.77 lakh crore.

Challenges:

- Out of all the cases admitted to NCLT under IBC, only 15% ended in Resolution and rest went for Liquidation
- Very few benches of NCLT to admit the insolvency cases, resulting in delay in resolution
- Cross border insolvency has not yet been implemented

Comment: The code aims at early identification of financial failure and maximizing the asset value of insolvent firms. The Code is thus a comprehensive and systemic reform, which will give a quantum leap to the functioning of the credit market. It would take India from among relatively weak insolvency regimes to becoming one of the world's best insolvency regimes giving a big boost to ease of doing business in India.

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49. Strategic Disinvestment

The term "**Strategic Disinvestment**" means the sale of substantial portion of the Government share-holding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage (to the strategic partner) along with transfer of management control. *Strategic disinvestment is a way of privatization.*

"Even if government gives its management control in a PSU to another PSU (rather than a private partner), it is also considered as strategic disinvestment". For example, government has transferred 100% of its ownership and management control in NEEPCO to NTPC and it is considered as strategic disinvestment of NEEPCO.

Purpose of Strategic Disinvestment

- The government has no business being in business. That is, the government's role is to facilitate a healthy business environment and the core competence of a government does not lie in selling fuel or steel at a profit.

- As governments spend more than they earn through taxes and other sources, additional income from the sale of stakes is always welcome especially for a developing economy as government needs to spend higher amounts on infrastructure to boost economic growth, along with its commitments on health and education.

- It is expected that the strategic buyer/ acquirer may bring in new management/technology/investment for the growth of these companies and may use innovative methods for their development and may make these companies more profitable and create more value for its shareholders.

But disinvestment/ strategic disinvestment is like selling the family silver/gold and in future nothing will be left to sell and cushion the fiscal deficit or financial difficulties.

Purpose of disinvestment of profit-making PSUs

- Government may not want to remain in that business

- It gives revenue to government (capital account receipts in budget) and helps in meeting fiscal deficit targets

- Even if a PSU is profitable, it may not be profitable because it is more efficient. It can be profitable because it has a monopoly presence and private companies are not allowed in that sector. If government will privatize the PSU and allow other private companies then prices will come down and consumers will benefit.

- Example: Govt. of India in 1973 said that, in India only Govt. will produce and sell coal through its PSU "Coal India Ltd. (CIL)". No private company can sell coal. All the blocks were given to CIL and CIL extracts coal and supplies to govt. and private power plants. The price is decided by the govt. but the question is how? And the answer is, whatever is the cost of coal extraction, Govt. on top of it puts some profit margin and fixes the price and then it asks CIL to sell coal at that price. Now if the price is fixed on top of cost of production and no private player exists then the PSU will always be profitable. That is why, "CIL is one of the biggest coal company in the world, one of the most profitable coal company and one of the most inefficient company coal company in the world"

As per the new policy of 2019, Department of Investment and Public Asset Management (DIPAM) and NITI Aayog jointly identify PSUs for strategic disinvestment and then it is approved by CCEA.

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50. Consolidation of Public Sector Banks

Bank consolidation is the process by which one banking company takes over or merges with another. The idea of bank consolidation came around since 1991, when former RBI governor **M. Narasimham** had suggested the government to merge banks into a **3-tiered structure**, with 3 large banks with a global presence at the top, 8 to 10 national banks at tier 2 and a large number of regional and local banks at the bottom. Going in the same direction, Govt. merged SBI with its associates in 2017 and then in 2019, Vijaya Bank and Dena Bank were merged with Bank of Baroda. As of now there are 12 PSBs.

But the endeavour should be to first clean up the balance-sheets of PSBs. Over the next 2 to 3 years, managerial energies should focus resolutely on addressing the NPA problem while, at the same time, also concentrate on building and nurturing talent in both old and new areas. Consolidation can wait till the NPA situation gets better. Otherwise, mergers will only end up diverting the energy of the top management from addressing the crucial NPA issue, and the gains of consolidation may prove elusive.

Pros:

- Merged banks are labour cost efficient relative to their smaller counterparts as the former can reap the benefits of economies of scale
- It will lead to better synergy, optimum utilization of resources, leading to reduced borrowing rates and hence more competitive (Post-merger of SBI with its associates, about 1,500 branches were shut because of duplication)
- It will bring operating efficiencies over time by lowering combined operating and funding costs while strengthening risk management practices
- Healthy banks taking over weak banks will also help in **handling** the bad loan crisis *(just merging will not lead to reduction in absolute value of bad loan)*
- The country needs few large public sector banks, and several small banks to pursue the path of financial inclusion and spur credit growth. These well managed public sector banks can bear the mantle of rural banking and inclusive finance which cannot be entrusted upon their more profit-minded private peers.

Cons:

- Merger of banks may lead to 'too-big-to-fail' banks. Currently, we have one large bank State Bank of India. If we create a large number of merged entities, it will lead to the real problem in terms of concentration of risks
- Many employees would fear job loss and disparities in the form of regional allegiances, benefits, reduced promotional avenues, etc. and may lead to lower morale and create problems which could come in the way of success of the merged entity
- Harmonization and integration of technology will be a challenge as various banks are currently operating on **different technology platforms**

Bank consolidation, if properly leveraged, can confer significant benefits to the economy. But along with consolidation, government should also focus on improving and overhauling governance and HR practices and credit appraisal processes for a long-term solution to the PSU banking malaise. Consolidation should be a well thought out strategy, by looking at synergies and assessing the likely costs and benefits, so that post-merger, there is a distinct improvement in the balance sheet of banks.

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51. National Strategy for Financial Inclusion 2019-24

Financial inclusion is increasingly being recognized as a key driver of economic growth and poverty alleviation the world over. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital. There has been a growing evidence on how financial inclusion has a multiplier effect in boosting overall economic output, reducing poverty and income inequality at the national level. It is also noteworthy to state that, **seven of the seventeen United Nations Sustainable Development Goals (SDG) of 2030 view financial inclusion as a key enabler for achieving sustainable development** worldwide by improving the quality of lives of poor and marginalized sections of the society.

India began its financial inclusion journey as early as in 1956 with the nationalization of Life Insurance companies. This was followed by nationalization of banks in 1969 and 1980. The general insurance companies were nationalized in 1972. With a view to bring the rural areas in the economic mainstream; Indira Gandhi government established Regional Rural Banks (RRB) in 1975. A host of initiatives have been under taken over the years in the financial inclusion domain. In August 2014, Pradhan Mantri Jan Dhan Yojana (PMJDY) was launched to eradicate the financial untouchability from the country. Through this scheme, financial inclusion of every individual who does not have a bank account is to be achieved. Total around 37.87 crore accounts have been opened under PMJDY till January 2020.

Continuing its financial inclusion drives, RBI has announced a "**National Strategy for Financial Inclusion** (NSFI)" for India 2019-2024. The NSFI sets forth the vision and key objectives of the financial inclusion policies in India to help expand and sustain the financial inclusion process at the national level through a broad convergence of action involving all the stakeholders in the financial sector. The strategy aims to provide access to formal financial services in an affordable manner, broadening & deepening financial inclusion and promoting financial literacy & consumer protection.

Following are the strategic objectives/pillars of National Strategy for Financial Inclusion:

- Universal Access to Financial Services
- Effective co-ordination
- Providing basic bouquet of financial services
- Customer protection and grievance redressal
- Financial literacy and education
- Access to livelihood and skill development

Some of the important milestones under the NSFI are:

- Banking access to every village within 5-km of radius or a hamlet of 500 households in hilly areas by March 2020
- Every adult should have access to financial service provider through a mobile device by March 2024
- Every willing and eligible adult, who has been enrolled under the PMJDY, should be enrolled under an insurance scheme (PMJJBY, PMSBY, etc.), and a pension scheme (NPS, APY, etc.) by March 2020
- Public Credit Registry (PCR) fully operational by March 2020

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52. Governance in Cooperative banks

Issue with the management of the Cooperative Banks: In normal companies/banks, Board of Directors (BoD) are independent and representatives of shareholders/owners, but not exactly the shareholders. But in cooperative banks, the Board of Directors is selected from among the shareholders of the bank. Because of this, professionalism is missing from the cooperative banks and there were several cases of frauds discovered.

To bring improvement in the governance and functioning of Urban-Cooperative Banks (UCBs), a new organization structure consisting of a Board of Management (BoM), in addition to the Board of Directors (BoD), was suggested by the **Malegam Committee** (2011).

Accordingly, RBI published guidelines on 31st Dec 2019, as per which, the BoD of UCBs with deposit size of Rs. 100 crore and above, shall constitute Board of Management (BoM). It shall be mandatory for such banks to constitute BoM for seeking approval to expand their area of operation and/or open new branches. These UCBs will also require prior approval of RBI for appointment of their CEOs. UCBs with a deposit size less than Rs. 100 crore are exempted from constituting BoM although they are encouraged to do so voluntarily. The BoM shall report to the BoD and shall exercise oversight over the banking related functions of the UCBs, assist the BoD on formulation of policies and any other related matter specifically delegated to it by the BoD for proper functioning of the bank. The BoD will continue to be the apex policy setting body and shall continue to be responsible for the general direction and control of a UCB. It will continue to look after all the administrative functions as spelt out in the respective Co-operative Societies Acts.

Recently the Banking Regulation Act 1949 was amended to introduce the following reforms in cooperative banks:

1. With prior approval of RBI, cooperative banks can issue (either through public or private placement)
   - Shares/equity
   - Bonds or unsecured debentures or any other security with maturity of not less than 10 years

2. RBI will be able to undertake a scheme of amalgamation/reconstruction (a process of reorganization, concerning legal, operational, ownership & other structures) of a bank without placing it under moratorium (means without putting restriction on deposits withdrawal and lending).

3. RBI can supersede the management of the Urban Cooperative Banks (UCB), State Cooperative Banks (StCB) and District Central Cooperative Banks (DCCB) if RBI feels that the affairs of the bank are conducted in a manner detrimental to the interest of the depositors. (Earlier this was applicable only for UCBs but now through the amendment 2020, StCB and DCCB have also been included)

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53. Fiscal Council

A fiscal council is a permanent agency with a mandate to independently assess the government's fiscal plans and projections against parameters of macroeconomic sustainability, and put out its findings in the public domain. The expectation is that such an open scrutiny will keep the government on the straight and narrow path of fiscal virtue and hold it to account for any default. The fiscal council would provide forecasts and advise the government on whether conditions exist for deviation from the mandated fiscal rules. The council will also provide independent assessments of budget proposals.

The following are the issues with the present system:

- We have a chronic problem of fiscal irresponsibility where in Government overstates GDP and revenue projections and understate expenditures
- The over-ambitious revenue targets combined with the lack of transparency in tax administration lead overzealous taxmen to resort to unwarranted methods to meet unrealistic targets
- Manipulation of the budget figures by use of 'off-budget' financing, borrowing from the National Small Savings Fund (NSSF) by FCI towards meeting food subsidy bill and deferring payments of FCI (and other bodies) to manage the government's books

Following are some arguments in favour and against Fiscal Council:

Favour

- Research suggests that countries with independent fiscal councils tend to produce relatively more accurate budget forecasts and stick better to fiscal rules. While most of the fiscal council projections are not biding but are able to discipline lawmakers through 'comply or explain' obligations ultimately resulting in better fiscal performances.
- Fiscal Council will give an independent and expert assessment of the government's fiscal stance, and thereby aid an informed debate in Parliament.
- We have CAG, but it audits the accounts once government has done with the expenditures and it has no role in forecasting and verifying the sustainability of the budget numbers.
- According to IMF, about 50 countries around the world have established fiscal councils with varying degrees of success.

Against

- As of now, both the NSO and the RBI give forecasts of growth and other macroeconomic variables, as do a host of public, private and international agencies. Why should there be a presumption that the fiscal council's forecasts are any more credible or robust than others? Why not leave it to the Finance Ministry to do its homework and defend its numbers rather than forcing it to privilege the estimates of one specific agency? Besides, forcing the Finance Ministry to use someone else's estimates will dilute its accountability. If the estimates go awry, it will simply shift the blame to the fiscal council.

- As per FRBM Act 2003, Government is required to submit to Parliament a 'Fiscal Policy Strategy Statement' (FPSS) to demonstrate the credibility of its fiscal stance for the coming year. Yet, seldom have we heard an in-depth discussion in Parliament on the government's fiscal stance. If the problem clearly is lack of demand for accountability, how will another instrumentality such as a fiscal council for supply of accountability be a solution?

***XIV** Finance Commission had recommended for establishment of an independent fiscal council.*

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54. Direct Tax reforms

There are around 7.5 crore direct taxpayers. They pay tax and file return (tax document). Taxpayers use various ways to avoid paying taxes and showing their income way below the actual income. So, government has set certain parameters to pick for assessment/review of these cases. For example, those tax payers whose income is quite high (say 30 lakhs) but tax payment is very less supposing only 2 lakhs or suppose in any particular savings account more than Rs. 10 lakhs got deposited in a financial year etc.

Now suppose there are 5 lakh such cases, out of which Govt. may pick **randomly** 50,000 cases for review/assessment (as all cannot be reviewed because of resource constraint). So, Govt. will send notice and you will have to give clarifications. And Govt. may scrutinize such cases in quite detail and if some wrong doings were found, you may be penalized.

1. **Faceless Assessment:** Earlier (before e-assessment scheme was launched), these cases were selected by tax officials and there used to be face to face meetings between tax officials and taxpayers and where taxpayers were used to be harassed. But now all such cases will be randomly picked by computer and no face to face grilling would happen but only through electronic mode of communication. So, this will improve transparency and efficiency, and governance and thus improves the quality of assessment and monitoring.

2. **Faceless Appeal:** In case a taxpayer files appeal against any assessment by the tax authority.

- Appeals to be randomly allotted to any officer in the country
- The identification of the officers deciding appeal will remain unknown
- The tax payer will not be required to visit the income tax office or the officer
- The appellate decision will be team-based and reviewed

Income Tax Act 1961 has been amended to introduce faceless assessment and faceless appeal.

3. **Taxpayers' Charter** is a two-way document for the assessor (Govt.) and the assessee (taxpayer). Through this document, the government has committed the following to the taxpayers:

- To provide fair, courteous, and reasonable treatment
- Treat taxpayer as honest
- To provide mechanism for appeal and review
- To provide complete and accurate information
- To provide timely decisions
- To collect the correct amount of tax
- To respect privacy of taxpayers
- To maintain confidentiality
- To hold its authorities accountable
- To enable representative of choice
- To provide mechanism to lodge complaint and provide a fair and just system
- To publish service standards and report periodically
- To reduce cost of compliance

The Taxpayers' Charter also highlights the obligations of the taxpayer. These are as follows:

- To be honest, informed and compliant
- To keep accurate records
- To know what your representative does on your behalf
- To respond in time and to pay in time

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55. FDI in Insurance

The insurance sector was opened up for private sector in 2000 after the enactment of the Insurance Regulatory and Development Authority Act, 1999 (**IRDA Act, 1999**), which had increased the Foreign Direct Investment (FDI) limit to 26% as the sector was facing severe shortage of funds. Government, in February 2015, again raised the foreign investment ceiling in insurance sector from 26% to 49% under automatic route. This will ensure that the ownership and control of an insurance entity/ company in India shall remain at all times in the hands of the resident Indian entities.

Insurance Brokers represent the customer, and are licensed to give you policies from any insurance company. They can provide expert advice on the insurance policies suitable to you and are paid a brokerage by the company whose policy you finally choose. Government has allowed 100% FDI in insurance intermediaries/brokers in Feb 2020.

There are two main types of insurance namely:

- **Life insurance**: Life Insurance is an insurance coverage that pays out a certain amount of money to the insured or their specified beneficiaries upon a certain event such as death of the individual who is insured.
- **General (nonlife) insurance**: General insurance is an insurance policy that protects you against losses and damages other than those covered by life insurance such as fire, marine, motor, home etc.

- ***Insurance penetration*** *is measured as the percentage of insurance premium to GDP (As per IRDAI Annual Report of FY 2017-18, the insurance penetration was 2.74 % of GDP for life and 0.97% of GDP for non-life)*
- ***Insurance density*** *is measured as the ratio of premium in US $ to total population (As per IRDAI Annual Report of FY 2017-18, the insurance density was US$ 55.0 for life and US$ 19 for non-life)*

Insurance Sector in India: The Indian insurance market is currently dominated by Life Insurance Corporation (PSU), which captures nearly 75% of the market. Raising the foreign investment limit to 49% is expected to generate inflows of $6-8 billion in the insurance sector that is looking for growth capital.

The Indian insurance industry has evolved significantly over the past decade or so, but the insurance penetration and insurance density levels are significantly lower than the developed as well as comparable developing countries. The under-penetration is due to lack of overall financial awareness, lack of understanding of insurance products, low perceived benefits, and propensity to purchase insurance based on reactive drivers such as insistence by financers, statutory requirements, etc.

Impact of the increased limit on Indian Economy:

- Will attract more FDI/FPI and will lead to growth of insurance industry in India in the under insured markets resulting in creation of more jobs
- Foreign investors will bring in professional management, capital and new technology
- Will lead to increased competition in the Indian insurance market leading to new products, competitive quotes/premiums, improved services and better claim settlement ratio benefitting the common man
- Insurance sector has the capability to bring in long-term capital (through premiums) from the masses which can then be channeled into funding long gestation infrastructure projects

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