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PT 365

Classroom Study Material

ECONOMY

JULY 2015 – MAY 2016

NOTE: June 2016 current affairs for PT 365 will be updated on our website on second week of July 2016.

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A. SCHEMES / INITIATIVES

A.1. NATIONAL POLICY FOR SKILL DEVELOPMENT AND ENTREPRENEURSHIP 2015

- The policy has replaced the National Skill Development Policy 2009. The 2009 policy was formulated by the Ministry of the Labour and Employment.
- Ministry of Skill Development and Entrepreneurship (MSDE) has been set up to coordinate skill development efforts in the country.
- It aims to promote a culture of innovation based entrepreneurship.

A.2. DEEN DYAL UPADHAYA GRAM JYOTI YOJNA

- Deen Dayal Upadhyaya Gram Jyoti Yojana has been launched for power sector reforms in rural areas with a view to ensuring round the clock electricity supply to farmers and rural households.
- The earlier scheme for rural electrification viz. Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has been subsumed in the new scheme as its rural electrification component.
- The major components of the scheme are:
  - Feeder separation. Rural feeder segregation is the separation of technical infrastructure of agriculture consumers from non-agriculture consumers.
  - Strengthening of sub-transmission and distribution network.
  - Metering at all levels (input points, feeders and distribution transformers)
  - Micro grid and off grid distribution network & Rural electrification
- Rural Electrification Corporation (REC) is the Nodal Agency for operationalization of this Scheme

A.3. HOUSING FOR ALL

- The scheme ' Housing for all ' Comment Union Government has identified 305 cities and towns across 9 states for implementation of its flagship ‘Housing for All’ scheme.
- Union Government had launched this scheme named as Pradhan Mantri Awas Yojana under the aegis of Housing for All by 2022 Mission.
- Under this ambitious scheme government plans to build two crore houses for the poor in urban areas by year 2022, which coincides with 75 years of Independence.
- It has four basic components viz. slum rehabilitation, affordable housing, credit linked interest subsidy and beneficiary-led individual house construction or enhancement.
- Houses won't be provided on rent. The beneficiary will be the owner of the house

- Union Ministry of Housing and Urban Poverty Alleviation (HUPA) is the nodal agency for its implementation.
- This schemes aims at providing low rent houses for the people below poverty living in urban areas
- This scheme will help in slum rehabilitation.
- Credit linked interest subsidy and beneficiary-led individual house construction or enhancement are the basic components of this scheme.

A.4. PRATYAKSHA HASTAANTARIT LAABH SCHEME

- Union Government's ambitious Pratyaksha Hastaantarit Laabh (PAHAL) scheme has been acknowledged as the world's largest cash transfer program (households) by the Guinness Book of World Records.
- Pratyaksha Hastaantarit Laabh (PAHAL) scheme was formally launched as Direct Benefit Transfer Scheme for LPG subsidy in 2013 under the aegis of Union Ministry of Petroleum and Natural Gas. Under the scheme, subsidized liquefied petroleum gas (LPG) cylinders are sold at market rates and consumers are entitled to receive LPG subsidy directly into their bank accounts.

A.5. PRADHAN MANTRI KRISHI SINCHAYEE YOJANA

- The major objective of PMKSY is to achieve convergence of investments in irrigation at the field level, expand cultivable area under assured irrigation, improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies (More crop per drop), enhance recharge of aquifers and introduce sustainable water conservation practices by exploring the feasibility of reusing treated municipal waste water for peri-urban agriculture and attract greater private investment in precision irrigation system.
- PMKSY has been conceived amalgamating ongoing schemes viz. Accelerated Irrigation Benefit Programme (AIBP) of the Ministry of Water Resources, River Development & Ganga Rejuvenation (MoWR,RD&GR), Integrated Watershed Management Programme (IWMP) of Department of Land Resources (DoLR) and the On Farm Water Management (OFWM) of Department of Agriculture and Cooperation (DAC). The scheme will be implemented by Ministries of Agriculture, Water Resources and Rural Development.
- Ministry of Rural Development is to mainly undertake rain water conservation, construction of farm pond, water harvesting structures, small check dams and contour bunding etc.
- MoWR, RD &GR, is to undertake various measures for creation of assured irrigation source, construction of diversion canals, field channels, water diversion/lift irrigation, including development of water distribution systems. Ministry of Agriculture will promote efficient water conveyance and precision water application devices like drips, sprinklers, pivots, rain-guns in the farm "(Jal Sinchan)", construction of micro-irrigation structures to supplement source creation activities, extension activities for promotion of scientific moisture conservation and agronomic measures.
- Programme architecture of PMKSY will be to adopt a 'decentralized State level planning and projectised execution' structure that will allow States to draw up their own irrigation development plans based on District Irrigation Plan (DIP) and State Irrigation Plan (SIP).

A.6. AGRICULTURE DEMAND SIDE MANAGEMENT (AGDSM) PROJECT

- AgDSM project aims at providing free of cost BEE Star rated Energy Efficient Pump Sets to the farmers along with an electrical control panel.
- The new pump sets are provided with free repair and maintenance.
- The agriculture sector in India predominantly uses inefficient irrigation pump sets and therefore can provide significant savings by promoting BEE star rated and higher efficiency pump sets.
- Such Demand Side Management (DSM) interventions could lead to energy savings of 30 to 35 percent.
- Replacing an estimated 20.27 million pump sets used in agriculture sector with energy efficient pump sets would result in annual energy savings of 46 Billion kWh.
- This will also lead to GHG emission reduction of 45 m tonnes of CO_2 annually.

A.7. INTEGRATED POWER DEVELOPMENT SCHEME (IPDS)

Moving towards providing **24x7 power supply,** the government has approved IPDS to improve transmission and distribution networks across the length and breadth of the country.

> The IPDS announced in the Union Budget 2014-15 envisages
>
> ✓ **strengthening of sub-transmission network,**
> ✓ **Metering,**
> ✓ **Customer Care Services,**
> ✓ **Provisioning of solar panels**
> ✓ **Completion of the ongoing works of Restructured Accelerated Power Development and completion of the Reforms Programme (RAPDRP).**

- The component of **IT enablement of distribution sector** *and* ***strengthening of distribution network approved in June 2013 in the form of RAPDRP*** *for 12th and 13th Plans will get* ***subsumed*** *in this scheme.*
- ***<u>Eligible Utilities:</u>* All Discoms including private Discoms and State Power Departments will be** eligible for financial assistance under this scheme. Projects under this Scheme will be completed within a period of 24 months from date of issue of Letter of Awards. *<u>Power Finance Corporation</u>* is the nodal agency for operationalization of this scheme.
- **<u>Funding Pattern:</u>** Grant portion of the Scheme is 60% for non-special category States (up to 75% on achievement of prescribed milestones) and 85 % for Special category States (up to 90% on achievement of prescribed milestones). The milestones for the additional grant are : timely completion of the scheme, reduction in AT&C losses as per trajectory and upfront release of subsidy by State government.
- **<u>Tripartite Agreement:</u>** Suitable Tripartite agreement will be executed between Power Finance Corporation as the nodal agency of the Ministry of Power, the State Government and the Discom to ensure implementation of the scheme in accordance with the guidelines prescribed under the scheme.
- **<u>Model Benchmark:</u>** A model benchmark for power systems in urban areas which sets standards in items like digital/ prepaid metering ,underground cabling of 11KV and LT lines, limits for AT&C losses etc will be prepared by Central Electricity Authority.

A.8. PRADHAN MANTRI KHANIJ KSHETRA KALYAN YOJANA (PMKKY)

- The Ministry of Mines launched new programme to provide for the welfare of areas and people affected by mining related operations, using the funds generated by District Mineral Foundations (DMFs).

Objectives

- To implement various **developmental and welfare projects/programs** in mining affected areas that complement the existing ongoing schemes/projects of State and Central Government:
    - To minimize/mitigate the adverse impacts, during and after mining, on the environment, health and socio-economics of people in mining districts
    - To ensure long-term sustainable livelihoods for the affected people in mining areas

Salient features

- High priority areas like drinking water supply, health care, sanitation, education, skill development, women and child care, welfare of aged and disabled people, skill development and environment conservation will get at least 60 % share of the funds.
- For creating a supportive and conducive living environment, balance funds will be spent on making roads, bridges, railways, waterways projects, irrigation and alternative energy sources.
- All areas directly affected by mining related operations as well as those areas indirectly affected by such operations will be covered under PMKKKY.
- Indirectly affected areas are those where negative impacts of mining in the form of deterioration of water, soil and air quality, reduction in stream flows and depletion of ground water, congestion and pollution due to mining operations etc. happen.
- This way, government is facilitating mainstreaming of the people from lower strata of society, tribals and forest-dwellers who have no wherewithal and are affected the most from mining activities.
- The Mines and Minerals (Development & Regulation) Amendment Act, 2015, mandated the setting up of District Mineral Foundations (DMFs) in all districts in the country affected by mining related operations and to protect the interests of tribal communities who have borne the costs of mining.
- The miners have to contribute a fraction to DMF of total royalty payable to people. Using the funds generated by this contribution, the DMFs are expected to implement the PMKKKY.

A.9. E-SAHYOG PILOT PROGRAMME

- E-Sahyog is a pilot project designed to eliminate the need of taxpayers physically appearing in front of IT authorities.
- It is aimed at reducing compliance cost, especially for small taxpayers.
- **Objective** of "e-Sahyog" is to provide an online mechanism to resolve mismatches in Income-tax returns of those assesses whose returns have been selected for scrutiny, without visiting the Income Tax Office.

A.10. PRADHAN MANTRI GRAM SADAK YOJANA

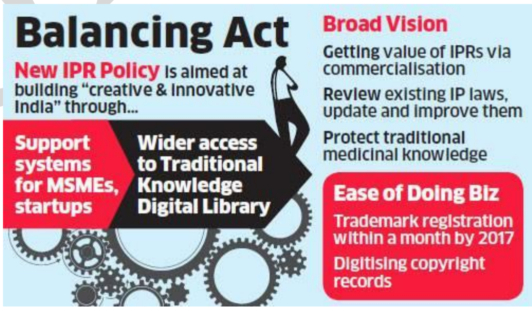
- The Government has brought **forward the target date by three years** from 2022 to 2019 to achieve complete rural connectivity through all-weather roads under Pradhan Mantri Gram Sadak Yojana.
- This accelerated implementation will be achieved by providing enhanced financial allocation of by Rs. 5,000 crore for year 2015-16 and through a modified funding pattern.
- Fund sharing pattern will be in the ratio of 60:40 between the Centre and States for all States except for 8 North Eastern and 3 Himalayan States for which it will be 90:10.
- This has been done as a consequence of recommendations of 14^{th} Finance Commission for higher devolution of funds to states.

About the scheme:

- PMGSY was launched in year 2000 as a Centrally Sponsored Scheme with the objective to provide single all-weather road connectivity to all eligible unconnected rural habitations.
- **Ministry of Rural Development** is the nodal ministry and the scheme is managed by **National Rural Roads Development Agency (NRRDA)**.
- In February, 2015 government had modified the guidelines for PMGSY to provide rural roads to the model villages adopted by the Members of Parliament under the Saansad Adarsh Gram Yojana (SAGY) on priority basis.

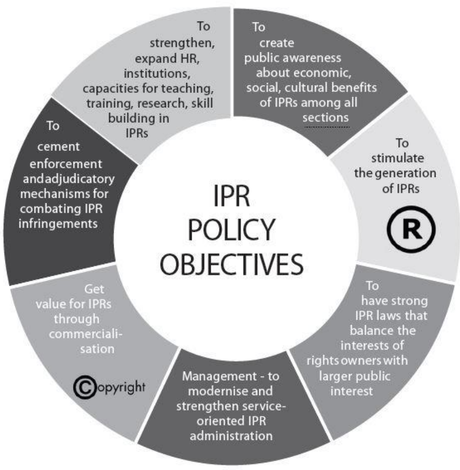
A.11. NEW IPR POLICY

In News



- Government has announced National Intellectual Property Rights Policy.
- Policy is in compliance with TRIPS.
- Policy aims to push
  - ✓ IPRs as marketable financial assets
  - ✓ Promote innovation
  - ✓ Protecting Public Interest ensuring availability of essential drugs at affordable prices

Objectives of new IPR Policy



- To have legal and legislative framework of IPR laws such that interest of owner and public interest is balanced.
- Strengthen the enforcement of laws and adjudication of IPR conflicts.
- To stimulate the generation of IPRs and create value for IPRs through commercialization.

- To create service-oriented IPR administration.
- To build human resources and institutions for IPRs training and research.
- To create awareness about IPR and its social, economic and cultural benefits.

Salient Points

- IPR friendly loans to less empowered group like artisans, weavers etc.
- Removing inconsistencies like amendment of Indian Cinematography Act.
- Fast examination and granting of IPR.
- Motivating industries to use CSR fund to support IP development.

Why a new IPR Policy now

- Consistent pressure from USTR and several restrictions on Indian generic drugs.
- Challenges from the mega regional trade pacts like TPP.
- To formulate incentives for greater R&D in India.
- To support Make in India, Digital India and Start Up India schemes.

A.12. SAGARMALA

- "Sagar Mala" is a strategic, customer-oriented initiative of Government of India to evolve a model of port led development.
- It envisages transforming the existing Ports into modern world class Ports as well as developing new ones.
- It aims to develop efficient evacuation systems through road, rail, inland and coastal waterways.
- As an outcome, the Sagar Mala would integrate the hinterland projects of Industrial and Freight Corridors with the maritime developments to offer efficient and seamless transport for both EXIM and domestic sectors thereby reducing logistics costs and making exports competitive.
- The Sagar Mala concept has three key deliverables enlisted below:
  - ✓ **Port Modernization**: Transform existing ports into world-class ports by modernization of port infrastructure and existing systems. Also ensure inter-agency coordination for synergistic development at both major and minor ports
  - ✓ **Efficient Evacuation Systems**: Develop efficient rail, road and coastal / IWT networks to the hinterland and promote Inland/Coastal shipping as most preferred mode of transportation
  - ✓ **Coastal Economic Development**: Encourage coastal economic activity in coastal regions by: Development of Coastal Economic Zones (CEZ), port based SEZs / FTWZs, captive ancillary industries; and Promotion of coastal tourism.

A.13. NEW ROAD FINANCING MODELS FOR BHARAT MALA

- The ***Bharat Mala project*** is aimed at developing 5,600 km of new roads in border areas at an estimated cost of Rs 56,000 crore.
- Another 4,700 km of roads to connect religious and tourism centres and to enhance connectivity in backward areas is expected at an estimated cost of Rs 44,000 crore.

- Besides this, world-class highways will be developed to connect 100 of the 676 district headquarters in the country.

The initiatives of government towards fulfilling above targets:

- **Swiss Challenge System (SCS)**: The SCS is a *bidding process* designed to enlist private sector initiatives in core sector projects. As per this norm, private investors can conceptualise and offer for evaluation of a project to the government. An infrastructure company, owning a port for instance, may want to develop the last-mile road to improve accessibility.
- *The SCS allows third parties to make better offers (challenges) for a project during a designated period to avoid exaggerated project development costs*. The original proponent, however, is accorded the right of first refusal and the right to counter-match any superior offers given by the third party. But, the SCS has not proved to be very successful elsewhere. The private entity is required to make a lot of initial investment under this model, which he may not be able to recover unless he wins the contract.
- **Hybrid Annuity Model To Offset Risks**: Under it the *government would provide 40 % of the project cost to the developer* to start work. The remaining investment will have to be made by the contractor. The NHAI will collect toll and refund the amount in installments over a period of 15-20 years.
- **Exit Policy To Release Funds**: The CCEA approved an exit policy permitting developers to exit highway projects two years after completion of construction to release locked-in equity as potential capital for future projects.
- **NHAI Loans For Stalled Projects:** The CCEA has now authorised the NHAI to loan resources from its corpus at a pre-determined rate of return to kick-start such projects, stalled due to lack of additional equity or inability on part of the concessionaire to disburse funds further.
- **Government To Government Funding**: The ministry is also examining a proposal to liberalise norms and allow government-to-government funding to mobilise additional resources for road development programmes.

A.14. NATIONAL PENSION SYSTEM

- NPS is defined contribution pension plan that needs one to keep contributing till 60 years of age.
- The minimum contribution to the pension (or Tier I account) is Rs.6000.
- Investments are market-linked and one can choose any of the three funds currently on offer—government securities fund, fixed-income instruments other than government securities fund and equity fund.
- Maximum equity exposure is 50% and only through the index funds.
- At 60 years of age, one can have up to 60% of this money and buy an annuity product that offers pension, with the rest.
- For early exits from NPS before 60 years of age, one will have to use 80% of the accumulated corpus to buy an annuity.
- However, one can also make a partial withdrawal up to 25% of the contributions after 10 years of being in the scheme for specific purposes.
- NRIs can also invest in NPS through a rupee denominated non-resident (external) rupee (NRE) account or non-resident ordinary rupee (NRO) account or local sources.

A.15. INDRADHANUSH PLAN

- It is a seven pronged plan launched by Government to revamp functioning of public sector banks.
- The seven elements include appointments, board of bureau, capitalization, de-stressing, and empowerment, framework of accountability and governance reforms (ABCDEFG).
- Banks board of bureau will replace existing appointments board. Its members would be appointed in the next six months to be headed by the RBI governor.

Indradhanush plan for revamp of state-run banks:

- Appointments
- Bank Board Bureau
- Capitalization
- De-stressing public sector banks
- Empowerment
- Framework of accountability
- Governance reforms

A.16. GOLD MONETIZATION AND SOVEREIGN GOLD BOND SCHEME

Objective

This is a step towards making gold an integral part of the larger financial system and a fungible asset class in its own right.

Provisions

Gold monetization scheme	Sovereign gold bond Scheme
a) The deposits can be short term (1-3 years), medium term (5-7 years) and long term (12-15 years). b) The interest rates on short-term deposits will be decided by banks and will be denominated in grams of gold. The interest rate on medium- and long-term deposits will be decided by the government in consultation with RBI from time to time and will be payable in rupees. c) There is no relaxation in know-your customer (KYC) guidelines to ensure that these schemes do not turn into avenues of converting unaccounted wealth into white money. d) Customers will be exempted from capital gains tax, wealth tax and income tax, which imply that the interest will be tax-free. They can redeem the short-term deposits along with the interest, either in cash or in gold. However, for medium and long-term deposits, redemption will be only in cash and based on market price of gold prevalent on the day of redemption. e) Medium and long-term deposits can be used to replenish RBI's gold reserves, auctioning, making coins and lending to jewelers. Short-term deposits will only be used for making coins and lending to jewelers.	a) The government will create a gold reserve fund to bear risks arising out of variations in gold prices. b) RBI will issue the bonds on behalf of the finance ministry. c) The annual cap for such bonds will be restricted to 500g per person per year and the interest rate would be subject to revision. d) The bonds will be issued in denominations of 5g, 10g, 50g and 100g of gold and other denominations, with a minimum tenor of five-seven years. e) Since the bond will be a part of the sovereign borrowing, these would need to be within the fiscal deficit target from the current fiscal itself.

Benefits

- This move will **not only ease pressure on the country's trade balance as** India's imports are dominated by crude oil and gold—but also **convert gold into a productive asset.**
- The gold monetization scheme will **drive orderly recycling and enhance transparency**, benefiting millions of households and the macro economy, as it has the potential to translate gold savings into economic investments.
- Allowing gold bonds as collateral for loans along with tax sops such as making the interest on gold bonds tax-free, exempting them from capital gains tax and providing indexation benefits to long-term capital gains on transfer of the bond, make gold bonds a relatively attractive proposition.
- Sovereign gold bond Scheme will allow savers to sell or trade bonds easily on commodity exchanges and key features, such as the ability to use them as collateral for loans and capital gains tax treatment similar to gold.

A.17. OIL EXPLORATION - REVENUE SHARING MODEL

- The government has initiated a new approach in the licensing and proceeds-sharing mechanisms with respect to the unutilized natural resources locked away in the 69 small and marginal oilfields lying with the state-owned exploration agencies.

New Provisions

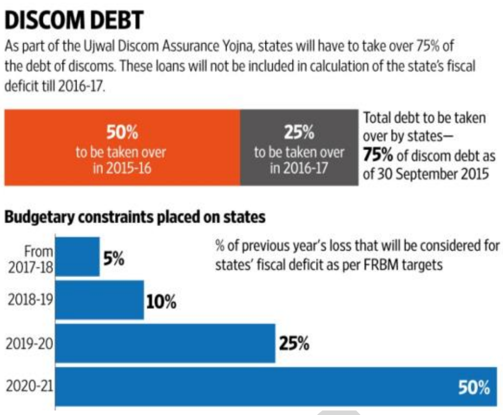
- This policy is based on **sharing revenue instead of profits** and **giving out unified licences for all hydrocarbons in the field instead of a license for each.**
- The move is consistent with the observation of the Comptroller and Auditor General (CAG) that the PSC "does not provide adequate incentives to private contractors to reduce capital expenditure".
- Under the new regime, the Government will not be concerned with the cost incurred and will receive a share of the gross revenue from the sale of oil, gas etc.
- Another change that the policy brings about is that the license granted to the successful bidder will cover all hydrocarbons found in the field. Earlier, it was limited to one, and a separate license was required if any other hydrocarbon, such as gas, was discovered and exploited.
- The new policy for the marginal fields also allows the successful bidder to sell at the prevailing market price of gas, rather than at an administered price.

Related Information

- **<u>Production Sharing Contract-</u>** Production sharing contract (PSC) framework allows for cost recovery by exploration and production (E&P) companies before they pay the government its share of revenue. It **encouraged investors to take higher exploration risks, and in the event of success, the costs could be recovered.** According to this provision, the government had to audit the various costs incurred by the private companies, which **often led to delays, disputes** and loss of revenue for government.

A.18. UDAY SCHEME FOR POWER SECTOR

- The Government has launched **Ujwal DISCOM Assurance Yojana** (UDAY) to help power distribution companies tide over financial losses.
- India has power generating capacity of 270 gigawatts but due to DISCOMs being forced to sell power at a loss, they simply refuse to lift power production. As a result of which India is currently using only half of its power generation capacity.



Scheme Provisions

UDAY empowers DISCOMs with the opportunity to break even in the next 2-3 years. This is through **four initiatives**

- Improving operational efficiencies of DISCOMs;
- Reduction of cost of power;
- Reduction in interest cost of DISCOMs;
- Enforcing financial discipline on DISCOMs through alignment with State finances.

States will issue bonds in the market or directly to the banks / Financial Institutions (FIs) holding the DISCOM debt to the appropriate extent.

DISCOM debt not taken over by the State shall be converted by the Banks / FIs into loans or bonds with interest rate not more than the bank's base rate plus 0.1%.

Impacts

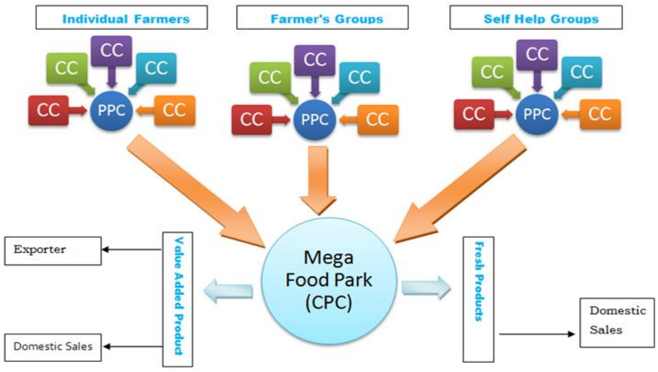
- Operational efficiency will be improved.
- Cost of power will be reduced.
- States shall take over 75% of DISCOMs debt.

A.19. INNOVATION COUNCIL OF INDIAN RAILWAYS – 'KAYAKALP'

- 4th meeting of Kayakalp was held in the chairmanship of Ratan Tata which discussed safety issues with an attempt to identify the causes of accidents because of manual failures.
- The Railway Budget Speech 2015-16 mentioned that every dynamic and thriving organization needs to innovate and re-invent its practices and hence this council has been setup for **the purpose of business re-engineering and introducing a spirit of innovation in Railways**.
- Indian Railways, on one hand, has to fulfil its **social obligation** of providing affordable travel facilities to the public while on the other hand, has to work as a **commercial organisation earning profit**. There is a need to balance these two requirements.
- The Council has been set up to further above stated twin goals.

A.20. MEGA FOOD PARK

In November 2015, foundation stone of the first Mega Food Park in Telangana was laid.



What is a Mega Food Park?

A mega food park is a hub and spoke architecture comprising Collection Centres (CCs) and Primary Processing Centres (PPCs) as spokes linked to a Central Processing Centre as hub.

Significance of Mega Food Park

- Major boost to the Food Processing Sector by facilitating creation of modern infrastructure for food processing with strong forward and backward linkages through a cluster based approach.
- Mechanism to link agricultural production to the market by bringing together farmers, processors and retailers.
- It ensures maximizing value addition, minimizing wastages, increasing farmers' income and creating employment opportunities particularly in rural sector.

A.21. TECHNOLOGY ACQUISITION AND DEVELOPMENT FUND UNDER NMP

Why in News?

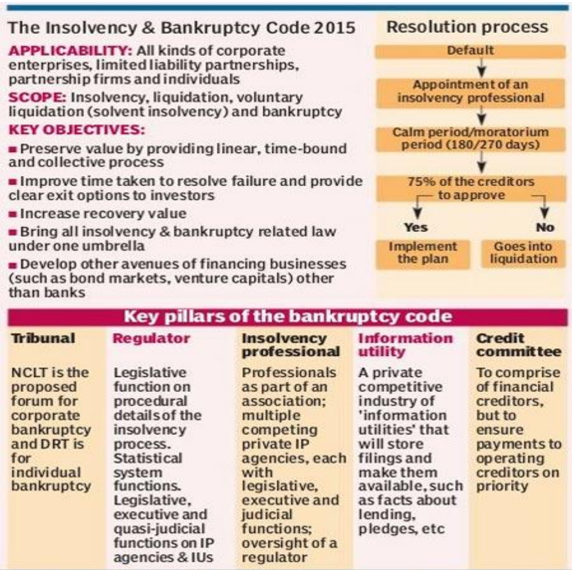
- Recently, Technology Acquisition and Development Fund (TADF) was launched under National Manufacturing Policy being implemented by Department of Industrial Policy & Promotion (DIPP).

What is TADF?

- It is a new scheme to facilitate acquisition of **Clean, Green & Energy Efficient Technologies** available in India or globally, **by Micro, Small & Medium Enterprises (MSMEs)**.
- Under the Scheme which would be implemented through **Global Innovation and Technology Alliance (GITA)**, a joint venture company, **support to MSME units is envisaged by the following**:
    - Direct Support for Technology Acquisition
    - In-direct Support for Technology Acquisition through Patent Pool
    - Technology / Equipment Manufacturing Subsidies
    - The scheme will give boost to green manufacturing by facilitating resource conservation activities in industries located in NIMZ.

A.22. INSOLVENCY AND BANKRUPTCY CODE, 2015

- The Bankruptcy Law Reforms Committee (BLRC) headed by **T K Vishwanathan**, set up by the finance ministry, recently submitted its report with a draft Bill called the Insolvency and Bankruptcy Code (IBC).
- The objective of the code is reducing the delay in resolution of insolvency or bankruptcy cases and improving recoveries of the amount lent. Thereby facilitating the efficient flow of capital across the economy.



Salient Features of the law

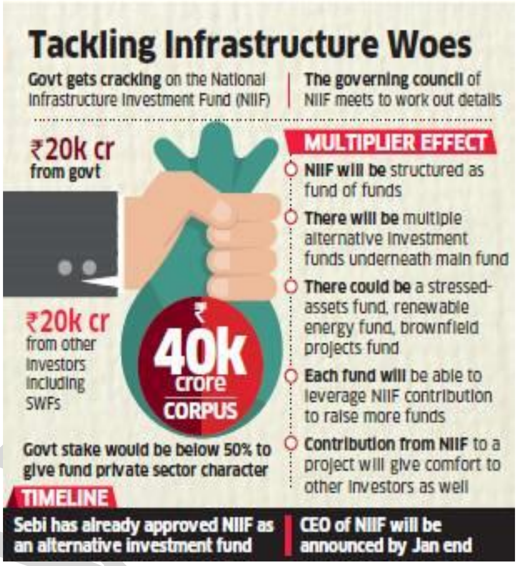
- A unified code for greater legal clarity.
- **Fixed a timeline of 180 days,** extendable by another 90 days, to resolve cases of insolvency or bankruptcy.
- A **new regulator** — the Insolvency and Bankruptcy Board of India (**IBBI**) to regulate professionals/agencies dealing with insolvency and informational utilities.
- Bill proposes for information utilities and an individual insolvency database.
- Setting up of a specialized Bench at the National Company Law Tribunal (NCLT) to adjudicate bankruptcy cases over companies, limited liability entities. Appeals from the order of NCLT shall lie to the National Company Law Appellate Tribunal ("NCLAT").
- Debt Recovery Tribunal ("DRT") shall be the Adjudicating Authority with jurisdiction over individuals and unlimited liability partnership firms. Appeals from the order of DRT shall lie to the Debt Recovery Appellate Tribunal ("DRAT").
- The code allows the corporate debtor itself to initiate the insolvency-resolution process once it has defaulted on a debt.
- Prioritization of claims by different classes of creditors.

A.23. NATIONAL INVESTMENT AND INFRASTRUCTURE FUND

Why in News?
Recently the government set up the Rs 40,000 Crore National Investment and Infrastructure Fund (NIIF).

Objectives of NIIF

- To **maximize economic impact** mainly through infrastructure development in commercially viable projects, both Greenfield and Brownfield, including stalled projects.
- To attract investment from **both domestic and international sources.**
- To increase investment flows into infrastructure projects.
- It would serve as an **umbrella fund with several funds underneath it.**



Functions of NIIF

- Fund raising through suitable instruments including off-shore credit enhanced bonds, and attracting anchor investors to participate as partners in NIIF.
- Servicing of the investors of NIIF.
- Considering and approving candidate companies/institutions/ projects (including state entities) for investments and periodic monitoring of investments.
- Investing in the corpus created by Asset Management Companies (AMCs) for investing in private equity.
- Preparing a shelf of infrastructure projects and providing advisory services.

Sources of fund for NIIF

- Equity participation from strategic anchor partners. Government of India will contribute to establish it as a sovereign fund and will attract overseas sovereign/quasi-sovereign/multilateral/bilateral investor to co-invest in it.
- Government's funds, each year to each entity set up as an Alternate Investment fund (AIF) for executing its functions based on its annual plan, would be provided as required.
- International pension funds and sovereign wealth funds from countries such as Russia, Singapore and the UAE have evinced interest in participating in India's Rs 40,000-crore National Investment and Infrastructure Fund (NIIF).

What is NIIF?
- It is a fund created by the Government of India **for enhancing infrastructure financing in the country.**
- The government has budgeted to contribute Rs. 20,000 crore to the fund in the current fiscal year while another Rs.20,000 crore is expected to be raised through sovereign wealth funds.
- It is registered as a **category II alternative investment fund** with the Securities and Exchange Board of India.
- A sort of sovereign fund, for development of infrastructure projects, including the stalled ones.
- The NIIF will have a dual role of equity capital infusion in projects and in getting the due-diligence done for investment in infrastructure projects.

Structure

- The NIIF will be established as one or more Alternate Investment Funds (AIF) under the SEBI regulations.
- The initial authorized corpus of NIIF would be Rs. 20,000 crore, which may be raised from time to time, as decided by Ministry of Finance. Government can provide upto 20000 crore per annum into these funds. Government's contribution/share in the corpus will be 49% in each entity set up as an alternate Investment Fund (AIF) and will neither be increased beyond, nor allowed to fall below, 49%. The whole of 49% would be contributed by Government directly. Rest is open for contribution from others.

Governance

- The NIIF will be established as a trust/other legal entity from both the point of view of taxation and flexibility.
- There will be a Governing Council of the NIIF which will have Government representatives and experts in international finance, eminent economists and infrastructure professionals. It could include representatives from other non-Government shareholders.
- The terms and period of appointment of the Governing Council of the NIIF will be as decided by the Government.
- NIIF would be supported by one or more Chief Executive Officers and a small investment team consisting of limited number of expert staff.
- NIIF would have full autonomy for project selection. NIIF would formulate guidelines and would follow due processes for selection criteria for Asset Management Companies (AMCs) and Non-Banking Financial Companies (NBFCs)/Financial Institutions (FIs).

A.24. SEZ REVIVAL PLAN

Why in news?

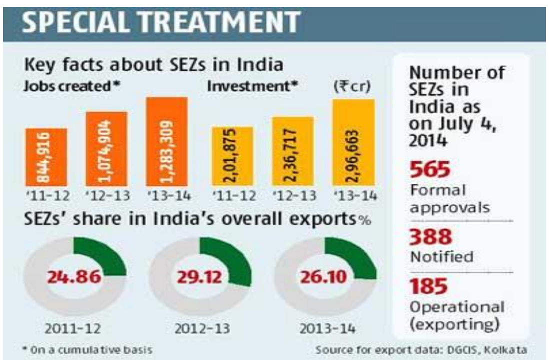
Since SEZs are an important mainstay for supporting the 'Make in India' campaign and boosting exports the government had set up a high-level team to review and resolve the problems of special economic zones.

What are SEZs?

Special Economic Zones denote geographical areas which enjoy special privileges as compared with non-SEZ areas in the country. They were conceived as tax free enclaves with world class infrastructure for exporting goods and services.

The main objectives of the SEZ Act are

- Generation of additional economic activity.
- Promotion of export of goods and services.
- Promotion of investment from domestic and foreign sources.
- Creation of employment opportunities.
- Development of infrastructure facilities.



A.25. STARTUP INDIA PROGRAMME

Why in news

- The scheme offers incentives to entrepreneurs to start ventures in India.
- The Action Plan proposes a 19-point action list which will enable setting up of incubation centres, easier patent filing, tax exemption on profits, setting up a Rs.10,000 crore corpus fund, ease of setting-up of business, a faster exit mechanism, among others.

Key Highlights

- To encourage seed-capital investment, the government exempted tax above fair market value for incubators in start-ups.
- With the intention of reducing regulatory burden on start-ups, they have been exempted from six labour laws and three environmental laws for a period of three years.
- Start-ups will also be provided free legal support in filing intellectual property rights (IPR).
- Patent applications filed by startup will be fast tracked at lower costs.
- To provide equal platform to startups in government procurements, the criteria of prior experience or turnover will be exempted without any relaxation in quality standards or technical parameters.
- Government will create a policy framework for setting up of incubators across the country in public private partnership, build innovation centres at national institutes and set up seven new research parks.
- Funding support of worth 10,000 crore rupees for next four years.
- Government **to set up a Startup India Hub which will be a single-point of contact** for Startups.
- In order to augment incubation and R&D efforts, 31 centres of Innovation and entrepreneurship will be setup/ scaled up for providing facilities to over 1,200 Startups, at national institutes.
- 7 new research parks are proposed to be set up with an initial investment of Rs.100 crore each. These parks shall enable companies with a research focus to set up base and leverage the expertise of academic/ research institutions.

Criteria for a startup

- The firm incorporated should be less than five years old.
- Annual Revenue of less than Rs 25 crore.
- Needs to get approval from inter-ministerial board to be eligible for tax benefits.
- Get recommendation from an Incubator recognized by government, domestic venture fund or have an Indian patent.

Benefits of the scheme

- It will help in economic growth of the country.
- It will create more employment opportunities in India.
- It will help in development of entrepreneurship culture in India.

A.26. RAIL REGULATOR TO SET FARES, ENSURE FAIR COMPETITION

- A concept paper, published by the Union government has proposed to set up a rail regulator i.e. Rail Development Authority of India
- An appellate body is also proposed to be formed and the role, structure and composition of the body will be similar to regulators in telecom and electricity sectors.


ON THE AGENDA

- Regulator to set passenger and freight tariff
- Ensure fair play and level playing field for private investments in Railways
- Maintain efficiency and performance standards
- Disseminate information such as statistics and forecasts related to the sector
- An appellate body will be constituted
- Indian Railways will be compensated appropriately through budgetary support if proposed tariff not accepted by government

Proposed Mandate

- To set passenger and freight tariff.
- Ensure fair play and level-playing field for private investors in Railways.
- Maintain efficiency and performance standards.
- Disseminate information such as statistics and forecasts related to the sector.

Benefits of proposed rail regulator

- It will help in better functioning of Railways.
- It will help Railways in recovering their losses which in turn will make it economically viable.
- It will also attract more private investment in Railways and will help in utilizing the full potential of Railways.

A.27. TRADE FACILITATION AND TRADE ENFORCEMENT ACT 2015

Why in news?

On Feb 2016, President Barack Obama signed the Trade Facilitation and Trade Enforcement Act, which introduces important measures relating to intellectual property rights (IPR) issues.

Key Provisions of the Act that may influence India

- The Act requires USTR to develop action plans with benchmarks for countries in PWL list, **unilaterally.**
- Trade sanctions for countries that refuse to comply with benchmarks can be taken.
- It creates a new position within the office USTR titled “Chief Innovation and Intellectual Property Negotiator” which would protect US innovations and IP interests.
- It also created a separate fund for taking legal actions against foreign countries to ensure fair and equitable market access for US.

A.28. CONVERSION OF MUDRA INTO BANK

Why in new?

- The govt. approved the conversion of MUDRA ltd into MUDRA Bank as a wholly owned subsidiary of Small Industries Development Bank of India (SIDBI) and creation of a Credit Guarantee fund for MUDRA loans.

Objective for creation of credit guarantee fund

- The CGF has been created to reduce the credit risk of MFIs/Banks/NBFCs/other financial intermediaries associated in disbursing loans to Micro and Small units.
- MFIs can now become Member Lending Institutions (MLI) with MUDRA (SIDBI) Bank for refinance or with NCGTC for credit guarantee.

A.29. DRAFT BULK DRUG POLICY

Why in news?

- Based on recommendations of **Katoch committee**, Department of Pharmaceuticals (DoP) had moved draft on bulk drugs policy.
- Bulk drug manufacturers expect the policy **to revive India's active pharmaceutical ingredients (API) market and trigger fresh investments** worth Rs 30,000-40,000 crore in setting up new manufacturing facilities and augmenting existing ones.

What are Bulk Drugs?

- Bulk Drugs or APIs are basically the active raw materials used in a drug that gives it the therapeutic effect.
- Bulk drugs are used as raw materials by the pharmaceutical industry.

A.30. NON TAX REVENUE E-PORTAL

- Finance minister launched Non-tax receipt portal (NTRP) to electronically collect non tax revenue.
- It provides a one-stop platform to citizens or corporates or other users to make online payment of non-tax receipts to the Union government.
- While taxes are largely collected using the e-payment mode, non-tax revenues flow mainly through physical instruments such as bank draft or cheque or cash.
- Online payments can be made by using either a credit card, a debit card or through Internet banking.
- NTPC made the maiden payment on the portal by remitting Rs.989 crore as an interim dividend to the government.

Controller General of Accounts:

- Controller General of Accounts is the principal Accounts Adviser to the Government of India and is responsible for establishing and maintaining a technically sound management accounting system.
- He prepares a critical analysis of expenditures, revenues, borrowings and the deficit for the Finance Minister every month.
- He also prepares annual Appropriation Accounts (Civil) and Union Finance Accounts for presentation to the Parliament.

What is not tax revenue?

- It mainly includes dividends, interest receipts, spectrum charges, royalty, licence fee, sale of forms and application fees under the Right to Information Act.
- The major sources of non-tax revenue for the government are from dividends paid by public sector companies, the Reserve Bank of India, etc.
- The annual collection of non-tax receipts amounts to over Rs. 2 lakh crore.

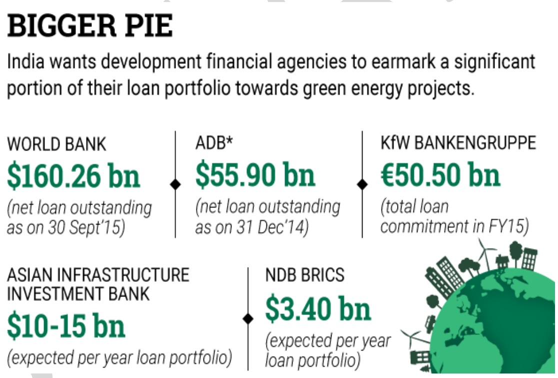
A.31. MAKE IN INDIA: RENEWABLE ENERGY

Why in news?

- **Renewable energy seminar** was held in Make in India week to promote investment in this sector.
- Recently **BRICS's New Development Bank** President KV Kamath announced that the majority of NDB's initial projects, both in number and value, would be green. It is set to fund a dozen such projects this year.

Reasons to invest

- India has the fifth largest power generation portfolio worldwide with power generation **capacity of 271 GW**.
- Economic growth, increasing prosperity, a growing rate of urbanization and rising per capita energy consumption has widened access to energy in the country.



- Wind energy is the largest renewable energy source in India.
- The Jawaharlal Nehru National Solar Mission aims to generate 1, 00,000 MW of solar power by 2022.
- India, in budget 2015, announced a target of installing 175 GW capacity by 2022. India's total installed capacity in one year stands at close to 28 GW.

A.32. UNIFIED PAYMENT INTERFACE (UPI) PROJECT

- The National Payments Corporation of India (NPCI) and software product **think-tank ISpirt** are ready for the technical launch of a new Unified Payment Interface, that would allow people to people or P2P transactions from any bank account to another, using a mobile phone app.
- This inter-operable mobile payments system would revolutionize the way P2P payments are made.
- Eventually the system would allow mobile to mobile payments (without any bank accounts involved) and payments to an Aadhaar number or a virtual address if people are not comfortable sharing their bank account details.
- The UPI is a new layer on top of the IMPS (Immediate Payment Service) that has been used by banks for electronic fund transfers for about five years. This will allow seamless, inter-bank connection using a mobile app that can be used to pay merchants as well as make other 'proximity payments' on an offline basis.

- There is a very simple API that would provide for both push and pull payments. So I can send money to you or you can send me a request to pay, as merchants may do if I buy something from them. I can approve the request on my phone.

A.33. ELECTRONICS DEVELOPMENT FUND (EDF)

About the fund

- Launched by Ministry of Communication and IT to support early-stage, angel, venture and private equity funds focusing on electronics, nano-electronics and information technology.
- An initial corpus of Rs. 2,200 crore, (to be scaled up to Rs. 10,000 crore)
- Aimed at creating an "ecosystem of innovation, research and development (R&D) and with active industry involvement."
- To be a '**fund of funds'**, with Canbank Venture Capital Funds as active management firm, which will in turn seed professionally managed venture funds.
- The EDF will put in 20% of the capital in daughter funds and the rest 80% will be invested by VCs. The daughter funds will then invest in companies, primarily start-ups.

Need for EDF

- The demand for electronics products in India will increase to **$400 billion by the year 2020** while production is expected to reach $104 billion only by that time.
- India will be importing more electronics than crude oil leading to huge CAD.
- India has huge domestic market and a vast pool of technical resources, as well as skilled and semi-skilled labour.
- India is ideally placed to become a global electronics manufacturing hub, offering opportunities of scale manufacturing.

A.34. COMPULSORY LICENSING

Why in News?

The proposed India-EU FTA would include provisions on IPR protection of which compulsory licensing is an important aspect.

What Is Compulsory Licensing

- CL is the grant of permission by the government to entities to use, manufacture, import or sell a patented invention without the patent-owner's consent.
- CL is permitted under the WTO's TRIPS (IPR) Agreement provided conditions such as 'national emergencies, other circumstances of extreme urgency and anti-competitive practices' are fulfilled.
- So far, India has issued only one CL for an anti-cancer medicine Nexavar.

A.35. INDIA NUCLEAR INSURANCE POOL LAUNCHED

- General Insurance Corporation of India (GIC) and 11 other non-life insurers have formed the India Nuclear Insurance Pool.
- It will have a capacity of Rs. 1,500 crore.
- New India Assurance will issue the policy and deal with management of cover to the operators and suppliers, on behalf of all direct insurance companies participating in the pool.
- The policies offered will be of two kinds: Nuclear Operators Liability (CNLD Act 2010) Insurance Policy and Nuclear Suppliers' Special Contingency (against Right to Recourse) Insurance Policy.
- It is expected to address third-party liability insurance to begin with and later expand into property and other hot zone (inside reactor areas) risk. At present, only cold zones (outside reactor areas) are covered.

B. MONETARY AND FISCAL POLICY

B.1. PAYMENT BANKS ISSUES

What is the issue?

After initial enthusiasm in applying for payment banks, companies like Tech Mahindra, Sanghvis, Cholamandalam Investment have opted out.

What are Payment Banks?

- They are special types of banks who **can only receive deposits** upto Rs.1 lakh but are not allowed to lend. They can issue ATMs or debit cards but not credit cards.
- The objective of Payment Banks was to further **financial inclusion** in India.
- After initial scrutiny, in principle approval was given to 11 companies by RBI.

List of License Holders

- Reliance Industries
- Aditya Birla Nuvo (Idea Cellular)
- Airtel
- Vodafone
- Dept of Posts
- FINO Pay Tech
- National Securities Depository Ltd.
- Paytm (Vijay Shekhar Sharma)

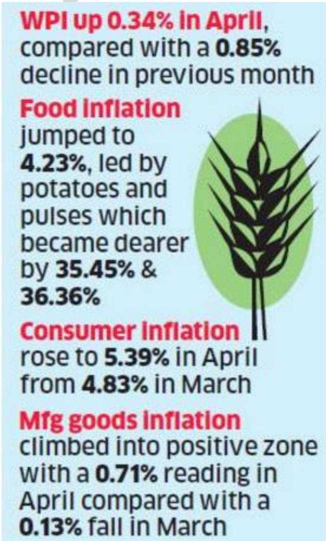
Players who dropped out

- Tech Mahindra
- Dilip Shanghvi
- Cholamandalam Investment and Finance

B.2. WPI IN POSITIVE ZONE

In News

- The wholesale price index (WPI) inflation for April has come in at 0.34%
- For past 17 months it was in negative zone. WPI was minus 2.43% in April last year.



Reason for rising WPI

- Rise in price of food articles like potato, pulses and sugar.
- Food inflation is due to supply side constraints and mismanagement of food economy.
- Two consecutive drought years have further worsened the supply.
- Arbitrary and ill-timed interventions by government for example allowing sugar export despite low production.

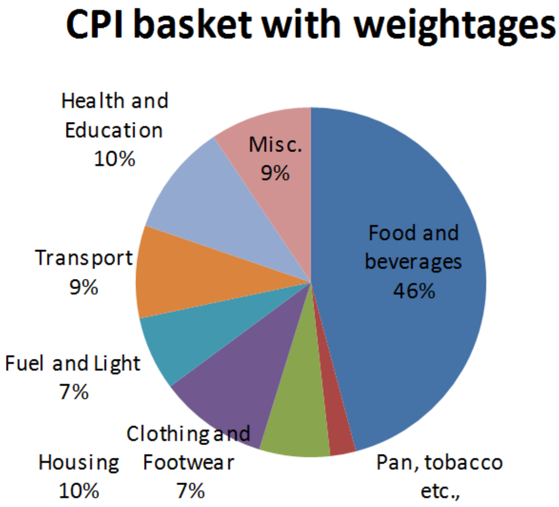
Implications of Rise in WPI

- This signals hardening of prices in economy.
- Rise in WPI will lead to rise in CPI. This might force RBI to take monetary tightening measures to keep headline inflation with-in the prescribed inflation limit of 6%.

B.3. CPI TO BE SOLE PARAMETER FOR SETTING POLICY RATES

Why in news?

The Central Statistics Office has updated the base year and weights for the various goods and services in the consumer price index (CPI). Now that the Reserve Bank of India and the finance ministry are agreed that the CPI would be the sole parameter to set policy rates and anchor inflationary expectations, the revision has huge implications.



Benefits of Using policy rates anchored to CPI (Inflation targeting)

- <u>Credibility:</u> Primary goal is 'price stability'. Stability induces confidence in future and helps in decision making.
- <u>Reduced costs of Inflation:</u> If inflation creeps up, then it can cause various economic costs such as uncertainty leading to lower investment, loss of international competitiveness and reduced value of savings.
- <u>Avoids Boom and Bust cycles:</u> as high inflationary growth may end up in recession like conditions and provides stable and sustainable economic growth.

B.4. ON-TAP BANKING LICENSES

In News

- RBI has released new draft policy for on-tap banking licenses.
- In past 2 years, RBI has fastened the pace of licensing process to promote financial inclusion.
- 23 entities have been granted banking licenses under different segments - universal banks, payment banks and small finance banks.

Criteria for granting licenses in the draft policy

- A minimum capital of Rs.500 crore,
- A 10-year track record,
- Requirement of 10 years' experience for individual applicants in banking and finance,
- Minimum 13 per cent capital adequacy ratio for three years,
- For firms having more than Rs 5000 crore assets, non-financial business of the group should not contribute more than 40% of the total assets or gross income
- Promoters' stake to be reduced to 30 per cent over 10 years and to 15 per cent over 12 years and
- Bank should be listed on the stock exchanges within six years.

B.5. NPA

What is NPA?

> *In terms of Agriculture / Farm Loans; the NPA is defined as:*
> - For short duration crop agriculture loans is not paid for 2 crop seasons.
> - For Long Duration Crops, the above would be 1 Crop season from the due date.

- The assets of the banks which don't perform (that is – don't bring any return) are called Non Performing Assets (NPA) or bad loans.
- Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan.
- According to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset.

Reasons for NPA

Internal factors

- **Lack of Funds -** Securitization companies and reconstruction companies (SCs / RCs) need incremental capital to be able to grow and play a useful role in the sector.
- **Pricing of NPAs** - The gap between price expectation of sellers and bid price by securitization and reconstruction companies has increased which is leading to low success rate of auctions.
- Because of lack of monsoon, the asset quality of India's agricultural credit is significantly affected.
- Funds borrowed for a particular purpose but not use for the said purpose.
- Poor recovery of receivables.
- Excess capacities created on non-economic costs.
- Inability of the corporate to raise capital through the issue of equity or other debt instrument from capital markets.
- Business failures.
- Diversion of funds for expansion/modernization/setting up new projects and helping/promoting sister concerns.
- Willful defaults, siphoning of funds, fraud, disputes, management disputes, misappropriation etc.
- Deficiencies on the part of the banks viz. in credit appraisal, monitoring and follow-ups, delay in settlement of payments/subsidiaries by government bodies etc.

External factors

- Sluggish legal system:
  - ✓ Long legal tangles
  - ✓ Changes that had taken place in labour laws
  - ✓ Lack of sincere effort
- Shortage of raw material, raw material/input price escalation, power shortage, industrial recession, excess capacity, natural calamities like floods, accidents.
- Failures, non-payment/over dues in other countries, recession in other countries, externalization problems, adverse exchange rates etc.
- Government policies like excise duty changes, Import duty changes etc.

B.6. DEFLATION IN INDIA

Inflation

- Inflation is simply a measure of the extent of increase in prices. If potatoes cost Rs.100 per kg in August 2014, and if they cost Rs.110 per kg in August 2015, then inflation in the price of potatoes was 10 per cent. When this happens across prices of all commodities for a relatively sustained period of time, then one can say the economy is experiencing inflation.

Deflation

- Deflation is simply the opposite of inflation. That is, prices fall from one period to the next. So deflation is a decrease in the general price level of goods and services. Deflation occurs when the inflation rate falls below 0% (a negative inflation rate).

Positive Impact of Deflation

- Deflation can be treated as a temporary condition that will allow for an improvement in competitiveness and balancing the budget.
- Moderate deflation may benefit savers and investors because the value of their assets is appreciating relative to the rate of deflation.
- In general, when there is slack in the labor force there is downward pressure on wages, which can seem positive for businesses. Business owners can improve margins by paying workers less.

Negative Impact of Deflation

- Deflation can be detrimental for borrowers since they pay back debts in currency that is in effect more expensive due to deflation.
- Since, workers are consumers. If wages are flat, then growth is likely to be flat.
- In general, **flat wages are something that restrains consumption growth**, and therefore can have a deflationary effect.
- **Low inflation or deflation is correlated with high unemployment.**

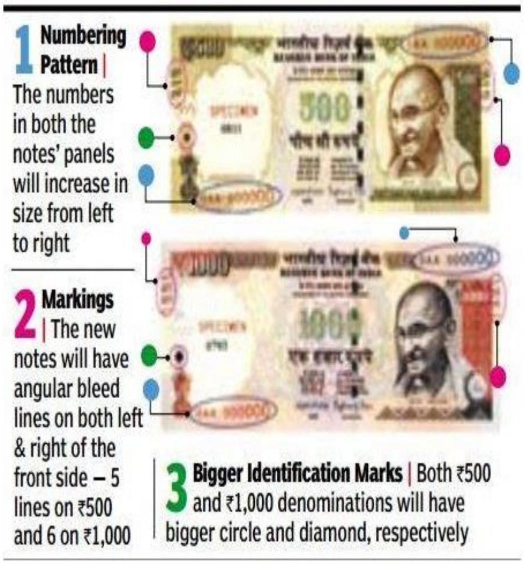
B.7. REVISED DRAFT INDIAN FINANCIAL CODE

- The IFC is intended to create a single unified and internally consistent law replacing a large part of the existing Indian legal framework for governance of the financial sector.
- Several of the over 60 laws are outdated; there have been dramatic changes in the global financial architecture since the original laws were written, and many of the developments in finance (and the emergence of new instruments) sometimes fall between regulators (or across them), resulting in conflict.
- The Financial Sector Legislative Reforms Commission (FSLRC) headed by retired Supreme Court judge B.N. Srikrishna, was constituted in March 2011 to study possible reforms in the financial sector.
- The commission, in its report submitted in March 2013, suggested a merger of multiple financial regulatory agencies into one overarching authority that would have oversight over the capital market, insurance sector, pension funds and commodities futures trading, except the RBI.
- The first draft of the IFC report submitted by FSLRC proposed to give the RBI governor the right to overrule the monetary policy committee's decisions.

B.8. NEW FEATURES INTRODUCED ON CURRENCY NOTES

Why in news?

- To check the menace of fake Indian currency, new notes, especially the Rs 1,000 and Rs 500 denominations, will have 7 new security features and a new numbering system.
- The RBI has also asked the banks to stamp notes detected as fake as "Counterfeit Note" and impound them, while banks found not following the procedure will be penalized.
- **The National Investigation Agency (NIA) has been designated the nodal agency for fake currency cases.**



New features

- Braille-like markings on currency notes of Rs 100, Rs 500 and Rs 1,000 denominations.
- Rs 100 notes will have four parallel angular lines printed along the border and just beside the Mahatma Gandhi watermark. The Rs 500 notes will have five lines while the Rs 1,000 notes will have six.
- Numbering with exploding font -the print size of each number on numbering panel on the note ascend in size from left to right.
- Increased the size of the existing identification marks on these currency notes by 50% so that it is easier for visually challenged people to recognize each note.
- State-of-the-art intaglio printing will be used in which the security paper is perforated and printing ink incised into the paper, allowing users to feel the lines.

B.9. BANK CONSOLIDATION

Why in news?

State Bank of India (SBI) has started the process of merging five of its subsidiaries and Bharatiya Mahila Bank (BMB) with itself.


Why the need? A bigger SBI capable of taking on global giants when banking sector is opened up in future. Large banks to get benefits of scale, better diversification of risks and higher profitability

Background

Since 1991, with Narasimham committee report, creation of large size banks is demanded. Second edition of **Gyan Sangam** (the annual banker's conclave) also discussed the need for consolidation of banks.

Particularly this time the trigger for consolidation is the **high NPAs** (non-preforming assets), which are eroding, not the net worth but the profitability of many public sector banks and the government is under pressure to capitalize them.

B.10. VODAFONE WINS TAX DISPUTE CASE

- Vodafone India won its battle against the income-tax department over transfer pricing in the Bombay High Court.

Related Info:

Transfer Pricing

- The price at which divisions of a company transact with each other is called transfer price. Transactions may include the trade of supplies, service or labor between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities.

Arm's Length

- A transaction in which buyers and sellers of any products act independently and have no relationship with each other is known as Arm's length transaction. The concept of an arm's length transaction is to ensure that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party.

Indian Laws related to Transfer Pricing

- Income-Tax Act provides that any income arising from an international transaction will be computed having regard to the arm's length price, which will be determined by Central Board of Direct Taxation (CBDT) using various methods like comparable uncontrolled price method, cost plus method, etc.

Safe Harbour Rules

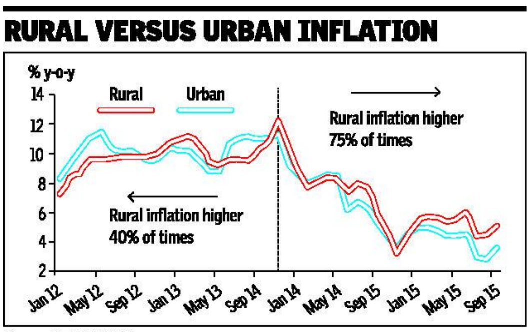
- The determination of arm's length price is subject to safe harbor rules. "Safe harbour" means circumstances in which the income-tax authorities shall accept the transfer price declared by the assesse.
- It is a legal provision to reduce or eliminate liability as long as good faith is demonstrated. Government looking at lowering safe harbour margins to make it attractive for companies to opt for it and make safe harbour definition unambiguous bringing in more clarity.

Advance Pricing Agreement

The CBDT may enter may enter into an advance pricing agreement with any person, determining the arm's length price or specifying the manner in which arm's length price is to be determined, in relation to an international transaction to be entered into by that person.

B.11. GAP BETWEEN RURAL AND RUBAN INFLATION

- As per the inflation report by HSBC while India's underlying inflation momentum at 5.5% but it is higher at 6.5% for rural India while 4.5% for the urban segment.



Source: CEIC, HSBC

Reasons for this gap

- Greater use of non-oil based fuels, where inflation remains higher, is mostly used in rural homes.
- The dramatic fall of oil has pulled down both 'fuel' and 'transportation' prices.
- However, the pass-through has been lower for rural India. Data suggests that rural India's fuel mix is more geared towards domestically produced firewood, chips and biogas inputs, which are not a part of the global deflation cycle.
- On the other hand, fuel products more widely used in urban India, i.e. LPG and diesel, have benefitted from lower global prices.
- Food and others - In case of food, benefits of cheaper imports are not reaching rural areas as efficiently.
- Rural India has some structural disadvantages vis-a-vis urban India: insufficient transport networks, limited providers and insufficient competition and distribution channels, Insufficient investment, growing bottlenecks and impact of two successive droughts have contributed to lowering rural India’s potential (or trend) growth and the narrow output gap is keeping core inflation from slowing rapidly in rural areas, despite weak growth.

B.12. MONETARY POLICY PANEL

The News

- After four months of debate and discussion, the Reserve Bank of India and the Finance Ministry have overcome the stalemate on the proposed amendments to the Reserve Bank of India Act to reset the responsibility of deciding India’s monetary policy.

Past Attempts at Democratizing the Monetary Policy Making

- In 2005, RBI governor started to consult with noted economists, industrial bodies (FICCI etc) and Credit Rating Agencies (CRISIL etc.)
- RBI’s annual reports put on the official website to bring in transparency.
- RBI started to publish quarterly reviews where RBI governor answer queries from media.
- Nonetheless, Monetary Policy remained the sole responsibility of the Governor, without any formal mechanism for ensuring participation and accountability.

Past Recommendations

Previous Committees - **Tarapore, Reddy, FSLRC** and more recently **Urjit Patel Committee** have either directly or indirectly recommended that

- Monetary policy should be decided by a Committee rather than a single person.
- Decision should be based on majority voting.
- Minutes of such meetings should be put in public domain.

Thus, it was **long felt need to shift to a Committee System** for deciding monetary policy.

However, some disagreements emerged in recent past, over the structure of Monetary Policy Committee, between the Government and the RBI, which has been overcome recently.

B.13. TRADE CREDIT INSURANCE

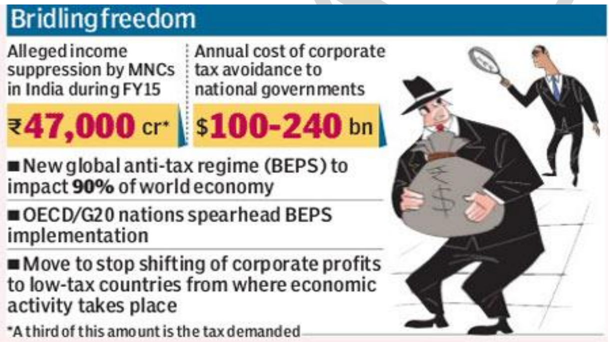
- Insurance Regulatory and Development Authority of India (IRDAI) have decided to liberalize norms for trade credit insurance.
- IRDAI is seeking to give a boost, especially to micro, small, medium enterprise (MSME) sector, wherein the need for trade credit has enhanced the scope for the sector manifold.

What is trade credit insurance?

An insurance policy offered by private insurance companies and governmental export credit agencies to business entities wishing to protect their accounts receivable from loss due to credit risks such as protracted default, insolvency or bankruptcy.

B.14. BASE EROSION PROFIT SHARING PROJECT (BEPS)

India is set to adopt a new regime to curb tax evasion **as proposed by the OECD and G20 nations.**



What is BEPS?

It is a technical term referring to the negative effect of multinational companies' tax avoidance strategies on national tax bases. It can be achieved through the use of transfer pricing.

Why important?

- The proposed changes would deny businesses the tax advantage from certain hybrid financial instruments such as compulsorily convertible debentures (CCD).
- It will prevent them from fragmenting the business chain to escape being considered a taxable business presence (called permanent establishment).
- The practice of lowering the tax outgo here by paying royalty — a deductible expense while calculating taxable income — to the owner of intellectual property rights incorporated in a low-tax jurisdiction would be restricted. The idea is to ensure that legal ownership of intangibles like patents held by a foreign entity does not entitle it with the full right to the income arising from exploiting it here. Royalty payment is a common way many Indian units of MNCs send back part of profits to the parent at a concessional rate of withholding tax specified in tax treaties.
- India has also introduced a set of place of effective management (POEM) rules that addresses the requirement for CFC rules. POEM brings the worldwide income of India-managed overseas companies to tax in India.

B.15. SEBI PANEL SUGGESTS REFORMS TO GROW ALTERNATIVE FUNDS INDUSTRY

Why in news?

- A 21 member advisory panel under Narayan Murthy set up by SEBI has suggested a slew of tax reforms and changes in existing laws to facilitate capital-raising by AIFs and boost entrepreneurship.

What is AIF?

- Anything alternate to traditional form of investments gets categorized as alternative investments.
- (AIFs) are defined in Regulation 2(1)(b) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012
- It refers to any privately pooled investment fund, (whether from Indian or foreign sources), in the form of a trust or a company which are not presently covered by any Regulation of SEBI nor coming under the direct regulation of any other sectoral regulators in India-IRDA,PFRDA, RBI
- AIFs are categorized into the following three categories:
- **Category I** - Those AIFs with positive spillover effects on the economy. Example: Venture Capital Funds, SME Funds etc.
- Category II - Those AIFs for which no specific incentives or concessions are given. E.g. Private Equity or debt fund.
- Category III Funds that are considered to have some potential negative externalities in certain situations and which undertake leverage to a great extent; with a view to make short term returns. No specific incentives or concessions from the government or any other Regulator. E.g. Hedge.

B.16. INDEX OF INDUSTRIAL PRODUCTION

Why in news?

- Industrial production, measured by IIP, dropped for the month of November after a robust recovery till October.
- According to India Rating and Research, the drop is due to wide base and slowdown in various sectors globally.

What is IIP?

- IIP is a ratio which measures the growth of various sectors in the economy. Being a ratio, it represents the status of production in the industrial sector for a given period of time as compared to the reference period of time (base year).
- IIP data is released every month by **CSO.**
- The current base year is **2004-05.**

Composition of IIP

- The IIP comprises of **682** individual items. Sector wise, the items included falls into 3 categories viz. Manufacturing, Mining and Electricity respectively in decreasing order of their weightage to the index.

Weightage of Core Industries in IIP

- In terms of percentage, the weightage of all 8 core industries in IIP is around 38%.
- In IIP, the decreasing order of core industries among them is as:
- ELECTRICITY> STEEL> REFINERY PRODUCTS> CRUDE> COAL> CEMENT> NATURAL GAS> FERTILIZERS

B.17. SEED FUNDING TAX TO BE REMOVED

Why in News?

Recently, government has decided to scrap the tax on seed funding by angel investors, which has been identified as a major impediment for entrepreneurs to get domestic funds.

Benefits of Scrapping

- It will help in easing up the process to start up and doing business in the country.
- According to certain estimates around 65 percent of the startups have moved out of India due to uncertain taxation. This move is aimed at preventing the exodus of startups from the country due to difficulties in doing business.
- It will also help in ensuring transparency, simplification and predictability in tax structure.

What is Seed Funding (Capital)?

- It is the initial capital used to start a business. It is provided to help a business develop an idea, create the first product, and market the product for the first time.
- Seed capital is needed to get most businesses off the ground. It is considered a high-risk investment, but one that can reap major rewards if the company becomes a growth enterprise.

Who is angel investor?

- An angel investor or angel is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

B.18. MEDIUM TERM DEBT MANAGEMENT STRATEGY

Why in news?

- The government of India has put MTDS in public domain for a period of three years (2015-18).
- The plan aimed at lowering cost of borrowings and expanding the list of eligible investors which would deepen the local sovereign bond market.

What is MTDS?

- Medium-Term Debt Management Strategy is a framework that the government intends to use over the medium-term to ensure
  - ✓ Debt levels stay affordable and sustainable,
  - ✓ New borrowings are for a good purpose and that the costs and risks of borrowing are minimized.
- MTDS covers both external and internal debts including portfolio of government guarantees and contingent liabilities
- Reserve Bank of India act as the manager of govt. debt

B.19. NATIONAL CAPITAL GOODS POLICY

- National Capital Good policy has been launched for the **first time** to give a boost to the capital goods sector and also support the Make in India initiative.
- The capital goods sector provides direct employment to 1.4 million people and the sector is growing at 1.1% per annum.
- The policy envisages increasing exports from the current 27 per cent to 40 per cent of production while increasing share of domestic production in India's demand from 60 per cent to 80 per cent, thus **making India a net exporter** of capital goods.
- The policy addresses **key issues** including availability of finance, raw material, innovation and technology, productivity, quality and environment friendly manufacturing practices, promoting exports and creating domestic demand.

Major Points of National Capital Goods Policy

- Integration of major capital goods sub-sectors such as textile, earth moving and plastic machinery among others as priority sectors under Make in India initiative.
- To facilitate improvement in **technology depth** across sub-sectors, increase skill availability, etc.
- Increasing budgetary allocation for **enhancement of competitiveness of Capital Goods sector** scheme of the DHI (Department of Heavy Industry).
- Enhancing the **export** of Indian made capital goods through a 'Heavy Industry Export & Market Development Assistance Scheme (HIEMDA)'.
- Provision for launching a **Technology Development Fund**.
- Upgrading existing and setting up new **testing & certification** facility, making **standards mandatory** in order to reduce sub-standard machine imports.
- Providing opportunity to **local manufacturing units** by utilizing their installed capacity.

B.20. INDEPENDENT FISCAL COUNCIL

- Members of the **XIV Finance Commission** have questioned the government's failure to act on its recommendation to constitute Independent Fiscal Council.
- The proposed council would objectively evaluates budget announcements and forecasts and report to the Parliament. It is critical to improve the government's credibility on fiscal management.

Importance of Fiscal Council

- While the union government monitors fiscal targets of states **nobody oversees its own fiscal decisions**. States have constraints in managing their finances as the RBI controls their deficit and cannot float a bond on a state's behalf without the Centre's approval.
- According to experts, the Centre opts for creative accounting, pauses or simply doesn't follow the targets it has submitted to Parliament under the Fiscal Responsibility and Budget Management (FRBM) Act of 2003.
- Since the 2003 FRBM law came into effect, there have been four pauses in the deficit targets enshrined in it and a few occasions where the targets have been flouted.
- In the short and medium term, it will help **allay fears of global credit rating agencies** about the government's commitment to fiscal targets.
- The Auditor General monitors the FRBM Act but that's a **post-facto assessment**.
- In six of the last eight years, revenue forecasts of the government fell short by around 10 per cent, due to overestimation. Shortfalls from projections translate into funding cuts in the middle of the financial year for all schemes and projects.
- The government is always under pressure to breach the fiscal deficit target. RBI's view is also driven by its own perspective and primary focus on monetary policy. A Fiscal Council would be a very important body especially when controversies on issues like fiscal deficit thresholds arise.

B.21. NEGATIVE RATES OF INTEREST

Why is news?

In the recently held Spring Meeting of the IMF and the World Bank, concerns about excessive reliance on monetary policy and especially negative rate of interest were voiced.

What is the use of negative rates?

- To stimulate economic growth by increasing consumption.
- To increase inflation in cases of persistent deflation.
- Negative rates leads to depreciation of the currency, which increases exports (as investors switch to areas with better returns).

Negative implications of negative rates of interest

- Negative interest rates may directly harm the banking sector and their profitability.
- It may lead to futile currency war and competitive devaluation.
- May lead to liquidity trap situation, where monetary policy fails to deliver.
- On a long run, negative rates may lead to hoarding of cash and reduce the flow of funds in economy.

B.22. FCRA TWEAKED TO BOOST CSR SPENDING

What is the amendment?

- The amendment effectively **redefines** Indian subsidiary of foreign companies as Indian companies, which was till now considered as "foreign source" under FCRA (Foreign contribution and Regulation Act).
- This has been given **retrospective effect and will come into effect from 2010** when FCRA was introduced.
- Until now, "foreign source" included any company with foreign investment of above 50%.

About CSR (Corporate Social Responsibility): Firms beyond a threshold of net worth, revenue or net profit have to spend 2% of their average profit of three years on social development as mandated by law.

Background

- As per the existing regulations, funds of companies with more than 50% foreign shareholding are treated as foreign source, which requires them to partner with only those organizations that are registered with the ministry of home affairs (MHA) under FCRA norms.
- Even foundations run by such companies must obtain a licence under FCRA norms to operate.

B.23. TEASER HOME LOAN

What is Teaser Loan?

- Teaser home loans are offered at a fixed low rate of interest in the initial years and are subsequently adjusted to a higher floating rate for the rest of their tenure.
- Teaser loans try to entice borrowers by offering an artificially low rate and small down payments, claiming that borrowers should be able to refinance before the increases occur.

B.24. PRIORITY SECTOR LENDING CERTIFICATES (PSLCS)

Why in news?

RBI issued a notification on 7 April permitting the issue and trading of PSL certificates, whereby banks can buy and sell such credits to manage their priority sector lending requirements.

What is PSLCs?

- PSLCs are tradable certificates issued against priority sector loans of banks so as
  - ✓ To enable banks to achieve their specified target and sub-targets for priority sector lending through purchase of these instruments in the event of a shortfall.
  - ✓ At the same time incentivizing the surplus banks to lend more to these sectors.

- On lines of carbon credit trading the goal of PSLCs is to allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks.
- All Scheduled Commercial Banks (including Regional Rural Banks), Urban Co-operative Banks, Small Finance Banks (when they become operational) and Local Area Banks are eligible to participate in the trading.

Types of PSLCs

There would be four kinds of PSLCs:

- **PSLC Agriculture:** Counting for achievement towards the total agriculture lending target.
- **PSLC SF/MF:** Counting for achievement towards the sub-target for lending to Small and Marginal Farmers.
- **PSLC Micro Enterprises:** Counting for achievement towards the sub target for lending to Micro Enterprises.
- **PSLC General:** Counting for achievement towards the overall priority sector target.

Rationale

- Currently many banks find it difficult to meet their PSL requirement as they may not find it viable to lend to the rural or MSME sector.
- Despite agriculture being a prime focus, no substantial gain in capital investment has happened in agriculture because banks tend to lend for short term just to fulfill RBI norms (Economic Survey 2014-15).
- More than half the PSBs (16 of 26) couldn't achieve the 18 per cent agriculture target in 2014, while 13 of the 20 private sector banks failed to achieve sub-targets for agriculture.

Benefits

- Banks unable to meet their priority sector lending targets now have a more viable and easier way to make good their shortfall.
- It offers banks a seamless platform to buy and sell their priority lending targets.
- A bank that is focused on priority sector lending say, agriculture, now has the flexibility to issue and sell certificates with ease in the secondary market.
- Earlier, when a bank fell short of its target, it had to buy out such loans from others, which essentially meant an increase in the buyer bank's balance sheet. But now a bank can buy certificates from another bank to fulfil its requirements without taking on the loans in its books.
- The payment which a buying bank has to make for the PSLCs will be market determined. The price could depend on a host of factors such as the category of loans and demand and supply scenario.
- Issue of banks scrambling towards the year-end to meet their targets will also be resolved. As per RBI guidelines, a bank is permitted to issue PSLCs up to 50 per cent of the previous year's PSL achievement without having the underlying loans in its books.
- It allows the Banks to focus on their strengths and purchase credits from banks with expertise in making such loans (to Priority sector), instead of diverting their own resources towards meeting priority sector lending targets.
- Each bank can focus on its efficient areas.

- Larger social objective of loans to priority sectors and weaker sections of society will be met without burdening each bank with the specific responsibility of doing so.

Priority Sector Lending

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

Categories under priority sector include

1. Agriculture
2. Micro, Small and Medium Enterprises;
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others.

B.25. RBI ALLOWS NRIS TO INVEST IN CHIT FUNDS

- RBI has decided that Non-Resident Indians (NRIs) can make unlimited investments in chit funds approved by the Registrar of Chits for receiving NRI funds on a non-repatriation basis. This implies that an NRI can get back the proceeds of such investments only in rupee.
- Earlier, NRIs were not allowed to invest in companies that were engaged in the business of chit funds.
- Allowing NRIs to invest in chit funds is a positive step because to attract more investment, chit fund managers will adopt a transparent and honest process in managing chit funds.
- The Chit fund business is regulated under the **Central Act of Chit Funds Act, 1982**.
- Rules are framed under this Act by various State Governments for this purpose. The Central Government has not framed any rules of operation for them.
- Functionally, Chit funds are included in the **definition of Non- Banking Financial Companies by RBI under the sub-head miscellaneous non-banking company (MNBC)**.
- Cheating by Chit Fund Company through fraudulent schemes is an offence **under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978**. The power to investigate and prosecute lies with the State Governments.

Chit Funds

- Chit funds are known by various names such as Chitty, Kuri etc.
- They are essentially saving instruments.
- Chit funds have regular members who make periodical subscriptions to the fund.

C. REPORTS RANKING

C.1. SOCIAL PROGRESS INDEX (SPI)

What is Social Progress Index?

The Social Progress Index is an aggregate index of social and environmental indicators that capture three dimensions of social progress: Basic Human Needs, Foundations of Wellbeing, and Opportunity. The Index measures social progress strictly using the outcomes of success rather than the effort made by the country.

Limitation of other Indices

1. **Gross Domestic Product (GDP):** While the GDP measures the economic progress of a nation, it does not include non-market activities like gardening at home; mother taking care of child etc. It also excludes factors like environment, happiness, equality, access to justice etc.

2. **Gini Coeffecient:** It measures the income inequalities among citizens but ignores other aspects like health, education and other social benefits
3. **Gross Happiness Index:** Originally developed by Bhutan, it measures the happiness level but ignores elements like gender equality, quality education and good infrastructure. Further it can't be used for international comparison due to subjectivity in the meaning of happiness.
4. **Human Development Index:** It **covers life expectancy, mean years of schooling, expected years of schooling, and living standards** but it falls short in capture of unequal distribution of wealth, environmental and infrastructural development.

Benefits of using SPI

1. It is **outcome based** rather than the amount of money spent or efforts involved.
2. It is more **comprehensive** than other indicators.
3. **Relevant to all countries** as it provides a holistic measure of social progress. So, it can be suited for international comparison.
4. Can bring betterment in policy making because it measures ground level improvement.
5. It is in sync with Sustainable Development Goals and help achieve them
6. It is based on 3 fundamental pillars: basic needs for survival; access to the building blocks to improve living conditions, and access to opportunity to pursue goals and ambitions.

Ranking of Nations

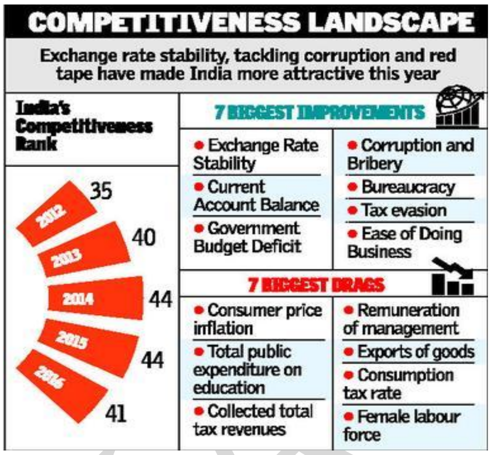
1. Top 3 countries are Norway (88.36), Sweden (88.06) and Switzerland (87.97).
2. India with a score of 53.06 ranks 101 out of 133 countries.

C.2. GLOBAL COMPETITIVE RANKING

Why in news?

India has climbed 3 spots in Global competitive ranking, as per a survey conducted by **Swiss based (International Institute for Management and Development) IMD World Competitive Centre.**

About IMD ranking: It covers 61 countries based on analysis of 340 criteria across 4 factors: ***economic performance, government efficiency, business efficiency and infrastructure.***



Observations:

- **India ranked 41** in 2016 as compared to 44 in 2015-16 while China slipped from 22 to 25.
- Within Asia Pacific India was the 11th most competitive economy.
- Improvements were seen in exchange rate stability, fiscal deficit management and efforts to tackle corruption and red tape.
- India was held back by rising social disparities due to neglect of investments in health, education and environment in last 2 years.
- The ranking identified key challenges as sustaining economic growth, increasing share of R & D in the economy and early implementation of GST.
- Hong Kong China was given the 1st position while USA was 3rd.

C.3. WEF'S GLOBAL COMPETITIVENESS INDEX

- India has climbed a spectacular 16 places to the 55th position among 140 economies in this year's World Economic Forum (WEF) Global Competitiveness Index.

Global Competitiveness Index ranking

	2014-15	2015-16
Switzerland	1	1
Singapore	2	2
US	3	3
Malaysia	20	18
China	28	28
Indonesia	34	37
Russia	53	45
South Africa	56	49
India	71	55
Brazil	57	75

How India is ranked

	2014-15	2015-16
Sub-indexes		
Basic requirements	92	80
Efficiency enhancers	62	58
Innovation & sophistication	52	46
Key parameters		
Quality of institutions	70	60
Macro stability	101	91
Infrastructure	87	81
Health & primary education	98	84
Labour market efficiency	112	103
Tech readiness	121	120

Note: The 2015-16 ranking is of 140 countries, while the 2014-15 one was of 144 countries. Source: World Economic Forum

What are the areas of Improvement?

India saw improvement in some of the areas like macroeconomic stability, quality if India's institution, however, other areas also deserve attention. Some of these are:

- **Technological readiness - Labour Market-**
- **Restrictions to doing business-**

Other findings

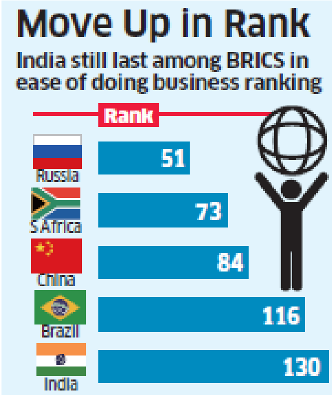
- The list was topped by Switzerland, followed by Singapore, the US, Germany and the Netherlands.

Global Competitiveness Report and Global Competitiveness Index

1. The Global Competitiveness Report (GCR) is a yearly report published by the World Economic Forum.
2. Since 2004, the Global Competitiveness Report ranks countries based on the Global Competitiveness Index, developed by Xavier Sala-i-Martin and Elsa V. Artadi.
3. The **Global Competitiveness Index** measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

- Among the larger emerging markets, South Africa progressed seven places to 49th place, while China held steady at 28, Indonesia was 37th (down three) and Brazil was 75th.

C.4. EASE OF DOING BUSINESS: INDIA MOVES UP



- India is ranked 130 among 189 countries; an improvement of four places from last year's ranking, according to World Bank's Doing Business Report 2016.
- India has recorded the biggest improvement among the South Asian economy.
- India still last among BRICS in ease of doing business ranking.
- The improvement in the two indicators, 'starting a business' and 'getting electricity' pushed India up the ladder.
- The number of days it takes to start a new business stood at 29 days this year.

Areas of worry

- Of the 10 parameters, India does very poorly on two - enforcing contracts and closing a business.
- Access to credit for a business has become marginally more difficult over the past 12 months, resulting in the ranking dropping six places.

Cabinet clears two ordinances

- The Cabinet cleared two ordinances for expeditious settlement of commercial disputes that would improve ease of doing business in the country.
- Government cleared ordinances to amend the Arbitration and Conciliation Act and bring into **force the Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Bill, 2015.**
- Under the proposed amendments to the Arbitration and Conciliation Act, 1996, an arbitrator will have to settle a case within 18 months. However, after the completion of 12 months, certain restrictions will be put in place to ensure that the arbitration case does not linger on.

Ordinance making power under constitution

President

- Article 123 of the Constitution grants the President certain law making powers to promulgate Ordinances when either of the two Houses of Parliament is not in session and hence it is not possible to enact laws in the Parliament.
- Following limitations exist with regard to the Ordinance making power of the executive:
    - **Legislature is not in session**: The President can only promulgate an Ordinance when either of the two Houses of Parliament is not in session.

- **Immediate action is required**: The President cannot promulgate an Ordinance unless he is satisfied that there are circumstances that require taking 'immediate action'
- **Parliamentary approval during session**: Ordinances must be approved by Parliament within six weeks of reassembling or they shall cease to operate. They will also cease to operate in case resolutions disapproving the Ordinance are passed by both the Houses.

Governor

- The Governor of a state can issue Ordinances under Article 213, when the state legislative assembly (or either of the two Houses in states with bicameral legislatures) is not in session.
- The powers of the President and the Governor are broadly comparable with respect to Ordinance making.
- However, the Governor cannot issue an Ordinance without instructions from the President in three cases where the assent of the President would have been required to pass a similar Bill.

C.5. WORLD BANK REPORT ON GLOBAL POVERTY

Recently, World Bank has released global Monitoring Report for 2014-15 on the Millennium Development Goals. Some of the findings of the report are -

- The World Bank has released new estimates that show that fewer than one in 10 people are now living in extreme poverty.
- **More than 1.2 billion people have risen above the global poverty line over the past 25 years.** This is the first time in human history that the worst type of poverty looks under control in most parts of the world, except for some parts of Africa. The world seems to be on course to ending extreme poverty by 2030.
- The sharp decline in extreme poverty since 1990 is most clearly linked to the increase in global growth following the liberalization of most economies.
- The spectacular economic success in China is obviously one big reason why global poverty has come down so rapidly. No country in history has managed to pull so many people out of poverty in such a short period of time.

Indian perspective

- India has been the biggest contributor to poverty reduction between 2008 and 2011, with around 140 million or so lifted out of absolute poverty.
- However, even this remarkable feat is not enough—the report says that in 2011, India accounted for 30% of those living in extreme poverty in the world.
- SriLanka, Nepal and even Pakistan have done a better job of reducing poverty headcount as seen from below figure.

C.6. THE SEVENTH PAY COMMISSION

- The Seventh Pay Commission submitted its report to Finance Minister. The commission is headed by Justice Ashok Kumar Mathur.
- The recommendations of the commission, when accepted, would provide benefit to 47 lakh serving govt employees, 52 lakh pensioners, including defence personnel.

What is a Pay Commission?

- Pay Commission is set up intermittently by government of India, and gives its recommendations regarding changes in salary structure of all civil and **military divisions** of the Government of India.
- The First Pay Commission was established in 1956, and since then, every decade has seen the birth of a commission.

Highlights of 7th Pay Commission

- Recommendations to be implemented from January 1, 2016
- **Minimum pay fixed at Rs 18,000 per month; maximum pay at Rs 2.25 lakh**
- The rate of annual increment retained at 3 per cent
- 24 per cent hike in pensions
- One Rank One Pension proposed for civilian government employees similar to armed forces
- **Ceiling of gratuity enhanced from Rs 10 lakh to Rs 20 lakh**; ceiling on gratuity to be raised by 25 per cent whenever DA rises by 50 per cent.

C.7. VIJAY KELKAR COMMITTEE REPORT ON PPP

The Kelkar committee was setup by Finance ministry in line with announcement made in budget 2015-16 **to revamp and Revitalize PPP model of development**.

The Key Recommendations

1. **Setting up independent regulators** to address stalled infrastructure projects of various sectors
2. **Amendment to the Prevention of Corruption Act** to clarify the difference between cases of graft and genuine errors in decision-making
3. **Easier funding** and **Promotion of zero coupon bonds by Governments, Banks and Financial institutions.**
   - To ensure viability of PPP projects with long gestation periods. For ex. In development of airports, ports and railways.
   - Will help to achieve soft lending for user charges in infrastructure sector
   - Building up of risk assessment and appraisal capabilities by banks and
   - Provision for monetisation of viable projects that have stable revenue flows after engineering, procurement and construction delivery.

4. **Endorsement of the 3PI**
   - They can function as a centre of excellence, enable research, and review and roll out activities to build capacity

5. **Focus on service delivery instead of fiscal benefits** for better identification and allocations of risks between the stakeholders and contracts for the PPP projects.
6. **Setting up of an Infrastructure PPP Project Review Committee (IPRC)**
    - **Aim-**To deal with the problems being faced by such projects
    - **Composition -** one expert each from economics background and one or more sectoral experts preferably engineers and legal experts.
    - **Mandate-** To evaluate and send its recommendations in a time-bound manner upon a reference being made of "actionable stress" in any infrastructure project developed in PPP mode beyond a notified threshold value
7. **Infrastructure PPP Adjudication Tribunal (IPAT)**
    - To be chaired by a former Supreme Court Judge or former High Court Chief Justice,
    - Proposed at least one technical and financial member
8. **Adoption of the model concession agreements (MCA) for**
    - Proper assessment of managing risk
    - Renegotiation framework in the bid document itself
    - MCAs for each sector be reviewed to capture the interests of all participating stakeholders — users, project proponents, concessionaires, lenders and markets
9. **Sector specific recommendations**
    - **Airports:** Government should encourage the PPP model in greenfield as well as brownfield projects
    - **Railways:** An independent tariff regulatory authority to help Railways to tap PPP opportunities
    - **Roads:** Increase concession period for BOT projects
    - **Power:** Not many power projects are under PPP. Need to address power sector finances as they are hurting bank loan.
    - **Ports:** Move from pre-TAMP (tariff authority for major ports) to current-TAMP
10. **Change in attitudes and mindsets the authorities. E.g.**
    - Public agencies partnering the private sector,
    - Government departments supervising the PPPs,
    - Auditing and legislative institutions providing oversight of the PPPs
11. **PPP model not viable in very small projects**
    - The committee advised **against adopting PPP structures for very small projects,** since the benefits of delivering small PPP projects may not be commensurate with the resulting costs and the complexity of managing such partnerships over a long period.
12. **Issue of Swiss Challenges-**
    - Unsolicited Proposals ("Swiss Challenge") may be actively discouraged as they bring information asymmetries into the procurement process and
    - Result in lack of transparency and fair and equal treatment of potential bidders in the procurement process.

C.8. ARVIND SUBRAMANIAN COMMITTEE REPORT ON GST

- Removal of 1% levy on inter-state movement,
- The standard GST rate in the range of 17-18 per cent. .
- Revenue neutral rate (RNR) of GST at 15-15.5 per cent.

- Three-tier GST rate structure
  1. Essential goods will be taxed at a lower rate of 12 per cent
  2. Demerit goods such as luxury cars, aerated beverages, pan masala and tobacco products will be taxed at 40 percent
  3. Remaining all goods will be taxed at a standard rate of 17 to 18 per cent.

Exceptions

Excluded real estate, electricity and alcohol and petroleum products while calculating tax rates.

C.9. PANAMA PAPERS LEAK

Why in News

- More than 11 million documents from the secret files of Mossack Fonseca, a law firm headquartered in tax haven Panama, were leaked.
- Records reveal a list of individuals who have set up offshore entities in tax havens around the world.
- These offshore entities mask real ownership but still show compliance with lax tax regulatory system
- Over 500 Indians figure on the firm's list of offshore companies, foundations and trusts.

Relevant Laws

- As per RBI norms individuals are allowed to remit funds upto $250,000 a year under the Liberalized Remittance Scheme (LRS).
- But while RBI let individuals buy shares under LRS, it allowed them to set up companies abroad only after August 2013.
- Money cannot be sent to countries identified as "non-cooperative" by the global Financial Action Task Force (FATF).

C.10. BIBEK DEBROY COMMITTEE REPORT ON RESTRUCTURING OF RAILWAYS

The Bibek Debroy committee report on the restructuring of Indian Railways lays down a five-year roadmap to evolve a statutory rail regulator, scrap the Rail Budget and make room for more players in an "open access" regime which turns the Railways into just another train-service provider in the country.

- Committee's recommendations are based on ***three pillars***: ***commercial accounting, changes in HR and an independent regulator***.
- The report envisages the creation of ***a Railway Ministry eventually with at least three Secretary-level officers*** ("not attached with the Railway Board") to lay down policy for the rail sector, not just of Railways alone that "should ensure competition…encourage private entry and private investments."
- The report makes the existence of an independent, quasi-judicial ***Railway Regulatory Authority of India*** a prerequisite for reforms like un-bundling and restructuring of Railways. It will be up to the Regulator to ***decide technical***

standards, set freight rates and resolve disputes. The Regulator can ***recommend fare revisions*** but these will not be binding on the Railway Ministry.

- The ***Rail Budget should cease to exist after 5 years*** and the government should take the entire burden of social cost borne by Railways by way of subsidy.
- It recommended separation of railway track construction, train operations, and rolling-stock production units under ***different entities*** to enable open access.

C.11. EASWAR PANEL

Why in news?

- A committee, set up by the government to change direct tax laws, headed by retired high court judge R.V. Easwar, has submitted its recommendations.

> Under the presumptive income scheme, such professionals or businesses will not need to maintain a book of accounts but just pay tax based on presumptive income calculations. For instance, for professionals it is proposed that 33.3% of their previous year's receipts will be taken as income on which they will have to pay tax. If their profits are much lower, they will have to maintain a book of accounts clearly categorizing expenditure and pay tax accordingly.

Recommendations

- **Simplifying provisions** related to tax deducted at source (TDS), claims of expenditure for deduction from taxable income and for tax refunds.
- Several **taxpayer-friendly measures** to improve the ease of doing business, reduce litigation and accelerate the resolution of tax disputes.
- Deferring the contentious Income Computation and Disclosure Standards (ICDS) provisions and making the process of refunds faster.
- Income-tax department to desist from the practice of adjusting tax demand of a taxpayer whose tax return is under assessment against legitimate refunds due.
- Deletion of a clause that allows the tax department to delay the refund due to a taxpayer beyond six months and suggested a higher interest levy for all delays in refunds.
- Stock trading gains of up to Rs.5 lakh will be treated as capital gains and not business income, a move that could encourage more retail investments in the stock market.
- TDS rates for individuals be reduced to 5% from 10%. Dividend income on which dividend distribution tax has been levied should be treated as part of total income.

C.12. OXFAM REPORT ON INEQUALITY

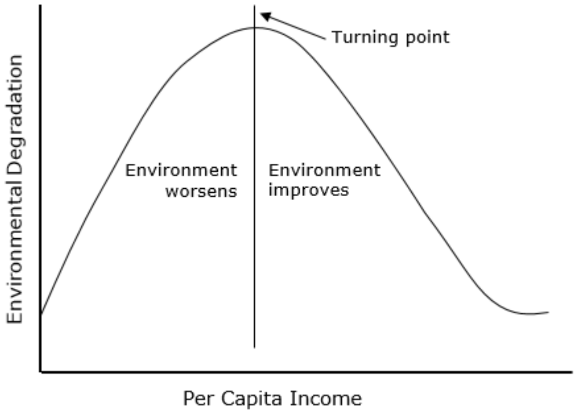
- The anti-poverty charity 'Oxfam International' gave report titled **"An Economy for the 1%"**

Salient points in report

- Since 2000 the poorest half of world population has received just 1% of the total increase in global wealth, while 50% increase has gone to top 1%.
- Total wealth of 62 individuals = wealth of 3.6 billion individuals
- According to a World Bank forecast, if pro-poor growth moves are not visible soon, by 2030, almost half-a-billion people will still live in extreme poverty.
- Inequality poses a threat to economic expansion and social cohesion around the world.

C.13. GROWING INEQUALITY IN INDIA

- The Boston Consulting Group's 15th annual report, "***Winning the Growth Game: Global Wealth 2015***", has revealed some startling facts.
    - Of the world's poorest 20 % people, nearly ***25%*** are Indians. China's share is a mere 3 %.
    - The richest ***1 % of Indians today own 49 %*** of India's personal wealth, and the top ***10 % Indians own 74 %*** of the country's personal wealth.
- However, one group of people says that there is nothing to be worried about India's growing inequality. This is the ***normal progression of economic development***. A set of expanding industries located in an urban area induces further development of economic activity throughout its zone of influence. For some years, this generates increasingly large differentials in income and development, but after reaching a maximum level, inequality begins to decline, in the manner of an inverted 'U', what we call as the ***Kuznets Curve***. This is what we know as John F. Kennedy's memorable phrase, "*a rising tide lifts all boats*".



Kuznets Curve

In economics, a **Kuznets curve** graphs the hypothesis that as an economy develops, market forces first increase and then decrease economic inequality. The hypothesis was first advanced by economist SimonKuznets in the 1950s and '60s.

C.14. TAPAN RAY PANEL RECOMMENDATIONS

- Aimed to review the 2013 Company Law, the Tapan Ray panel proposed over 2000 suggestions and recommendations.
- Recommendations are aimed at making the transition from Companies Act 1956 to Companies Act 2013 easier, improve Ease of Doing Business and provide better environment to start-ups.

Major recommendations

- As per 2013 law, a public sector company is required to seek approval from central government should it want to give total managerial remuneration which exceeds 11% of net profit. The panel has recommended **doing away with the provision**.
- **Harmonizing disclosure standards between SEBI and Companies Act** -The independent director should not have **any kind of pecuniary relationship** with the company.
- Defining a **"subsidiary company" in terms of voting rights** of the holding company instead of "total share capital" of the holding company.
- **Removal** of provision under Section 2(87), which prohibited the companies to not have more than two levels of subsidiaries.

- Establishment of an independent body, National Financial Reporting Authority (**NFRA**), to provide for matters relating to accounting and auditing standards which is being seen as a major jolt to the Institute of Chartered Accountants of India (ICAI).
- Allowing start-ups to issue 50% of the paid capital as **sweat equity** against existing norms of 25 %.
- Allowing start-ups to **issue employee stock ownership plan** (ESOP) to promoters who are working as employees or employee directors or whole-time directors.
- Only those **frauds** which involve Rs 10 lakh or above, or one per cent of the company's turnover, whichever is lower, may be punishable under Section 447 of the companies act.

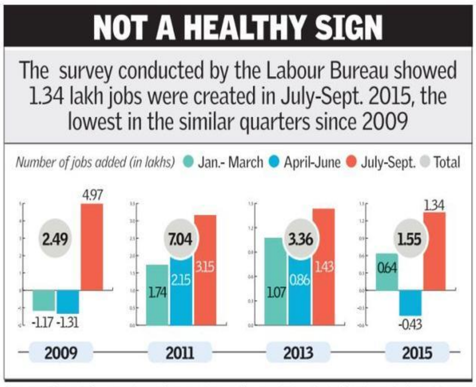
C.15. HYDROCARBON VISION 2030 FOR NORTH-EAST

- Union Ministry of Petroleum and Natural Gas released **Hydrocarbon Vision 2030 for North-East** with an eye to **leverage the hydrocarbon sector for the development of the North-East India**.
- Aim is doubling Oil & Gas production by 2030.
- **Five Pillars** of the Vision are: People, Policy, Partnership, Projects and Production.
- **States covered**: Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.

C.16. LABOUR BUREAU SURVEY ON EMPLOYMENT

Findings of the survey

- New jobs in eight labour-intensive industries fell to a six-year low in the first nine months of 2015 — with just 1.55 lakh new jobs being created.
- By contrast, 3.04 lakh new jobs were added in January-September 2014 and 3.36 lakh in the same period of 2013.
- Contractual jobs also declined by 21,000 in Jan – Sept 2015 against increase of 1.2 lakh in the corresponding period of 2014.

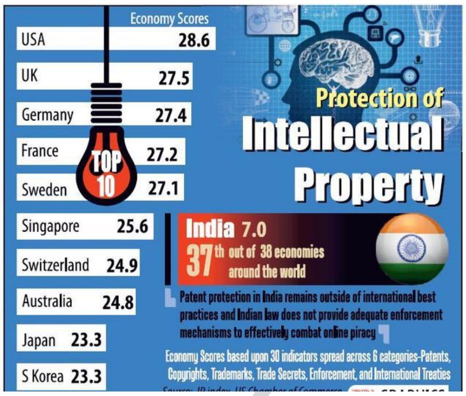


Source: Quarterly report on changes in employment in selected sectors, Labour Bureau

- The survey found that gems & jewellery sector saw 19,000 job loss during 2015 followed by handloom/Powerloom at 11,000.
- The employment decreased by 8,000 each in leather and automobiles sectors while 4,000 jobs loss was recorded in transport sector.

About the survey
The Labour Bureau, under the Ministry of Labour and Employment, started conducting this quarterly survey after the 2008-09 global crisis to gauge its impact on employment in eight crucial sectors — textiles, leather, metal, automobiles, gems and jewellery, transport, information technology (IT) and handloom.

C.17. INTERNATIONAL INTELLECTUAL PROPERTY INDEX



- Global Intellectual Property Center (**<u>GIPC) of US Chamber of Commerce placed India at 37 out of 38 countries</u>** in International Intellectual Property (IP) Index in a report.
- These 38 economies account for the 85 percent of global GDP.
- India remains at the bottom for **<u>fourth year in a row.</u>**
- The index is **<u>based on 30 criteria</u>** including patent, copyright and trademark protections, enforcement, and engagement in international treaties.

D. FOOD AND AGRICULTURE

D.1. JUTE PRICE RISE

Background

Recently prices of certain grades of raw jute have gone up over 50 percent, which has raised serious concerns among jute mill owners.

Reasons for the price rise

- Crop damage in Nadia and Murshidabad districts of Bengal on account of flood.
- Bangladesh's ban on export of raw jute.
- Hoarding by traders which has created artificial supply shortage.

(Note: Read about JUTE cultivation and weather parameters)

D.2. MARATHWADA DROUGHT: SUGAR FACTORIES

Why in news?

Regions like Marathwada have been facing acute water scarcity (the shortfall was as much as 40%). The rainfall in the region has been in deficit for second consecutive year leading to drought in the region.

Issue: Is sugarcane cultivation responsible for drought in Marathwada region?

Arguments in support

- Sugar cane is a water-guzzling crop (requires 2000 to 2500 mm of water). Unlike Northern regions, which has huge network of rivers, Maharashtra's sugar cultivation is in regions with water scarcity.
- The 4% of land under sugarcane cultivation consumes as much as 71.5% of irrigated water.
- The region has over 20 sugar factories and each uses 1500 litre of water to crush per ton of cane.
- Earlier, Maharashtra Water and Irrigation Commission recommended stopping sugar cultivation.
- Effect of the amendment may enable the parties to escape punishment.

D.3. MARINE FISHERIES

Why in news?

Recently an expert committee was constituted to revise the National Marine Fisheries Policy.

Dr. B. Meena Kumari Commission on deep-sea fishing

Earlier an expert committee was constituted under the chairpersonship of Dr. B. Meena Kumari for comprehensive review of deep-sea fishing policy. Recommendations of the committee were opposed by the traditional fishing communities, some of the issues with the recommendations are as following:

- The fresh guidelines issued recently for fishing in the EEZ - between 22 km and 370 km beyond territorial waters - allow vessels with a length of 15 metres or more to operate in this zone by getting a **"letter of permission"** from the Centre.
- These ships can be owned or acquired by Indian entrepreneurs or by **joint ventures** with up to 49 per cent foreign investment.
- Traditional fishermen feared that such fishing ventures will threaten their livelihood by

encroaching into some of the areas, which are now within their reach.

- One of the most controversial recommendations is the **creation of a buffer zone** between the near-shore and offshore regions (waters between 200 m and 500 m in depth) along the coast and to regulate fishing there "in order to augment resources in the near-shore areas as well as the deep-sea regions in the EEZ".

Fishing Sector: a perspective

- India is **the second largest** producer of fish in the world contributing to 5.43% of global fish production.
- India is also a major producer of fish through aquaculture and ranks second in the world after China.
- It has been recognized as a powerful income and employment generator as it stimulates growth of a number of subsidiary industries, and is a source of cheap and nutritious food besides being a foreign exchange earner.
- It is the source of livelihood for a large section of economically backward population of the country. It supports livelihood of almost 1.5 million people in our country.

Blue Revolution

It visualizes "Creating an enabling environment for an integrated and holistic development and management of fisheries keeping in view the sustainability, bio-security and environmental concerns".

D.4. PRADHAN MANTRI FASAL BEEMA YOJNA

- It will replace two schemes National Agricultural Insurance Scheme (NAIS) and the modified NAIS (MNAIS).

Salient features

- The Pradhan Mantri Fasal Bima Yojana (PMFBY) is to be rolled out during the kharif crop season this year.

- Schemes targets to cover half of India's cropped area in the next three years. Present coverage is 23% approximately.
- There will be **a uniform premium** of only **2% to be paid by farmers for all Kharif crops** and **1.5% for all Rabi crops.**
- In case of **annual commercial and horticultural crops,** the premium to be paid by farmers will be only 5%. There is no upper limit on Government subsidy. Even if balance premium is 90%, it will be borne by the Government.
- The government liability on premium subsidy will be shared equally by the Centre and states.
- Government has substantially increased the budget for crop insurance from Rs.2,823 crore in 2015-16 to Rs.7,750 crore in 2018-19.
- The new scheme will also seek to address a long-standing demand of farmers and provide **farm-level assessment for localized calamities,** including hailstorms, unseasonal rains, landslides and inundation.
- The use of technology will be encouraged to a great extent.
    - **Smart phones** will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers.
    - **Remote sensing** will be used to reduce the number of crop cutting experiments.

- In the case of Weather-Based Crop Insurance Scheme (WBCIS), the government said premium rates would be rationalized on par with PMFBY. The PMFBY will be effective from the April 1, 2016.

Benefits

- With back-to-back droughts, and unseasonal rain and hail in certain pockets, it became clear that the risks in farming are on the rise, and the existing system of crop insurance was nowhere near meeting the needs of the peasantry.
- The premium rates to be paid by farmers are very low and balance premium will be paid by the Government to provide full insured amount to the farmers against crop loss on account of natural calamities.
- The low premium will drive penetration and enrolment and make the insurance scheme viable for insurers.
- Post-Harvest losses are also included, so it will provide safety and confidence to the farmers.

Parameter	**NAIS [1999]**	**MNAIS [2010]**	**PM Fasal Beema Yojana**
Premium rate	Low	High	Lower than even NAIS and government to contribute 5 times that of farmer.
One Season – One Premium	Yes	No	Yes
Insurance Amount cover	Full	Capped	Full
On Account Payment	No	Yes	Yes
Localized Risk coverage	No	Hail storm, Land slide	Hail storm, Land slide, Inundation
Post-harvest losses coverage	No	Coastal areas - for cyclonic rain	All India – for cyclonic and unseasonal rain fall.
Prevented Sowing coverage	No	Yes	Yes
Use of Technology	No	Intended	Mandatory
Awareness	No	No	Yes (Target to double coverage to 50%)

D.5. UNIFYING AGRICULTURE MARKETS

- As per the Economic Survey 2014-15, India has 2477 principal regulated primary agriculture markets.
- These are governed by APMC Act of the respective states, which has led to market segmentation, exploitation by middlemen & inefficiencies.
- The government launched the **National Agriculture Market Scheme** in July 2015 in 585 markets and in April 2016 started e-trading on pilot basis.
- A similar successful experiment was conducted in Karnataka, called as the **Rashtriya electronic Market Scheme (ReMS)**, to unite principal markets in e-platform.

D.6. NATIONAL AGRICULTURAL MARKET E-PLATFORM

Issues with Current Agri Marketing

- Currently, the Agriculture Produce Market Committee (APMC) Acts in different states permit the first sale of crops - after harvesting by farmers - ***to take place*** *only in regulated market yards or mandis*. Because of this, the farmer's universe of buyers is *restricted only to traders or commission agents licensed* to operate in the area under a particular APMC.

- Further in most cases, *multiple licenses are required* to trade in different mandis within the same state.
- Intermediaries and malpractices in mandis affect the farmers' profit adversely.

D.7. BENEFITS OF COMMODITY FUTURES MARKET

Why in news?

The issue was discussed in **14th Commodity Futures Market Summit**, 2016, organised by ASSOCHAM.

Benefits of Commodity futures market

- A Well-developed commodity futures market is essential to ensure farmers' welfare as they lack bargaining strength and possess limited awareness about market conditions
- It will help to predict their earnings and plan their future investments.
- These markets reduce the range of seasonal price variations.
- They tend to protect the farmers from post-harvest slump in prices.

E. EXTERNAL SECTOR

E.1. WORLD BANK'S NEW CONDITIONS FOR PROJECT LOANS

Major changes

- The World Bank has proposed Environmental and Social Standards (ESS) framework which **envisages new standards for environmental and social safeguards,** mainly in respect of labour and working conditions, while making many environmental safeguards "more stringent".
- The framework also envisages **periodic project assessments reviewed by the Bank** which can issue measures and actionable instructions to comply with the ESS.
- The proposed ESS requires that **every borrowing country align its social and environmental laws with the World Bank system**.
- It bans child labour and forced labour and promotes fair treatment, non-discrimination, and equal opportunity for project workers in recruitment and hiring, compensation, working conditions and terms of employment with a grievance mechanism to raise workplace concerns.

What is World Bank?

- Since inception in 1944, the World Bank has expanded from a single institution to a closely associated group of five development institutions.
- Its mission evolved from the International Bank for Reconstruction and Development (IBRD) as facilitator of post-war reconstruction and development to the present-day mandate of worldwide poverty alleviation.
- The World Bank Group has set two goals for the world to achieve by 2030:
  - ✓ End extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%
  - ✓ Promote shared prosperity by fostering the income growth of the bottom 40% for every country

E.2. BANK FOR INTERNATIONAL SETTLEMENT (BIS)

- BIS is a bank for central banks.
- It is located in Basel, Switzerland and has 60 member central banks, representing countries from around the world that together make up about 95% of world GDP.
- It was created in 1930 to administer the transaction of monies according to the Treaty of Versailles, i.e., as Agent General for Repatriation in Berlin.
- Role of BIS has been ever evolving from its creation to the present day, adapting to the dynamism in the world market.
- Broadly, BIS pursues its mission by
  - ✓ Fostering discussion and facilitating collaboration among central banks;
  - ✓ Supporting dialogue with other authorities that are responsible for promoting financial stability;
  - ✓ Carrying out research and policy analysis on issues of relevance for monetary and financial stability;
  - ✓ Acting as a prime counterparty for central banks in their financial transactions; and
  - ✓ Serving as an agent or trustee in connection with international financial operations.

E.3. INDIA'S NUMBER ONE RANK IN FDI

India received USD 31 billion, moving from fifth position last year to the top position now as the most attractive destination for FDI.

What does it mean for India?

- Though there is general trend of decline for FDI in other destination, this ranking without fail shows that India's effort for improving ease of doing business is getting recognized in the world market.
- Recently, India also climbed 16 positions in World Competitive Index to be placed at 55.
- These send a very positive signal to world's investors that India is determined to provide a more friendly business environment and is putting effort for the same.
- Recently, the Government has **relaxed FDI norms in 15 sectors** including mining, defence, construction, real estate, civil aviation, broadcasting and LLPs to boost growth and drum up investment.

Difference between FDI and FII

- The panel on rationalising definitions of FDI and FII, headed by Finance Secretary Arvind Mayaram says -
- FDI reflects a lasting interest and long-term relationship, while under portfolio investment, the relationship between the investor and the company remains largely anonymous
- Any investment by way of equity shares, compulsorily convertible preference shares/debentures **less than 10 percent** should treated as foreign portfolio investment (FPI).
- FPI includes portfolio investors such as foreign institutional investors (FIIs) and qualified foreign investors (QFIs).
- Foreign investment in an unlisted company should be treated as FDI.

E.4. GLOBAL FINANCIAL SECURITY INDEX

- The Global Financial Secrecy Index ranks jurisdictions according to their secrecy and the scale of their offshore financial activities.
- A politically neutral ranking, it is a tool for understanding global financial secrecy, tax havens or secrecy jurisdictions, and illicit financial flows or capital flight.
- It is brought out by **Tax Justice Network.**
- FSI DIRECTLY confronts offshore secrecy and the global infrastructure that creates it by identifying the jurisdictions that promote offshore secrecy.

Rank	Jurisdiction
1	Switzerland
2	Hong Kong
3	USA
4	Singapore
5	Cayman Islands
12	Japan
20	China
23	Mauritius
26	Brazil
45	India

Highlights of 2015 Financial Secrecy Index (FSI)

- It brings out to notice that world's most important providers of financial secrecy harbouring assets are mostly

What is Tax Justice Network?

- It is an independent body dedicated to research, analysis and advocacy in the area of international tax and the aspects of financial regulation.
- It maps, analyses and explains the role of tax and harmful impacts of tax evasion, tax avoidance, tax competition and tax havens.

not small islands as many suppose, but some of the world's biggest and wealthiest countries.

- Rich OECD member countries and their satellites are the main recipients of or conduits for these illicit flows.

What are secrecy Jurisdiction/tax havens?
A state, country, or territory where certain taxes are levied at a very low rate or not at all and financial secrecy is used to attract illicit and illegitimate financial flows.

E.5. IMF REFORMS

Why in news?

- The IMF reforms came into effect on January 27 which was approved by it in 2010.
- The reforms were unable to implement due to the absence of its approval by the US Congress, which it did last year.

Voting Rights

- The emerging and developing economies gained more influence in the governance architecture of the International Monetary Fund (IMF).
- More than six per cent of the quota shares will shift to emerging and developing countries from the U.S. and European countries.
- India's voting rights increase to 2.6 per cent from the current 2.3 per cent, and China's, to 6 per cent from 3.8, as per the new division.
- Russia and Brazil are the other two countries that gain from the reforms.
- The reforms bring India and Brazil into the list of the top 10 members of IMF, along with the U.S, Japan, France, Germany, Italy, the United Kingdom, China and Russia.
- Canada and Saudi Arabia slip below the top ten in the process.
- For the first time, four emerging market countries of the BRIC bloc —Brazil, China, India, and Russia —will be among the 10 largest members of IMF.

ABOUT IMF

- International Monetary Fund (IMF) was established along with the International Bank for Reconstruction and Development at the Conference of 44 nations held at Bretton Woods, New Hampshire, USA in July 1944.
- At present, 187 nations are members of IMF.
- India is a founder member of the IMF.
- The objectives of IMF is macro-economic growth, alleviation of poverty and economic stability, policy advice & financing for developing countries, forum for cooperation in monetary system, promotion of exchange rate stability and international payment system.
- India has not taken any financial assistance from the IMF since 1993.Repayments of all the loans taken from International Monetary Fund have been completed on 31 May, 2000.

Financial strength

- The reforms also increase the financial strength of IMF, by doubling its permanent capital resources to 477 billion special drawing rights ($659 billion).

IMF's Executive Board

- As part of the reforms, for the first time, the IMF's Executive Board will consist entirely of elected Executive Directors, ending the category of appointed Executive Directors.

- Currently the members with the five largest quotas appoint an Executive Director, a position that will cease to exist.These reforms will reinforce the credibility, effectiveness, and legitimacy of the IMF.

E.6. TRADE FACILITATION AGREEMENT (TFA) IN GOODS

Why in news?

- Government recently cleared TFA in Goods and proposed a National Committee on Trade Facilitation (NCTF)
- There is provisions for expediting the movement, release and clearance of goods
- It sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues.

Benefits for India

- In consonance with India's "**Ease of Doing Business**" initiative.
- Aimed at relaxing customs rules for smoother trade flow.
- Projected to cut the cost of trade by an **average of 14.5%.**
- May Provide permanent solution to the issue of public stockholding for food security purposes and
- Mechanism to safeguard poor farmers from sudden import surge of farm products

E.7. INDIA-US PACT ON EXCHANGE OF TAX DATA-FATCA

- India and US have signed an agreement to implement the Foreign Account Tax Compliance Act (FATCA), which will allow automatic exchange of tax information between the two countries starting September 30.
- The agreement makes it obligatory on the part of the two nations to exchange information on offshore accounts of each other's citizens in their respective territories.
- Under FATCA, foreign financial institutions in the U.S. will have to provide information about Indian account holders to the U.S. government's Internal Revenue Service (IRS), which will forward the information to the Indian government.
- The Indian government will provide similar information to the IRS. For example, the State Bank of India will have to provide information regarding the investments by any U.S. citizen, even NRIs, to the Indian revenue authorities in a prescribed format regularly. The Indian government will then forward that information to the IRS.
- Financial institutions such as banks, brokerages or mutual funds that do not comply with this agreement will face a 30 per cent withholding tax on all payments from the U.S.

E.8. TRADE FACILITATION COUNCIL

- In a bid to follow a bottom-up approach to boost exports and rationalize non-essential imports at a time when foreign shipments have been contracting for five months in a row, the government has decided to constitute a trade facilitation council involving the state governments and will urge them to frame their own trade policies.

- The move is aimed at achieving the $900 billion exports target by 2019-20.
- The Commerce Ministry is also working with the states to prepare a list of infrastructure projects, which would ensure full potential of growth in exports. It is also working on other measures including dis-segregation of exports data state-wise. The foreign trade policy (2015-20) released by the ministry in April also talked about mainstreaming trade by involving state governments.
- The trade facilitation council will be headed by commerce minister Nirmala Sitharaman and will have representation from state industry ministers and secretaries.

The Directorate General of Commercial Intelligence and Statistics (DGCI&S), under the Ministry of Commerce, is an official organization for collection, compilation and dissemination of India's trade statistics and commercial information.

E.9. SOLAR DISPUTE AT WTO

Why in news

- A World Trade Organization (WTO) panel has ruled against India in a dispute raised by the US over the country's solar power programme.
- The panel also struck down the Indian government's incentive policies, especially subsidies provided for domestic solar companies for manufacturing solar cells and solar modules

What is WTO?

- World Trade Organization (WTO) deals with the rules of trade between nations at a global or near-global level. There are a number of ways of looking at the WTO. It's an organization for liberalizing trade. It's a place for them to settle trade disputes. It operates a system of trade rules etc.
- The bulk of the WTO's current work comes from the 1986-94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the "Doha Development Agenda" launched in 2001.

E.10. YUAN IN SDR

- IMF decided to include Chinese renminbi (RMB) in the basket of currencies that make up Special Drawing Right (SDR) with effect from October 1, 2016.
- To be included as an SDR a currency must be "freely usable," "widely used," and "widely traded".
- The existing currencies in the basket are - the U.S. dollar, the euro, the Japanese yen and the British pound.

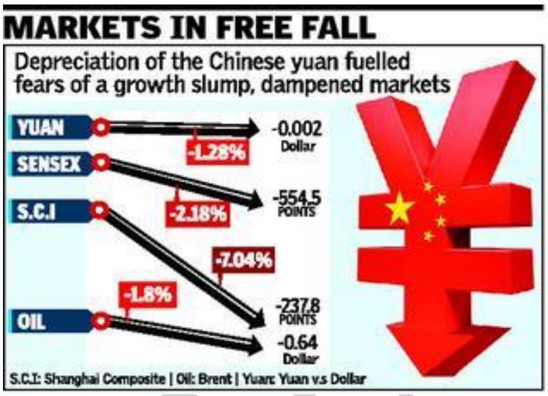
What are SDRs?

- Artificial currency (but is neither a currency, nor a claim on the IMF) created as international reserve asset by the IMF in 1969.
- Created in response to concerns about the limitations of gold and dollars as the sole means of settling international accounts.

- Operates as a supplement to existing reserves of member countries and **augments international liquidity**.
- SDRs can be exchanged for freely usable currencies.
- As of November 2015, 204 billion SDRs had been created and allocated to members (equivalent to about $285 billion).

E.11. DEVALUATION OF CHINESE YUAN

Why in news?



- The Yuan is hovering at a four-and-a-half-year low, down over 4% against the dollar since the beginning of the year 2015.
- The recent devaluation of Chinese currency yuan has triggered a global financial turmoil hurting stock and currency markets worldwide.
- The weakening of the yuan could lead to competitive devaluation of Asian and Emerging Market (EM) currencies.

Factors which caused devaluation of Yuan

- Slowdown in Chinese economy.
- A lot of surplus production in China.
- To make Chinese economy more competitive.
- To retain international Investment in China.

Impact of Devaluation on China

- By devaluing its currency, China gains an advantage in global trade. Its exports become cheaper, and more attractive, to foreign buyers.
- The yuan depreciation will make imports in China more expensive, depressing demand, especially for commodities. This will put further downward pressure on commodity prices.

Impact of Devaluation on Indian Economy

- Indian exports will be badly hit. This is also evident by the fact that India's exports have plunged for 12 consecutive months, down 17.6% year-to-date because of anemic growth in developed and Asian economies.
- Decline in export will increase the Current Account Deficit (CAD).
- Around 12% of India's imports come from China as of 2015. Any increase in Chinese competitiveness including through the Yuan depreciation could lead to a surge in such imports.
- This will lead to replacing imports from other trade partners of India by increasing Chinese imports and it could also impact these industries(such as electrical and electronics, organic chemicals, fertilizers and iron and steel etc.) in India.
- RBI will need to let the rupee decline against the dollar. This would put firms with exposure to external commercial borrowings in a difficult situation as their loan cost will increase.

E.12. MARKET ECONOMY STATUS

- India's Commerce Ministry is assessing the implications of the likelihood of **China being granted "Market Economy Status"** (MES) from December this year under the World Trade Organisation (WTO) norms.
- Since the main impact of China being granted MES would be on 'anti-dumping' cases, the Directorate General of Anti-Dumping and Allied Duties (or DGAD, an autonomous body under the commerce ministry) has begun consultations with stakeholders including international trade experts and lawyers on the issue.

What is Market Economy Status?

- Once a country gets MES status, exports from it, will have to accepted at the production costs and selling price as the benchmark.
- The definition of a country as a Non Market Economy (NME) allowed importing countries to use alternative methodologies for the determination of normal values, often leading to higher anti-dumping duties.

What is dumping?

- Dumping is an unfair trade practice of exporting goods to another country at a price lesser than what is paid in the exporting nation or their normal production cost, thereby distorting international trade and causing injury to the domestic manufacturers of the goods in the importing country.

E.13. WTO NAIROBI TALKS

- The WTO's Tenth Ministerial Conference was held in Nairobi, Kenya, from 15th to 19th December 2015.
- It culminated in the adoption of the **"Nairobi Package",** a series of six Ministerial Decisions on **agriculture, cotton and issues related to least-developed countries (LDCs).**

Agriculture

- **Special Safeguard Mechanism (SSM) for Developing Country Members-** a mechanism that would allow developing countries to temporarily raise import tariffs on agriculture products in cases of import surges or price declines.
- **Public Stockholding for Food Security Purposes -**used by some developing countries to purchase food at administered prices and distribute it to poor people.
- Export competition
- The **elimination of agricultural export subsidies,** new rules for export credits, international food aid and exporting state trading enterprises etc. Collectively, these issues are known as **"export competition".**
- It would be particularly meaningful for farmers in poor countries who cannot afford to compete with rich countries which artificially boost their exports through subsidization.

> The Nairobi declaration was disappointing on multiple fronts for India:
>
> India failed in its objectives to secure credible outcomes on its demands for SSM, permanent solution for public stockholding programmes for food security and the reaffirmation to continue the DDA negotiations.
>
> India has returned with very few, if any, of its demands met.

- **Cotton -** On **market access,** the Nairobi draft proposal asks that cotton from least-developed countries (LDCs) be given duty-free and quota-free access to the markets of developed countries — and to those of developing countries declaring that they are able to do so — from 1 January 2016.

Least-Developed Countries (LDCs) issues

- **Preferential Rules of Origin for Least Developed Countries -** WTO agreements include provisions aimed at increasing LDCs' trade opportunities and allowing LDCs flexibility in implementing WTO rules.
- **Implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade.**

E.14. AMENDMENT OF DTAA WITH MAURITIUS

Protocol to amend the 30-year old Double Taxation Avoidance Agreement (DTAA) with Mauritius has been signed recently.

What is DTAA

- Taxes are usually of 2 types - source based & resident based.
- While western countries mostly rely on resident based taxation (as they have more global income), developing countries like India favour source-based taxation due to investment opportunities here.
- Problem of Double Taxation arises when both source country and country of residence concurrently exercise their rights of taxation; in order to avoid this DTAA is signed.

Why amendment was needed

- As per the treaty signed in 1983, only Mauritius was allowed to tax capital gains. But generally Mauritius did not impose it. So companies were fully tax exempt.
- This resulted in large inflow of FDI via Mauritius route (34% of total FDI in India) largely for tax evasion.

Main features of the amendment

- India can now tax capital gains even on a company based in Mauritius
- The limit is 50% of Indian rates for transitional period of two years till 2019- this 50% benefit will accrue to a company only if it passes the main purpose and legitimate business test; a company will be termed a shell/conduit company if its total expenditure on operations in Mauritius is less than 27 lakhs in the preceding 12 months.
- It will also apply to Singapore treaty

- **Base Erosion and Profit Shifting (BEPS)** refers to tax planning strategies that exploit **gaps and mismatches in tax rules** to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid.
- BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).

F. POVERTY AND INCLUSION

F.1. WORLD BANK REPORT 'ENDING EXTREME POVERTY, SHARING PROSPERITY: PROGRESS AND POLICIES'

- The World Bank has revised the global poverty line, **previously pegged at \$1.25 a day to \$1.90 a day (approximately Rs. 130)**
- This has been arrived **based on an average of national poverty lines of 15 poorest economies of the world.**
- The poverty lines were converted from local currency into U.S. dollars using the new 2011 Purchasing Power Parity (PPP) data.
- The new data suggests that close to **900 million people (12.8 per cent of the global population) live in extreme poverty**
- With the Sustainable Development Goals adopted, seeking to end all forms of poverty world over, the World Bank has set itself **the target of bringing down the number of people living in extreme poverty to less than 3 per cent** of the world population by 2030

Indian Perspective

- As per modified mixed reference period (MMRP) **poverty in India in 2011-12 could be only 12.4 per cent.**
- Main takeaway is the claim that India has been **overestimating its poverty rate.**
- The World Bank has used a new method for collecting data, called the **modified mixed reference period, or MMRP.**
- Though home to the largest number of poor in 2012, **India's poverty rate is one of the lowest among those countries with the largest number of poor**
- In the case of India, with large numbers of people clustered close to the poverty line, poverty estimates are significantly different depending on the recall period in the survey

Rangrajan committee report on poverty vis-à-vis WB estimation of poverty

	Indian Estimation	WB report
Poverty Rate	It was pegged as **29.5%** by Rangrajan Committee, **21.9 %** Tendulkar Committee report.	The World Bank's estimate is just **12.4 %**
Poverty Line	The poverty line (PL) used by the Rangarajan committee for India was **around \$2.44 a day**, in terms of purchasing power parity	The World Bank has revised the global poverty line, pegged at **\$1.90 a day** in terms of PPP
Methodology used	In India, there were two main ways of collecting data: Uniform Reference Period (**URP**) and Mixed Reference Period (**MRP**)	WB used **MMRP method**. MMRP method believed to provide a **more accurate reflection of consumption expenditures**
Reason behind Difference	The importance of the way in which data is collected.	The **lower PL is** the reason for the lower poverty ratio estimated by the WB.
Depth of poverty	Depth of poverty in India is examined in a different way **- by looking at the poverty ratios using different cut-offs of the PL**.	WB report talks about the depth of poverty in terms of **person-equivalent headcounts**

Dimensions of Poverty	We have **legacy of uni dimensional approach** on poverty estimations	WB report gave **stress on importance of understanding the many dimensions** of poverty that people experience.

What is MMRP?

- In this method, for **some food items,** instead of a 30-day recall**, only a 7-day recall is collected.**
- For **some low-frequency items,** instead of a 30-day recall, a 1-year recall is collected
- The low-frequency items include **expenditure on health, education, clothing, durables etc.**

Conclusion

- The World Bank's new poverty rate estimate of 12.4% **does not mean that Indians have suddenly become richer.** In fact, it is **based on collection of data that determines the poverty rate**.

F.2. RBI'S REPORT ON FINANCIAL INCLUSION

Why in news?

- **Deepak Mohanty committee** set up by the Reserve Bank of India (RBI) in July prepared a medium-term measurable action plan for financial inclusion.
- The committee found that while some indicators of inclusion have improved, a large number of people remain reliant on informal channels such as money lenders.

Salient Recommendations of the Committee

- Banks have to make special **efforts to step up account opening for females**, and the Government may consider a deposit scheme for the girl child – *Sukanya Shiksha* - as a welfare measure.
- A unique biometric identifier such as **Aadhaar should be linked to each individual credit account** and the information shared with credit information companies to enhance the stability of the credit system and improve access. It can help to identify multiple loan accounts and prevent borrowers from becoming over-indebted.
- To improve **'last mile' service delivery** and to translate financial access into enhanced convenience and usage, a low-cost solution should be developed by utilisation of the mobile banking facility for maximum possible G2P payments.
- In order to increase formal credit supply to all agrarian segments**, digitisation of land records backed by Aadhar-linked mechanism is the way forward.**
- The committee recommended **that short-term interest rate subvention, or subsidies, on crop loans be phased out** and replaced with a crop insurance scheme for small and marginal farmers.
- The committee has recommended the use of **application-based mobile phones as points of sale** for creating necessary infrastructure to support the large number of new accounts and cards issued under the Jan Dhan Yojana.
- It recommended a graded system of **certification of business correspondents (BCs),** from basic to advanced training.
- Allow banks to open specialized interest-free windows with simple products such as demand deposits.
- Encourage multiple guarantee agencies to provide credit guarantees in niche areas for micro and small enterprises (MSEs), and explore possibilities for counter guarantee and re-insurance.

- Introduction of a system of unique identification for all MSME borrowers and sharing of such information with credit bureaus.

F.3. DIGITIZATION OF PDS

Why Digitization of PDS?

- To successfully implement the National Food Security Act (NFSA), the central government has focused on **end-to-end computerization,** which will bring transparency and check leakages and diversion of food grains.
- A committee on restructuring the Food Corporation of India suggested in its report that the government begin direct cash transfers of food subsidy because the existing delivery mechanisms lead to a leakage of as much as 47%.
- It estimated that cash transfers alone could save the exchequer Rs.30,000 crore every year.
- Automation ensures food grains are distributed via ration shops through point-of-sale (PoS) devices that authenticate beneficiaries and record the quantity of subsidized grains given to a family.

Impact

- As a result of these efforts, 6.14 million bogus or duplicate ration cards have been cancelled in the past two years, stopping the diversion and misuse of PDS food grains amounting to about Rs.4,200 crore.
- So far, the beneficiary database has been digitized in 33 states and Union territories, while 17 states and Union territories are being allocated food grains online.
- States are using central assistance to install PoS devices in ration shops that are linked to the Aadhaar unique identification numbers of beneficiaries
- In nine states and Union territories, the entire supply chain has been computerized.
- The linking of Aadhaar numbers with ration cards has gone up from 8% to 39% between April and December.

F.4. NSSO REPORT: LAND AND LIVESTOCK HOLDINGS

The **National Sample Survey Office (NSSO)** conducted a survey on Land and Livestock Holdings in the rural areas of the country as a part of **NSS 70th Round** during January, 2013 to December, 2013.

Key Findings of the Survey

- The report on land and livestock holdings estimates that **around 95 million hectares** of land was classified as operational holdings in 2012-13.
- Household ownership of land- the total estimated area owned, and average area owned per household has declined in 2012-2013 as compared to 2002-03.
- During the agriculture year July 2012- June 2013 rural India had an estimated total area of 92.3 million hectares under household ownership of land and the average area owned per household was 0.592 hectares.
- Within the rural households, **the marginal land owners** constituted the highest proportion (75.42%) of total rural households, whereas **the large land owners** constituted the lowest proportion (0.24%) of the total households. The **landless category** constituted 7.41% of the total rural households.

F.5. FOURTH INDUSTRIAL REVOLUTION

- 'Fourth Industrial Revolution' or Industry 4.0 is the **theme of the 2016 annual meet of World Economic Forum.**

Meaning

- It is a **collective term** embracing a number of contemporary automation, data exchange and manufacturing technologies and denotes a fundamental change in the way business is being done in the present world.
- It is characterized by a wave of innovations and fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.
- For example things like driverless cars, smart robotics, tougher and lighter materials, and a manufacturing process built around 3D printing technology, internet of things and internet of services.
- The characteristic is not just these new innovations but also that it is changing at exponential rates and disrupting every industry at a pace that is difficult to cope with.
- New technology, increased connectivity, artificial intelligence etc. has changed the way any industry functions, the consumer demand and the competition.
- The inexorable shift from simple digitization (the Third Industrial Revolution) to innovation based on combinations of technologies (the Fourth Industrial Revolution) is forcing companies to re-examine the way they do business.

- The First Industrial Revolution started in the 18th century with the use of water and steam power to mechanize production.
- The Second in 19th century used electric power to create mass production.
- The Third began in the 1960s and used electronics and information technology to automate production.
- Now a Fourth Industrial Revolution is building on the third, that is, the digital revolution.

WORLD ECONOMIC FORUM

- It is a Swiss Non-Profit foundation, based in Geneva. It is an international institution for public-private cooperation.
- Its mission is cited as "committed to improving the state of the world by engaging business, political, academic, and other leaders of society to shape global, regional, and industry agendas".
- **Davos Panel**: The annual WEF winter meet (Jan) at Davos, Switzerland. It has different themes. e.g. 2014- "The Reshaping of the World: Consequences for Society, Politics and Business", 2015- "New Global Context", 2016- "Mastering the Fourth Industrial Revolution"
- It also works as a think tank giving out various reports; Global Competitiveness Report, Global IT Report, Gender Gap Report, Risks, Tourism, Enabling Trade.

F.6. STAND UP INDIA SCHEME

Why in news?

- The Union Cabinet has recently approved the "Stand Up India Scheme" **to promote entrepreneurship among SC/ST and Women entrepreneurs.**
- Presently only 9% of start-ups in India are led by women

Salient features

- The Scheme is intended to **facilitate at least two such projects per bank branch, on an average one for each category of entrepreneur.**
- Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of Rs. 10,000 crore.
- Creation of a credit guarantees mechanism **through the National Credit Guarantee Trustee Company (NCGTC).**
- **Hand holding support for borrowers both at the pre loan stage and during operations.** This would include increasing their familiarity with factoring services, registration with online platforms and e-market places as well as sessions on best practices and problem solving.
- Focus is on **handholding support for both SC/ST and Women borrowers.**
- The overall intent of the approval is to leverage the institutional credit structure to reach out to these under-served sectors of the population by facilitating bank loans repayable up to 7 years and between Rs. 10 lakh to Rs. 100 lakh **for Greenfield enterprises in the nonfarm sector set up by such SC, ST and Women borrowers.**
- The loan under the scheme would be appropriately secured and **backed by a credit guarantee through a credit guarantee scheme** for which Department of Financial Services would be the settler and NCGTC would be the operating agency.
- The Stand Up India Scheme anchored by **Department of Financial Services (DFS).**
- It is expected to benefit **at least 2.5 lakh borrowers.**

F.7. HORTICULTURE STATISTICS

Why in News?

- Horticulture statistics released for the first time by **Agriculture ministry**, pointed out a shift of farmers more towards horticulture crops than food grains.

Important data of the survey

- Area under horticulture rose by 18% , whereas, it is 5% for food grains
- Fruits and Vegetables accounts for 90% horticulture production of India.
- The inception to shift towards horticulture started from 2012-13, when horticulture production surpassed the food grain production.
- Area under horticulture crops rose by 2.7% per annum, and production by 7% annually.

Leading producer states of horticulture specific crops

1.	Fruits	Maharashtra
2.	Vegetables:	West Bengal
3.	Flowers:	Tamil Nadu
4.	Spices:	Gujarat
5.	Plantation crops:	Tamil Nadu

- Highest annual production growth of 9.5 per cent recorded by fruits – especially citrus.
- Highest intake of vegetables and fruits is in urban areas as compared to rural areas.
- Grapes occupies the top position in terms of export over other horticulture fruits.

G. MISCELLANEOUS

G.1. CESS

Why in news?

- A Comptroller and Auditor-General (CAG) report on government finances released recently revealed that more than **Rs. 1.4 lakh crore** of funds collected by the government under various cesses for purposes as varied as higher education, road development and the welfare of construction workers are lying unutilized.
- Recently government announced two new cesses- a 0.5% cess on all services for Swacch Bharat initiative and a 2% cess on international air travel and flights between metros and big cities to build a regional connectivity fund (RCF). These new cesses add to numerous existing cesses such as higher education cess, clean energy cess etc.

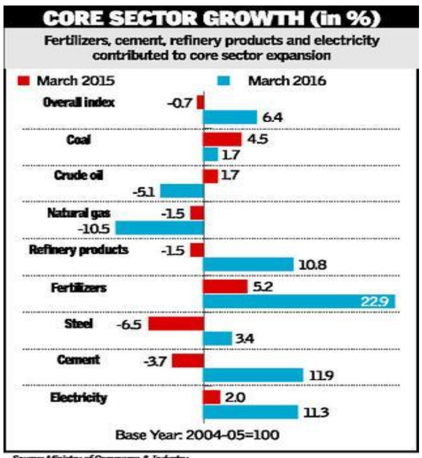
<u>Cess</u>

- This is a tax on tax, levied by the govt for a specific purpose. Generally, cess is expected to be levied till the time the govt gets enough money for that purpose.
- Over the years, the government has levied a number of cesses for spreading education, the welfare of workers, road development and research and development.
- The nature of a cess is such that if the money is not used for the designated purpose, it will remain dormant.

Examples: The Primary Education Cess, the National Clean Energy Fund, the Research & Development Cess Fund, the Central Road Fund, the Income Tax Welfare Fund, the Customs & Central Excise Welfare Fund and several dormant funds have Rs. 14,500 crore lying unused.

G.2. GROWTH IN CORE SECTOR OUTPUT

- Data released by the commerce ministry showed that the combined output of eight crucial infrastructure sectors jumped to a 16-month high of 6.4% in March due to a double-digit growth in refinery products, fertilisers, cement and electricity.
- The cumulative growth for the year was 2.7%, which was lower than 4.5% seen in previous financial year.
- Pickup in sector like refinery and cement show that demand is beginning to pick up.



Source: Ministry of Commerce & Industry

<u>About core Industries</u>: Coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity make up the 8 core industries. They constitute 38% in Index of Industrial Production (IIP). Electricity has the largest share in IIP.

G.3. NOBEL PRIZE IN ECONOMICS

- The Nobel Prize Committee has awarded the 2015 Nobel in Economic Sciences to **Angus Deaton of Princeton University**, for his analysis of **"consumption, poverty, and welfare."**
- **Angus Deaton**, was born in 1945 in Edinburgh, Scotland. He holds both U.S. and British citizenship.

About his work

- His work has relied on **household consumption surveys rather than income data**. By emphasizing **the links between individual consumption decisions and outcomes for the whole economy**, his work has helped transform modern microeconomics, macroeconomics and development economics. In his work, he has tried to answer three questions:
  - How do consumers distribute their spending among different goods?
  - How much of society's income is spent and how much is saved?
  - How do we best measure and analyze welfare and poverty?

Importance of data

Angus Deaton has questioned the quality of data collected in large surveys and suggested ways of improving the surveys. He has also thought very hard about how these data could or could not be used, how to reduce measurement errors, and what inferences one can, or cannot, draw from data that might suffer from measurement errors.

India Connect

India has been one of Deaton's laboratories. His work has greatly influenced how India maps its disadvantaged population. For instance, he pointed out how in the 55th Round of the NSS (1999-2000) there were measurement flaws — **such as inconsistencies in the recall of consumption expenditure — while collecting data.** Incorrectly collected data led to overestimates of consumption and underestimates of poverty, and vice-versa. Similarly, his work on price indices and measuring poverty was central to the poverty line drawn by the Suresh Tendulkar Committee.

About Nobel Prize in Economic Sciences

- The Nobel Prize in Economic Sciences, officially called the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, was established in 1968. It was not part of the original group of awards set out in Nobel's 1895 will.

G.4. ICEGATE

Why in News?

India's intelligence agencies and the Reserve Bank of India (RBI) are considering a proposal to integrate Indian Customs Electronic Commerce and Electronic Data Interchange Gateway (ICEGATE) and the banking system to prevent illegal forex remittances and money laundering.
ICEGATE is the customs electronic repository of bills of entry, shipping bills and other import-export documents.

Background

The Central Bureau of Investigation (CBI) and the Enforcement Directorate booked a series of cases involving illegal forex remittance by banks, the latest being the Rs 6,000 crore outward foreign remittance scam involving Bank of Baroda and a clutch of other banks.

Objective of the move

The integration of ICEGATE and the banking system will help banks check the genuineness of bills produced by importers and exporters before remitting money. It is a positive development and will aid in addressing the risks involving export/ import transactions.

G.5. SPECIAL AGENCY FOR CORPORATE FRAUD

Background

- First suggested in the aftermath of the Satyam fraud, in which the auditor was also implicated, the Companies Act 2013 requires the constitution of National Financial Reporting Authority (NFRA), which has been bestowed with significant powers not only in issuing the authoritative pronouncements, but also in regulating the audit profession.
- At present, the Institute of Chartered Accountants of India (ICAI) has authority to investigate and take disciplinary action in cases in which an auditor is involved. Any fraud below the threshold set by the government could still be investigated by the professional association.

Details of the proposed body

- It will be formed under the Companies Act 2013 provisions.
- The agency will be mandated to investigate auditing and accounting frauds certain classes of listed companies or those of Rs 500 crore and more, either suo motu or on referral by the Centre.
- It will have forensic auditors on its panel.
- It will have an overarching role to regulate chartered accountants .

What is Forensic Audit?

A forensic audit is the process of reviewing a person's or companies financial statements to determine if they are accurate and lawful. It is used to detect corporate accounting frauds.

G.6. CAIRN INDIA'S TAX DISPUTE

Why in news?

- Cairn Energy Plc has initiated international arbitration against government of India under **India-Britain BIT.** It said it will seek a huge claim - about $700 million - from the Indian government for

INDIAN BITs AT A GLANCE

- India signed its first BIT in 1994 with the United Kingdom.
- Since 1994, India has signed a total of 83 BITs, Out of which 72 are already in force.
- Around 40 BITs are with developing and less developed States.
- Around 20 of the BITs enforced have been done in last five years.
- These BITs were largely negotiated on the basis of the Indian Model BIT of 1993.

'losses' caused to it by the latter's actions as part of a $1.6 billion tax dispute.

Background of India's BITs

- Policy of economic liberalization adopted in 1991 viewed foreign investment as the cornerstone of its industrial policy.
- The industrial policy introduced that year pinned its hopes on foreign investment bringing the attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports .
- Bilateral Investment Promotion and Protection Agreements (BIPAs) /Bilateral investment treaty (BITs) as they are known in India, are a pivot to this. All Indian BITs make it clear that investment promotion is an important objective. Even the model BIT states this.
- In recent times more than 18 treaty claims have been filed by foreign investors against India most of which have risen from tax disputes.

Few other major disputes under BITs

- Vodafone tax dispute, treaty invoked: Netherland - India BIT
- Children Investment Fund, treaty invoked: Cyprus - India BIT
- Loop Telecom, treaty invoked: Britain - India BIT

Revised Model BIT: The cabinet recently approved the revised model BIT. The revised Indian model text for Bilateral Investment Treaty (BIT) will replace the existing Indian Model BIT. The revised model BIT will be used for re-negotiation of existing BITs and negotiation of future BITs and investment chapters in trade agreements.

G.7. COMPAT VOIDS CCI'S PENALTY ON CEMENT COS

The Competition Appellate Tribunal (COMPAT) has set aside the Competition Commission of India (CCI) decision imposing a cumulative penalty of Rs.6, 316.59 crore on 11 cement companies on charges of 'cartelisation'.

Competition Appellate Tribunal (COMPAT)

- It is a statutory organization established under the provisions of the Competition Act, 2002 to hear and dispose of appeals against any direction issued or decision made or order passed by the Competition Commission of India.
- The Appellate Tribunal also adjudicates on claim for compensation that may arise from the findings of the Competition Commission of India or the orders of the Appellate Tribunal in an appeal against any findings of the Competition Commission of India.

What is Competition law?

- The Competition Act, 2002 governs Indian competition law. It replaced the archaic Monopoly and Restrictive Trade Practices Act, 1969.
- This act extends to whole of India except the State of Jammu and Kashmir.

Objective

- To prohibit the agreements or practices that restricts free trading and also the competition between two business entities,
- To ban the abusive situation of the market monopoly,
- To provide the opportunity to the entrepreneur for the competition in the market,

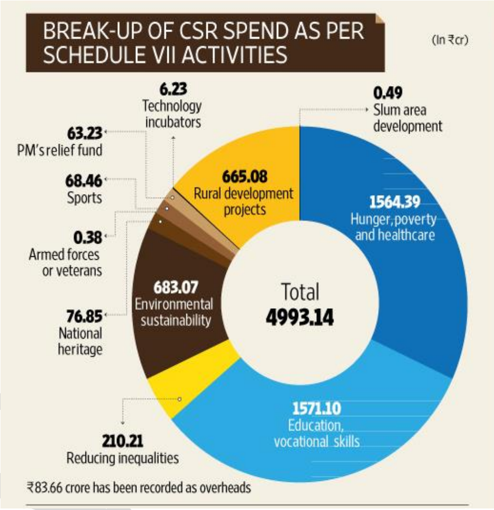
- To have the international support and enforcement network across the world,
- To prevent from anti-competition practices and to promote a fair and healthy competition in the market.

Competition Commission of India is a body responsible for enforcing The Competition Act, 2002 throughout India and to prevent activities that have an adverse effect on competition in India.

G.8. CSR IN INDIA

Why in news?

- It's now been over a year since Section 135 of the Companies Act 2013 came into effect and it has sought to alter the way corporate social responsibility (CSR) is approached in India.



Provisions of CSR in India

- Under the Companies Act, 2013 companies **have to spend at least 2% of last 3 years average net profits on CSR activities.**
- The Act also urges companies to leverage their business acumen and core competencies to address social issues in the same manner as they would carry out other business operations.
- The Companies Act 2013 allows for collaboration between two or more companies by using a separate legal entity.
- However, rules do not provide any provision for monitoring and any punitive actions for the companies who fail to meet the CSR guidelines.

Salient Points

- CSR budgets have grown exponentially.
- **Promoting education and eradicating poverty** received the maximum funds last year through CSR funding.
- The next highest recipient of CSR funds was environmental sustainability with 57 companies spending Rs.683.07 crore.
- Energy companies spent the highest on corporate social responsibility (CSR) initiatives last year.
- According to data collected from the annual reports of 85 publicly traded companies by NextGen, the energy sector was followed by financial services and IT when it came to firms that committed to CSR.
- Consumer goods companies were the only companies that exceeded the mandatory spending limit of 2% of annual profits. The telecom sector spent only Rs.51 crore, while it was expected to spend Rs.194 crore.
- Most companies that have implemented social engagement strategies have not looked at their CSR strategies through the same lens as their core business functions.

G.9. ASSETS RECONSTRUCTION COMPANY

Why in news?

- To tackle rising NPAs, the Union Finance Ministry and NITI Aayog has recommended to set up an Asset Reconstruction Company (ARC) with equity funding from the government and the RBI.
- PSBs condition is particularly bad as compared to private banks because they have to lend under various **government objectives** and under the compulsion of **social banking**.

> **Stressed assets VS Non Performing Assets:**
> - Stressed Asset - An account where principal and/or interest remains overdue for more than 30 days.
> - NPA - A loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

G.10. MERGER OF NSEL WITH FTIL

Why in news?

- Ministry of Corporate Affairs under **Section 396** of the Companies Act, 1956 ordered merger of Financial Technologies (India) Ltd (FTIL) and National Stock exchange (NSEL).
- This is the **first time a subsidiary company** is being forcibly merged with its parent company in India.

Analysis

- The Companies Act, 1956 empowers the government to order merger if such merger is essential in the public interest.
- The government has cited "public interest" and said that most of the money raised by NSEL was used by FTIL and thus both constituted a single entity.
- On the one hand there was interest of more than 13000 investors at stake while on the other hand the interests of employees and shareholders of FTIL were on stake.
- Moreover, the principle of "limited liability" seems to be broken here. And, this order is being seen by corporates as on the lines of Vodafone GAAR issue.
- Nonetheless, the illegal trading especially when a large number of small investors are involved, should not go unpunished else the confidence of investors in India's marker will start to dwindle.

G.11. OPEN RESOURCE LICENSING

Why in news?

- Due to Government policy of favoring open source software across all Central departments.
- Open source software are those software which can be freely used, modified, and shared.

Advantages of open source software

- Entail substantial savings on the Centre's software expenses as most open source alternatives are free.

- Increase interoperability and highly customizable.
- Help in developing local capacity/ industry.
- Reduce piracy/copyright infringements.
- Promote growth of knowledge-based society.
- Average spend on cyber security of closed software is about 2-3% of the total IT spending.

Why open source resources are more secure

- In open source users have access to the algorithm that makes it work.
- No one has access to the encryption key or the set of numbers that act as a password.
- Without that password it is impossible to hack into these.

G.12. SEBI CONCERNS ABOUT FORWARD CONTRACTS

Difference between Forward and Futures Contracts

Under the Forward Contracts (Regulation) Act, 1952, which regulates commodity trading in India, a forward contract is a contract for the actual delivery of goods. On the other hand, a futures contract is one where the buyer can settle the contract in cash as well.

- Securities and Exchange Board of India (SEBI) is set to take over regulation of commodities markets as well. However, it is not comfortable with forward contracts in commodity exchanges.
- SEBI's concern stems from two facts:
  - One, unlike futures contracts, forward contracts are not standardised;
  - Two, there's greater counterparty risk associated with forward contracts.

G.13. FMC MERGER WITH SEBI

- This is the first major case of two regulatory body Forward Markets Commission (FMC) merged with the capital markets watchdog SEBI, as against the relatively more frequent practice worldwide of creating new regulatory authorities.
- The commodity futures market in India will now be supervised by SEBI, making for an integrated regulation of both the securities and commodities markets in India.

Advantages

- A merged regulator would enhance the integrity of financial markets,
- It will also boost liquidity and improve the price- discovery process.
- A unified regulator may also have a salutary impact on the spot commodities market, while strengthening it with the transparent systems in place in the securities market.
- It helps that SEBI has evolved as a credible regulator in the last two decades.

G.14. EQUALISATION LEVY/GOOGLETAX

Why in news?

- The budget 2016-17 provision for levying an equalisation tax of 6 per cent on online advertisement services offered in the country by non-resident entities, aimed at taxing business-to-business (B2B) e-commerce transactions, came into effect from 1st June 2016.

What is this new equalization levy all about?

- The issue of Internet firms not paying enough taxes in places where they generate profits, by shifting them to tax havens, has been debated across the globe. OECD under a project called **Base Erosion and Profit Shifting (BEPS)** had issued action plans addressing this challenge last year.
- India has become **the first country** to implement the action plans as proposed by the OECD in this direction.
- The equalization levy as proposed in the Budget would apply at a rate of 6% on the gross consideration payable for a “specified service” which include online advertisements, provision of digital advertising space or any other facility or service for the purpose of online advertisements.
- Only an entity making a payment exceeding in aggregate Rs.1 lakh in a year will be required to comply.
- The onus of deducting the levy lies with the Indian payer; he would need to pay the same to the government.

G.15.HYBRID ANNUITY MODEL DRAWS MORE BIDDER

Why in news?

- The CCEA has approved HAM last year to **revive highway projects and renew interest** among all stake holders: developers, lenders and concessionaires. But the response was very luke-warm.
- The aggressive promotion by NHAI through **awareness campaigns** yielded positive results.
- Now the average bidders for projects have increased **by 3 times**.

What is Hybrid Annuity?

- Hybrid Annuity model(HAM) is a new type of public-private partnership (PPP) model.
- In this HAM model, the government invests 40 per cent of the construction cost for building highways over a period and the balance comes from the private developer.
- Toll is collected by the government. Fixed payments (annuity) with a profit margin are paid to the developer.

Various type of PPP models used generally are

- Govt. is major investor: EPC, Service contracts, Management contracts and Lease contracts.
- Private players are the major investors: BOT, BOOT, DBO, DBFO etc.
- Joint Ventures: Infra is co-owned. Ex: special purpose vehicles (SPVs under smart cities)
- Hybrid Annuity
- Swiss model

Various type of PPP used in Highway sector are:

- BOT-Toll
- Engineering Procurement and Construction (EPC) – Govt. bears the cost. Due to reduced private sector participation, Govt. has increasingly resorted to EPC in 2013-14 and 2014-15.
- BOT- Annuity (from April 2014)– project is financed only to the extent of a certain percentage of the cost by the private investor and this investment is recovered through annuity payments

Now HM is launched as a mix between EPC and BOT formats. This is a flexible and suitable method, for sensible sharing of risks, dealing with funding constraints and leveraging strengths of private sector.

G.16. WITHDRAWAL OF NEW NOTIFICATION REGARDING LISCENCING OF GM TECHNOLOGY

What was the notification?

- The agriculture ministry issued notification as per which licensor of an approved GM (Genetically Modified) technology (i.e. the innovator) can't refuse license to any applicant.
- It also capped the license fees for all new genetically modified seed technology and sought to regulate the bilateral agreements between seed technology license provider and licensees.
- All this effectively amounted to compulsory license extending to GM Crops technology.

Why was it withdrawn?

It was withdrawn after GM technology firms expressed their dissatisfaction because of:

- Loss of business of patented technology.
- The notification effectively meant resorting back to License Raj
- It was against WTO rules of Compulsory licensing
- It would discourage investment in research and may ultimately harm the farmers.

Current Position: The Centre has now placed the notification on public domain to elicit public response. Meanwhile its enforcement has been nullified.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