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Classroom Study Material

ECONOMY

September 2016 – October 2016

Table of Contents

1. FINANCE AND BANKING

1.1. REGULATION OF PENSION PRODUCTS

Why in news?

- The Finance Ministry has set up a high-level committee to consolidate the regulation of pension products that is currently being done by three different watchdogs including the insurance and stock market regulators.

Background

- The Pension Fund Regulatory and Development Authority (PFRDA) was set up with the intent of regulating all pension products. However, insurers and mutual funds continue to sell pension products outside its watch. This creates confusion among consumers looking to build a retirement nest egg.
- Pension products floated by insurance companies come under the purview of the Insurance Regulatory and Development Authority (IRDA) while those sold by mutual funds are overseen by the SEBI. However, since their prime focus is on insurance and mutual funds/capital markets respectively, pension regulation done by them is only a piecemeal work.

About PFRDA

- The Pension Fund Regulatory and Development Authority (PFRDA) is a pension regulatory authority which was established in 2003.
- It is authorized by Ministry of Finance, Department of Financial Services.
- It promotes old age income security by establishing, developing and regulating pension funds and protects the interests of subscribers to schemes of pension funds and related matters.

1.2. IDEA OF BAD BANK

Background

- The problem of non-performing assets in Indian banks particularly the PSBs has assumed large proportions.
- Government along with RBI has made many efforts to solve this issue. In this light another suggestion is the formation of a Bad Bank. In

What is a Bad Bank

- Bad Bank would be set up as **a separate entity that would buy the NPAs from other banks to free up their books for fresh lending. In the meanwhile, it would work towards suitably disposing off the toxic assets**.
- The concept was pioneered at the Pittsburgh-headquartered Mellon Bank in 1988 and has been **successfully implemented in many western European countries** post the 2007 financial crisis like Ireland, Sweden, France etc.

Advantages of Bad Bank

- The present method of **recapitalization can have only partial success** due to limitations of Indian financial capabilities. Further it will not clear up the bad assets but would only give some more life to projects.
- Bad Bank would essentially help in clearing the books of banks and this could **make the banks more attractive to buyers**.
- The segregation would help in managing NPAs more effectively. The organizational requirements and skill sets are very different in a restructuring and winding up situation than in a lending situation. The **segregation could thus help in putting the best suited processes and practices in a Bad Bank while the 'normal banks' could continue to focus on lending**.

Issues

- Raghuram Rajan was of the view that this **concept may not be relevant for India** since much of the assets backing the banks' loans are viable or can be made viable. E.g. a large chunk of projects stalled due to extraneous factors like problems in land acquisition or environmental clearance. They just need restructuring and additional funding.
- There **are issues with respect to composition and management of the Bad Bank**.
  - A majority stakes with government would render the Bad Bank with the same issues of governance and capitalization as PSBs.
  - On the other hand, a private majority shareholding could invite criticism of favouritism and corruption if the loans are not priced appropriately when transferred to a 'bad bank'.

Way Forward

- This must be complemented with other steps. The government must infuse more capital into the better-performing PSBs.
- It must also create, through an act of Parliament, an apex Loan Resolution Authority for tackling bad loans at PSBs. The authority would vet restructuring of the bigger loans at PSBs. This would mitigate the paralysis that has set in at the PSBs because of the fear factor and get funds flowing into stalled projects.
- Resolution of bad loans and restoring the health of PSBs is among the biggest challenges the economy faces today. A bad bank cannot be the sole response.

1.3. PUBLIC DEBT MANAGEMENT CELL (PDMC)

Why in news?

- The Finance Ministry has set up a Public Debt Management Cell (PDMC).

What is it?

- It is an interim arrangement and will be upgraded to a statutory Public Debt Management Agency (PDMA) in about two years.
- Its main purpose is to allow separation of debt management functions from RBI to PDMA in a gradual and seamless manner, without causing market disruptions.
- PDMC will have 15 experienced debt managers from Ministry and RBI for the required expertise.
- A joint implementation committee chaired by Joint secretary (Budget) will oversee the transition process of PDMC to PDMA.

Key Functions of PDMC

- It will only have advisory functions to avoid conflict with statutory functions of the RBI.
- It will plan government borrowings as well as manage its liabilities.
- It will further monitor cash balances, foster a liquid and efficient market for government securities and advise government on matters related to investment, capital market operations, fixing interest rates on small savings etc.
- It will develop an Integrated Debt Database System (IDMS) as a centralised database for all liabilities of government, on a near real-time basis and undertake requisite preparatory work for PDMA.

About Public Debt Management Agency (PDMA)

- Public Debt Management Agency (PDMA) is a proposed specialized independent agency that manages the internal and external liabilities of the Central Government in a holistic manner.
- The government has now made clear that PDMA will be formed in 2 years.
- The **need for PDMA** is felt for few reasons:
  - Presently the market borrowing is managed by RBI but external debt by central government directly. Establishing a debt management office would consolidate all debt management functions in a single agency and bring in holistic management of the internal and external liabilities
  - There is a severe conflict of interest in the RBI responsibility of setting the short term interest rate (i.e. the task of monetary policy) and selling bonds for the government. If the Central Bank tries to be an

effective debt manager, it would lean towards selling bonds at high prices, i.e. keeping interest rates low. This leads to an inflationary bias in monetary policy.
  - Management of government debt, regulation of banks and monetary policy are all interlinked which could be better coordinated by an agency like PDMA.
  - Some functions that are crucial to managing public debt are not carried out. For instance, no agency undertakes cash and investment management, information relating to contingent and other liabilities are not consolidated. This will be taken care of by PDMA.
- However, some experts are **apprehensive of the success of PDMA.** This advance following arguments for the same:
  - In India sovereign debt management is not merely an exercise for resource mobilization but has a wider socio-economic impact. It thus requires a broader outlook which might not be given by an independent agency.
  - PDMA's focus is only on central government but RBI can harmonise the Debt management of both union and State governments
  - The conflict of interest would still be present as government is the majority shareholder in PSBs.

1.4. REGULATION OF DIRECT SELLING FIRMS

Why in News

- The Center has issued **model guidelines for State governments to regulate the business of direct selling** and multi-level marketing with an **aim to protect the consumers from Ponzi schemes.**

Need for Regulation

- Many fraudulent schemes especially in the **nature of pyramid schemes and money circulation schemes have been in circulation.** Their processes are similar to these direct selling firms and this creates a problem for not only gullible customers but also put the legitimate direct selling firms in bad light.

> **Direct selling**: A marketing, distribution and sale of goods or providing of services as a part of network of direct selling.
>
> **Pyramid scheme or Money Circulation scheme:** It **involves an unsustainable business which rewards people for enrolling others into a business that offers a non-existent or worthless product.**
>
> **Ponzi scheme:** It is a fraudulent investing scam promising high rates of return with little risk to investors.
>
> Pyramid schemes are banned under **Chits and Money Circulation Schemes (Banning) Act, 1978**

- The **arrest of William Pinckney**, MD and CEO of the country's largest direct selling company Amway for unethical circulation of money under the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 two years ago had put the spotlight on this.
- Further, there is a **need to protect the agents and customers** from any kind of exploitation due to the special nature of direct selling.

Model Guidelines: Key Points

- **Protection from fraud**:
  - ✓ The framework defines legitimate direct selling and differentiates it from pyramid and money circulation schemes to help investigating agencies identify fraudulent players.
  - ✓ The guidelines list out conditions for the set up of a direct selling business, including that such a firm should be a registered legal entity.
- **Interest of agents**:
  - ✓ These entities will have to enter into a contract with direct sellers or agents, and give full refund or buy-back guarantee for goods and services sold to them.
  - ✓ They bar companies from charging any entry fee from agents or compelling them to buy back unsold stocks.
  - ✓ It lays down a remuneration system.
- **Consumer interest**
  - ✓ It mandates to constitute a grievance redressal committee.

Conclusion

The guidelines are being welcomed by all the stakeholders. The norms have the potential to weed out fraudulent players, help serious companies grow, protect consumers along with agents and entrepreneurs.

1.5. CYBER SECURITY IN BANKS: DEBIT CARD DATA THEFT ISSUE

Background

- It was recently revealed that around 19 Indian Banks faced a series of data theft in last 6 months. It is the biggest debit card fraud in Indian history.
- The Banks have recalled and blocked more than 32 lakh debit cards.
- This has led to banking fraud of around Rs. 1.3 crores. The potential loss could be much more than this.
- The probe by **National Payments Corporation of India (NPCI)**, which has oversight over all the retail transactions, found a **malware-induced security breach** in the systems of Hitachi Payment Services, which provides ATMs, point of sale and other services in India.

Implications

- The government and RBI are putting efforts to harness digital revolution to bring about socio-economic changes. For example,
  - steps towards increasing financial inclusion,
  - better targeting of subsidies through the direct benefit payments model,
  - improving economic efficiency by lowering transaction costs, and
  - moving toward a cashless economy so as to reduce the circulation of black money and curb tax evasion.
- The fraud, thus, exposes the vulnerability of Indian retail financial structure.
- It shakes the faith and confidence of the people in the financial structure.
- If not tackled immediately with effective means this could be a huge setback for the government.

RBI's efforts to address the issue cyber crimes

- In June 2016, RBI issued instructions on a cyber security framework in banks, asking them to put in place a board-approved cyber security policy, prepare a cyber crisis management plan, and make arrangement for continuous surveillance.
- The circular also asked banks to share unusual cyber security incidents with RBI.
- RBI has set up an expert panel on IT Examination and Cyber Security to provide assistance in banks' cyber security initiatives
- It also proposes to cover, by 2017-18, all banks under a detailed IT examination programme launched recently.

Other measures needed

- It is the duty of the banks to integrate inter-generational legacy systems across branches, ATMs and online banking networks into one seamless and secure whole.
- There is a need to put cyber security at top priority of banks. Top managements at lenders should reappraise their cyber culture, heed warnings and alerts promptly, and address shortcomings.

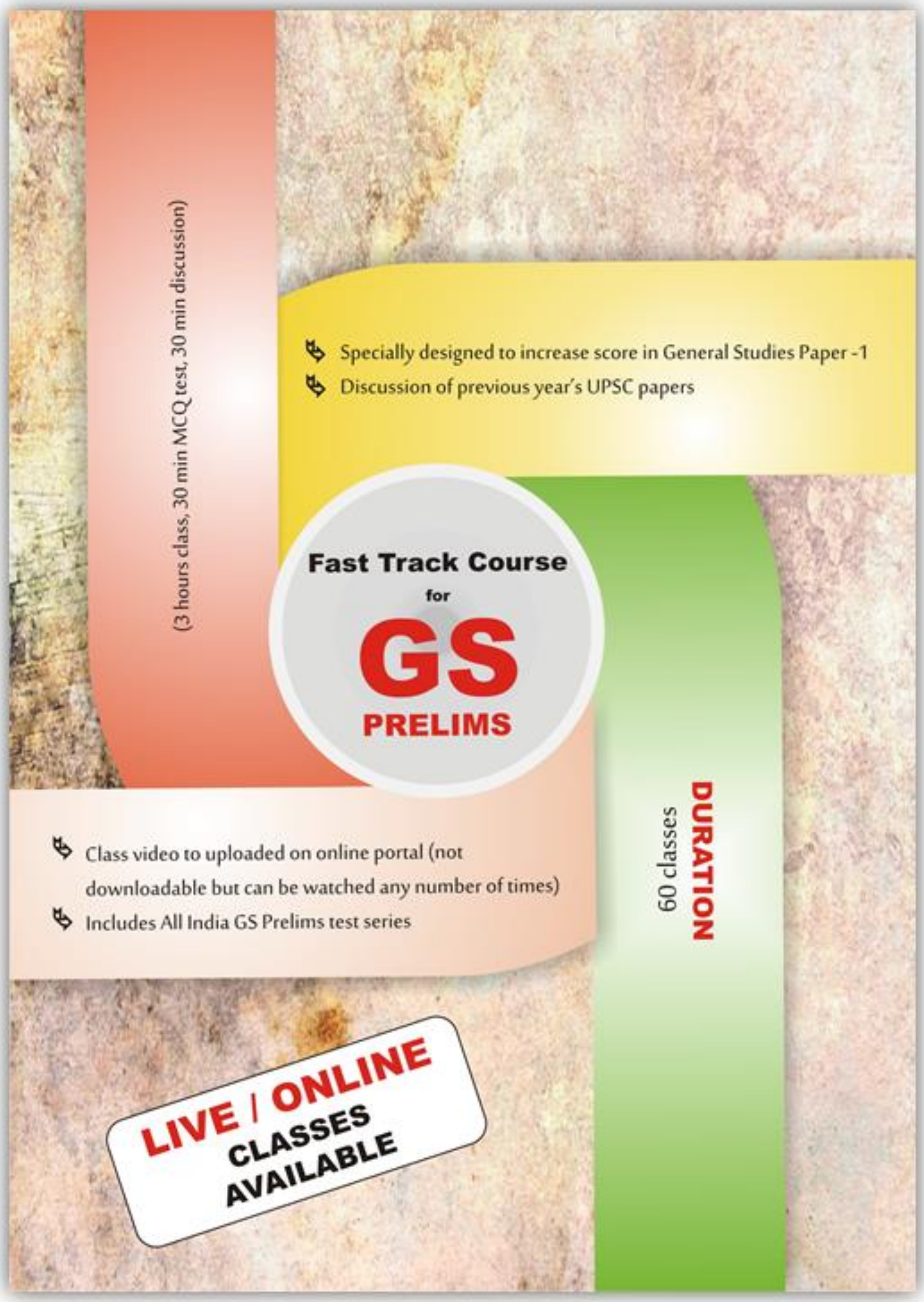
Concluding Remarks

Going Digital is an opportunity and also a threat, but it is still necessary to adopt it because of the convenience it brings. But we need better fraud management and security in place.

2. EMPLOYMENT AND SKILL DEVELOPMENT

2.1. NATIONAL APPRENTICESHIP PROMOTION SCHEME

- The Government has recently notified National Apprenticeship Promotion Scheme with an outlay of Rs 10,000 crore and a target of training 50 lakh apprentices by 2019-20.
- It is unique since, it is the first scheme to offer financial incentives to employers, as 25% of the prescribed stipend payable to an apprentice would be reimbursed to the employers directly by the Government of India.
- All transactions including registration by employers, apprentices, registration of contract and payment to employers will be made as online mode.
- Eligible employers shall engage apprentices in a band of 2.5% to 10% of the total strength of the establishment.
- The scheme also supports basic training, by sharing of basic training cost with basic training providers in respect of fresher apprentices who come directly to apprenticeship without any formal trade training.
- It provides for an industry led, practice oriented, effective and efficient mode of formal training.
- The National Policy of Skill Development and Entrepreneurship, 2015 launched by Prime Minister focuses on apprenticeship as one of the key components for creating skilled manpower in India.



(3 hours class, 30 min MCQ test, 30 min discussion)
Specially designed to increase score in General Studies Paper -1
Discussion of previous year's UPSC papers
Fast Track Course
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Includes All India GS Prelims test series
DURATION
60 classes
LIVE / ONLINE
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3. INCLUSIVE GROWTH AND DEVELOPMENT

3.1. URBAN-RURAL DISPARITY IN GROWTH OF MICROFINANCE INSTITUTIONS

About

- As per the recent **report by Sa-Dhan**, the self-regulatory body of MFIs, the **growth of MFIs has been faster in urban areas than rural areas.**
- The annual increase in loan disbursement in rural areas has been just 14% as compared to 27% in urban areas.
- **Urban and semi-urban areas already account for about 72% of the loan portfolio of MFIs.** The rural ratio has decreased from 30% to 28% in last year.
- Barring the two old-generation MFIs- Bandhan and SKS- the next four top MFIs have nearly 70 per cent of their portfolio focused on urban areas.

- MFIs are intended to provide financial help to low-income groups, the bulk of which resides in rural areas.
- The **heavy inclination towards urban areas, thus, points towards non-fulfillment of objectives of MFIs**.
- MFIs have proved to be an important source of empowerment of vulnerable sections of society especially women and also SC/STs. They are, thus, needed more in rural areas.

Reasons for the trend

- The **MFIs are looking to cut their operation costs** as they cannot charge more than 10% over the cost of loans taken from banks. Big slums in cities turn out to be cost-effective markets over small villages in far-flung locations in terms of office spaces, human resources.
- Demand for rural credit is mainly for agricultural loans, which under Centre's various 'krishi' schemes are better catered by banks at a lower interest rate.
- It points towards the larger trend that banks in India are reluctant to engage in rural areas.
- Demand for rural loaning is of low volume
- Migration to urban areas is fast and many of these migrants are also microfinance clients.
- Phenomenal growth of a few urban-focused MFIs.

3.2. AADHAR BASED BIOMETRIC AUTHENTICATION IN PDS

Issue

- A study led by **Jean Dreze in nine PDS states**-- Andhra Pradesh, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Odisha, Rajasthan, Tamil Nadu and Uttar Pradesh found that the system was working reasonably well for "below poverty line" (BPL) households. On average, they were receiving 84 per cent of their food grain entitlements from the PDS.
- However, high leakages continued in the "above poverty line" (APL) quota, which tended to be used by the Central government at that time as a dumping ground for excess food stocks.
- Installation of **"Point of Sale"** (PoS) machines at PDS shops, and verifying the identity of cardholders by matching their fingerprints against the Aadhaar database over the Internet has led to inefficiencies in states like Jharkhand and Rajasthan.
- This system requires multiple fragile technologies to work at the same time: the PoS machine, the biometrics, the Internet connection, remote servers, and often other elements such as the local mobile network.
- Further, it requires at least some household members to have an Aadhaar number, correctly seeded in the PDS database.
- The Central government continues to push for compulsory Aadhaar-based biometric authentication in the PDS. This is a violation of the Supreme Court orders, as the Court did not make Aadhar compulsory for PDS users.
- The main vulnerability today, is not identity fraud (e.g. bogus cards), but **quantity fraud**: PDS dealers often give people less than what they are entitled to, and pocket the rest.
- Moreover, PoS machines are ineffective in preventing quantity fraud. They may help in reducing identity fraud, such as it is, but that does not justify depriving people of their food entitlements when the technology fails.

Analysis of the PDS system

- India's Public Distribution System (PDS) has improved steadily during the last 10 years.
- Initially, the system was ineffective and corruption-ridden, with leakages of around 50 per cent at the national level, going up to 80 or 90 per cent in some States.
- Around 2007, Chhattisgarh took the lead in reforming the PDS — making it more inclusive, methodical and transparent. Within a few years, the system was overhauled.
- Today, most rural households in Chhattisgarh have a ration card, and are able to secure their entitlements (typically 7 kg of rice per person per month) on time every month.
- Many other States also initiated Chhattisgarh-style PDS reforms: broad coverage, clear entitlements, de-privatisation of PDS shops, separation of transport agencies from distribution agencies, computerisation, fixed distribution schedules, tight monitoring.

Way forward

An end-to-end technology solution for the digitisation of the vast Public Distribution System is required that can track discrepancies and prevent leakages.

3.3. RURAL INDIA POVERTY ERADICATION

Why in news?

The recently released Rural Development Report (RDR) 2016 emphasised the role of rural transformation in eradicating poverty and securing food and nutritional security within the context of economy-wide structural transformation in several countries.

About report 2016

- It is released by International Fund for Agricultural Development
- The RDR is one of the most comprehensive documents in understanding the role of rural transformation in eradicating poverty and securing food and nutritional security.

Key lessons from the report

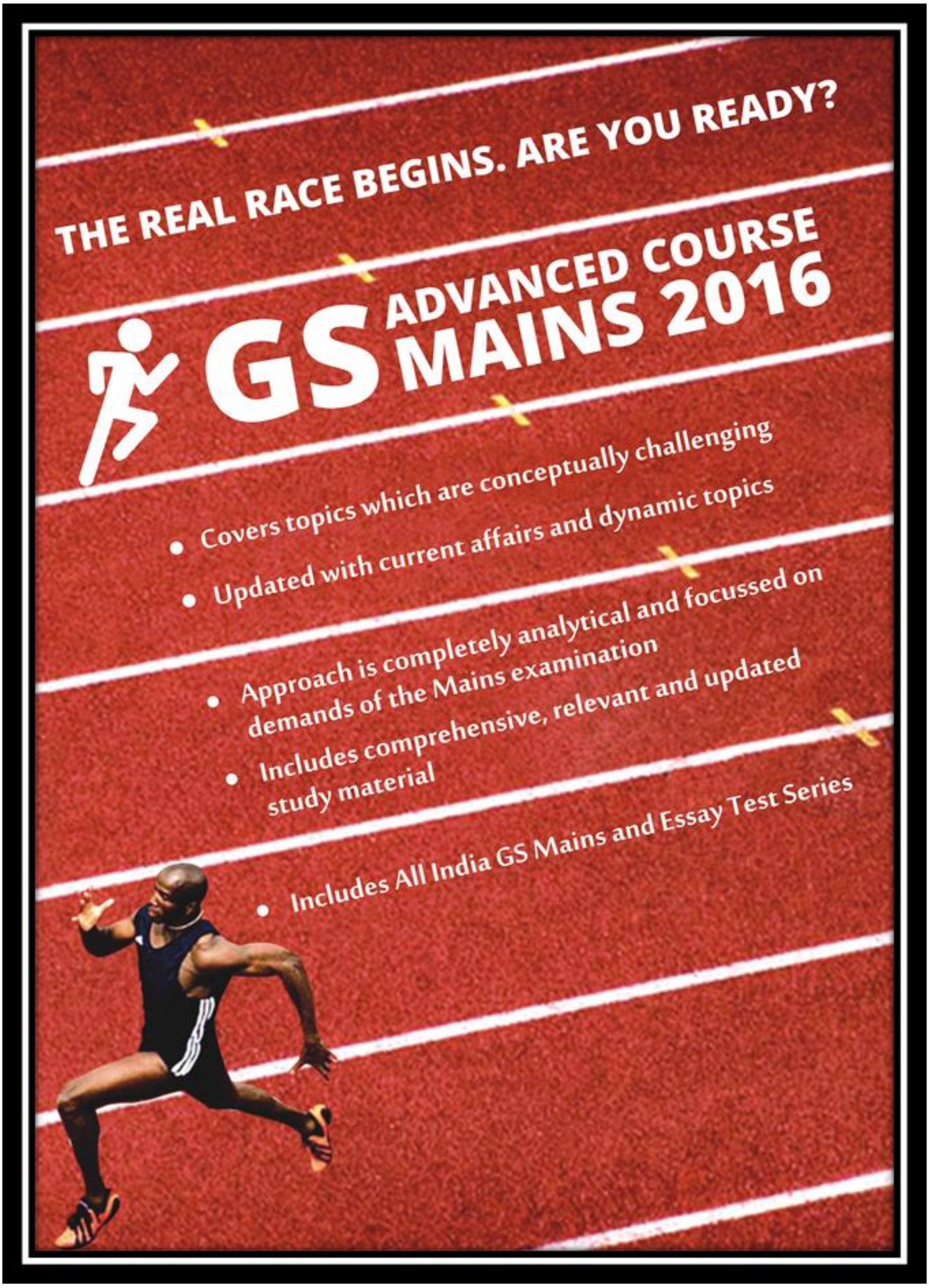
- Structural transformation is both a cause and effect of economic growth. It is reflected in
    - rising productivity in agriculture and the urban economy;
    - changing composition of the economy, from a preponderance of agriculture to that of industry and services;
    - greater integration with global trade and investments; and
    - growing urbanisation and rural-to-urban migration.
- Rural areas cannot remain insulated from this economy-wide transformation. They also transform with
    - rising productivity in agriculture,
    - increasing commercialisation and marketable surpluses, and
    - diversification towards high-value agriculture and also towards off-farm employment through the development of agri value-chains.
- Rural transformation, on its own, may not be as effective in reducing poverty unless it is made inclusive. It is this challenge of inclusiveness that is at the heart of the report, as only then poverty can be eliminated.

Situation in India

- India's poverty reduction was slow during 1988-2005, but during 2005-12, it accelerated almost three times faster than during the earlier period.
- During 2005-12, the relative price scenario changed significantly (by more than 50 per cent) in favour of agriculture in the wake of rising global prices. This boosted private investments in agriculture, agri-GDP growth and real farm wages leading to anunprecedented fall in poverty.

What India should do

- Focus on raising productivity in agriculture through higher R&D (seeds) and irrigation and build value chains for high value agri-products like livestock and horticulture.
- Creating large off-farm rural employment and augment incomes of farmers and the others living in rural areas. This would require large investments both by the private and public sector
- About 85 per cent of its farms are small and marginal (less than two hectares) so Community farming should be encouraged.



4. GOVERNMENT BUDGETING

4.1. BUDGETARY REFORMS

About

- The Union Cabinet has approved the proposals of Ministry of Finance on certain landmark budgetary reforms as given below. All these changes will be put into effect simultaneously from the Budget 2017-18.

Merger of Railway Budget

- The presentation of separate Railway budget started in the year 1924, and has continued after independence as a convention rather than under Constitutional provisions.
- **Benefits**
  - ✓ The merger was warranted so as to **save the annual dividend liability of railways which runs to about Rs. 10,000 crores**.
  - ✓ This is a **colonial practice** which does not seem to rightly fit in the changed conditions. No other country has a similar practice today.
  - ✓ The practice is mainly used by **politicians for populist reasons** without sound economic rationale.
  - ✓ Over the years the general budget expenditures have been more than the railways and several ministries like **defence have more expenditures** than railways.
  - ✓ The presentation of a unified budget will bring the affairs of the Railways to centre stage and present a holistic picture of the financial position of the Government.
  - ✓ The merger is also expected to reduce the procedural requirements and instead bring into focus, the aspects of delivery and good governance.
  - ✓ Consequent to the merger, the appropriations for Railways will form part of the main Appropriation Bill.

Advancement of Budget Date

- **Benefits**
  - ✓ This would pave the way for early completion of Budget cycle and **enable Ministries and Departments to ensure better planning and execution of schemes** from the beginning of the financial year.
  - ✓ It would lead to **utilization of the full working seasons** including the first quarter.
  - ✓ This will also **preclude the need for seeking appropriation through 'Vote on Account'** and enable implementation of the legislative changes in tax laws for new taxation measures from the beginning of the financial year.
  - ✓ This would **synchronize the transfer of funds to states** with their own state budgets.
- However, this will lead to less expenditure by various ministries in the current fiscal year, which can be a deterrent for growth.

Merger of Plan and Non-Plan classification

- **Benefits**
  - ✓ The Plan/Non-Plan bifurcation of expenditure has led to a **fragmented view of resource allocation to various schemes**, making it difficult not only to ascertain cost of delivering a service but also to link outlays to outcomes.
  - ✓ The bias in favour of Plan expenditure by Centre as well as the State Governments has led to a **neglect of essential expenditures on maintenance of assets** and other establishment related expenditures for providing essential social services.
  - ✓ The system is based on past commitments and requirements and residual resources allocated to Plan budget. This has resulted in **reduced flexibility in allocation** within the Plan budget.
  - ✓ The distinction was important earlier as Planning Commission used to play an important role in determining the quantum of plan expenditure. However, with the abolition **of the Planning Commission**, the relevance of plan and non-plan expenditure is lost.
  - ✓ A better indicator of productive and general expenditure will be a distinction under the heads of revenue and capital. The merger is expected to provide appropriate budgetary framework having focus on the revenue, and capital expenditure.

4.2. PROJECT SAKSHAM

Why in news

Cabinet committee cleared the Rs 2,256 crore **back-end information technology (IT) project for the indirect tax department (CBEC).**

Significance

- **CBEC's IT structure needs to integrate with Goods and Service Tax Network (GSTN)** for processing of registration, payment and returns data sent to CBEC as well as act as a front-end for other modules like audit, appeal and investigation.
- This IT infrastructure is also **urgently required for**
  - ✓ Continuation of **CBEC's e-services** in Customs, central excise and service tax.
  - ✓ Implementation of taxpayer services such as scanned document upload facility.
  - ✓ Extension of Indian Customs **SWIFT initiative** and
  - ✓ Integration with government initiatives such as e-**Nivesh, e-Taal and e-Sign.**

Goods and Services Tax Network (GSTN)

- It is a **not for profit,** non-Government, private limited company incorporated in 2013.
- The **Government of India holds 24.5% equity** in GSTN
- **All States including NCT of Delhi and Puducherry**, and the Empowered Committee of State Finance Ministers (EC), together **hold another 24.5%**.
- **Balance 51% equity is with non-Government financial institutions.**
- The Company has been set up **primarily to provide IT infrastructure and services** to the Central and State Governments, tax payers and other stakeholders for implementation of the Goods and Services Tax (GST).

After rolling out of GST, the Revenue Model of GSTN shall consist of **User Charge to be paid by stakeholders** who will use the system and thus it will be a self-sustaining organization.

Key facts

- This new indirect tax network (systems integration) called Project Saksham will **help in smooth roll-out of goods and services (GST)** tax from April 1, 2017.
- It will be **developed with the help of Wipro,** whereas GSTN is developed by Infosys.
- Project Shaksham is back-end IT infrastructure of CBEC. GST **Network (GSTN), a private body, is developing the front-end infra with the help of Infosys.**

4.3. MERCHANDISE EXPORTS FROM INDIA SCHEME

Why in news

In the backdrop of the continued challenging global environment being faced by Indian exporters, Department of Commerce has extended support to certain new products and enhanced the rate of incentives for certain other specified products under the Merchandise Exports from India Scheme (MEIS).

Major highlights of the support

- **Addition of new products:** 2901 additional products falling under different product categories have been added. These include:
- Many items of traditional medicines like Ashwagandha herbs and its extracts, other herbs, extracts of different items
- Certain marine products, sea feed items
- Onion dried, processed cereal products and other value added items of plastics, lather articles, suitcases etc.
- Industrial products under different categories, including engineering goods, fabrics, garments, chemicals, ceramics, glass products, leather goods, newspapers, periodicals, silk items, made ups, wool products, tubes, pipes etc.

4.4. PROJECT INSIGHT

About

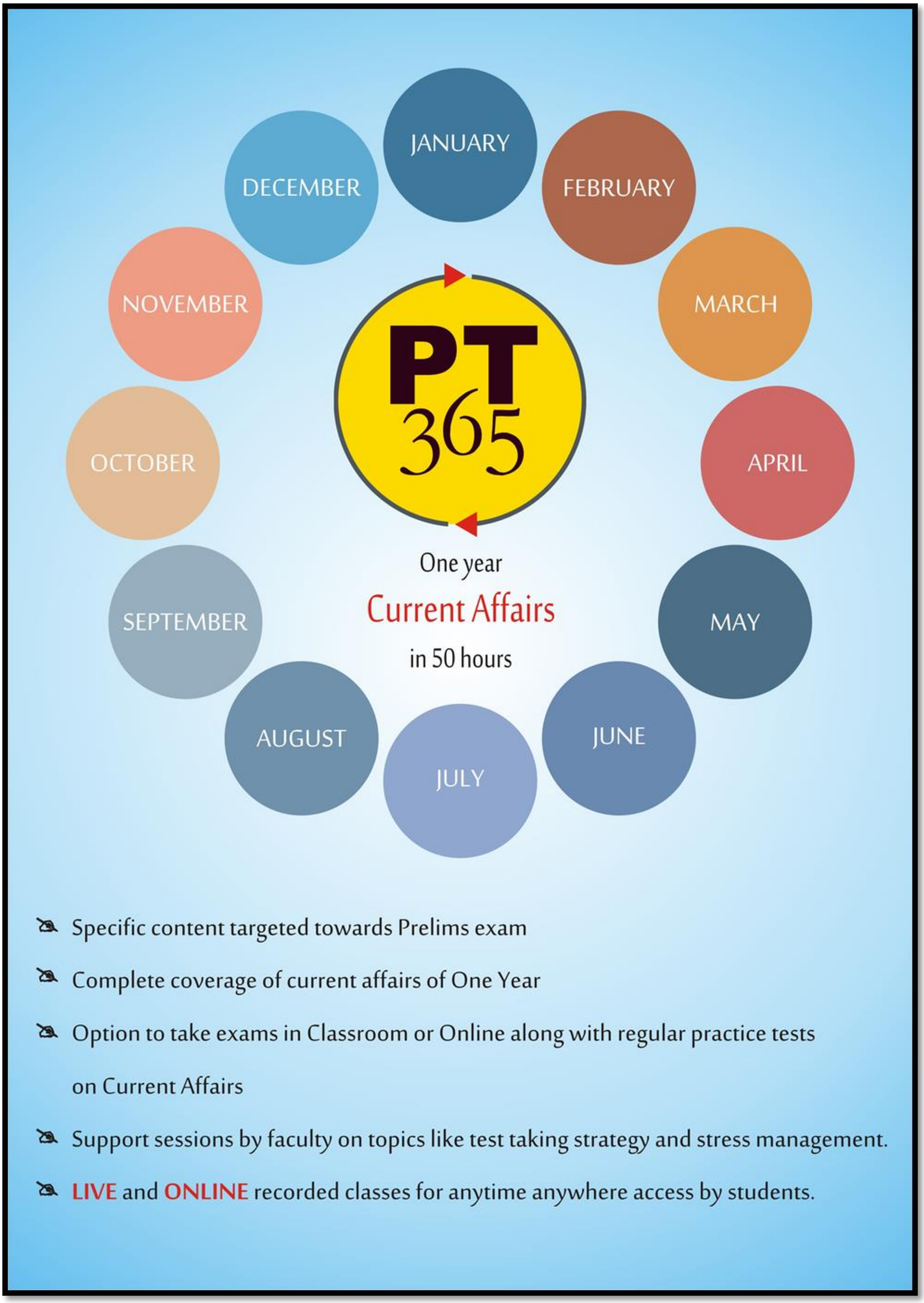
- Project Insight is an initiative of the finance ministry to widen the tax base by detecting tax evaders using technology.
- Various pilot projects have come up in recent years. The full programme will be implemented next year.

Key Features

- The Project will essentially use the data gathered by various pilot projects in terms of non-filers monitoring, non-PAN monitoring for Banks, Sub-registrars etc. for different kinds of taxes.
- The tax departments will also a set up a new centralized processing centre for compliance management.
- It will handle preliminary verification, generation of bulk letters/notices and follow-up arising from information collated through Project Insight.
- Through implementation of reporting compliance management system, it will ensure that third party reporting by entities like banks and other financial institutions is timely and accurate.
- It will also set up a streamlined data exchange mechanism for other government departments.
- The project adds to the list of efforts made by government towards curbing black money like GST implementation, amendment to India-Mauritius DTAA and the recently concluded Income Disclosure Scheme.

Advantages

- This integrated platform would play a key role in widening of tax base and data mining to track tax evaders.
- This will help in catching tax evaders in a non-intrusive manner like search and seizure.
- It will not only promote voluntary compliance but also enable taxpayers to resolve simple compliance related issues in an online manner without visiting the Income tax office.
- The new technical infrastructure will also be leveraged for implementation of Foreign Account Tax Compliance Act Inter Governmental Agreement (FATCA IGA) and Common Reporting Standard (CRS).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One year
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in 50 hours
Specific content targeted towards Prelims exam
Complete coverage of current affairs of One Year
Option to take exams in Classroom or Online along with regular practice tests on Current Affairs
Support sessions by faculty on topics like test taking strategy and stress management.
LIVE and ONLINE recorded classes for anytime anywhere access by students.

5. AGRICULTURE

5.1. PULSES CRISES

Why in News

- India has been in the **grip of a pulses crisis, or rather crises, in the last few years**. The proximate problem is last two years of poor pulses production in the wake of weak monsoons, resulting in excess demand, rising imports and price rise.
- In recent months however, scarcity has ceded to surplus leading to plummeting of prices. This volatility, which alternates between adversely impacting consumers and farmers, creates dilemmas for public policy.
- Earlier this year, the government had constituted an **expert panel under CEA Arvind Subramanian** to look into the problem. The panel submitted its report this month.

Key Recommendation

- A strong case for increasing domestic production
  - ✓ From a consumption perspective, pulses are going to be increasingly important in the dietary habits of the average Indian consumer. Normatively, this is desirable because the average Indian under-consumes protein and pulses offer a cheap source of protein.
  - ✓ The demand-supply mismatch cannot be fixed by imports as India is already one of the biggest importers of pulses in the world.
  - ✓ The foreign supplies are correlated with domestic production and thus food security in pulses can be achieved only by boosting domestic production.
  - ✓ Pulses, in contrast to cereals, are grown by small and marginal farmers in dryland areas. High MSPs that raise the incomes of pulse-growing farmers can help create a new constituency that lobbies for policies favoring pulses.
- Need for Remunerative MSP for pulses
  - ✓ **Higher MSPs** in pulses are necessary not only to incentivize the farmers to produce more pulses but also increase the bargaining powers of small and marginal farmers.
  - ✓ Remunerative MSPs alone will not be sufficient to induce farmers to switch to pulses production. They have to be **backed up by price support/procurement operations** to ensure that market prices do not fall precipitously and then deter farmers from cultivating pulses in the following season. Thus, the **MSP must act as a floor on market price**.
- Other recommendations
  - ✓ High level committee to be constituted **to monitor procurement**.
  - ✓ **Need to increase yield in pulses**. Indian productivity in pulses is almost half of other pulses producing countries like Myanmar. Need to **encourage development of GM technologies**. Grant expeditious approval to indigenously developed new varieties of pulses.
  - ✓ Encourage **states to delist pulses from their APMCs.**
  - ✓ **Review Essential Commodities Act, 1955** and futures trading of agricultural commodities with a view to preserving objectives but finding more effective and less costly instruments for achieving them
  - ✓ Create a **new institution as a Public Private Partnership (PPP)** to compete with and complement existing institutions to procure, stock and dispose pulses
- **Concerns**
  - ✓ General **equilibrium effect on production of crops that compete with pulses**. This can be minimized in three ways:
    - First, in the medium term pulses production must be incentivized in the irrigated areas of Punjab because some reduction in paddy production is socially desirable here: paddy stocks are high and paddy cultivation has large negative externalities in this region.
    - Second, pulses production should also be encouraged in the fallows of eastern India.
    - Third, a focus on increasing productivity and yields both in pulses and in competing crops such as cotton can also help minimize the adverse consequences.
  - ✓ **Higher inflation**: The Panel rules out this effect as unlike in the case of cereals, the MSP in pulses is envisaged as price support. Thus, procurement will kick in only in adverse state.

5.2. GOVERNMENT RAISES BUFFER STOCK OF PULSES

Why in news

Cabinet Committee on Economic Affairs approved decision to more than double the **buffer stock limit** from 800,000 tonnes to 2 million tonnes.

Significance

- Will help government to intervene and **control spikes in retail prices** of pulses and address recurring gaps between demand and supply.
- Will increase buffer stocks to at least **10% of domestic consumption.**
- Will encourage domestic farmers to **increase production** of pulses.
- Will also deter hoarders to hold stock, thus, **preventing artificial hike in prices.**

Mechanism

- Funding through '**Price Stabilization Fund**' scheme.
- Procurement by Central agencies (**FCI, NAFED and SFAC**) or **State governments.**
- Procurement at prevailing market prices or Minimum Support Prices (MSP) whichever is higher
- Buffer stock of 2 million tonnes will comprise **domestic procurement of 1 million tonnes** and **rest will be arranged via government-to-government contracts** with other countries and spot purchases from the global market.

5.3. CENTRAL ASSISTANCE UNDER AIBP

The Union Government launched the Accelerated Irrigation Benefits Programme (AIBP) in 1996-97 for providing financial assistance, to expedite completion of ongoing Major/Medium Irrigation (MMI) projects including Extension, Renovation and Modernization (ERM) of irrigation projects and Surface Minor Irrigation schemes as well as Lift Irrigation Schemes (LIS).

Why in news?

- Union Minister for Water Resources, River Development and Ganga Rejuvenation released the first installment of Rs. 1500 crore to the states as central assistance for 99 prioritized irrigation projects under Accelerated Irrigation Benefits Program (AIBP).
- This amount has been released for 50 projects in the states of Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Odisha, Punjab, Rajasthan and Telangana.
- These irrigation projects will cover **drought prone districts** of the states to increase production and are also aimed at containing incidents of suicide by farmers.
- A High Level Empowered Committee (HLEC) comprising Finance Minister, Minister (WR, RD & GR), Minister of Agriculture, Cooperation and Farmer's Welfare, Minister of Rural Development, Vice Chairman of NITI Aayog has been constituted to review the progress of the identified 99 projects.
- The HLEC will also monitor other components under Pradhan Mantri Krishi Sinchai Yojana and provide policy guidance for mid-term course correction.

Background

- Of the nearly 142 million hectares of net sown area, only about 64 million hectares, less than half, has assured access to irrigation facilities. The rest still depend on rainwater.
- Moreover, even within the overall irrigated land, nearly 60 per cent is based on pumped ground-water, banking on free or highly-subsidised power provided to farmers in most states, thereby putting further pressure on a fast-depleting critical resource.

Areas of concern

- One of the major reasons for the projects to remain incomplete is inadequate release of funds by central government.
- Other issues include time and cost overruns in most of the projects, problems in land acquisition and technical difficulties like constructing tunnels in some places.
- A government survey of the projects has shown utilisation gaps – the difference between the irrigation potential created and the area actually being irrigated – of between 25 to 55 per cent. That means these projects are serving substantially lower area and lesser number of farmers that they are meant to do.

Other Steps taken by the Govt.

- A **dedicated irrigation fund** has been created under the National Bank for Agriculture and Rural Development (NABARD), which has been asked to issue tax free bonds to borrow money.
- An initial corpus of Rs 20,000 crore has already been set up through the budget, which NABARD can leverage to mobilize further money from the market.
- The government has now asked the **Central Water Commission** and other agencies to take up 50 out of the 143 completed projects each year and work towards **increasing their efficiencies**.
- Each of these projects would now also have **water user associations** that will decide on how the water is distributed to every claimant in the area.

Way forward

- There should be provisions for **online monitoring** as well as **physical monitoring** of the projects for ensuring their completion.

5.4. AGRICULTURAL MARKETING AND FARM FRIENDLY REFORMS INDEX

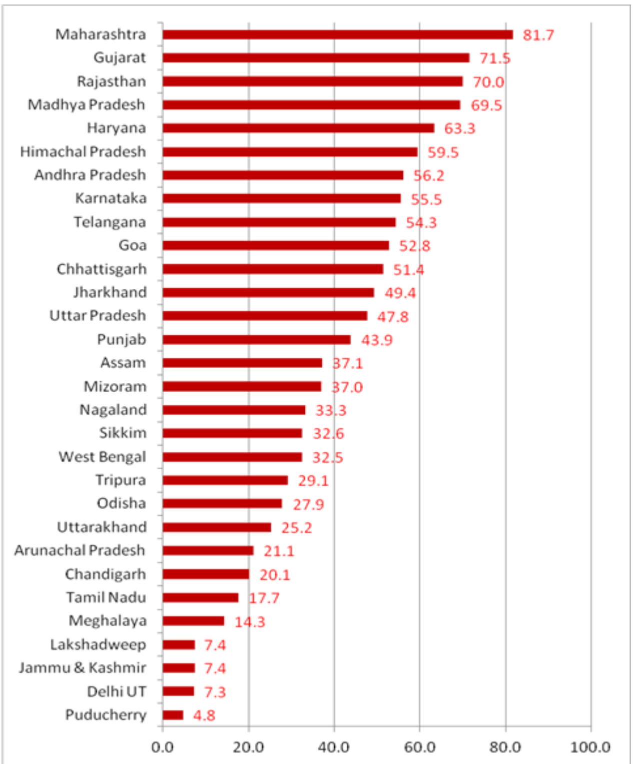
What is it?

- The **NITI Aayog** launched the first ever **"Agricultural Marketing and Farmer Friendly Reforms Index"** to rank States and Union Territories.

> The Central government first introduced reforms in the APMCs or wholesale markets (mandis) through the APMC Act in 2003, urging states to adopt it as agri-marketing is a state subject under the Constitution.

Features and ranking

- The **indicators** used to assess represent **competitiveness, efficiency and transparency** in agri markets.
- The rankings are based on implementation of seven provisions proposed under model APMC Act, joining eNAM initiative, special treatment to fruits and vegetables for marketing and level of taxes in mandis.
- The other parameters included in the index are relaxation in restrictions related to lease of farm land to tenant farmers, and the freedom farmers have to fell and transport trees on their own land, which allows them to diversify their incomes.
- The index has a score, ranging from "0" implying no reforms to value "100" implying complete reforms in the selected areas and states and Union Territories have been ranked in terms of the score on the index.
- **Maharashtra** achieved **first rank** in implementation of various reforms as it implemented most of the marketing reforms and offered best environment for doing agribusiness.
- **Gujarat** ranked **second** closely followed by Rajasthan and Madhya Pradesh.
- **Puducherry** got the **lowest** rank followed by Delhi and Jammu & Kashmir.
- Almost two third states including U.P., Punjab, West Bengal, Assam, Jharkhand, Tamil Nadu and J&K could not reach halfway mark of reforms score.
- Some states and UTs either did not adopt APMC Act or revoked it. They include Bihar, Kerala, Manipur, Daman and Diu, Dadra and Nagar Haveli, Andaman and Nicobar. They are not included in the ranking.



Proposed agricultural reforms

- NITI Aayog has also identified **three key areas for agricultural reform,** which reveal **ease of doing agribusiness** as well as opportunities for farmers to **benefit from modern trade and commerce** and have wider option for sale of her/his produce.

- The reforms are:
  - ✓ **Agricultural market reforms:** So that the benefits that can be accrued from agriculture are tapped by embracing marketing principles that ensure best possible reforms.
  - ✓ **Land lease reforms:** Relaxation in restrictions related to lease in and lease out agricultural land and change in law to recognise tenant and safeguard land owners' liberalisation.
  - ✓ **Reforms related to forestry on private land – felling and transit of trees:** The reforms lay stress on the untapped scope of agro forestry in supplementing farmers' income. Reforms also represent freedom given to farmers for felling and transit of trees grown on private land to diversify farm business.

Way forward

- The states can **use the index as a yardstick** and **improve** on the indicators where they are lagging behind as it is aimed at helping states identify and address problems in the farm sector, which suffers from low growth, low incomes and agrarian distress.
- The **states** should be encouraged to **adopt the mentioned reforms** as they aim to **overhaul** the **agricultural sector**, which will ultimately be beneficial for farmers.

5.5. AGRO IRRADIATION CENTERS

Why in news?

- India and Russia have agreed to collaborate in setting up integrated irradiation centres in India.
- In the first phase, seven centres will be set up in Maharashtra, which will begin with the upgradation of the current centre at Rahuri in Ahmednagar district.

What is it?

- An agro irradiation center is one where food products are subjected to a low dosage of radiation to treat them for germs and insects, thereby increasing their longevity and shelf life. (in box)

Significance

- In India post-harvest losses infood grains, fruits and vegetables are extremely high amounting to around 40-50%. This is primarily due to insect infestation, microbiological contamination, physiological changes due to sprouting and ripening, and poor shelf life. This could be controlled by irradiation.
- Irradiation doses are recommended by the IAEA and the final product is absolutely safe. It does not reduce the nutritional value of food products and does not change their organoleptic properties or appearance.

5.6. OPTIONS IN AGRICULTURAL PRODUCE

Why in news?

SEBI recently allowed options trading in selected commodities, including farm produce.

What is it?

An option is a financial derivative wherein one party sells its contract to another party, wherein the selling party offers the buyer the right, but not the obligation, to buy or sell a security at a predetermined price and date.

Overview

- Security to farmers as they will benefit from a stable price regime since assured prices are only set for wheat, rice and sugarcane by the government.
- Even then, the impact of these assured prices have been uneven among states.
- In case of shift in consumer preferences and difference in prices, the farmer ends up facing a net loss
- In such a situation, options give the a farmer an opportunity to set a future price regardless of whether or not government agencies are procuring that season in his area.
- Additionally, options give the farmers the right to buy and sell in the future but there is no obligation to do so. Hence, there is flexibility in decision-making.

Concerns

- There are concerns that if speculators dominate trading, the impact on prices could be significant.
- Given the experience with futures trading where cartelisation and price-rigging led to speculative excesses (SEBI had to actually ban new contracts in *chana* and bar select players from castorseed), the impact of the introduction of options in essential commodities needs to be watched closely.
- It is hard to see how farmers, who are a disaggregated lot and deal in small, insignificant quantities of their produce, will master the nuances of options trading.

Way forward

- Farmers need to organise themselves into producer companies or cooperatives that will help them aggregate their produce and glean price intelligence.
- Such organizations will be better placed to acquire the technical expertise to trade in derivatives compared to the uninformed farmer.
- Options trading based on prices discovered in NAM would have been the right way to go for fair discovery of spot prices for the farmer and for consumers without the interference of middlemen.

6. INDUSTRIAL POLICY AND ASSOCIATED ISSUES

6.1. NATIONAL SC/ST HUB AND ZERO DEFECT-ZERO EFFECT SCHEME LAUNCHED

Why in news?

- Prime Minister Narendra Modi launched the National SC/ST hub and the Zero Defect, Zero Effect (ZED) scheme for Micro, Small and Medium Enterprises (MSMEs).

National SC/ST Hub

- The objective of the SC/ST Hub is to provide professional support to entrepreneurs from the SC/ST and also promote enterprise culture and entrepreneurship among them.
- It will work towards strengthening market access/linkage, capacity building, monitoring, sharing industry-best practices and leveraging financial support schemes.
- It would also enable Central Public Sector Enterprises (CPSEs) to fulfill the procurement target set by the government. The Public Procurement Policy 2012 stipulates that 4 per cent of procurement done by Ministries, Departments and CPSEs would have to be from enterprises owned by SC/ST entrepreneurs.
- The ministry has made an initial allocation of Rs 490 crore for the period 2016-2020 for the Hub.

Zero Defect-Zero Effect (ZED) Scheme

- ZED Scheme aims to rate and handhold all MSMEs to deliver top quality products using clean technology. It will have sector-specific parameters for each industry.
- The slogan of Zero Defect, Zero Effect (ZED) was first mentioned by PM Narendra Modi in his Independence Day speech in 2014. It was given for producing high quality manufacturing products with a minimal negative impact on environment.
- The scheme will also be cornerstone of the Central Government's flagship Make in India programme, which is aimed at turning India into a global manufacturing hub, generating jobs, boosting growth and increase incomes.
- Further, it will promote development and implementation of clean technology products.

6.2. INDIA TO SURPASS THE US AS THE SECOND LARGEST COAL PRODUCER

Why in news?

According to a report by BMI research, India is set to surpass the United States as the **world's second largest coal producer** after China by 2020.

Background

- India, where coal accounts for 61% of electricity generation capacity, is seeking to **reduce imports** of the fuel by **boosting domestic output** of state- miner Coal India Limited.
- Coal India Limited accounts for around 80% of India's coal production.
- India's share of world output is speculated to increase to 12.7 % by 2020 from 9.8 % in 2016 according to the report.
- India plans to expand coal output to 1.5 billion metric tonnes by 2020 from an estimated 634 million tonnes.
- India's coal deficit is expected to narrow to 163 million tonnes by 2020 from 191 million tonnes in 2016.

Issues

- The country will still fall short of the government's ambitious coal output target and domestic demand for coal will continue to exceed production up to 2020.
- It may also miss its expansion target due to delays in opening up the sector to private companies for commercial mining.
- India's attempt to rapidly increase coal production has potential to bring forth environmental concerns such as pollution, land degradation etc.

Way forward

- The sector should be effectively opened up to private companies for commercial mining so that there is no imbalance in demand and supply.
- India should innovate in technologies related to clean fuel alternatives such as natural gas, solar energy etc. as environment concerns might impede the country from increasing coal production as rapidly as it needs to.

6.3. MINING SURVEILLANCE SYSTEM (MSS)

Why in news?

Union Minister of State for Power, Coal, New & Renewable Energy and Mines, launched the Mining Surveillance System (MSS) in New Delhi

What is it?

- MSS is a satellite based monitoring system developed under Digital India Programme by Ministry of Mines, through Indian Bureau of Mines (IBM in coordination with Bhaskaracharya Institute for Space Applications and Geo-informatics (BISAG), Gandhinagar and Ministry of Electronics and Information Technology (MEITY)
- It is one of the first surveillance systems developed in the world using space technology.
- The current system of monitoring of illegal mining activity is based on local complaints and unconfirmed information with no robust mechanism to monitor the action taken on such complaints.
- In such a situation, the MSS aims to establish responsive mineral administration through public participation by curbing instances of illegal mining activity using automatic remote sensing detection technology.

Operation of the system

- In the MSS, the maps of the mining leases are geo-referenced and are superimposed on the latest satellite remote sensing scenes obtained from CARTOSAT & USGS (United States Geological Survey).
- A check for illegality in operation is conducted and reported back using a user-friendly mobile app, which has been designed keeping public participation in mind, wherein the citizens can use it to report any unusual mining activity.
- An executive dashboard works as a decision support system using which officials can track the current status of mapping of the mining leases, reasons for triggers, the status of inspections related to triggers generated, the penalty levied etc. for all major mineral mining leases across the country.

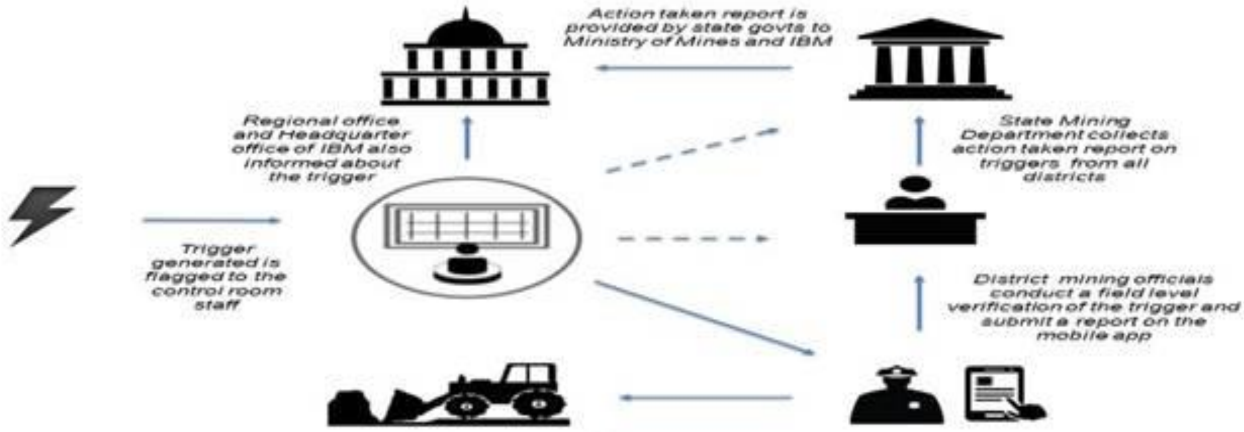


Fig: Flowchart of MSS Protocol

Source of the figure: PIB NEWS

Benefits

- States like Karnataka, which witnessed frequent instances of illegal mining in the past, will gain from the technology in the following manner.
    - It will lead to transparency as the public can access to the system.
    - It is a bias-free and independent system since it has scope for minimal human interference.
    - It is characterized by quick response and action since there will be regular monitoring of mining areas, which will also have a deterrence effect.
    - Effective follow-up on action taken on triggers.

6.4. URJA GANGA LAUNCHED IN VARANASI

About

- Recently Prime Minister Narendra Modi laid the foundation stone of Urja Ganga, the highly ambitious gas pipeline project in Varanasi, Uttar Pradesh.
- It aims to provide piped cooking (PNG) gas to residents of the eastern region of the country and CNG gas for the vehicles.

Key Features

- The project envisages laying a 2,050-km pipeline connecting Jagdishpur (UP) to Haldia (West Bengal) by 2018. It will include five states including UP, Bihar, Jharkhand, West Bengal and Odisha.
- The project is being implemented by state-run gas utility GAIL.
- The project augments existing GAIL's network of trunk pipelines covering the length of around 11,000 km by 2540 km.
- Seven East India cities Varanasi, Jamshedpur, Patna, Ranchi, Kolkata, Bhubaneswar, Cuttack – will be the major beneficiary of this network development.

Significance

- The project is considered as a major step towards collective growth and development of the Eastern region of India. Under it, overall 20 lakh households will get PNG connections.
- From Varanasi's perspective, 50,000 households and 20,000 vehicles will get cleaner and cheaper fuel PNG and CNG gas respectively.
- Besides, LNG terminal at Dhamra will provide clean fuel to the Industrial Development of the Eastern states of Uttar Pradesh, Jharkhand, Bihar, West Bengal and Odisha.

- 25 industrial clusters in these 5 states will be developed using gas from this pipeline. Besides, 40 districts and 2600 villages will benefit from this project.
- It will also help in revival of defunct fertilizer plants in Barauni in Bihar, Gorakhpur in UP, Sindri in Jharkhand and Durgapur in West Bengal by supplying gas.
- It will also help in bringing natural gas based crematoriums at cremation grounds including Manikarnika and Harishchandra ghats in Varanasi. This will be good for environment.

6.5. DBT FOR KEROSENE

About

- After the success of Direct Benefit Transfer (DBT) in LPG/Cooking gas, the government is planning to launch DBT in Kerosene as well.
- It has initiated the process by a pilot programme in 4 districts of Jharkhand.
- Under the DBTK Scheme, PDS kerosene is being sold at non-subsidised price, and, subsidy, as admissible, is being transferred to consumers directly into their bank accounts.
- This initiative of the governments is aimed at rationalising subsidy, cut subsidy leakages and reduce administrative costs. It, thus, seeks to benefit all stakeholders.

Challenges in Implementation

- Lack of a streamlined and unified digital consumer database: The LPG consumers were all under Public Sector Oil marketing companies which made it easier to compile a consumer data. However, in case of Kerosene the consumer data is with individual states under their PDS system. Thus, coordination among the large number of State-level actors, especially in the case of a non-digitised PDS beneficiary database, can create barriers.
- Differences between center and states: While the Centre burns the fiscal impact of subsidy, the States determine the beneficiaries and quantum of subsidy. This is an important political currency for State governments. Thus, states must be aligned to this idea for its successful implementation.
- The price difference between diesel and unsubsidized kerosene will still be high enough to give an incentive to the middlemen to divert the fuel as a diesel substitute.
- Another challenge is in ensuring that the subsidy is accessible to its major beneficiaries- poor households. Presently, the bank branches are not readily available in remote locations which increase the cost of withdrawing money.

Way Forward

- Studies show that kerosene is predominantly used as a lighting fuel in rural India, with less than 1 per cent of households using it as a primary cooking fuel.
- Thus, there is need to move towards solar-assisted solutions for lightening and LPG for cooking. This would be economically beneficial to government as well as households in the long-run.

UPSC IN PAST

Mains 2015

Q. In what way could replacement of price subsidy with Direct Benefit Transfer (DBT) change the scenario of subsidies in India? Discuss.

7. FOREIGN INVESTMENT

7.1. CURRENT ACCOUNT MOVES INTO SURPLUS

Why in news?

India's current account moved in to surplus in the April-June quarter of the current fiscal year after a gap of 9 years.

Concerns

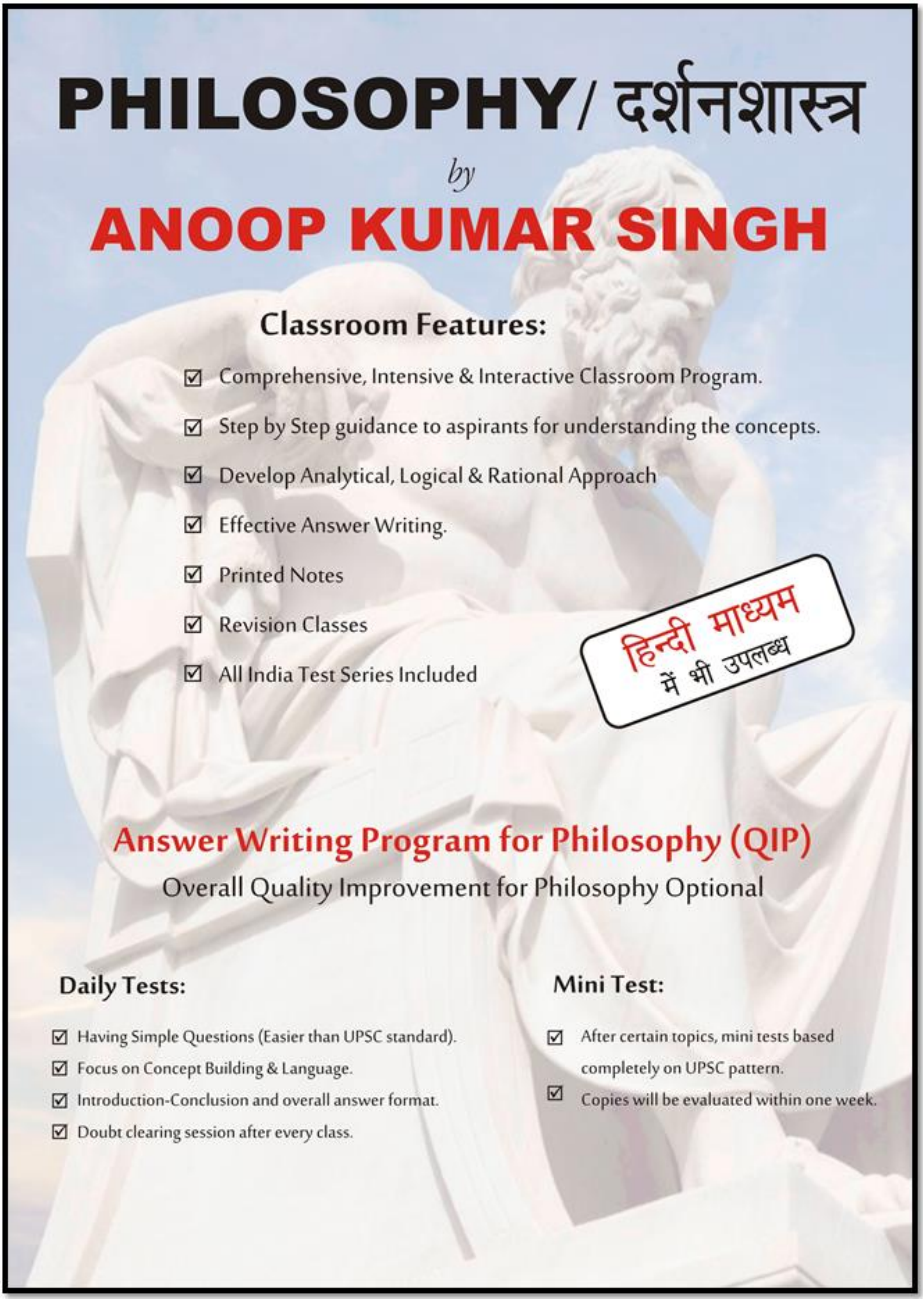
- A surplus is expected to bolster the rupee, which could render India's already subdued exports less competitive.
- For a developing economy like India slow import growth is a negative sign, as it reflects weak investment demand because Indian firms need to buy capital goods and machinery from abroad.

Analysis

- The major contributor to India's Current Account Deficit (CAD) has been imports of Gold and Crude Oil.
- Sustained period of CAD has led to currency depreciation, high rates of inflation which further effects the incoming foreign investment.
- Fall in gold imports and lower oil import bill in recent time led to shrinkage in the deficit.
- A current account surplus means an economy is exporting a greater value of goods and services than it is importing.
- There is no hard and fast rule about what will happen if a country has a current account surplus. It depends on the size of the current account and the reasons for the current account surplus.
- In the case of India, slow growth in imports, reflecting the persisting weakness in the investment sentiment, is the prominent reason behind this.
- The current account was in surplus last in the January-March quarter in the year 2007.

7.2. FDI PROMOTION: PERMANENT RESIDENCY STATUS FOR FOREIGN INVESTORS

- India has decided to grant Permanent Residency Status (PRS) to foreign investors who meet some set criteria in respect of minimum investment and employment generation.
- This scheme will allow foreign investors who qualify for PRS status and their families multiple entry into the country for a maximum of 20 years without any stipulation governing their stay.
- The beneficiaries will also be exempted from registration requirement and given the right to purchase one residential property to live in.
- In order to avail this scheme, the foreign investor will have to invest a minimum of 10 crores within 18 months or 25 crores within 36 months, with the investment resulting in generation of employment to at least 20 resident Indians every financial year.
- The PRS will first be granted for 10 years, which can be reviewed for an additional 10 years if there is no adverse notice against the PRS holder.
- The scheme is similar to other such programs in countries like Singapore, Hong Kong which are favored FDI destinations across the globe.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8. INFRASTRUCTURE

8.1. LANGUISHING ROAD PROJECTS

Why in news?

- As per the data submitted by Ministry of Road Transport and Highways before the Parliamentary standing committee)
  - ✓ There are 46 projects which have been identified by NHAI as languishing with a total length of these projects is 4,860 km. covering a total project cost of Rs 51,338 crore.
  - ✓ Out of 46, issues have been resolved in 27 cases whereas issues on 19 projects are yet to be sorted out.

Reasons responsible for project delays

- **Lack of equity with the concessionaire**: it leads to delay in completion date. So bankers not disbursing even the sanctioned loan.
- **Diversion of funds**: Physical progress of work not commensurate with the financial progress. It results into concessionaires are finding it difficult to bring back the funds so diverted.
- Problems in getting various clearances like land acquisition, environment /forest clearance /utility shifting /RoB issues.
- **Refusal of banks to accept right of NHAI on toll/annuity:** For any languishing highway project in BOT (toll/annuity) mode that has achieved at least 50 per cent physical completion, NHAI will provide financial assistance to complete the project subject to first charge on the toll/annuity receivables of these projects. However, the banks have refused to accept the first charge of NHAI and therefore no progress in implementation of this policy to complete languishing projects is being achieved.
- **Long period of revenue collection:** Revenue streams spread over 20 to 30 years, but project debt having tenure of 10 to 15 years, is unsustainable.
- **High cost of interest during construction (IDC):** The cost of construction in case of delay, whether due to concessionaire or the Authority, results in increase in the cost of debt which turns the project unviable.
- Difficulty in obtaining additional debt in stalled projects
- Overleveraged balance sheet of the developers
- Stress on the existing road infrastructure loan portfolios of FIs.

Steps taken by Government

- High-level committee under the chairmanship of K. Kasturirangan to look into the unresolved issues impacting the sector.
- Introduced hybrid annuity model.
- Those awarded projects can reschedule the premium they had committed during the bidding process.
- A policy that allows substitution of any concessionaire in a financially stressed project with another in a harmonious manner.
- De-linked environment clearance from forest clearance.
- A policy that permits 100% divestment by the company which has won the contract 2 years after the construction is completed. This is applicable to all projects under the build-operate-transfer (BOT) model irrespective of the year the project was awarded.
- The government is also focusing on having regular consultations with all stake-holders to discuss challenges they face and work out a practical way forward.

8.2. INDIA'S FIRST COASTAL ECONOMIC CORRIDOR

About

- India has planned to build its **first Eastern Coast Economic Corridor (ECEC) from West Bengal to Tuticorin in Tamil Nadu.**

Coastal Economic Zones

- Coastal location allows companies to operate in the world markets unhindered by the poor infrastructure in the hinterland. This was successfully done in China.
- The NITI Ayog, thus, suggests that India should also work on building a coastal economic zone. This becomes further attractive in the light of **Sagarmala initiative**.

- As part of the project, recently, the Asian **Development Bank approved a $631 million loan** for the construction of industrial corridor between Vishakhapatnam and Chennai (VCIC).
- The fund will help develop the first key **800-km section of the planned 2,500-km East Coast Economic Corridor**. The remaining $215 million will be funded by the Andhra Pradesh government.
- The idea is to not just build new ports or upgrade old ones but **raise entire industrial ecosystems** that encompass several such ports.
- The ADB loan will help the government build state-of-the art industrial clusters, roads, efficient transport, and reliable water and power supplies with a skilled workforce and good business policies.

Significance

- The new industrial corridor is expected to **spur growth by augmenting existing investment** in world-class transport networks, infrastructure, and industrial and urban clusters.
- VCIC will also be an **important component of the government's Make in India campaign to attract foreign investors and encourage the creation of manufacturing hubs** in the country. According to ADB's projections, automobile and electronic manufacturing will grow 24% a year over the next two decades along the coastal corridor districts.
- By linking areas that are lagging in development with dynamic industrial and urban clusters, VCIC will **create employment opportunities that alleviate poverty and reduce inequality**. This is particularly significant for the Eastern region as it lags behind other regions of the country.
- It can help **unify the large domestic market**. The Visakhapatnam-Chennai corridor, for example, will link four economic hubs and nine industrial clusters.
- It will **integrate the Indian economy with the dynamic global value chains of Asia and drive India's Act East policy**. Greater connectivity and economic integration between South Asia and the rest of Asia is likely to contribute significantly to development and foster regional cooperation as well.
- As a coastal corridor, VCIC can provide **multiple access points to international gateways**.
- It is **in line with the trade reforms** needed in the evolving global trade landscape.

Maritime Clusters and CEZ

- Maritime clusters are to be one of focal points for economic development along India's coastline, according to a draft report prepared under Sagarmala Programme of the Ministry of Shipping.
- The report on port-led-industrial development of the coastal economic clusters identifies two major maritime clusters in **Tamil Nadu and Gujarat** as areas with potential

Need

- **Globally**, the shipbuilding market is dominated by China, Korea and Japan, which cumulatively account for 90 per cent of the world's shipbuilding capacity.
- According to the report, India currently accounts for **only 0.45 per cent** of the global shipbuilding market and could target 3–4 mn DWT of the global shipbuilding capacity by 2025.
- The report also states that India can target to **achieve a 0.2 per cent share** of maritime services in overall GDP by 2025.
- INR 5,000 crore worth ancillaries market for maritime cluster can prove to be a huge opportunity for the Indian economy with engineering, fabrication and machining offering the greatest potential by 2025.
- The report further captures overall opportunity of port-led industrial development for the country through **14 CEZs proposed** along the maritime states and industrial clusters under Sagarmala.
- The competitive location of these CEZs will help reduce logistics costs, thus, enabling Indian trade to be more competitive globally.
- These proposed CEZs have been envisioned to tap **synergies** from the industrial corridors to provide a thrust to manufacturing and industrialization under the 'Make in India' initiative of the Government of India.

8.3. INFRASTRUCTURE FUNDING

Sports Sector Gets the Infrastructure Status

- **Ministry of Finance** after discussions with different agencies including RBI have decided that **sports infrastructure** will be included under the **Harmonized Master List of Infrastructure Subsectors.**
- It includes the provision of Sports Stadia and Infrastructure for Academies for Training / Research in Sports and Sports-related activities.
- **Benefits**
  - ✓ It will now be eligible for obtaining **long term financial support** from banks and other financial institutions.
  - ✓ It will **encourage private investment in a public good** which has socio-economic externalities.
  - ✓ It will bolster **investment in sports infrastructure** sector which will contribute to the **economy,** promote **health and fitness and** will provide **opportunities for employment**.
  - ✓ The country can become a **sporting power in future**.

Extra Budgetary Resources for Infrastructure

- The Union Cabinet has given its approval for raising a total of Rs. 31,300 crore in the financial year 2016-17 to augment infrastructure spending
- The move is intended to supplement the efforts of the Government to improve infrastructure spending and to improve the revenue-capital mix of the expenditure for a more sustainable growth.
- **Importance of the sector**
  - ✓ Infrastructure spending is one of the key parameters to judge the sustainability of growth in a country.
  - ✓ The proportion of Capital expenditure to the total expenditure is the yardstick to measure this
  - ✓ The announcement has been made in the lines of this approach

Railways India Development Fund

- Railways are setting up a Rs 30,000 crores fund, first-of-its-kind for the national transporter, for implementation of remunerative projects across the country.
- Investors like World Bank, National Infrastructure Investment Fund, pension and insurance fund and other institutional investors are expected to be part of the RIDF.
- However, the RIDF will invest only on those rail projects having higher rate of returns with minimum rates ranging between 14 per cent and 16 per cent.
- RIDF will focus on new lines for freight movement or redevelopment of stations and will not invest in non-remunerative projects.
- Since freight lines are more remunerative than passenger line, RIFD will focus on goods movement.
- Currently, Railways has undertaken many new projects which are socially desirable but economically non-viable.

8.4. POWER TRANSMISSION PLANNING

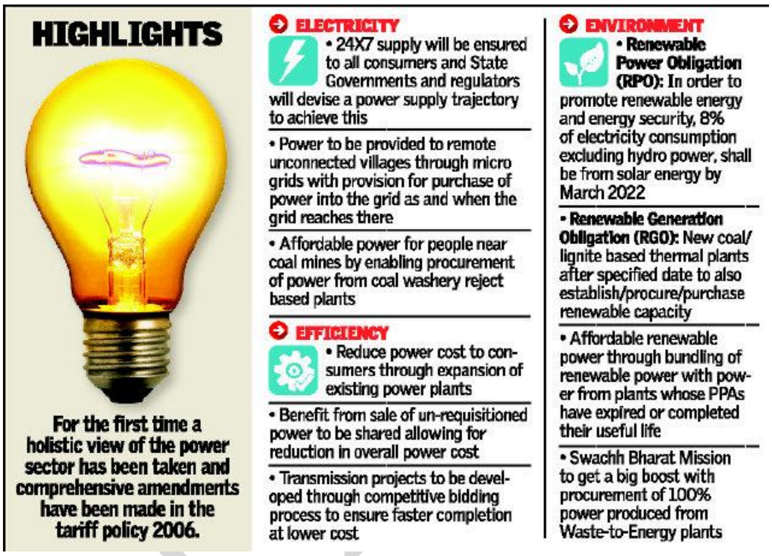
Why in News

- The Mata Prasad committee, constituted by Central Electricity Regulatory Commission (CERC), in its recently released report has suggested an overhaul in transmission planning to facilitate transfer of power on economic principles.

Key Suggestions

- Transmission planning should be aligned to meet customer aspirations in contrast to the long-term power purchase agreements (PPAs) arrangement. Transmission planning can also be done on the basis of projected load of the states and anticipated generation scenario based on economic principles of merit order operation.In case of renewable energy sources, the transmission system may be planned by the central transmission utility (CTU) based on estimated capacity additions in perspective plan and renewable purchase obligations of each state. This is crucial as the Centre has already launched renewable energy capacity addition of 175 Gw by 2032.

- To promote the power market, the transmission corridor allocation should be suitably made. 5% of each flow gate may be reserved for day-ahead collective transactions, which may be released for the contingency market in case of non-utilisation of the corridor by power exchanges. This would be annually reviewed.
- The committee has emphasised the need for the creation of a central repository of generators in the Central Electricity Authority of India (CEA), where any generation project developer proposing to set up a new generation plant must register itself. This will not only provide vital data for the transmission planning process but will alleviate problems due to uncoordinated generation additions.
- The committee has also made a strong case for hand-holding of states by CEA and CTU for accurate demand forecasting.



Significance

The recommendations would be help in better long-term planning of transmission system which plays a key role in India's power infrastructure.

8.5. AMENDMENTS TO POWER TARIFF POLICY

Why in news?

The Union Cabinet has approved several amendments to the national power tariff policy with a view to promote renewable energy and improve the ease of doing business for developers in the sector.

Highlights of the Amendments

- The amendments are aimed at achieving the objectives of Ujwal DISCOM Assurance Yojana (UDAY) with the focus on 4 Es:
  - Electricity for all,
  - Efficiency to ensure affordable tariffs,
  - Environment for a sustainable future,
  - Ease of doing business to attract investments and ensure financial viability.
- A significant addition to the objective of the policy are the promotion of renewable generation sources and aim to create more competition, efficiency in operations and improvement in quality of power supply.
- The policy has also allows increase in fuel cost on account of import to be included in the tariff structure.
- In a first, the policy also specifies norms for ancillary services. The central commission has been given the right to introduce the norms and framework for ancillary service necessary to support the power system or grid operation for maintaining power quality, reliability and security of the grid, including the method of sharing the charges.

Importance of these Amendments

- These amendments will benefit power consumers in multiple ways. While reducing the cost of power through efficiency, they will spur renewable power for a cleaner environment and protect India's energy security.
- They would also aid the objectives of Swachh Bharat Mission as well as Namami Gange Mission through conversion of waste to energy, usage of sewage water for generation and in turn ensure that clean water is available for drinking and irrigation.

- These amendments will ensure availability of electricity to consumers at reasonable and competitive rates, improve ease of doing business to ensure financial viability of the sector and attract investments, promote transparency, consistency and predictability in regulatory approaches across jurisdictions.
- These holistic amendments to Power Tariff Policy which complement schemes like UDAY will ensure the realization of vision of 24X7 affordable power for all.

8.6. INDIAN BRIDGE MANAGEMENT SYSTEM

About

- The Indian Bridge Management System was launched recently.
- IBMS is being developed to create an inventory of all bridges in the country and rate their structural condition so that timely repair and rehabilitation work can be carried out based on the criticality of the structure.
- This will **help in improving the transport efficiency as well as reducing accidents**.

Working Mechanism

- Every bridge in the country is assigned a unique **National Identity Number** based on the state and RTO zone. It is also given a **Bridge Location number** based on its exact location which is ascertained by GPS.
- The Bridges are also classified according to their engineering characteristics and structural components and assigned a **Bridge Classification** and **Structural Rating Number** respectively.
- The bridges are also being assigned **Socio-Economic Bridge Rating Number** which will decide the importance of the structure in relation to its contribution to daily socio-economic activity of the area in its vicinity.
- Based on this inventory IBMS will analyse data and identify bridges that need attention.

8.7. NEW INITIATIVES TO REVIVE THE CONSTRUCTION SECTOR

Why in news?

The Cabinet Committee on Economic Affairs approved a series of initiatives to revive the Construction Sector.

Initiatives

- The government has put in place a mechanism to release funds stuck in arbitration awards to revive stalled projects
- Government Departments and PSUs have also been instructed to transfer cases under arbitration to the amended Arbitration Act which has an expedited procedure, with the consent of the contractors.
- In the long run, other measures are also under consideration, including changes to bid documents and model contracts, and increased use of conciliation.
- Department of Financial Services is also examining a suitable scheme for addressing stressed bank loans in the construction sector.

Significance of these steps

- These initiatives are expected to help in improving the liquidity in the short run and reform the contracting regime in the long run.
- It will allow recovery of loans by banks and allow construction companies to speed up execution of ongoing projects.
- It will also increase the ability of construction companies to bid for new contracts and the resulting competition will be beneficial in containing the costs of public works.
- As the sector provides the largest segment of direct and indirect employment, the revival of the sector would also help in significant employment generation.

Importance of the construction sector

- It is the second largest contributor to economic activity accounting for about 8% of GDP.
- It accounts for the second highest inflow of FDI after the services sector.
- It generates the highest level of direct and indirect jobs employing about 40 million people and creating 2.7 new jobs indirectly for every Rs. 1.00 lakh invested.
- The sector has major forward (infrastructure, real estate, manufacturing) and backward (steel, cement, etc.) linkages, implying a high multiplier effect on economic growth, almost two times.

8.8. REGIONAL CONNECTIVITY SCHEME 'UDAN' LAUNCHED

About

- UDAN is an innovative scheme to develop the regional aviation market.
- The objective of the scheme was **"Ude Desh Ka Aam Naagrik".**

Key Features

- UDAN will be applicable on flights which cover between 200 km and 800 km with no lower limit set for hilly, remote, island and security sensitive regions.
- The scheme seeks to reserve a minimum number of UDAN seats i.e. seats at subsidized rates and also cap the fare for short distance flights.
- This would be achieved through two means:
  - A **financial stimulus** in the form of concessions from Central and State governments and airport operators like tax concessions, exemptions from parking and landing charges etc.
  - A **Viability Gap Funding** to the interested airlines to kick-off operations from such airports so that the passenger fares are kept affordable.
    - The VGF would be provided by a market based model. The operators would submit their proposals to the implementing agencies would then be offered for competitive bidding through a reverse bidding mechanism and the route would be awarded to the participant quoting the lowest VGF per Seat.
    - Such support would be **withdrawn after a three year period**, as by that time, the route is expected to become self-sustainable.
- A **Regional Connectivity Fund** would be created to meet the VGF requirements under the scheme. The RCF levy per departure will be applied to certain domestic flights along with 20% contribution from states.
- For **balanced regional growth**, the allocations under the scheme would be equitably spread across the five geographical regions of the country viz. North, West, South, East and North-east.
- The selection of airports where UDAN operations would start would be done in consultation with State Government and after confirmation of their concessions.
- The scheme UDAN envisages providing connectivity to un-served and under-served airports of the country through **revival of existing air-strips and airports**.
- The scheme would be in operation for a period of 10 years.

Significance

- The scheme would ensure affordability, connectivity, growth and development.
- This would help in generating employment. As per the International Civil Aviation Organisation that every rupee invested in civil aviation add Rs 3.5 to the economy and every job created directly generates 6.1 jobs indirectly.
- It provides an additional business opportunity by increasing the potential for moving existing perishable cargo, fragile goods and high-value export-oriented products by air.
- The state governments would reap the benefit of development of remote areas, enhance trade and commerce and more tourism expansion through the introduction of small aircrafts and helicopters.

- For incumbent airlines there was the promise of new routes and more passengers while for and start-up airlines there is the opportunity of new, scalable business.
- Commercialising the ‘un-served’ and ‘under-served’ airports (416 in total) will “democratise” publicly-owned sites which have hitherto been reserved for elite use. The average citizen would get a participative stake in their use and development.

Criticisms

- Airlines represent luxury. In a poor country like India it seems a case of misplaced priorities when governments and passengers have to bear the cost of additional subsidies to connect regional air routes.
- India is the fastest growing aviation market in terms of passenger traffic. Between January and September 2016, passenger traffic within India grew 23.17%. Aviation regulator’s data showed that all the licensed airlines overshot their regional connectivity quota. In other words, they flew more than what is mandated by regulations. It suggests that from this stage market dynamics may drive regional connectivity. State subsidies, therefore, are best used elsewhere.
- The assumption that three years would be enough to make a route sustainable might be misplaced. It does not take into account a scenario of fuel cost increase that would significantly change the air cost dynamics.

The environment for airlines to operate is already highly taxed (taxes on ATF is among the highest in the world). So another levy to fund the regional connectivity scheme is annoying airlines further.

8.9. EASTERN DEDICATED FREIGHT CORRIDOR

About

- It is an under construction freight corridor by Indian railways connecting Indian states from Punjab to west Bengal.
- It is 1,840 km long and extends from Ludhiana in Punjab to Kolkata in West Bengal as a series of projects with three sections.

Why in News

- Recently, the International Bank for Reconstruction and Development (IRBD), part of the World Bank Group, signed an agreement with the Union government to lend $650 million to DFCCIL for the third phase of Eastern Dedicated Freight Corridor.
- The first two phases of the EDFC are already being implemented by the DFCCIL with the help of financial assistance provided by the World Bank in the form of loans worth $975 million and $1,100 million respectively.

Significance of the Project

- It will enhance rail transport capacity, improve service quality and boost freight carriage on the corridor.
- It will directly benefit the power and heavy manufacturing industries located in the Northern and Eastern parts of India as these industries depend heavily on a smooth railway network for the efficient transportation of their raw materials along with the distribution of bulk and consumer goods.
- In addition to this, railway passengers would also be benefitted as the existing passengers lines would get decongested.
- It will help in developing institutional capacity of DFCCIL to build, maintain and operate the entire Dedicated Freight Corridor network.

9. INVESTMENT MODELS

9.1. PSU REFORMS: DISINVESTMENT POLICY

Why in News

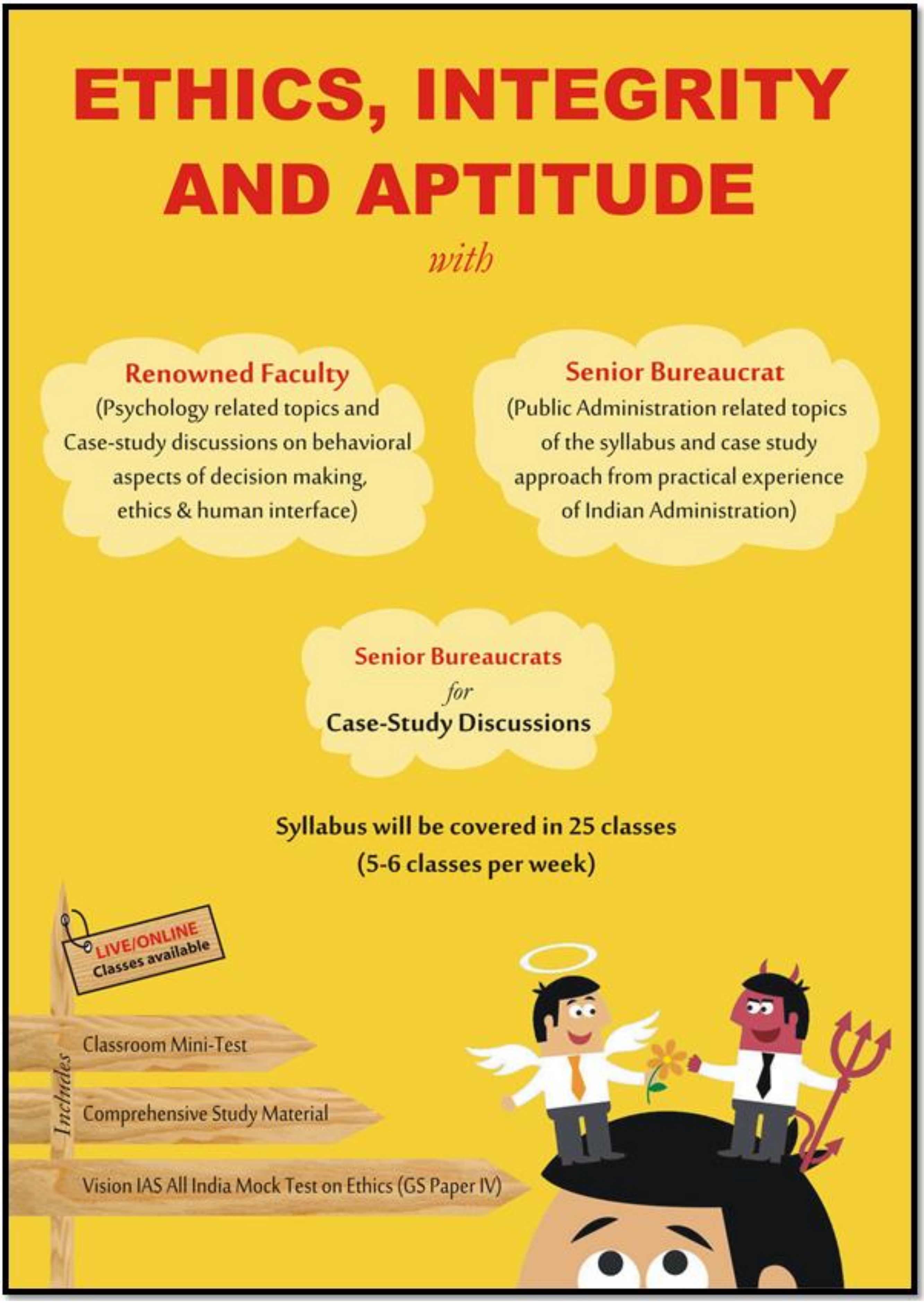
- Recently, the **PMO has given approval to NITI Ayog's proposal for strategic sales in about 22 public sector companies**. It is aimed at reducing government ownership to below 51 per cent.
- It has further approved the Ayog's recommendations of closing certain loss-making PSUs as part of its PSU reforms measures.
- The government had earlier renamed the Department of Disinvestment as the Department of Investment and Public Asset Management (**DIPAM**).

Background

- The disinvestment policy of India has undergone several changes. The **policy of the present NDA government focuses on three points**:
  - ✓ Public Sector Undertakings are the wealth of the Nation and to ensure this wealth rests in the hands of the people, promote public ownership of CPSEs
  - ✓ While pursuing disinvestment through minority stake sale in listed CPSEs, the Government will retain majority shareholding, i.e. at least 51 per cent of the shareholding and management control of the Public Sector Undertakings; and
  - ✓ Strategic disinvestment by way of sale of substantial portion of Government shareholding in identified CPSEs up to 50 per cent or more, along with transfer of management control.
- The Finance Minister in this year's budget speech had promised strategic disinvestment worth Rs.41,000 crores.

Significance

- The move is aimed at not just meeting the fiscal needs of the government but **pursuing the larger aim of managing the public investment more effectively**.
- This is part of the long-term process of **PSU reforms**.
- The involvement of NITI Ayog streamlines the process.


ETHICS, INTEGRITY AND APTITUDE
with
Renowned Faculty
(Psychology related topics and Case-study discussions on behavioral aspects of decision making, ethics & human interface)
Senior Bureaucrat
(Public Administration related topics of the syllabus and case study approach from practical experience of Indian Administration)
Senior Bureaucrats
for
Case-Study Discussions
Syllabus will be covered in 25 classes
(5-6 classes per week)
LIVE/ONLINE
Classes available
Includes
Classroom Mini-Test
Comprehensive Study Material
Vision IAS All India Mock Test on Ethics (GS Paper IV)

10. MISCELLANEOUS

10.1. INDIA IMPROVES IN GLOBAL COMPETITIVENESS INDEX

Why in news

India's position **improved to 39th rank** in the World Economic Forum's latest Global Competitiveness Index.

MARKED ADVANCEMENT

YEAR	INDIA'S GLOBAL COMPETITIVENESS RANKING		TOTAL COUNTRIES
2016-17	39	▲	138
2015-16	55	▲	140
2014-15	71	▼	144
2013-14	60	▼	148
2012-13	59		144

India's performance	RANK 2015-16	2016-17	
Basic requirements	80	**63**	▲
Institutions	60	**42**	▲
Infrastructure	81	**68**	▲
Macroeconomic environment	91	**75**	▲
Health and primary education	84	**85**	▼
Efficiency enhancers	58	**46**	▲
Higher education and training	90	**81**	▲
Goods market efficiency	91	**60**	▲
Labour market efficiency	103	**84**	▲
Financial market development	53	**38**	▲
Technological readiness	120	**110**	▲
Market size	3	**3**	◀▶
Innovation and sophistication factors	46	**30**	▲
Business sophistication	52	**35**	▲
Innovation	42	**29**	▲

Source: Global Competitiveness Index

Key facts

- India improved 16 places to 39, making it the fastest riser up the ranks among 138 countries surveyed.
- India's competitiveness improved across the board, particularly in goods market efficiency (60), business sophistication (35) and innovation (29).
- India is also the second most competitive country among BRICS nations (China on 28th).
- **Recent reform efforts** by the government that help improve rank are
  - ✓ Improving public institutions (up 16 places).
  - ✓ Opening the economy to foreign investors and international trade (up 4).
  - ✓ Increasing transparency in the financial system (up 15).
- WEF observed that India still needs to tackle **problems** like
  - ✓ Labour market deficiencies,
  - ✓ large public enterprises that reduce economic efficiency,
  - ✓ the financial market,
  - ✓ Lack of infrastructure.

10.2. TRENDS IN CSR SPENDING

Highlights

- The latest figures on Corporate Social Responsibility show that Indian corporate world has spent Rs 8,345 crore as part of their CSR obligation in 2015-16.
- This is a 28% jump over the Rs 6,526 crore spent in the previous year.
- Education and health continues to be favourite sectors.
- Prime Minister's National Relief Fund along with other funds set up by the Central and the state governments has been the biggest gainer with a jump of 418%.

Issues

- While the compliance rate has increased, the unspent amount has increased. This shows that a large number of companies failed to meet their social obligation and did not spend the prescribed amount on CSR.
- Corporate is really not spending on CSR as much as they should as 28% growth indicates against 41% by PSUs.
- They are not owning and driving change rather than make a passive contribution to PM's Relief Fund. A lot of companies find it better to do the CSR in a passive way as it saves their time and human resources.
- Other reasons cited by companies for the unspent amount are- lack of being able to identify the right opportunity or project and not being able to find an implementing agency.

About CSR

- S.135 of the Companies Act was amended in 2013 to introduce the CSR provisions. The CSR Rules, 2014 govern the process.
- The Regulations mandate companies to spend at least 2 per cent of the average net profit (earned over the last three years) towards various social causes.

10.3. EASE OF DOING BUSINESS RANKINGS

Background

- The World Bank ranks the economies on their ease of doing business. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm.
- The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, giving equal weight to each topic.
- India has ranked poorly on this ranking for past few years. In the recent rankings for 2017, it has moved one rank up to the 130th position.
- This marginal improvement came on the back of slight improvement in four indicators — getting electricity, enforcing contracts, trading across borders and registering property.

Positives from the Report

- The report praises the various reforms taken by the present Indian government.
- It recognizes reforms under four of the 10 headers which is highest ever achieved by India.
- The 'distance to frontier' (DTF) score—used by the WB to measure the distance between each economy and the best performance in that category—has improved for seven of those 10 headers.
- The report especially lauds India for achieving significant reductions in time and cost to provide electricity connections to businesses.

Should the marginal improvement be a matter of concern?

- India has improved by only one position. This is being looked by many as a matter of concern on account of two reasons:
    - India has taken a number of economic reforms in the past year like enactment of bankruptcy code, GST, introduction of single window system for building plan approvals and online ESIC (Employees' State Insurance Corporation) and EPFO (Employees' Provident Fund Organisation) registrations etc. Thus, a better ranking was expected.
    - Further, the present government aims to bring India in the top 50 economies in the Ease of Doing Business by 2018. The target seems extremely challenging now.
- However, the report does not truly represent the status of economic reforms taken by India. For instance:
    - The Report accounts for reforms undertaken by 1st June 2016 only. As a result some of the key reforms like Insolvency and Bankruptcy Code were not included. India hopes to get a better ranking next year.
    - Second, one particular change in the ranking methodology seems to have done considerable damage to India's improvement prospects. India ranks fourth from the bottom under the header "paying taxes". Inclusion of new criterion 'post-filing index' has much to contribute to this.
    - Third, the rankings cover only the two cities of Delhi and Mumbai. However, the reforms are being carried on all across India. In fact, states like Andhra Pradesh, Telangana have done remarkable efforts in economic reforms.
    - Fourth, there is increasing competition from other countries who are trying to improve their rankings as well. In fact, the report mentions that the number of countries that have implemented at least one reform have increased from 122 to 137. Thus, even though India might have improved its ease of doing business, it is not reflected in the ranking in the same sense.
- Further, even this ranking process has its limitations. The report clubs all the economies together. E.g. the emerging markets with advanced economies, the war-torn with peaceful ones etc. Such an approach gives a grand ranking system but is hardly useful in predicting, for instance, the flow of capital. Thus, while India may lag behind many countries in EoDB, it may still be a better destination for FDI etc.

Way forward

- We need to learn from other countries like Georgia and Kazakhstan who have done extremely well in the rankings in a matter of few years. E.g. Georgia has improved from 100 to 16 in last 10 years.
- The DIPP is planning to appoint external agencies to help departments carry forward reforms, hold stakeholders consultations, and monitor implementation of reforms.

A Long Way To Go

	2017 Rank	2016 Rank
Overall	130	131
Starting A Business	155	151
Dealing With Construction Permits	185	184
Getting Electricity	26	51
Registering Property	138	140
Getting Credit	44	42
Protecting Minority Investors	13	10
Paying Taxes	172	172
Trading Across Borders	143	144
Enforcing Contracts	172	178
Resolving Insolvency	136	135

Source: World Bank Doing Business 2017 Ranking — Bloomberg | Quint

Last Amongst BRICS Nations

Country	2015	2016	2017
Russia	62	51	40
South Africa	43	73	74
China	90	84	78
Brazil	120	116	123
India	142	131	130

Source: World Bank Doing Business 2017 Ranking — Bloomberg | Quint

10.4. NOBEL PRIZE IN ECONOMICS

Why in news?

- Oliver Hart from Harvard and MIT professor Bengt Holmstrom won this year's Nobel Memorial Prize in Economics for their study of contracts and human behaviour in business.

What is Contract Theory?

- How contracts are designed defines our incentives in various situations in the real world. Contracts can be
  - formal or informal, depending on whether they are enforced by law or social norms
  - complete or incomplete, which is based on whether they take into account all possibilities that lay in the future
- Contract theory is, partly at least, an attempt to understand the nuances in our contracts and how those contracts could be better constructed.
- The two economists provided "a comprehensive framework for analysing many diverse issues in contractual design, like performance-based pay for top executives, deductibles and co-pays in insurance, and the privatisation of public-sector activities."
- It has become especially relevant in the years after the 2008 financial crisis, which was blamed on the short-term risk encouraged by huge cash bonuses paid to investment bankers.
- It also touches on themes of moral hazard, which arises where those that take the risks don't share in the costs of failure.

Significance

- Contract theory has greatly influenced many fields, ranging from corporate governance to constitutional law.
- Contract Theory generates precise hypotheses that can be confronted with empirical data and lays an intellectual foundation for the design of various policies and institutions, from bankruptcy legislation to political constitutions.

The use of contract theory in public policy is something that the Indian government needs to learn, be it the design of telecom auctions or the public distribution system.

10.5. ECONOMIC FREEDOM INDEX

Why in News

- The 2016 report of the Economic Freedom of the World has **placed India at 112th position out of 159 countries, a slip of 10 positions from previous year.**

What is it?

- A **classic definition of economic freedom** for individuals is when the 'rightly acquired economic property of people is protected and the people are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others'.
- Thus, essentially**, economic freedom is dependent on the following broad dimensions: Security of privately-owned property, levels of personal choice, ability to enter markets and the rule of law.**
- Economic Freedom Index basically tries to measure this freedom and ranks countries accordingly.
- Such indexes are usually produced by economic think tanks. For example, the present index is produced by the U.S.-based Heritage Foundation in conjunction with the Wall Street Journal.
- The index is a measure of economic prosperity on per capita GDP basis.

Significance of the Index

- Within the five broad areas, **India's rank is best for the size of the government (8), while it performs poorly on regulation (132) and freedom to trade internationally (144).**
- The poor performance on exports is due to global economic sluggishness and India's own delays in infrastructural projects.
- Similarly, too many regulations have hampered the prospects of economic growth. The government has done well to identify and weed out key laws and regulations that are not in accordance with the present times.
- Better regulations along with laws like GST, Bankruptcy code, Labour law reforms, etc will help in improvement along the regulation dimension of the Index.

10.6. WORLD LOGISTICS PERFORMANCE INDEX

- World Bank's biennial measure of international supply chain efficiency, called Logistics Performance Index which measures a country's logistics performance at its key international gateways, has ranked India at 35th in 2016, jumping from 54th in 2014.
- While Germany tops the 2016 rankings, India is ahead of comparatively advanced economies like Portugal and New Zealand.
- Better performance in logistics not only boosts programs, such as Make in India, by enabling India to become part of the global supply chain, it can also help increase trade.
- The LPI measures performance in terms of six components i.e. Customs, Infrastructure, International Shipments, Logistics Quality and Competence, Tracking and Tracing, and Timeliness.
- The index is based on a worldwide survey of stakeholders on the ground providing feedback on the logistics friendliness of the countries in which they operate and those with which they trade.

Logistics Performance Index does not address how easy or difficult it is to move goods to the hinterland or movements within the country.

10.7. INDIA LOST APPEAL IN WTO

Background

- India had introduced a **'buy-local' provision under its National Solar Mission** for large solar projects. Under it the projects were entitled to subsidy and assured government procurement if the equipment was manufactured locally.

- The World Trade Organization (WTO) had earlier this year ruled against this provision in order to remove any disadvantage to imported solar equipment in India.
- As per WTO the local content requirements undermine our efforts to promote clean energy by requiring the use of more expensive and less efficient equipment, making it more difficult for clean energy sources to be cost-competitive
- However, this **proved to be a setback for India efforts towards clean energy** and fight climate change.
- As per India, 'Buy-local' provisions are essential to generate political and popular support for the economic transition as they create jobs, promote health and make the process cost-effective, encouraging trade unions and vote banks to extend their cooperation.
- India had, thus, filed an appeal before WTO on this issue. However, the appeal got dismissed recently.

(For more on this issue please refer to February 2016 edition of Vision Current Affairs)

10.8. INDIA'S FIRST COMMERCIAL ARBITRATION CENTRE

Why in news

Mumbai Centre for International Arbitration (MCIA), India's first major centre for commercial arbitration, will be launched in Mumbai on 8 October.

Significance

- It will make India a **hub of international commercial arbitration**.
- Help in improving **ease of doing business.**
- Act as an **alternative forum** that Indian businesses can approach **instead of Arbitration Centre either at Singapore, London or Hong Kong.**
- There are arbitration centres in India but none of them have been approached for settling major international disputes
- This alternative dispute resolutions mechanism will also help in **de-stressing our overburdened judicial system.**
- Joint initiative between the **Government of Maharashtra and the domestic and international business and legal communities**.
- Arbitral rules will be based on **international arbitration best practices.**

10.9. PUSH FOR AQUACULTURE

Why in news: India International Seafood Show (IISS) in Vishakhapatnam was held on September 23-25. The theme was **"Safe and Sustainable Indian Aquaculture."**

What is Aquaculture?

- According to the Food and Agriculture Organization (FAO), "aquaculture means the farming of aquatic organisms including fish, molluscs, crustaceans and aquatic plants".
- Particular kinds of aquaculture include fish farming, shrimp farming, oyster farming, mariculture, algaculture (such as seaweed farming), and the cultivation of ornamental fish.
- Particular methods include aquaponics and integrated multi-trophic aquaculture, both of which integrate fish farming and plant farming.

10.10. UNDERSEA CABLE TO LINK ANDAMAN WITH MAINLAND

- Union Cabinet has approved a proposal for **improving telecom connectivity in Andaman & Nicobar Islands by connecting the union territory with Chennai via an undersea optical fibre cable** at a cost of Rs.1,102.38 crore.
- The dedicated submarine OFC will connect Mainland (Chennai) and Port Blair and five other islands- Little Andaman, Car Nicobar, Havelock, Kamorta and Great Nicobar.
- Presently, the telecom connectivity is through satellites which is costly and has limited bandwidth.
- The connectivity would **help in the socio-economic development of the islands**.

- It would allow the implementation of e-governance initiatives, establishment of enterprises and e-commerce facilities in the islands.
- It would also support the educational institutes for knowledge-sharing and availability of job opportunities

10.11. 94.4% HOUSEHOLDS HAVE BANK ACCOUNTS

Why in news

- **Fifth Annual Employment-Unemployment Survey** revealed that around 94.4 per cent households had saving bank accounts in 2015-16.
- Figure is much higher than the **official figure of Census 2011,** which puts the figure for households with saving bank accounts in India at **58.7 per cent.**

Key facts

- 93.4 per cent households in rural areas and 96.8 houses in the urban areas had a savings bank account.
- Banking penetration was particularly low in north-eastern states

According to the report, Pradhan Mantri Jan Dhan Yojana and Pradhan Mantri Mudra Yojana may have played a major role in this achievement.

10.12. REAL ESTATE (REGULATION AND DEVELOPMENT) (GENERAL) RULES, 2016

Why in news?

The **Ministry of Housing and Urban Poverty Alleviation** notified the Real Estate (Regulation and Development) (General) Rules, 2016, for **five Union Territories without Legislature.**

> The marginal cost of funds based lending rate (MCLR) refers to the minimum interest rate of a bank below which it cannot lend, except in some cases allowed by the RBI. It is an internal benchmark or

Key Features of the bill

- The bill is applicable to Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep and Chandigarh.
- 70% of unused amounts collected for ongoing real estate projects have to be kept in a separate bank account by the developers to ensure completion of the project.
- Developers will be required to refund or pay compensation to allottees with an interest rate of SBI's highest Marginal Cost of Lending Rate, plus 2 per cent in case of delay in projects.
- Promoters have to publish/upload information regarding the progress of the project and report quarterly progress to enable informed decisions to the buyers.
- The rules also state that for ongoing projects that have not received completion certificate in specified time, developers will have to make public the original sanctioned plans, with specifications and changes made later, total amount collected from allottees, money used, original timeline for completion, etc.
- Under the rules, adjudicating officers, real estate authorities and appellate tribunals shall dispose off complaints within 60 days.
- Further, there is no requirement of disclosing income tax returns while registering projects with the authorities by the builder so as to ensure confidentiality.
- Additionally, fee for registration of projects with regulatory authorities has been reduced by half and fee for renewing registration of projects has been set at half of the registration fee as means of incentivization.

Way forward

- Focus should be on implementation on the provisions of the bill as the real estate sector has been shrouded with lack of transparency and there have been enormous numbers of incomplete projects in the past, causing loss to consumers.
- Provisions of the bill should be disseminated so that public is aware of the information they are due to receive from developers before investing in real estate projects.

10.13. ETHANOL PRICING REVISION

Why in news?

- The government has moved towards a new pricing mechanism for sugar-extracted ethanol which is used for blending in petrol.

Background

- The government had initiated the ethanol blending programme way back in 2003 with an aim to cut import dependence on crude oil. Initially the quantity was fixed at 5% which was slowly supposed to be raised to 10%.
- However, this could not be done on account of the various constraints faced by the Oil Marketing Companies (OMCs) like state specific issues, supplier related issues including pricing issues of ethanol etc.

Implications

- Moving towards a free-market structure, the price of ethanol will now be determined on the basis of prevalent price of sugar in the open market as also demand-supply situation.
- The prices of ethanol will be reviewed and suitably revised by the government at any time during the ethanol supply depending upon the prevailing economic situation and other relevant factors.

Way forward

- The move is definitely beneficial to the OMCs. It is further believed by experts that in wake of the already high sugar prices, this could well offer the sugar producers an alternative market with guaranteed remunerative prices.
- This could, thus, help both the sides and prove beneficial to the Ethanol Blending Programme of the country.
- The government should, however, consider reintroducing the excise duty exemptions on ethanol.

10.14. OPEC'S DECISION TO TRIM COLLECTIVE OUTPUT

- OPEC countries took a collective decision in Algiers to cut down collective output by about 700,000 barrels a day from 33 million barrels a day.
- This is the first time the OPEC has decided to cut production since the last oil price slump during the financial crisis eight years ago.
- This was done in the light of continuous fall of global oil prices and imbalance in demand- supply gap, which adversely affected the economies of the countries of the cartel.
- Saudi Arabia, the cartel's largest producer, which was initially against reduction in production, had a fiscal deficit of 16% of its GDP in 2015 and had to make its first overseas borrowing in more than a decade.
- However, Iran has been exempted from immediate production caps since international sanctions on Iran have only been lifted recently.

10.15. WEF GLOBAL COMPETITIVE INDEX

Why in news?

- In the ranking of Global Competitive Index of the World Economic Forum, India's position rose by 16 ranks from 55 in 2015-16 to 39 in 2016-17.
- Last year too India witnessed an increase in its ranking, thereby, signalling improved competitive scenario in India.

Key Facts

- Among the parameters used to measure competitiveness, India has shown improvement in all categories except in health and primary education.

10.16. LEGISLATION TO REGULATE THE DIGITAL ECONOMY

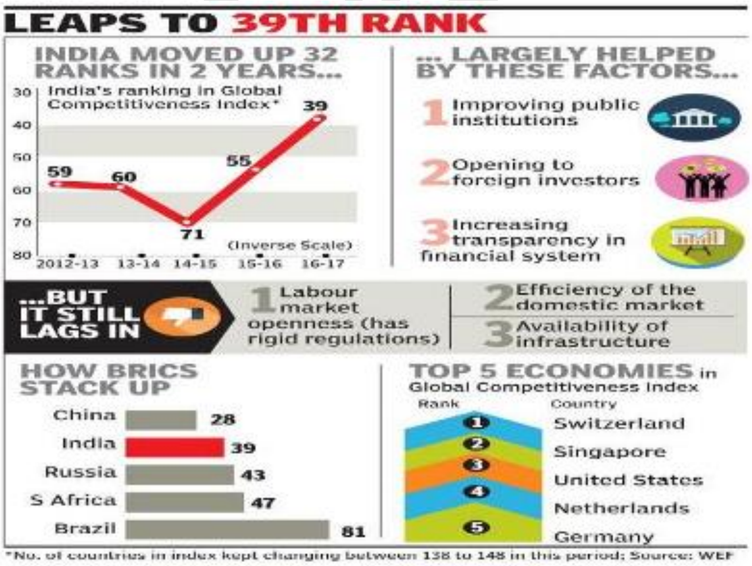
Why in news?

The government is looking at revamping the Information Technology Act, 2000, which deals with cyber crimes and e-commerce.

Background

- The move comes at a time when there is a growing feeling among legal experts that the current Act last amended in 2008, does not adequately cover certain aspects of cyber security, mobile crimes and issues around abuse and misuse of the social media.
- 2008 amendment introduced the Section 66A that penalised the use of "offensive messages". Section 69 gave power to authorities to intercept, monitor or decrypt information, and introduced penalties for child pornography, cyber terrorism and voyeurism.

Necessity



1. Given the proliferation of digital media in recent years, the Act needs to expand the definition of intermediaries.
2. Stakeholders were not widely consulted before making changes in IT act. So there was lot of discord against IT act in civil society.
3. A comprehensive privacy regime is needed due to accelerated adoption of digital technologies in Internet, banking, e-commerce and e-governance services. Guidelines on how organisations deal with personally identifiable information
4. In the absence of comprehensive privacy laws, the Indian outsourcing industry may lose existing and new business opportunities to countries with stronger privacy and data protection laws.
    a. Some provisions for privacy protection were brought in when the IT Act was amended in 2008 for certain sensitive personal data.
    b. However, the provisions did not apply to government data. The proliferation of personal data generated at the level of government bodies – given the thrust on e-governance, JAM trinity – has alarmed several IT experts.
5. There is an apprehension of India becoming a surveillance state.

Regulation

The IT Act should have defined broad parameters that govern the digital economy, according to experts.

The role of government – specifically, when to intervene and when to let the market sort out these issues has been the focal point of discussions of cyber space regulation.

1. *National strategy:* key trade-off for governments is the question of whether to provide high speeds for urban residents versus basic connectivity for rural residents. The former will likely accelerate economic growth, while the latter will assist in the delivery of basic health, financial, educational and business services.

2. *Responsibility of governments have for providing connectivity:* Most believe governments bear responsibility for ensuring some level of access, especially where private-sector deployment would be uneconomical.
    a. Some experts even suggest broadband should be considered and governed as a utility, no different from highways or rail lines.
3. *How can governments ensure innovation in digital infrastructure?* : success of government-led national broadband networks in Australia and Singapore while others favour limiting the state's role to encouraging competition in the private sector and promoting innovation among local municipalities and universities.
4. *What is the regulatory environment of the future?* In fast-moving industries, regulators struggle to keep up with market and technological developments.

Way ahead and Conclusion

1. Implementation of the recommendations of AP Shah committee on the principles of the privacy law-
2. Privacy safeguards should apply to both government and private sector entities
3. Setting up of self-regulating organisations by industry to develop base-level legal framework that would protect and enforce an individual's right to privacy
4. The arena of IT act is too large. Covering of areas like cyber-terrorism, national security, privacy concerns, sensitive-data leakage need more specialised agencies and laws.
5. Formulation of law should be based on consensus of the stakeholders and have inherent tolerance towards circumvention.

There should be balance among innovation, affordability and access, which the United Nations declared as a fundamental human right.

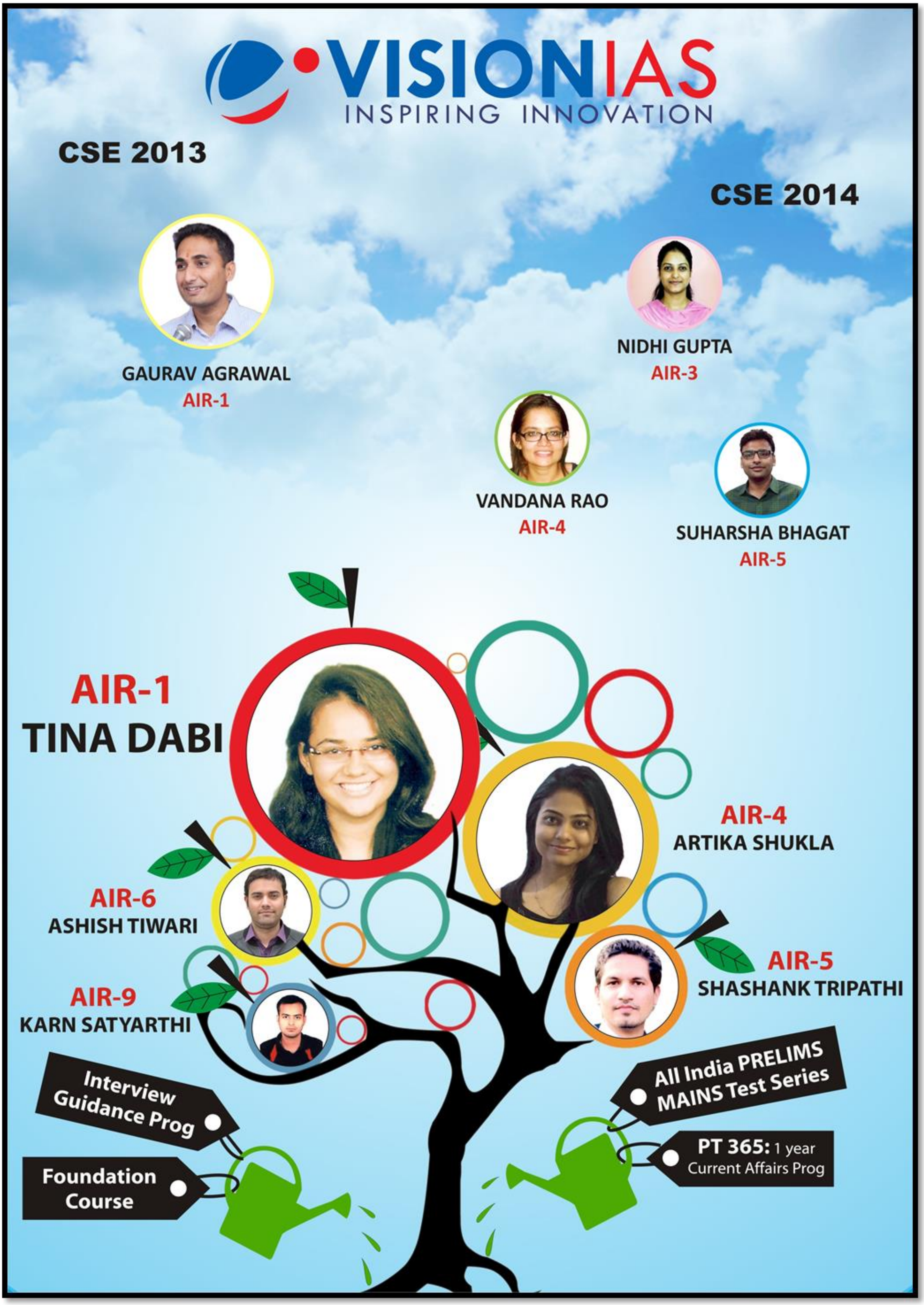
10.17. INDIA'S FIRST MEDIPARK TO COME UP IN CHENNAI

About

- HLL Lifecare Ltd, a mini-ratna company, would be setting up a medical devices manufacturing park (Medipark) at Chengalpattu, a town in the outskirts of Chennai.
- HLL's shareholding in the project would be more than 50 per cent, while the government of Tamil Nadu would have an equity participation of up to 10 per cent.
- It will be completed in seven years, being developed in different phases.
- HLL Lifecare, through a subsidiary, is also setting up an **Integrated Vaccine Complex** in Chengalpattu, in order to manufacture various vaccines for the domestic and international patients

Significance

- The Medipark would be the **first manufacturing cluster in the medical technology sector** in the country, and would play a key role in the development of medical devices and technology industry and allied disciplines.
- India imports about 70% of its medical equipments and devices. It is almost completely dependent on imports for high-end items like imaging equipment, pace makers, and breathing and respiration equipment. Domestic manufacturing of the devices and equipment would **bring down the cost and make healthcare more affordable**.
- As part of India's **Make in India initiative this will generate direct employment** for about 3000 people and indirect employment for many more thousands once it is operational.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