CRISP NOTES

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ECONOMIC & SOCIAL DEVELOPMENT

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REVISION NOTES

FOR CIVIL SERVICES PRELIMINARY EXAM

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***Practise Questions** have been provided at the end of every lesson/ topic. Questions have been framed to highlight those aspects of the news and related dimensions which we want you to develop clarity on. Answers are given at the last page of this issue.*

THEME 1

PUBLIC FINANCE AND TAXATION

1. BUDGETARY REFORMS

Public Finance and Taxation

Why is this topic important for the exam?

- The Union Budget is an annual tool to strengthen political, social and economic justice in the country.
- Due to the changing local, national and international dynamics and demands, it became imperative to upgrade the budgetary processes by bringing more clarity and efficiency in its planning and implementation.
- The Union Budget refers to a statement of estimated receipts and expenditures of the government in respect of every financial year.
- This Budget provides details of resources transferred by the Central Government to State and Union Territory Governments. This document also shows the *revenue deficit, the gross primary deficit and the gross fiscal deficit* of the Central Government.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. With reference to Union Budget, which of the following is/are covered under the Non-Plan Expenditure?(# Pre-2014)

a) Defence Expenditure

b) Interest Payments

c) Salaries and Pensions

d) Subsidies

Q. There has been a persistent deficit budget year after year. Which of the following actions can be taken by the government to reduce the deficit? (# Pre-2015)

1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalising subsidies
4. Expanding industries

Select the correct answer using the code given below.

a) 1 and 3 only

b) 2 and 3 only

c) 1 only

d) 1, 2, 3 and 4

What is the current context?

- The Budget for the year 2017-18 has led to the following:
  - Merger of the Railway Budget with the Union Budget;

- Advancing the date for the presentation of Budget from 28th February to 1st February;
- Merger of Plan and Non Plan classification in Budget and Accounts.

Core: Points to focus

- The Budget documents presented to Parliament comprise, besides the Finance Minister's Budget Speech, the following:

BUDGET DOCUMENTS	MANDATED BY
Annual Financial Statement (AFS)	Article 112
Demands for Grants (DG)	Article 113
Appropriation Bill	Article 114(3)
Finance Bill	Article 110(A)
Memorandum Explaining the Provisions in the Finance Bill	(explanatory to mandated budget documents)
Macro-economic framework Statement	Fiscal Responsibility and Budget Management Act, 2003
Fiscal Policy Strategy Statement	Fiscal Responsibility and Budget Management Act, 2003
Medium Term Fiscal Policy Statement	Fiscal Responsibility and Budget Management Act, 2003
Expenditure Profile	(explanatory to mandated budget documents)
Expenditure Budget	(explanatory to mandated budget documents)
Receipts Budget	(explanatory to mandated budget documents)
Budget at a glance	(explanatory to mandated budget documents)
Outcome Budget	(explanatory to mandated budget documents)

** The Budget documents mentioned above have been explained in Rau's C^3 Journal on Economic Survey & Union Budget 2017. Let us understand some other core concepts related to Budget.*

In the Constitution of India, the Union Budget is mentioned as **Annual Financial Statement** (AFS). The AFS shows

- the estimated *receipts and expenditure* of the Government of India, for example for the financial year 2017-18
- in relation to estimates for 2016-17
- as also actual expenditure for the year 2015-16.

The receipts and disbursements are shown under three parts in which Government Accounts are kept:

i) The Consolidated Fund of India,

ii) The Contingency Fund of India and

iii) The Public Account of India.

- **CONSOLIDATED FUND OF INDIA**
  - This fund was constituted under **Article 266 (1)** of the Constitution of India. All revenues received by the government by way of direct taxes and indirect taxes, money borrowed and receipts from loans given by the government flow into the Consolidated Fund of India.
  - All government expenditure is made from this fund, except exceptional items which are met from the Contingency Fund. *Importantly, no money can be withdrawn from this fund without the Parliament's approval.*
- **CONTINGENCY FUND OF INDIA**
  - This fund was constituted by the government under **Article 267** of the Constitution of India. This fund is at the disposal of the President.

- Any expenditure incurred from this fund requires a subsequent approval from the Parliament and the amount withdrawn is returned to the fund from the Consolidated Fund.

- **PUBLIC ACCOUNT OF INDIA**
  - The Public Account was constituted by **Article 266(2)** of the Indian Constitution. It deals with the transactions that are related to debt and not covered under the Consolidated Fund of India.
  - It accounts for flows for those transactions where the government is merely acting as a banker. Examples of those are provident funds, small savings and so on. These funds do not belong to the government. They have to be paid back at some time to their rightful owners. Because of this nature of the fund, expenditures from it are not required to be approved by the Parliament.

The AFS also shows different types of budget deficits depending upon the types of receipts and expenditure we take into consideration.

- A budget deficit will occur when government does not earn enough revenue to cover its expenditure. The main causes for a deficit could be government's inability to raise sufficient funds (as projected earlier) or could also be as a result of unexpected expenditures. A budget deficit generally means requirement for additional funding to balance the deficit, for which interest will have to be paid in large sums.
- Following are the three concepts of budgetary deficits:

Revenue deficit	When government spends more than what it collects by way of revenue, it incurs revenue deficit. **= Revenue expenditure – Revenue receipt** It is related to only revenue expenditure and revenue receipts of the government, i.e., *only such transactions which affect current income and expenditure of the government.* Under the FRBM Act, 2003 the government obligated to eliminate the revenue deficit.
Fiscal deficit	The difference between *total revenue* and *total expenditure* of the government. **= Total expenditure – Total receipts** *While calculating the total revenue/ receipts, borrowings are not included.* Generally fiscal deficit takes place due to either revenue deficit or a major hike in capital expenditure (incurred to create long-term assets such as factories, buildings and other development). *It is an indication of the total borrowings needed by the government.* Fiscal deficit is usually financed through: - *Deficit Financing* or borrowing from the RBI (central bank of the country): Government issues treasury bills which RBI buys in return for cash from the government. This cash is created by RBI by printing new currency notes against government securities. Though, it is an easy way to raise funds but it carries adverse inflationary effects by increasing the money supply. - or raising money from capital markets by issuing different instruments like bonds - borrowing from external sources like foreign banks
Primary deficit	Is fiscal deficit of current year minus interest payments on previous borrowings. **= Fiscal deficit – Interest payment** Interest payment is the payment that a government makes on its borrowings to the creditors. So, while Fiscal Deficit indicates borrowing requirement (inclusive of interest payment), Primary Deficit indicates borrowing requirement exclusive of interest payment.

Concept : Points to focus

THE RAILWAY BUDGET MERGER WITH THE UNION BUDGET

- What is the <u>background of the Railway Budget</u>?

  - During British times, the railway budget was separated from the main budget, following the recommendations of a panel headed by British railway economist **William Acworth in 1920-21**.
  - The presentation of separate railway budget started in the year 1924, and has continued after independence as a convention rather than under constitutional provisions. The railways in 1920s accounted for nearly 70 % of the total Budget.
  - However, the largest employer in the country now accounts for a meagre 15 % of the total Union Budget.
  - The idea of merger was recently mooted by a committee headed by NITI Aayog member Bibek Debroy, as part of the restructuring of the Indian Railways.
- Specifications of the merger
  - The Indian Railways will continue to maintain its distinct entity -as a departmentally run commercial undertaking as at present.
  - The railways will also retain its functional autonomy and delegation of financial powers etc. as per the existing guidelines.
  - The existing financial arrangements will continue wherein railways will meet all their revenue expenditure, including ordinary working expenses, pay and allowances and pensions etc. from their revenue receipts.
  - Consequent to the merger, the appropriations for railways will form part of the main Appropriation Bill.
- What are the potential advantages of the merger?
  - The presentation of a unified budget brings 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.
  - *The capital at charge of the railways estimated at Rs. 2.27 lakh crore on which annual dividend is paid by the railways is wiped off.* Consequently, there will be no dividend liability for railways from 2017-18 and the Ministry of Railways will get gross budgetary support.
  - The move will also help the national transporter to improve its financial outlook. Railways at present has to bear an additional burden of about Rs. 40,000 crore on account of implementation of the 7th Pay Commission awards, besides an annual outgo of Rs. 33,000 crore on subsidies for passenger service. Merging the railway budget and general budget would mean that railways will not have to separately bear the burden.

ADVANCEMENT OF THE UNION BUDGET PRESENTATIONFROM 28TH FEBRUARY TO 1ST FEBRUARY

This would help in following ways:

a) It 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 and utilization of the full working seasons including the first quarter.

b) This will also preclude the need for seeking appropriation through 'Vote on Account' and enable implementation of the legislative changes in tax and laws for new taxation measures from the beginning of the financial year.

MERGER OF PLAN AND NON PLAN CLASSIFICATION IN BUDGET AND ACCOUNTS

The reform relates to the merger of Plan and Non Plan classification in Budget and Accounts from 2017-18, with continuance of earmarking of funds for Scheduled Castes Sub-Plan/Tribal Sub-Plan. Similarly, the allocations for North Eastern States will also continue.

This would help in resolving the following issues:

a) 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.

b) 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.

c) It is also expected to provide appropriate budgetary framework having focus on the revenue, and capital expenditure.

WHAT IS PLAN AND NON-PLAN EXPENDITURE?

In the light of government planning (Five Year Plans adopted since 1951), government expenditure is classified into plan expenditure and non- plan expenditure on the basis of whether or not the expense arises due to plan proposals.

Simply, any expenditure that is incurred on programmes which are detailed under the current (Five Year) plan of the centre or centre's advances to state for their plans is called plan expenditure. On Plan expenditure is a generic term used to cover all expenditure of government not included in the plan.

Plan expenditures relate to items dealing with *long-term socio-economic goals as determined by the ongoing plan process*. Also, plan expenditure are estimated after discussions between each of the ministries concerned and the Planning Commission.	**Non-Plan** expenditure refers to the estimated expenditure provided in the budget for spending during the year on *routine functioning of the government*. Such expenditure is a must for every country, planning or no planning.
For instance, expenditure on electricity generation, irrigation and rural developments, construction of roads, bridges, canals and science, technology, environment, etc. Plan expenditure is further sub-classified into Revenue Expenditure and Capital Expenditure which along with their components are shown in the preceding chart.	For instance, no government can escape from its basic function of protecting the lives and properties of the people and protecting the country from foreign invasions. The government also has to incur expenditure on normal running of government departments and on providing economic and social services.
The budget expenditure can be broadly categorized as	
Revenue Expenditure	**Capital Expenditure**
Revenue expenditure refers to the expenditure which neither creates any asset nor causes reduction in any liability of the government.	Capital expenditure refers to the expenditure which either creates an asset or causes a reduction in the liabilities of the government.
• It is recurring in nature. • It is incurred on normal functioning of the government and the provisions for various services. • Examples of Non-Plan Revenue Expenditure (the more important component of revenue expenditure): interest payments, Payment of salaries to government employees, pensions, expenditure on administrative services, health services, grants to state, etc. • Plan revenue expenditure relates to central plans and central assistance for states and UTs.	• It is non-recurring in nature • It adds to capital stock of the economy and increases its productivity through expenditure on long term development programmers, like Metro or Flyover. • Examples of Non-Plan Capital expenditure: Defence Equipments and modernization, Loans to Public sector companies, Loans to states and union territories • Plan Capital expenditure like its revenue counterpart relates to central plans and central assistance for states and UTs. For e.g., expenditure on building roads, flyovers, factories, purchase of machinery etc.

Practice Questions

Q1. Which of the following statements is/are correct?

1. The Public Account of India deals with the transactions that are related to debt and are covered under the Consolidated Fund of India.
2. The Public Account of India accounts for flows for those transactions where the government is merely acting as a banker.

Select the correct answer using the code given below.

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Q2. Who among the following headed the panel that led to the creation of a separate budget for the Indian Railways?

(a) George Atkinson

(b) Charles Bardlaugh

(c) William Acworth

(d) William Wedderburn

Q3. Which of the following statements is/are correct?

1. The plan expenditures are estimated after discussions between each of the ministries concerned and the Planning Commission.
2. Non-plan capital expenditure mainly includes defence, loans to public enterprises, loans to States, Union Territories and foreign governments.

Select the correct answer using the code given below.

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

2. GOODS AND SERVICES TAX (GST)

Public Finance and Taxation

Why is this topic important for the exam?

- Let's say a truck is moving goods from Delhi to Kerala. It will pass through various states. During that time, it will pay a variety of taxes, such as- octroi, VAT, excise duties and so on. Each source of tax collection is a source of confusion, corruption and delay.
- By the time the truck arrives at a destination in a couple of weeks, a huge amount of cost is indirectly added to the consumer. So, instead of India being a common market, we are a patchwork of dozens of economies making growth slow, business impossible and corruption high, and thus impacting 'Ease of Doing Business' and 'Make in India' initiative.
- This problem has been recognized by the developed economies and all the progressive ones, such as - Sweden, Denmark, Germany, Switzerland, Japan - have moved to a common GST (Goods and Service Tax) to provide a one common window for tax collection.
- With just one place of collecting taxes, there won't be much delays and corruption. When delays and corruption reduce, economy prospers. The single place for tax collection will drastically improve amount of revenues collected, since it will be much easier to verify who didn't pay, and at the same time help businesses grow.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. Which of the following is not a feature of Value Added Tax : (# Pre-2013)

a) it is a multi-point destination System

b) It is a tax levied on value addition at each stage of transaction in the production-distribution chain

c) It is a tax on the final consumption of goods or services and must ultimately be borne by the consumer

d) It is basically subject of the central Government and the State Governments are only facilitator for its successful implementation.

What is the current context?

- In August 2016, Goods and Services Tax (GST) bill was passed by both the houses of Parliament by The Constitution (One Hundred and First Amendment) Act, 2016.
- GST is one indirect tax for the whole nation, which will help India usher into the era of 'one nation, one tax'.
- The passing of GST became reality after thirteen years of long journey since it was first discussed in the report of the **Kelkar Task Force** on indirect taxes in 2003. The Act was passed in accordance with the provisions of Article 368 of the Constitution.
- World scenario: Currently, there are nearly 160 countries in the world that have implemented VAT/GST. France was the first country to introduce VAT.

Core and Concept: Points to focus

- **What exactly is GST?**
  - GST would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments.
  - It is a destination based tax. GST would be levied and collected at each stage of sale or purchase of goods or services based on the *input tax credit method*. This method allows GST-registered businesses to claim *tax credit* to the value of GST they paid on purchase of goods or services as part of their normal commercial activity.
  - Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. This means, the consumer pays GST added on by only the last dealer in the supply chain.
- **Taxes subsumed into GST**
  - At the Central level: Central Excise Duty, Additional Excise Duty, Service Tax, Additional Customs Duty commonly known as Countervailing Duty, and Special Additional Duty of Customs are subsumed.
  - At the State level: State Value Added Tax/Sales Tax, Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States), Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling.
- **GST and VAT: are they similar or different?**

  The full expression of the tax is Value Added on Goods and Services Tax. So it can be called VAT or GST, for short. So, both are same when both include service tax. But if service tax is not included, then it is only VAT.
- **Major features of the GST Act**
  - No differentiation between good and services. One rate for both goods and services.
  - It confers simultaneous power upon Parliament and the State Legislatures to make laws governing GST.
  - The levy of Integrated Goods and Services Tax (IGST) on inter-State transactions of goods and services will be done only by the central government. For example, if Goods or services are transferred from Rajasthan to Maharashtra then the transaction will attract IGST.
  - Laws made by parliament in relation to GST will not override state laws on GST.
  - *GST to be levied on all goods and services, except alcoholic liquor for human consumption*. *Petroleum and its products* shall *be subject to the levy of GST on a later date notified on the recommendation of the Goods and Services Tax Council*.
  - Compensation will be paid to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years
  - It empowers the centre to impose an additional tax of up to 1%, on the inter-state supply of goods for two years or more. This tax will accrue to states from where the supply originates.
  - **CREATION OF GST COUNCIL** to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, taxes, cesses and surcharges to be subsumed, exemption list and threshold limits, Model GST laws, etc.

- The Council shall function under the Chairmanship of the Union Finance Minister and will have all the State Governments as Members.
- Any decision of the GST Council would require three-fourth approval of the Council. The states would have two –third of the voting powers and the Centre one-third.
- The GST Council will decide the system of resolving disputes arising out of its recommendations.
- The GST Council will also decide when the GST would be levied on petroleum crude, natural gas, high speed diesel, aviation turbine fuel and motor spirit (petrol).

- **How GST will be administered?**
  - Keeping in mind the federal structure of India, there will be two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State.
  - GST will be levied on the place of consumption of Goods and services. It can be levied on : Intra-state supply and consumption of goods & services, Inter-state movement of goods, Import of Goods & Services
  - For the implementation of GST in the country, the Central and State Governments have jointly registered **Goods and Services Tax Network (GSTN**) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.
- **Proposed benefits of GST implementation**
  - The tax structure will be made *lean and simple*. The entire Indian market will be a *unified market* which may translate into *lower business costs*. It can facilitate *seamless movement of goods* across states and reduce the transaction costs of businesses.
  - A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent. Also, number of tax departments will reduce which in turn may lead to less corruption.
  - GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
  - It is good for export oriented businesses as it is not applied for goods/services which are exported out of India.
  - In the long run, the lower tax burden could translate into lower prices on goods for consumers.
  - The suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
  - Companies which are under unorganized sector will come under tax regime.
  - BIGGEST BENEFIT is that it will disincentivise tax evasion. If you don't pay tax on what you sell, you don't get credit for taxes on your inputs. Also, you will buy only from those who have already paid taxes on what they are supplying. Result: a lot of currently underground transactions will come over ground.
- **Possible Problem Areas**
  - An ideal GST regime intends to create a harmonised system of taxation by subsuming all indirect taxes under one tax. But, deferring the levy of GST on five petroleum products and alcoholic beverages could lead to cascading of taxes. For the sake of wider political consensus, these heads have been left for the future reforms.
  - The additional 1% tax levied on goods that are transported across states dilutes the objective of creating a harmonised national market for goods and services. Inter-state trade of a good would be more expensive than intra-state trade, with the burden being borne by retail consumers. Further, cascading of taxes will continue.

Practice Questions

Q4. Which of the following is not a state level tax?

(a) Octroi

(b) Purchase Tax

(c) Luxury Tax

(d) Countervailing Duty

Q5. Which of the following statements is/are correct?

1. In GST, there is no differentiation between good and services tax i.e. it will have one rate for both goods and services.

2. The levy of Integrated Goods and Services Tax (IGST) on inter-State transactions of goods and services will be done both by the Centre and the States as both have concurrent powers to make laws on goods and services.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

3. TECHNOLOGY AND TAX GOVERNANCE

Public Finance and Taxation

Why is this topic important for the exam?

- The use of internet and technology to increase overall accountability, transparency and for removing paralysis of implementation of schemes, programs, tax-collection is high on priority.
- E-governance is an important tool for improving the procedures, processes and time bound actions. This is the need of the hour to project India as a business friendly destination, economic reforms, and related action.
- With the passage of GST and other tax reforms, it has become imperative to use technology for their effective implementation and tax compliance.
- Thus initiative taken by the government to strengthen it, becomes important from the perspective of the examination.
- The UPSC has also asks about new initiatives and schemes launched by the government, for e.g.

Q 'SWAYAM' an initiative of the Government of India aims at : (# Pre-2016)

a) promoting the Self Help Groups in rural areas

b) providing financial and technical assistance to young start-ups

c) promoting the education of adolescent girls

d) providing affordable and quality education to the citizens for free.

What is the current context?

- Launch of **Project Saksham**, which will integrate tax systems of the Central Board of Excise and Customs (CBEC) with the Goods and Services Tax Network (GSTN) for a smooth roll out of the new indirect tax regime.
- Launch of **Project Insight** from May 2017 by the Income Tax Department, to monitor high value transactions, with a view to curb the circulation of black money.

Core and Concept : Points to focus

- **PROJECT SAKSHAM**
  - The project has been cleared by the Cabinet Committee on Economic Affairs (CCEA) chaired by the Prime Minister.
  - The project was required because the IT system of the CBEC which started in the year 2008 will not be sufficient to cater to the increased workload expected under the GST regime.
  - The Saksham project thus would step up the CBEC technological capabilities in line with the Goods and Services Tax Network (GSTN), which provides the IT backbone of the new indirect tax regime.
  - CBEC's IT structure needs to integrate with the Goods and Services 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.
  - The project will help in implementation of GST, extension of the Indian Customs Single Window Interface for Facilitating Trade (SWIFT) and other taxpayer-friendly initiatives under Digital India and ease of doing business of the CBEC.
- **CABINET COMMITTEE ON ECONOMIC AFFAIRS (CCEA)**
  - The major function of the Cabinet Committee on Economic Affairs (CCEA) is to review economic trends on a continuous basis, as also the problems and prospects, with a view to evolving a consistent and integrated economic policy framework for the country.
  - It also directs and coordinates all policies and activities in the economic field including foreign investment that require policy decisions at the highest level.
  - The Cabinet Committee on Economic Affairs (CCEA) is headed by the Prime Minister as chairperson.
- **SINGLE WINDOW INTERFACE FOR FACILITATING TRADE (SWIFT)**
  - As part of the "Ease of Doing Business" initiatives, the Central Board of Excise & Customs, Government of India has taken up implementation of the Single Window Project to facilitate the Trading across Borders in India.
  - The 'India Customs Single Window' would allow importers and exporters, the facility to lodge their clearance documents online at a single point only. It is expected to cover and benefit over 97 per cent of India's imports. Importers will not need to run around to get approvals from multiple government agencies for their consignments.
  - The single window will connect offices of six government agencies with the Indian customs department. These are the Food Safety Standards Authority of India (FSSAI); Department of Plant Protection, Quarantine and Storage; Drug Controller; Animal Quarantine; Wild Life Crime Control Bureau and Textile Committee.

Practice Questions

Q6. The 'Project Saksham' is

(a) for the strengthening of basic school system across the country.

(b) a component of the Skill India Mission.

(c) a technology interface for strengthening indirect tax regime.

(d) for indigenisation of defence production in India.

Q7. Which of the following statements is/are correct?

1. The Project SAKSHAM is a new direct Tax Network (Systems Integration) of the Central Board of Direct taxes (CBDT).
2. The Project SAKSHAM will help in Integration of CBDT IT systems with the Goods and Services Tax Network (GSTN).

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

- **PROJECT INSIGHT**
  - The Project Insight is an ambitious project of the Income-Tax (IT) Department to effectively utilize the vast amount of information at its disposal more effectively to track tax evaders.
  - This integrated platform would play a key role in widening of tax base and data mining to track tax evaders. The new technical infrastructure will also be leveraged for implementation of Foreign Account Tax Compliance Act, Inter Governmental Agreement IGA) and for Common Reporting Standard (CRS).
  - Project Insight, through implementation of reporting compliance management system, 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.

- **DIRECT TAX**
  - These types of taxes are directly paid to the Government of India (GoI). To be paid by an entity or an individual.
  - **Income Tax**: is paid by the taxpayer who's income exceeds by taxable limit. The taxpayers have to pay tax on applicable rates.
  - **Capital Gains Tax**: is collected on capital for instance, sale of property, earnings on shares, earning profit through bonds and valuable material etc.
  - **Securities Transaction Tax**: In India, many people do not declare their profit and pay the capital gain tax. Thus, the government was confused as the government can only impose tax on profits which are declared by people. Hence, a new tax emerged by the government that is known as Securities Transaction Tax which is applicable on every transaction done at stock exchange.
  - **Corporate Tax**: is a levy placed on the profit of a firm to raise taxes..

Practice Questions

Q8. The 'Project Insight' is

(a) for studying the climate change pattern using technology.

(b) for widening the tax base by detecting tax evaders using technology.

(c) for upscaling genetically modified seeds research in the country.

(d) for tackling governance and implementation gaps of schemes.

Q9. Which of the following statements is/are correct?

1. The Project Insight is an initiative of the Income Tax Department of the Government of India.
2. The Project Insight is being launched to evolve a better system of direct taxation in the country.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

4. PUBLIC DEBT MANAGEMENT CELL

Public Finance and Taxation

Why is this topic important for the exam?

- The Public debt is the debt owed by a central government. Among the non-tax sources, the major source of government revenues is public debt.
- It is defined as how much a country owes to lenders outside of itself. These can include individuals, businesses, and even other governments.
- In simple terms, Public debt can be split into internal (money borrowed within the country) and external (funds borrowed from non-Indian sources).
- The growing size of public debt in India has given rise to the problem of debt management.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. In India, Deficit Financing is used for the following : (# Pre- 2013)

a) economic development

b) redemption of public debt

c) adjusting BOP

d) reducing foreign Debt.

What is the current context?

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

- to better manage government's debt management functions.
- to help streamline government borrowings and cash management for separation of debt management functions from the Reserve Bank of India.
- to finally create an independent **Public Debt Management Agency (PDMA)** in couple of years.

Core: Points to focus

- **PUBLIC DEBT**
  - **Article 292** of the Indian Constitution states that the Government of India can borrow amounts specified by the Parliament from time to time.
  - **Article 293** of the Indian Constitution mandates that the State Governments in India can borrow only from internal sources. Thus the Government of India incurs both external and internal debt, while State Governments incur only internal debt.
  - As per the recommendations of the 12th Finance Commission, access to external financing by the States for various projects is facilitated by the Central Government, which provides the sovereign guarantee for these borrowings.
  - From April 1, 2005, all general category states borrow from multi-lateral and bilateral agencies (World Bank, ADB etc.) on a back-to-back basis viz. the interest cost and the risk emanating from currency and exchange rate fluctuations are passed on to States.
  - In the case of special category states (North-eastern states, Himachal, Uttarakhand and J&K), external borrowings of state governments are given by the Union Government as 90 per cent loan and 10 per cent grant.
  - In India, total Central Government Liabilities constitutes the following three categories;
    i) Internal Debt
    ii) External Debt
    iii) Public Account Liabilities

- In India, most government debt is held in long-term interest bearing securities such as national savings certificates, bonds such as; rural development bonds, capital development bonds, etc.
- The State generally borrows from the people to meet three kinds of expenditure:
  - i) to meet budget deficit,
  - ii) to meet the expenses of war and other extraordinary situations and
  - iii) to finance development activity.

- **EXTERNAL DEBT**
  - When a country borrows money from other countries (or foreigners) an external debt is created. When a country borrows money from others it has to pay interest on such debt along with the principal. This payment is to be made in foreign exchange (or in gold).
  - If the debtor nation does not have sufficient stock of foreign exchange (accumulated in the past) it will be forced to export its goods to the creditor nation. To be able to export goods a debtor nation has to generate sufficient exportable surplus by curtailing its domestic consumption.
  - Thus an external debt reduces *society's consumption possibilities* since it involves a net subtraction from the resources available to people in the debtor nation to meet their current consumption needs.
  - The burden of external debt is measured by the **debt-service ratio** which returns to a country's repayment obligations of principal and interest for a particular year on its external debt as a percentage of its exports of goods and services (i.e., its current receipt) in that year.

Concept: Points to focus

- **PUBLIC DEBT MANAGEMENT CELL(PMDC)**
  - PDMC is an interim arrangement which will allow separation of debt management functions from RBI to Public Debt Management Agency (PDMA) in a gradual and seamless manner, without causing market disruptions. Thus, it will requisite preparatory work for PDMA.
  - The Middle Office of the Budget Division in the Union Finance Ministry will be subsumed into PDMC with immediate effect.
  - The Joint Secretary (Budget), Department of Economic Affairs of the Finance Ministry will be the overall in-charge of the PDMC. PDMC will have only advisory functions in order to avoid any conflict with the statutory functions of RBI.
- **Functions of PDMC**
  - The PDMC, which will have only advisory functions to avoid conflict with statutory functions of the RBI, will plan government borrowings, including market borrowings and domestic borrowing activities like issuance of Sovereign Gold Bond.
  - The PDMC will also manage government's liabilities, monitor cash balances, improve cash forecasting, foster a liquid and efficient market for government securities along with advising government on matters related to investment, capital market operations, administration of interest rates on small savings, among others.
  - PDMC 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.
- **BOND MARKET**
  - The bond market – also called the debt market or credit market – is a financial market in which the participants are provided with the issuance and trading of debt securities.
  - The bond market primarily includes government-issued securities and corporate debt securities, facilitating the transfer of capital from savers to the issuers or organizations requiring capital for government projects, business expansions and ongoing operations.
  - Bonds provide the borrower with external funds to finance long-term investments, or, in the case of government bonds, to finance current expenditure.

- Bonds and stocks are both securities, but the major difference between the two is that (capital) stockholders have an equity stake in the company (i.e., they are owners), whereas bondholders have a creditor stake in the company (i.e., they are lenders).

Practice Questions

Q10. The debt-service ratio measures

(a) burden of external debt.

(b) overall public debt liability of the central government.

(c) contribution of service sector in debt management of the country.

(d) None of the above

Q11. Which of the following statements is/are correct about Public debt management cell (PMDC)?

1. It is only an interim arrangement and will be upgraded to a statutory Public Debt Management Agency (PDMA).
2. 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.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

5. MONETARY POLICY COMMITTEE (MPC)

Public Finance and Taxation

Why is this topic important for the exam?

- Monetary Policy plays an integral part in the economy as it involves *management of money supply and interest rate*. It is a policy used by the government to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.
- RBI is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 193
- Objective: Monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.
- Corresponding to its importance, Monetary policy needs to be transparent, unbiased and in sync with the on ground realities of the economy.
- Inflations, Interest rates, Money Supply are recurring questions in UPSC, for e.g.

Q. The RBI acts as a bankers' bank. This implies that: (# Pre- 2013)

1 Other banks retain their deposits with the RBI

2 The RBI lends funds to the commercial banks in times of need

3 The RBI advises the commercial banks in the monetary matters.

a) 2 and 3

b) 1 and 2

c) 1 and 3

d) 1, 2 and 3

What is the current context?

- The Center has notified the formation of *Monetary Policy Committee (MPC)* under the RBI which will **take decision on setting interest rate or repo rate in future**. MPC will bring significant changes in the power of the RBI governor while deciding on repo rate.
- The MPC replaces the previous arrangement where the RBI Governor along with a Technical Advisory Committee (TAC) take decisions on monetary policy including repo rate. TAC had only advisory functions as the central bank governor enjoyed veto power over the committee.

Core: Points to focus

- **Monetary Policy**
  - Monetary policy is the *macroeconomic policy* laid down by the central bank. It involves management of money supply and interest rate and is the *demand side economic policy* used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.
  - The RBI implements the monetary policy through open market operations, *bank rate policy, reserve system, credit control policy, moral persuasion* and through many other instruments. Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy.
- **Types of Monetary Policy**
  - RBI uses **contractionary monetary policy** to reduce inflation. It has many tools to do this. The most common are raising interest rates and selling securities through open market operations.
  - RBI use **expansionary monetary policy** to lower unemployment and avoid recession. It lowers interest rates, buy securities from member banks, and use other tools to increase the liquidity.
- **Instruments of Monetary policy**
  - **Open Market Operations:** Involve buying or selling of government securities from or to the public and banks. This mechanism influences the reserve position of the banks, yield on government securities and cost of bank credit.
    - The RBI sells government securities to control the flow of credit and buys government securities to increase credit flow. Open market operation makes bank rate policy effective and maintains stability in government securities market.
  - **Cash Reserve Ratio (CRR):** CRR is a certain percentage of bank deposits (demand and time liabilities) which banks are required to keep with RBI as average daily balance. *Higher the CRR with the RBI lower will be the liquidity in the system and vice versa.* RBI is empowered to vary CRR accordingly and can vary between 15 percent and 3 percent.
  - **Statutory Liquidity Ratio (SLR):** Every financial institution has to maintain a certain quantity of liquid assets with themselves at any point of time of their total time and demand liabilities. These assets have to be kept in non-cash form such as precious metals, approved securities like bonds etc. The ratio of the liquid assets to time and demand assets is termed as the Statutory liquidity ratio. *Higher the CRR and SLR, lower will be the liquidity in the system as Banks will have lesser money for providing loans*
  - **Bank Rate Policy:** The Bank Rate, also known as the discount rate, is the rate of interest charged by the RBI for providing funds or loans to the banking system. This banking system involves commercial and co-operative banks, Industrial Development Bank of India, IFC, EXIM Bank, and other approved financial institutes.
    - Funds are provided either through lending directly or discounting or buying money market instruments like commercial bills and treasury bills. Increase in Bank Rate increases the cost of borrowing by commercial banks which results in the reduction in credit volume to the banks and hence declines the supply of money. *Increase in the bank rate is the symbol of tightening of RBI monetary policy.*
  - **Repo Rate and Reverse Repo Rate:** Repo rate is the rate at which RBI lends to its clients generally against government securities. *Reduction in Repo rate helps the commercial banks to get money at a cheaper rate and increase in Repo rate discourages the commercial banks to get money as the rate increases and becomes expensive.*

  - Reverse Repo rate is the rate at which RBI borrows money from the commercial banks.
  - The increase in the Repo rate will increase the cost of borrowing and lending of the banks which will discourage the public to borrow money and will encourage them to deposit. As the rates are high the availability of credit and demand decreases resulting to decrease in inflation. This increase in Repo Rate and Reverse Repo Rate is a symbol of tightening of the policy.
- **Marginal Standing Facility:** Marginal Standing Facility (MSF) rate refers to the rate at which the scheduled banks can borrow funds overnight from RBI against government securities.
  - MSF is a very short term borrowing scheme for scheduled commercial banks. Banks may borrow funds through MSF during severe cash shortage or acute shortage of liquidity.
  - Banks often face liquidity shortfalls due to mismatch in their deposit and loan portfolios. These are usually very short term and banks can borrow from RBI for one day period by offering dated government securities.
  - MSF had been introduced by RBI in 2011 to reduce volatility in the overnight lending rates in the inter-bank market and to enable smooth monetary transmission in the financial system.
- **Credit Ceiling:** In this operation, the RBI issues prior information or direction that loans to the commercial banks will be given up to a certain limit. In this case commercial bank will be tight in advancing loans to the public. They will allocate loans to limited sectors. Few examples of ceiling are agriculture sector advances, priority sector lending.
- **Credit Authorization Scheme:** Credit Authorization Scheme was introduced in the year 1965, Under this instrument of credit regulation, RBI as per the guideline authorizes the banks to advance loans to desired sectors.
- **Moral Suasion:** Moral Suasion is just as a request by the RBI to the commercial banks to take so and so action and measures in so and so trend of the economy. RBI may request commercial banks not to give loans for unproductive purpose which does not add to economic growth but increases inflation.

Policy	Effect	Liquidity in Market	Inflation	Type of Policy
CRR/SLR/REPO/REVERSE REPO/ BANK RATE	↑	↓	↓	contractionary
	↓	↑	↑	expansionary

Core: Points to focus

- **MONETARY POLICY COMMITTEE (MPC)**
  - The six-member MPC is tasked with bringing “value and transparency to monetary policy decisions” — _will comprise three members from RBI, including the Governor, who will be the ex-officio chairperson, a Deputy Governor and one officer of the central bank._
  - The other three members will be appointed by the Centre on the recommendations of a search-cum-selection committee to be headed by the Cabinet Secretary.
  - These three members of MPC will be experts in the field of economics or banking or finance or monetary policy and will be appointed for a period of four years and shall not be eligible for re-appointment.
  - The Committee is to meet four times a year and make public its decisions following each meeting.
  - The majority voice of the committee will be final in deciding the interest rates.
  - The RBI will have to accept the verdict, the governor gets a casting vote in case of tie.
  - Strong recommendations to set monetary policy committee in India had come from Urjit Patel panel report, before which the B N Srikrishna headed Financial sector legislative reforms Commission (FSLRC) had also suggested framing an MPC to meet the challenge of the growing complex economy.

Practice Questions

Q12. An increase in the Bank Rate generally indicates that the

a) market rate of interest is likely to fall

b) Central Bank is no longer making loans to commercial banks

c) Central Bank is following an easy money policy

d) Central Bank is following a tight money policy

Q13. In the context of Indian economy, the 'Open Market Operations' refers to

a) borrowing by scheduled banks from the RBI

b) lending by commercial banks to industry and trade

c) purchase and sale of government securities by the RBI

d) maintain Statutory Liquidity Ratio

Q14. Which of the following statements is/are correct?

1. Marginal Standing Facility (MSF) rate refers to the rate at which the scheduled banks can borrow funds overnight from RBI in case of severe cash shortage or acute shortage of liquidity.

2. Repo rate is the rate at which RBI borrows money from the commercial banks.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

6. STRATEGIC SALE OF PSUs

#Public Finance and Taxation

Why is this topic important for the exam?

- The New Economic Policy initiated in July 1991 indicated that PSUs had shown a very negative rate of return on capital employed. Inefficient PSUs had become and were continuing to be a drag on the Government's resources, turning to be more of liabilities to the Government than being assets.
- As a result, today many undertakings that were established as pillars of growth have become a burden on the economy. In relation to the capital employed, the levels of profits are too low.
- The various factors responsible for the low profits in the PSUs are price policy of public sector undertakings, under–utilisation of capacity, problems related to planning and construction of projects, problems of labour, personnel and management, lack of autonomy etc.
- A loss making PSU has the risk of wasting public funds and taking the industry in a downward spiral. Continued loss making PSU also hamper the freedom and competition of the market.
- Hence on the basis of need analysis, the Government wants to rid itself from inefficient units. And, in this *disinvestment is seen by the Government as a way to raise funds for meeting general and specific needs.*
- Importance given by UPSC is reflected in the nature of questions asked in previous years, for e.g.

Q. Why is the Government of India Disinvesting its equity in CPSEs? (# Pre-2015)

1) The Government intends to use the revenue from the disinvestment mainly to pay back the external debt

2) The government no longer intends to retain the management control of the CPSEs.

a) 1 only

b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

What is the current context?

- Recently, the Union Cabinet gave in-principle approval to Niti Aayog proposal for strategic sale in over a dozen public sector undertakings (PSUs).

Core and Concept: Points to focus

- **Public Sector Units (PSUs)**
  - The government-owned corporations are termed as Public Sector Undertakings (PSUs) in India. In a PSU majority (51% or more) of the paid up share capital is held by central government or by any state government or partly by the central governments and partly by one or more state governments.
  - The Comptroller and Auditor General of India (CAG) audits government companies. In respect of government companies, CAG has the power to appoint the Auditor and to direct the manner in which the Auditor shall audit the company's accounts.
  - The roadmap for Public Sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development polices, which envisaged the development of PSUs.
  - Initially, the public sector was confined to core and strategic industries. The second phase witnessed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into new fields like manufacturing consumer goods, consultancy, contracting and transportation etc.
- **Classification of PSUs**
  - Public Sector Undertakings (PSUs) can be classified as Public Sector Enterprises (PSEs), Central Public Sector Enterprises (CPSEs) and Public Sector Banks (PSBs).
  - The Central Public Sector Enterprises (CPSEs) are also classified into 'strategic' and 'non-strategic'. Areas of strategic CPSEs are:
    - Arms & Ammunition and the allied items of defence equipments, defence air-crafts and warships
    - Atomic Energy (except in the areas related to the operation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries)
    - Railways transport.
- **Disinvestment**
  - “Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money. As follows, disinvestment involves the conversion of money claims or securities into money or cash.” Disinvestment can also be defined as the action of selling or liquidating an asset. It is also referred to as ‘divestment’ or ‘divestiture.’
  - In most contexts, disinvestment typically refers to sale from the government, partly or fully, of a government-owned enterprise. A company or a government organisation will typically disinvest an asset either as a strategic move for the company, or for raising resources to meet general/specific needs..
- **Importance of Disinvestment**

  The importance of disinvestment lies in utilisation of funds for:

a) Financing the increasing fiscal deficit

b) Financing large-scale infrastructure development

c) For investing in the economy to encourage spending

d) For repaying Government debt- Almost 40-45% of the Centre’s revenue receipts go towards repaying public

e) debt/interest

f) For social programs like health and education

g) Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.

- **Strategic Sale**
  - Strategic sale of a PSU is different from the ordinary disinvestment. This is because in the case of strategic sale, the control and a significant proportion of a PSU's share goes to a private sector strategic partner.
  - According to the Department of Disinvestment, in the strategic sale of a company, the transaction has two elements: (i) Transfer of a block of shares to a Strategic Partner and (ii) Transfer of management control to the Strategic Partner.
  - Understandably, a strategic sale aptly takes place when more than 51% of shares go to the private sector strategic partner. At the same time, it is not necessary that more than 51% of the total equity goes to the Strategic Partner for the transfer of management to take place. Or in other words strategic sale can take place even if the private sector partner gets less than 51% shares.
  - According to the strategic sale guidelines in India, the Strategic Partner, after the transaction, may hold less percentage of shares than the Government but the control of management would be with him. For example, in a PSU, where the government holding 51%, and out of this, sale of 25% to the strategic partner while the government holding 26% share also is a case of strategic sale. Here, the remaining shares (49%) will be dispersed among the public.

  But the necessary condition is that the control of the firms should be with the strategic partner.

- **What is NITI Aayog's role in strategic sale?**

  After the Union Budget of 2016, the Finance Ministry has empowered the NITI Aayog to advise the Government on strategic disinvestment of CPSEs. It will do the following functions with regard to strategic sale:

a) It will identify the CPSEs for strategic disinvestment.

b) It will advise the government on mode of sale and percentage of shares to be sold; and

c) It will suggest methods for valuation of the CPSE.

The above responsibility of the NITI Aayog means it has to initiate the process of strategic disinvestment of CPSEs.

- **What is the role of DIPAM in strategic sale?**
- After the NITI Aayog's suggestions, Department of Investment and Public Asset Management (DIPAM) is finalizing a model for strategic sale of shares of PSEs.
- Earlier the government has approved the proposal of DIPAM for laying down the procedure and mechanism for strategic disinvestment of Central Public Sector Enterprises (CPSEs). Hence, the procedure for strategic sale will be prepared by DIPAM.

Practice Questions

Q15. Which of the following statements is/are correct?

1. Strategic sale of a PSU is different from the ordinary disinvestment. This is because in the case of strategic sale, the control and a significant proportion of a PSU's share goes to a private sector strategic partner.
2. In strategic sales it is necessary that more than 51% of the total equity goes to the Strategic Partner for the transfer of management to take place.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

Q16. Which of the following statements is/are correct?

1. The Central Public Sector Enterprises (CPSEs) are also classified into 'strategic' and 'non-strategic'.
2. The Public Sector Banks (PSBs) are also classified as Public Sector Units (PSUs).

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

THEME 2

INDUSTRY

7. MASALA BONDS

Industrial Finance

Why is this topic important for the exam?

- Borrowing from a bank is perhaps the approach that comes most readily to mind for many people who need money. But there is an alternative to borrowings from banks and that is a 'Bond'.
- When companies need to raise money, issuing bonds is one way to do it. A bond functions like a loan between an investor and a corporation. The investor agrees to give the corporation a specific amount of money for a specific period of time in exchange for periodic interest payments at designated intervals. When the loan reaches its maturity date, the investor's loan is repaid.
- This leads to the question, "Why would a corporation issue bonds instead of just borrowing from a bank?"
- Like people, companies can borrow from banks, but issuing bonds is often a more attractive proposition. The interest rate companies pay bond investors is often less than the interest rate they would be required to pay to obtain a bank loan. Since the money paid out in interest detracts from corporate profits, and companies are in business to generate profits, minimizing the interest amount that must be paid to borrow money is an important consideration.
- The ability to borrow large sums of money at low interest rates through bonds gives corporations the ability to invest in growth, infrastructure and other projects.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. With reference to IFC Masala Bonds which of the following are correct?(# Pre- 2016)

1 The IFC which offers these bonds is an arm of World Bank

2 They are the Rupee denominated bonds and are a source of debt financing for the public and private sector.

a) 1 only

b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

What is the current context ?

- India's State-owned energy major National Thermal Power Corporation Limited (NTPC Ltd) has launched its first independently certified green masala bond at the London Stock Exchange (LSE).
- NTPC's bond issue has been described as the "first Indian quasi-sovereign to issue a masala bond". (A company is typically defined as 'quasi-sovereign' if a government owns either more than 50% of its equity or more than 50% of the company's voting rights.)
- NTPC will then invest the proceeds of the green Masala bond in the renewable energy market as it seeks to add more wind and solar power projects to its portfolio, supporting the Indian government's ambition to generate 175 GW of renewable energy by 2022.

Core and Concept : Points to focus

- **Masala Bonds**
  - Masala bonds are rupee-denominated bonds issued to overseas buyers. These bonds are instruments of debt - typically used by corporates to raise money from investors.
  - Before masala bonds, corporates in India have had to rely on avenues such as External Commercial Borrowings (ECBs). An external commercial borrowing is an instrument used in India to facilitate the access to foreign money by Indian corporations and public sector undertakings (PSUs).
  - ECBs include commercial bank loans, buyers' credit, suppliers' credit, securitised instruments such as floating rate notes and fixed rate bonds etc., credit from official export credit agencies and commercial borrowings from the private sector window of multilateral financial Institutions such as International Finance Corporation (Washington), Asian Development Bank etc.)
  - The challenge with the likes of ECBs is the entity raising money is faced with a currency risk - they have to be raised and repaid in dollar terms. A year is a long time in forex markets - currencies fluctuate sharply. So, imagine the risk a bond issuing entity, especially one with largely rupee earnings, if issue and repayment are years apart.
  - As Masala Bond is rupee denominated bond the risk will be borne by the investor. The issuer does not carry any currency risk by issuing this bond in the foreign market.
- **Green Masala Bond**
  - The proceeds from the investment in green masala bonds are used for the promotion of renewable energy and investments in energy efficiency projects.
- **Benefits of Masala Bonds to Indian companies**
  - Companies issuing masala bonds do not have to worry about rupee depreciation, which is usually a big worry while raising money in overseas markets.
  - Globally, there is ample liquidity thanks to lower interest rates in developed markets, but there are very few investment options due to weak economic conditions globally. India is that rare fast-growing large economy, and a masala bond is one way for investors to take advantage of this. These bonds are bought by retail investors as well as big institutions overseas.
  - It helps the Indian companies to diversify their bond portfolio. It helps the Indian companies to tap a large number of investors as these bonds are issued in the offshore market.
  - It helps the Indian companies to cut down cost. If the company issues any bond in India, it carries an interest rate of 7.5%-9% whereas; Masala Bonds outside India is issued below 7.00% interest rate.
  - Masala bonds will help in building up foreign investors’ confidence in Indian economy and currency which will strengthen the foreign investments in the country.
  - An offshore investor earns better returns by investing in Masala bonds rather than by investing in his home country where interest rates are very low.
- **Maharaja Bond**
  - International Finance Corporation (IFC) issued rupee-denominated maharaja bonds for the first time in September 2014. It is a rupee-denominated onshore debt instrument. The funds will be used by IFC to invest in infrastructure projects in India. The Maharaja bonds have been issued under a $2.5-billion Rupee Bond Program of IFC to support India's domestic capital markets.
- **Government supportand regulation of Masala Bonds**
  - Meanwhile, the Indian government has exempted masala bonds from certain provisions of the Companies (Share Capital and Debentures) Rules under the Companies Act, 2013.
  - The corporate affairs ministry of India has issued a notification which would also provide more clarity on the regulatory framework for rupee denominated bonds.
  - Issuance of these bonds to overseas investors is regulated by the Reserve Bank of India (RBI) as part of external commercial borrowing (ECB) policy framework.

Practice Questions

Q17. Which of the following statements is/are correct?

1. Masala bonds are dollar-denominated bonds issued to overseas buyers. These bonds are instruments of debt - typically used by corporates to raise money from investors.
2. The Green Masala Bonds are used for the promotion of renewable energy and investments in energy efficiency projects..

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

Q18. Which of the following statements is/are correct?

1. Maharaja Bonds was first issued by the International Finance Corporation (IF(C).
2. Maharaja Bond is a rupee-denominated onshore debt instrument.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

8. NATIONAL CAPITAL GOODS POLICY

Industrial Policy

Why is this topic important for the exam?

- The National Manufacturing Policy envisages manufacturing to contribute 25% to GDP and to create 100 million jobs in India.
- In contrast, till date, manufacturing activity contributes about 17% of India's GDP and only created 4 million jobs in the sector since 2010. So there is a huge difference between aspiration and actuality.
- So, to give a boost to overall manufacturing activity, the Capital Goods sector is a critical element for providing critical inputs, that is, machinery and equipments.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. What are the recent policy initiatives of Government of India to promote the growth of manufacturing Sector? (# Pre- 2015)

1) Setting up NIMZ

2) Providing Single window clearance

3) Establishing Technology Acquisition and Development Fund.

a) 1 only

b) 1 and 2

c) 1,2 and 3

d) 2 and 3

Q. Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis industry in the country?(# Main-2014)

What is the current context?

- The Government has come out with *first ever policy for the country's capital goods sector*.
- It envisages carving out a roadmap to boost manufacturing in Capital Goods (CG) sector so that it becomes a part of global value chains apart from mere supply chains.
- It envisages creation of over 21 million new jobs by 2025.

Core: Points to focus

- **Types of Goods**
  - **Basic Goods** are goods, which may not have utility on their own, but other good derived from it have that usefulness. For example, wheat is a basic good because bread can be made from it . Thus raw material products used for further production of new items in agriculture, manufacture or construction are called basic goods.
  - **Intermediate Goods** are incomplete goods which go into input for further processing. In production chain, Intermediate goods lie between raw material and finished goods.
  - **Raw material** refers to both basic and intermediate goods, which are used as input to produce finished goods.
  - **Finished Goods** are ones which have completed the required processing and are ready to provide its usefulness. Thus they are directly consumed or distributed.
  - **Capital Goods** are plants, machinery and other assets which in turn are used for conversion of basic goods to finished goods. A Capital Good does not require any further processing and hence it itself is a finished good.
  - **Producer Goods** comprise of all basic goods, intermediate goods and capital goods as they are used to produce other goods.
  - **Consumer Goods** are purchased by individuals for their consumption. They may or may not be a Finished Good. Some consumer goods may need further processing.
  - **Consumer Durable Goods** are non-perishable goods such as electronics that last for a long time. The Government categorizes a good as a consumer good if its life is greater than 3 years. Otherwise these goods become Consumer non-durables.

Concept: Points to focus

- **Highlights of National Capital Goods Policy**
  - The National Capital Goods Policy is formulated with the vision to increase the share of capital goods contribution from present 12% to 20% of total manufacturing activity by 2025.
  - The objectives of the National Capital Goods Policy are to:
    a) increase total production
    b) increase employment
    c) increase domestic market share in India's capital goods demand from 60% to 80% by 2025
    d) increase exports: To increase exports to 40% of total production by 2025 from current 27% and making India a net exporter.
  - The policy aims to develop a comprehensive skill development plan/scheme with Capital Goods Skill Council and to upgrade existing training centers.
  - To create an enabling scheme for Heavy Industry Export & Market Development Assistance Scheme (HIEMDA) with a view to enhance the export of Indian made capital goods.

Practice Questions

Q19. Which of the following is not a capital good?

(a) factories

(b) offices

(c) warehouses

(d) privately-owned homes

Q20. Which of the following statements is/are correct?

1. Producer Goods comprise of all basic goods, intermediate goods and capital goods.
2. Raw material refers to both basic and intermediate goods.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

Q21. Which of the following statements is/are correct?

1. The National Manufacturing Policy envisaged manufacturing to contribute 25% to GDP.
2. The National Capital Goods Policy is formulated with the vision to increase the share of capital goods contribution from present 12% to 20% of total manufacturing activity by 2025.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

9. ZERO DEFECT, ZERO EFFECT SCHEME

Industrial Policy

Why is this topic important for the exam ?

- The development of the micro, small and medium enterprises (MSME) sector is high on priority.
- The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established.
- As per the Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) Growth for 12th Five Year Plan (2012-2017), the sector accounts 45% of the manufacturing output and 40% of total exports of the country.
- The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries.
- Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector.

What is the current context?

- ZED or Zero Defect, Zero Effect scheme is an initiative of the government for MSME sector to increase the quality of products matching global standards.

Core: Points to focus

- **Micro- Small and Medium Enterprises (MSMEs)**
  - MSMEs are small sized entities, defined in terms of their size of investment. They are contributing significantly to output, employment export etc. in the economy.
  - They perform a critical role in the economy by providing employment to a large number of unskilled and semi-skilled people, contributing to exports, raising manufacturing sector production and extending support to bigger industries by supplying raw material, basic goods, finished parts and components, etc.
- **Classification of MSMEs**
  - The MSMEs are classified in terms of investment made in plant and machineries if they are operating in the manufacturing sector and investment in equipment for service sector companies.
  - Though the primary responsibility of promotion and development of MSMEs is of the State Governments, the center has passed an Act in 2006 to empower the sector and also has formed a Ministry (Ministry of MSMEs). It was the *Micro, Small and Medium Enterprises Development (MSMED) Act* which was notified in *2006* that defined the three tier of micro, small and medium enterprises and set investment limits.
  - Alongside is the classification of the MSME based on Investment (in Rs)

Manufacturing Sector	**Where the investment in plant and machineries**
Micro	Below 25 lakh
Small	25 lakh to 5 crore
Medium	5 crores to 10 crores
Services Sector	**Where the investment in plant and machineries**
Micro	Below 10 lakh
Small	25 lakh to 2 crore
Medium	2 crores to 5 crores

Concept : Points to focus

- **ZED or Zero Defect, Zero Effect scheme**
  - The main objective of ZED (Zero Effect, Zero Defect) scheme is to reduce the bad effect of products on environment. While MSME sector plays a big role in the GDP of India, the scheme will help contribute to environment as well.
  - Under the scheme, MSME sector is urged to make products with “Zero Defect” and “Zero Effect” on the environment, thus improving the brand image of the country.
  - Under the scheme, the MSME companies which follow the guidelines and meet the standards set by the ZED will be awarded ZED certification along with several benefits.
- **Benefits of ZED certification**
  a) Credible recognition of the industry for international customers seeking investment in India
  b) Streamlined operations and lower costs
  c) Superior quality, reduced rejection and higher revenues
  d) Increased environmental & social benefits
  e) Additional employment generation

Practice Questions

Q22. The ZED (Zero Effect, Zero Defect) scheme is related to

(a) technology incubators units and institutes.

(b) defence equipments production and procurement.

(c) agrarian research and development.

(d) upgrading of MSMEs.

Q23. Consider the following statements about Zero defect Zero-Effect scheme:

1. The ZED scheme aims to provide professional support to entrepreneurs from the SC/ST and also to promote enterprise culture and entrepreneurship among them.
2. It would also enable Central Public Sector Enterprises (CPSEs) to fulfill the procurement target set by the government.

Which of the following statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

10. ONE INDIA CONCEPT

Industrial Policy

Why is this topic important for the exam?

- Making India an attractive destination for investment is high on priority.
- For this ease of doing business in the entire Indian states need improvement.
- This is required to prevent skewed concentration of investment, favouring few areas/states and neglecting others.
- Thus it has become imperative to promote equity in investment throughout the country.

What is the current context?

- The Centre, in collaboration with State governments has planned to introduce a 'One India' concept, the biggest and the most comprehensive 'ease of doing business' initiative so far.

Core and Concept: Points to focus

- **Highlights of 'One India' concept**
  - Under it, the 'one-form-one-portal' model is being developed which is aimed at attracting huge investments. The processes will be simplified to an extent where investors will need to fill only a single e-form for investing and doing business anywhere in India.
  - Currently firms are mandated to complete multiple forms at the Central and state-levels, and it gets more complicated as each state has different requirements and regulations.
- **What are the reforms expected?**
  - **Doing Business index** : The reform is aimed at raising India's global ranking in the World Bank Group's 'Doing Business' index — from 130 in 2016 — to the top 50 among the 189 economies featured on the list.

- **Single window clearance**: Aimed to make world's best single window clearance mechanism with an in-built information wizard that will help investors with the application processes.
- **Investors**: The proposed concept will also make it easy for investors to even change plans midway and shift projects to different locations in India where it is easier to do business.
- **Common Application Form**: As an initial measure, a draft 'Common Application Form' is being circulated among states for their feedback. However, discussions will be held on possible exceptions, including on environment and security-related clearances.
- **E-Biz project**: The Centre is already developing an eBiz project that is basically a government-to-business portal. The services offered under the portal — which firms and investors can use 24X7 online — are on starting, running and closing down a business. Introduced in January 2014, the portal has an integrated payment gateway and currently offers 17 pan-India services (at the Central government-level).
- **Business Identification Number (BIN)**: Also in the pipeline is a permanent account number (PAN)-based Business Identification Number (BIN) for firms. This unique business ID will integrate around 18 such identification numbers including Company Identification Number.

Practice Questions

Q24. The 'One India' concept is an initiative for

(a) national integration.

(b) extension of road network.

(c) improving ease of doing business.

(d) internet connectivity.

Q25. Consider the following statements about entry of FDI in India:

1. The entry of Foreign Direct Investment by nonresidents into India is regulated through two routes –automatic route and approval route.
2. Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment.

Which of the following statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

11. INDUSTRY AND SKILL DEVELOPMENT

Industrial policy

Why is this topic important for the exam?

- India is richest in Demographic Dividend but it lacks in skilled manpower.
- As per the Report on Fifth Annual Employment-Unemployment Report 2015-16, only 2.3 per cent of the workforce in India has undergone formal skill training as compared to 68 per cent in the UK, 75 per cent in Germany, 52 per cent in USA, 80 per cent in Japan and 96 per cent in South Korea.
- To boost rapid industrialisation, there is an urgent need for skilled and employable workforce.
- The UPSC has also asks about new initiatives and schemes launched by the government, for e.g.

Q "Demographic Dividend in India will remain only theoretical unless our manpower becomes more educated, aware, skilled and creative." What measures have been taken by the government to enhance the capacity of our population to be more productive and employable?: (# Main-2016)

Q. Success in Make In India programme depends on the success of Skill India. Discuss. (# Main-2015)

What is the current context?

- Launch of **National Apprenticeship Promotion Scheme (NAPS)**.
- Launch of **Pradhan Mantri Yuva Yojana (PMYY)**by the Ministry of Skill Development and Entrepreneurship to scale up an ecosystem of entrepreneurship for youngsters.
- Launch of **Pradhan Mantri Kaushal Vikas Yojana (PMKVY).**

Core and Concept: Points to focus

- **Apprenticeship**
    - An apprenticeship is a system of training a new generation of practitioners of a trade or profession with on-the-job training and often some accompanying study.
    - Apprenticeship also enables practitioners to gain a license to practice in a regulated profession.
    - It helps in achieving higher growth through skilled workforce and reap Demographic Dividend.

- **NATIONAL APPRENTICESHIP PROMOTION SCHEME (NAPS)**
    - National Apprenticeship Promotion Scheme (NAPS) is a new scheme of Government of India to promote apprenticeship.
    - NAPS is implemented by Director General of Training (DGT) under the aegis of Union Ministry of Skill Development and Entrepreneurship (MSDE).
    - Under the scheme, 25% of the prescribed stipend payable to an apprentice would be reimbursed to the employers directly by the government of India this it would offer financial incentives to employers.
    - In addition, it will support basic training which is considered an essential component of apprenticeship training.
    - The Central Government will bear the 50% of the total expenditure incurred on providing basic training to an apprentice.
    - All transactions including registration by employers, apprentices, registration of contract and payment to employers will be made in online mode.
- **Basic Training**
    - Basic training consists of theoretical and practical instructions relating to the trade in which on-the-job-training is to be imparted. It is mandatory for those who have not done any formal training in an ITI or in those courses under Pradhan Mantri Kaushal Vikas Yojana (PMKVY) which have been granted equivalence with basic training.

Practice Questions

Q26. Which of the following statements is/are correct?

1. The National Apprenticeship Promotion Scheme (NAPS) is implemented by Director General of Training (DGT) under the aegis of Union Ministry of Commerce and Industry.
2. Under the NAPS, 25% of the prescribed stipend payable to an apprentice would be reimbursed to the employers directly by the government of India.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

- **PRADHAN MANTRI YUVA YOJANA (PMYY)**
    - The Pradhan Mantri Yuva Yojana (PMYY) has been launched to scale up an ecosystem of entrepreneurship for youngsters.
    - It will provide easy access to information and mentor network, incubator, credit and accelerator and advocacy to create a pathway for the youth.
    - PMYY is supposed to develop and deliver entrepreneurship education to all citizens free of charge through Massive Open On - line Courses (MOOCs) and other on- line programmes accessible through a Learning Management System (LMS).
    - PMYY to design an assessment and certification mechanism.
    - PMYY to connect entrepreneurs in enabling networks of peers, mentors, funds and business services.
    - To establish a National Entrepreneurship Resource and Coordination Hub to coordinate and support entrepreneurship development programmes.

Practice Questions

Q27. The Pradhan Mantri Yuva Yojana (PMYY) is

(a) an entrepreneurship development program.

(b) a program for nurturing sporting culture.

(c) a community engagement program.

(d) is a computer and digital literacy training program.

- **PRADHAN MANTRI KAUSHAL VIKAS YOJANA (PMKVY)**
    - Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is the flagship scheme of the Ministry of Skill Development & Entrepreneurship (MSDE). The objective of this Skill Certification Scheme is to enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood.
    - The PMKVY scheme imparts training based on industry-aligned National Occupational Standards through training providers and Sector Skill Councils.
    - Candidates are eligible for a monetary reward upon successful completion of their training and also clearing the assessment by an independent assessment agency appointed by the respective Sector Skill Council.
    - Moreover, the candidates also receive a government recognised certificate which helps them become gainfully employed. The skill training is compliant with the standards set by the National Skills Qualifications Framework (NSQF).
    - The groundwork to create common standards incorporating the industries-level requirements for different kinds of job roles, and aligning the vocational training schemes with these standards was initiated by the notification of the National Skills Qualifications Framework in December 2013. It was designed to enable the learner to acquire skills required by the National Occupational Standards (NOS) to be able to perform a particular job role and organised them as a series of qualifications across 10 levels-from level 1 to 10.
    - Besides these, individuals with prior learning experience or skills will also be assessed and certified under Recognition of Prior Learning (RPL) scheme, which is a subcomponent of the Pradhan Mantri Kaushal Vikas Yojana.
    - The RPL scheme, certifies the skills acquired by workers in the unorganised sectors through traditional, non-formal learning channels. The selling point of the RPL is the certification and monetary reward for those enlisting for the demand-driven scheme that aims to mobilise the youth to take up skill training and become employable.

- **Actions taken by the government to revitalise PMKVY**
  - In a bid to revitalise PMKVY, the Ministry of Skill Development and Entrepreneurship is now implementing mandatory tracking of placements, trying to reduce the time for assessment and certification and linking payment to training providers with completion of training and achievement of a certain minimum placement to improve the on-ground efficiency of the scheme.
  - The ministry is also imparting region-specific training, focusing on training candidates for skills that will have requisite demand from employers in their region of training. At the time of enrollment itself, the candidates are asked to choose between 4-5 options of skills that will have a higher chance of employability in the region. This step ensures targeted training.
  - Transition to a grant-based payment model for training partners and steps such as biometric attendance is helping the ministry to monitor the progress of training schedules across the country.
  - The scope of RPL scheme has also been expanded beyond construction workers to include around seven sectors such as textiles and rubber tappers. Under it, the ministry is trying to complete the assessment process within a day of the completion of training by the candidates and subsequently, complete the certification process through auto-generation of certificates.

Practice Questions

Q28. Recognition of Prior Learning (RPL) scheme is a subcomponent of

(a) National Apprenticeship Promotion Scheme

(b) Pradhan Mantri Yuva Yojana (PMYY)

(c) Pradhan Mantri Kaushal Vikas Yojana

(d) Business Skill Development Program

THEME 3

AGRICULTURE

12. MINIMUM SUPPORT PRICE (MSP)

Agriculture Pricing

Why is this topic important for the exam?

- Farm incomes are uncertain due to uncertainity of production, market fluctuations, lack of access to market and thus these bring into focus assurance of minimum price to a farmer for stability and sustainability. This brings into picture Minimum Support Prices (MSP) announced by the government.
- MSP plays an important policy role in determining the sowing patterns in India. A higher MSP of a particular crop generally results in greater acreage.
- MSP is also important from the social security point of view. MSP guarantees a minimum return for farmers for their produce.
- MSP has emerged an as important policy tool for preventing farm distress and keeping check in inflation.
- MSP is also an important tool for changing the pattern of agriculture.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. The Fair and Remunerative Price (FRP) of sugarcane is approved by the : (# Pre-2015)

a) Cabinet Committee on Economic Affairs

b) Commission for Agricultural Costs and Prices

c) Directorate of Marketing and Inspection, Ministry of Agriculture

d) Agricultural Produce Market Committee

What is the current context?

- The Centre in November, 2016 increased its minimum support price (MSP) by up to Rs. 550 per quintal, including the bonus, while increasing the MSP for wheat by Rs. 100 to Rs. 1,625 per quintal for the rabi 2016-17 season.

Core : Points to focus

- **Minimum Support Price (MSP)**
    - MSP is a form of market intervention by the government where the government fixes higher price of farm products than the available market prices in case of sharp fall in prices of farm products due to demand supply variation or bumper harvest.
    - It is done to provide financial support to farmers of India and also ensures procurement of food grains for public distribution.
    - Government agencies purchase the entire quantity offered by the farmers at the announced minimum price in case the market price for the commodity falls below the announced minimum price due to bumper production or glut in the market.
    - MSP is announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the *Commission for Agricultural Costs and Prices (CACP)*.

- **Commission for Agricultural Costs and Prices (CACP)**
    - Commission for Agricultural Costs and Prices (CACP) formally known as Agricultural Prices Commission is a decentralized agency of the Government of India.
    - It was established in the year 1965 as Agricultural Prices Commission and renamed to Commission for Agricultural Costs and Prices in the year 1985.
    - It is an attached office of the Ministry of Agriculture and Farmers Welfare, Government of India..
- **Considerations of CACP while recommending MSPs**
    - CACP takes into account the cost of production, overall demand-supply, domestic and international prices, inter-crop price parity, terms of trade between agricultural and non-agricultural sectors, the likely effect of the Price Policy on the rest of economy, besides ensuring rational utilization of production resources like land and water, while recommending MSPs.
- **Procurement agencies of food grains in India**
    - Government agencies purchase the entire quantity offered by the farmers at the announced minimum price in situation of glut in the market. When excessive production leads to fall in prices, such a situation is called glut.
    - The Cabinet has directed the Food Corporation of India (FCI) to be the Central Nodal Agency for procurement of pulses and oilseeds in order to strengthen the procurement mechanism for pulses and oilseeds.
    - To supplement the efforts of FCI, the National Agricultural Cooperative Marketing Federation of India Limited (NAFED), National Cooperative Consumers Federation (NCCF), Central Warehousing Corporation (CWC) and Small Farmers Agri – Business Consortium (SFAC) may also undertake procurement of oilseeds and pulses as per their capacity.

Core : Points to focus

- **Procedure and thought process behind raising of MSP for Rabi**
    - In a bid to boost production, the Central Government has increased MSP of pulses and wheat respectively for the Rabi 2016-17 season.
    - The decision to increase the MSP for rabi crops was taken at a meeting of the Cabinet Committee on Economic Affairs (CCEA), chaired by the Prime Minister.
    - The decision of CCEA is based on recommendations of Commission for Agricultural Costs and Prices (CACP) for the Price Policy for Rabi Crops for the Marketing Season 2016-17.
    - However, in view of the gap in the demand and domestic supply of pulses, the Cabinet has decided to give a bonus of Rs.75/- per quintal for rabi pulses over and above the recommendations of the CACP.
    - This is expected to give a strong price signal to farmers to increase acreage and increase productivity of pulses.
    - The prices would be effective from the Rabi marketing season 2016-17. The higher MSPs would increase investment and production through assured remunerative prices to farmers.
- **Other initiatives of Government in the farming sector**
    - In the Kharif season, the Government of India had declared a bonus of Rs. 200 per quintal over and above the MSPs of Kharif pulses for 2015-16 season.
    - A scheme to issue Soil Health Card to every farmer has been introduced. Soil health management in the country is being promoted through setting up of soil & fertilizer testing laboratories and implementation of organic farming.
    - Government has also framed guidelines under Paramparagat Krishi Vikas Yojna (PKVY) to promote organic farming and develop potential market for organic products.
    - The Pradhan Mantri Krishi Sinchai Yojana, has been launched with the objective of creating sources of assured irrigation.
    - A dedicated Kisan Channel has been started by the Doordarshan to address various issues concerning farmers.
    - Government has also created portal on crops insurance in order to keep farmers better informed.

- An initiative is being taken to set up a National Agriculture Market (NAM). This would enable farmers to overcome the impediments in marketing of agricultural produce and get better price discovery. A common e-market platform is being created and would be provided free of cost to the States/UTs.
- Government has undertaken steps to introduce electronic trading which will facilitate single license for trading in the whole States/country as well as single point levy of market fee.
- To stabilize prices of pulses and onions, government has started importing pulses and onions under the Price Stabilisation Fund (PSF). PSF refers to any fund constituted for the purpose of containing extreme volatility in prices of selected commodities.

Practice Questions

Q29. Which of the following is a rabi crop?

(a) Barley

(b) Cotton

(c) Soyabean

(d) Sugarcane

Q30. Consider the following statements about Minimum Support Price (MSP) in India:

1. Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices.
2. MSP is announced by the Government of India at the beginning of the sowing season for certain crops on the basis of the recommendations of the Cabinet Committee on Economic Affairs (CACP).

Which of the following statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Q31. Consider the following statements about Commission for Agriculture Costs and Prices (CACP):

1. Commission for Agricultural Costs and Prices (CACP) formally known as Agricultural Prices Commission is a decentralized agency of the Government of India.
2. CACP was established in the year 1965 as Agricultural Prices Commission.

Which of the following statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

13. ACCELERATED IRRIGATION BENEFITS PROGRAM (AIBP)

Irrigation

Why is this topic important for the exam?

- Agriculture is entirely dependent on adequate and timely availability of water. It also consumes largest quantity of water.

- In India, still more than 55% of agriculture is rain dependent.
- This rain dependency is becoming more volatile due to climate change and deforestation.
- Thus cheap, and less water consuming alternative methods of irrigation become important to prevent ecological and economic distress in agriculture.
- Also, UPSC has stressed on the importance of this topic by asking such questions previously, for e.g.

Q. Consider the following statements : (# Pre-2015)

1) The AIBP was launched during 1996-97 to provide loan assistance to poor farmers.

2) The Command Area Development Programme was launched in 1974-75 for the development of water-use efficiency.

a) 1 only

b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

What is the current context?

- The Union Ministry for Water Resources, River Development and Ganga Rejuvenation has signed a Memorandum of Agreement (MoA) between the Ministry and the NABARD for providing central assistance to 99 prioritized irrigation projects under Accelerated Irrigation Benefits Programme (AIBP) within Pradhan Mantri Krishi Sichai Yojana (PMKSY) for speedy implementation throughout the country.

Core and Concept: Points to focus

- **PRADHAN MANTRI KRISHI SICHAI YOJANA (PMKSY)**
  - Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) has been formulated with the vision of extending the coverage of irrigation 'Har Khet ko pani' and improving water use efficiency 'More crop per drop' in a focused manner with end to end solution on source creation, distribution, management, field application and extension activities.
  - PMKSY has been formulated by amalgamating ongoing schemes viz.
    a) Accelerated Irrigation Benefit Programme (AIBP) of the Ministry of Water Resources, River Development & Ganga Rejuvenation (MoWR,RD&GR),
    b) Integrated Watershed Management Programme (IWMP) of Department of Land Resources (DoLR) and
    c) the On Farm Water Management (OFWM) of Department of Agriculture and Cooperation (DAC).
- **ACCELERATED IRRIGATION BENEFITS PROGRAM (AIBP)**
  - Accelerated Irrigation Benefit Program (AIBP) was launched by Government of India during 1996-97 to provide financial assistance to State Governments with the aim of speeding up the implementation of on-going irrigation projects.
  - Monitoring of the projects covered under the AIBP is periodically done by the Central Water Commission with the help of its regional offices situated all over the country. The conventional monitoring is done through discussions with field authorities and random field checks which often is inadequate in bringing out the factual status.
  - High resolution satellite data from Cartosat-1 and Cartosat-2 is successfully used for inventory of canal network and other irrigation infrastructure, facilitating objective assessment of physical status with reference to a given time frame (as on the date of satellite data acquisition).
- **Integrated Watershed Management Programme (IWMP)**
  - The Integrated Watershed Management Programme (IWMP) one of the Flagship programme of Ministry of Rural Development is under implementation by the Department of Land Resources since 2009-10.
  - The main aims of IWMP are harnessing, conserving and developing degraded natural resources such as soil, vegetative cover and water; prevention of soil run-off; rain water harvesting and recharging of the ground water table; increasing

the productivity of crops; introduction of multi-cropping and diverse agro-based activities; promoting sustainable livelihoods and increasing the household incomes.

- **NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)**
  - NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.
  - In discharging its role as a facilitator for rural prosperity NABARD is entrusted with
    a) Providing refinance to lending institutions in rural areas;
    b) Bringing about or promoting institutional development; and
    c) Evaluating, monitoring and inspecting the client banks
  - Besides this pivotal role, NABARD also:
    d) Acts as a coordinator in the operations of rural credit institutions;
    e) Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development;
    f) Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development;
    g) Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development;
    h) Acts as regulator for cooperative banks and RRBs.

Practice Questions

Q32. Which of the following is not a function of NABARD?

(a) Provides credit facility directly to farmers.

(b) Provides refinance to lending institutions in rural areas.

(c) Acts as a regulator for cooperative banks and RRBs.

(d) Acts as a coordinator in the operations of rural credit institutions.

Q33. Consider the following statements:

1. The PMKSY has been formulated by amalgamatingAccelerated Irrigation Benefit Programme (AIBP), Integrated Watershed Management Programme (IWMP), and On Farm Water Management (OFWM).
2. The Integrated Watershed Management Programme (IWMP) is a program of Department of Agriculture and Cooperation (DAC).

Which of the following statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

Q34. Consider the following statements about Accelerated Irrigation Benefit Program (AIBP):

1. Accelerated Irrigation Benefit Program (AIBP) was launched during 1996-97 to provide financial assistance to State Governments with the aim of speeding up the implementation of on-going irrigation projects.
2. Monitoring of the projects covered under the AIBP is periodically done by the Central Water Commission.

Which of the following statements is/are correct?

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

THEME 4

INFRASTRUCTURE

14. AVIATION

Aviation policy

Why is this topic important for the exam?

- India is a fast growing economy and for its further expansion, it requires broader connectivity of smaller towns and cities with the major metropolises.
- Time has come to connect smaller cities, not just with railways and roads, but also with aviation facilities.
- Similarly, better aviation connectivity is also required with neighbouring countries to boost bilateral and regional trade.

What is the current context?

- Launch of **Ude Desh Ka Aam Naagrik (UDAN)**.
- Launch of **National Civil Aviation Policy2016** for increasing air connectivity, allowing new domestic airlines to fly abroad quickly and opening up the skies for European and South Asian Association for Regional Cooperation (SAARC) countries.

Core and Concept: Points to focus

- **UDE DESH KA AAM NAAGRIK (UDAN)**
  - Regional Connectivity Scheme (RCS), or UDAN (Ude Desh Ka Aam Naagrik), was introduced as part of the National Civil Aviation Policy 2016. It provides an opportunity to take flying to the masses by way of fiscal incentives, infrastructure support and monetary subsidies (viability gap funding).
  - UDAN is an innovative scheme to develop the regional aviation market. It is a market-based mechanism in which airlines bid for seat subsidies.
  - This first-of-its-kind scheme globally will create affordable yet economically viable and profitable flights on regional routes so that flying becomes affordable to the common man even in small towns.
  - The scheme would be in operation for a period of 10 years.
- **Key features**
  - Airfare of about Rs.2500 per passenger for a one-hour flight.
  - Scheme will be implemented by way of:

a) Revival of airstrips/airports as No-Frills Airports at an indicative cost of Rs.50 crore to Rs100 crore.

b) Demand driven selection of airports/airstrips for revival in consultation with state governments and airlines.

c) Viability Gap Funding(VGF) to airline operators.

- **Viability Gap Funding (VGF)**
  - The main constraint in India's infrastructure sector is the lack of source for finance. More than the overall difficulty of securing funds, some projects may not be financially viable though they are economically justified and necessary. This is the nature of several infrastructural projects which are long term and development oriented.
  - For the successful completion of such projects, the government has designed Viability Gap Funding (VGF). Viability Gap Finance means a grant to support projects that are economically justified but not financially viable.

  - Such a grant under VGF is provided as a capital subsidy to attract the private sector players to participate in PPP projects that are otherwise financially unviable.

- **Proposed benefits of UDAN**
  - Citizens would get the benefit of affordability, connectivity to remote and hilly regions and more employment opportunity.
  - Centre would be able to expand the regional air connectivity and market.
  - State governments would reap the benefit of development of remote areas, enhance trade and commerce and more tourism expansion.
  - Incumbent airlines will get new routes and more passengers.
  - For start-up airlines, there is an opportunity of new, scalable business..
  - Airport operators will also see their business expanding as would original equipment manufacturers.

Practice Questions

Q35. Which of the following statements is/are correct?

1. UDAN is an innovative scheme to develop the regional aviation market. It is a market-based mechanism in which airlines bid for seat subsidies.
2. The Viability Gap Funding(VGF) to airline operators is a key feature of UDAN.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

Q36. Which of the following statements is/are correct?

1. Viability Gap Funding (VGF) means a grant to support projects that are economically unjustified but financially viable.
2. Viability Gap Funding(VGF) is provided as a capital subsidy to attract the private sector players to participate in PPP projects.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and2

(d) None of the above

- **National Civil Aviation Policy 2016:** Broad features
  - **Boost for the new airlines**
    - New airlines, such as Vistara and AirAsia, will no longer have to wait for five years before starting operations on international routes. Start-up airlines can now fly abroad after operating at least 20 planes or 20 per cent of their total flying capacity, whichever is higher, on domestic routes.
    - According to a 2004 norm, which is also known as the ‘5/20 rule’, a domestic airline is allowed to go international only after flying for five years to domestic destinations and operating at least 20 aircraft.

- **Open-Sky Policy**
  - Open skies is an international policy concept that calls for the liberalization of the rules and regulations of the international aviation industry—especially commercial aviation—in order to create a free-market environment for the airline industry.
  - India will have an open-sky policy for countries beyond the 5,000-km radius from Delhi on a reciprocal basis. This means that airlines from European or SAARC countries will have unlimited access, in terms of number of flights and seats, to Indian airports, leading to increased flight frequencies with these countries.
  - While India has full open-sky with U.S., it has a near open-sky agreement with the U.K. with a restriction on the frequency of flights to and from Mumbai and Delhi.
- **Regional Connectivity Scheme (REC): Termed as UDAN** (explained above)
- **Route Dispersal Guidelines**
  - Domestic airlines will be required to provide more flights to the north-eastern region, Jammu and Kashmir, Andaman and Nicobar Islands and Lakshadweep as the route dispersal guidelines have been amended to add six more sectors to the metro routes. As per the guidelines, on such north-eastern and other routes, airlines are mandated to fly 10 per cent of their total capacity they deploy on metro routes.

Q37. Which of the following statements is/are correct?

1. Open skies is an international policy concept that calls for the liberalization of the rules and regulations of the international aviation industry.
2. Open sky agreements between countries eliminate the use of government oversight in commercial air carrier services such as capacity and pricing, giving carriers the ability to provide convenient and affordable air service.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

15. LOGISTICS ENHANCEMENT EFFICIENCY PROGRAMME (LEEP)

\# Basic Infrastructure

Why is this topic important for the exam?

- Well spread multimodal infrastructure is the backbone of economic development and in this well-connected road network is an essential pre-requisite for faster development of the economy.
- Though India has one of the largest road network in the world but the quality of roads are dismal.
- With India aiming a multi-modal logistics network, so in this scenario, quality road connectivity with Ports will not only hasten the process of development but also open up new avenues of employment.

What is the current context?

- The National Highway Authority of India(NHAI) has recently undertaken Detailed Project Reports (DPRs-survey) to critically examine the existing logistics infrastructure and destination of freight movement in the country under LEEP.

Core and Concept: Points to focus

- **Logistics Enhancement Efficiency Programme (LEEP)**
    - LEEP stands for Logistics Efficiency Enhancement Programme which aims to enhance the freight transportation in India through improving cost, time, tracking and transferability of consignments through infrastructure, procedural and Information Technology (IT) interventions.
    - The programme has been undertaken under Bharatmala Pariyojana.
- **Bharatmala Project**
    - Bharatmala is a name given to ambitious road and highways project of the Government.
    - The project will start from Gujarat and Rajasthan, move to Punjab and then cover the entire string of Himalayan states - Jammu and Kashmir, Himachal Pradesh, Uttarakhand - and then portions of borders of Uttar Pradesh and Bihar alongside Terai, and move to Sikkim, Assam, Arunachal Pradesh, and right up to the Indo-Myanmar border in Manipur and Mizoram..
    - The planned road network will be further linked that to a road network in coastal states, from Maharashtra to Bengal which is very similar to a garland around the country
    - It will improve connectivity in border areas. Currently supplies to India’s troops as well as military transport happens through poor quality roads which can be a negative factor for armed force during emergency and war situations.
    - Setubharatam is a component of Bharatmala and is aimed at elimination of the Railways crossing in India by constructing over bridges and Railway under Bridges (RuBs) to reduce delay and environment hazard resulting from traffic jams at the rail crossings.
- **NHAI**
    - The National Highways Authority of India (NHAI) is an autonomous agency of the Government of India, responsible for management of National Highways in India. It is a nodal agency of the Ministry of Road Transport and Highways.
- **LIDAR**
    - Stands for Light Detection and Ranging, is a remote sensing method that uses light in the form of a pulsed laser to measure ranges (variable distances) to the Earth.
    - Lidar typically uses a low-power, eye-safe pulsing laser working in conjunction with a camera. The laser illuminates a target and associated software calculates the time it takes for the laser to reflect back from the target.
    - Lidar's best-known application is measuring the speed of a target
    - Lidar is used in conjunction with GPS to yield three-dimensional (3-D) topographical maps.
    - Lidar was used to map the surface of the moon, obstacle detection and collision avoidance in autonomous vehicles, such as driverless cars.

Practice Questions

Q38. Which of the following statements is/are correct?

1. Bharatmala is an ambitious road and highways project.
2. Setubharatam is a component of Bharatmala and is aimed at elimination of the Railways crossings.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

16. INDIAN BRIDGE MANAGEMENT SYSTEM

Technology and Infrastructure

Why is this topic important for the exam?

- Lack of any data base on bridges in the country has led to a situation where there is no clear idea about the exact number and location of bridges.
- Poor condition of bridges hampers efficient transport and has also led to accidents and loss of lives on several occasions.
- This brings into picture the importance of maintaining the database of bridges and timely conduct of structural audit for repair and replacement.

What is the current context?

- Launch of Indian Bridge Management System (IBMS).

Core and Concept: Points to focus

- **Indian Bridge Management System (IBMS)**
  - 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.
  - IBMS is the largest platform in the world owned by a single owner, with database that could exceed 1,50,000 bridge structures.
  - During inventory creation, each bridge is assigned a **unique identification number or National Identity Number**, based on the state, RTO zone, and whether it is situated on an National Highway, State Highway or is a district road.
  - Then the precise location of the bridge in terms of latitude-longitude is collected through GPS and based on this, the bridge is assigned a **Bridge Location Number**.
  - Thereafter, engineering characteristics like the design, materials, type of bridge, its age, loading, traffic lane, length, width of carriage way etc. are collected and are used to assign a **Bridge Classification Number** to the structure.
  - These are then used to do a structural rating of the structure on a scale of 0 to 9, and each bridge is assigned a **Structural Rating Number.**
  - In addition to the structural rating, 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.

Practice Questions

Q39. Which of the following are the components of Indian Bridge Management System (IBMS)?

1. National Identity Number
2. Bridge Location Number
3. Bridge Classification Number
4. Structural Rating Number
5. Socio-Economic Bridge Rating Number

Choose the correct code

(a) 1 , 2, 3, and 4

(b) 1, 3 and 5

(c) 2, 3, 4 and 5

(d) 1, 2, 3, 4 and 5

Q40. Which of the following statements is/are correct with respect to Indian Bridge Management System (IBMS)?

1. Bridge Classification Number is based on the location of the bridge in terms of latitude-longitude.
2. Structural Rating Number is on the scale of 0 to 6.

Choose the correct code

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) None of the above

17. MINING SURVEILLANCE SYSTEM

Technology and Infrastructure

Why is this topic important for the exam?

- Illegal mining is a menace in our country and has led to over and unsustainable exploitation of mineral and forest resources.
- This has led to confrontation between mineral resource exploiters and tribals, who are time and again denied economic and social benefits, leading to displacement, environment degradation and rebellion.
- In such circumstances, an independent system that uses technology to provide a transparent platform can go a long way to tackle this menace.

What is the current context?

- Launch of **Mining Surveillance System (MSS),** a pan-India surveillance network to check illegal mining using latest satellite technology.

Core and Concept: Points to focus

- **Mining Surveillance System (MSS)**
  - MSS is a satellite-based monitoring system which aims to check illegal mining activity through automatic remote-sensing detection technology in order to establish a regime of responsive mineral administration.
  - Mining Surveillance System (MSS) is developed by Indian Bureau of Mines (IBM) in coordination with Bhaskaracharya Institute for Space Applications and Geo-informatics (BISAG), Gandhinagar.
  - It is one of the first such surveillance systems developed in the world using space technology.
  - It has been developed under the Digital India Programme.
- **How MSS works?**
  - In the MSS, maps of mining leases have been geo-referenced and are superimposed on latest satellite remote sensing scenes obtained from CARTOSAT.
  - It has capacity to check any unusual activity such illegal mining at a region of 500 meters around the existing mining lease boundary.
  - It has been incorporated with automatic software which leverages image processing technology to generate automatic triggers of unauthorized activities. These automatic triggers will be studied at a Remote Sensing Control Centre of IBM and then transmitted to the district level mining officials for field verification.

- Besides, a user-friendly mobile app also has been created for these officials to submit compliance reports of their inspections. The mobile app aims to establish a participative monitoring system in which the citizens also can use this app and report unusual mining activity.
- MSS also has an executive dashboard to work as a decision support system. Using it officials at all levels can track the current status of mapping of the mining leases, status of inspections and penalty levied etc. for all major mineral mining leases across the country.

- **Advantages of MSS**
  - Transparent as public will be provided an access to the system.
  - Deterrence Effect due to continuous monitoring from space.
  - Bias-free and Independent as the system is based on technology evidences and has no human interference.
  - Quicker Response and Action as the mining areas will be monitored regularly and the sensitive areas will be monitored more frequently.
  - Effective Follow-up as action will be taken on triggers that will be followed-up and monitored at various levels
- **Indian Bureau of Mines (IBM)**
  - The Indian Bureau of Mines (IBM) established in 1948, is a multi-disciplinary government organisation under the Department of Mines, Ministry of Mines, engaged in promotion of conservation, scientific development of mineral resources and protection of environment in mines other than coal, petroleum & natural gas, atomic minerals and minor minerals.

Practice Questions

Q41. Which of the following statements is/are correct?

1. Mining Surveillance System (MSS), is a satellite-based monitoring system which aims to check illegal mining activity through automatic remote-sensing detection technology.
2. Mining Surveillance System (MSS) is developed by Indian Bureau of Mines (IBM) in coordination with Indian Institute of Science (IISc).

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

18. GARV II APP

Technology and Infrastructure

Why is this topic important for the exam?

- Electrification of rural areas has numerous social , economic, health and educational benefits.
- Faster electrification of rural areas is a top priority are for the government.
- Once electrified, rural villages can become the hub of economic activities and develop micro industries.
- This would have multidimensional benefits like decrease in the migration of people to cities for employment opportunities and penetrations of electronics and other equipments in the rural market in turn churning the wheels of economic growth.
- UPSC has also focused on this segment conceptually, for e.g.

Q. What are smart cities ? Examine Their relevance for urban development in India. Will it increase rural-urban difference ? Give arguments for 'Smart Villages' in the light of PURA and RURBAN Missions. (# Main-2016)

What is the current context?

- The Union Power Ministry launched GARV-II Mobile App to monitor rural electrification programme under Deen Dayal Upadhaya Gram Jyoti Yojana.

Core and Concept: Points to focus

- **DEEN DAYAL UPADHAYA GRAM JYOTI YOJANA (DDUGJY)**
  - It is a Government of India scheme designed to provide continuous power supply to rural India. The scheme will replace the existing Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY). Its objectives are :
    - a) Electrification of all villages
    - b) Feeder separation to ensure sufficient power to farmers and regular supply to other consumers
    - c) Improvement of Sub-transmission and distribution network to improve the quality and reliability of the supply
    - d) Metering to reduce the losses
  - As per the government's 2006 rural electrification policy, a village is deemed 'electrified' if basic infrastructure such as distribution transformer and distribution lines has been set up in the inhabited locality. Moreover, at least 10 per cent of the households of such a village should have access to electricity through the basic infrastructure established.
  - The earlier scheme for rural electrification viz. Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) has been subsumed in the new scheme as its rural electrification component.
  - Rural Electrification Corporation (REC) is the nodal agency for implementation of DDUGJY.
- **RURAL ELECTRIFICATION CORPORATION (REC)**
  - *REC is a Navratna Company* functioning under the purview of the Ministry of Power.
  - The company finances and promotes rural electrification projects across India.
  - The company provides loans to Central/ State Sector Power Utilities, State Electricity Boards, Rural Electric Cooperatives, NGOs and Private Power Developers.
- **GARV II APP**
  - For promoting transparency through the use of technology.
  - The GARV-II App provides village-wise, habitation-wise base line data on household electrification for all states..
  - It also incorporates the status of release of funds to the states for electrification projects sanctioned under DDUGJY.
  - GARV-II allows people's participation for rural electrification work.
  - It opens rural electrification work to public scrutiny and input about rural electrification programme. It also has a citizen engagement window 'SAMVAD' to enhance participation.
  - It automatically forwards feedback and suggestions of people to the concerned authorities through SMS & Email.

Practice Questions

Q42. The GARV-II App is associated with

(a) farm insurance coverage

(b) real time data for reconnaissance

(c) monitoring of rural electrification

(d) extension of health facilities

Q43. Which of the following statements is/are correct?

1. The GARV-II App provides village-wise, habitation-wise base line data on household electrification for all states.
2. The GARV-II App has a citizen engagement window 'SAMVAD' to enhance participation.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

19. COAL MITRAS

Technology and Infrastructure

Why is this topic important for the exam?

- In the aftermath of the "Coalgate" scam, promotion of transparency in the coal sector is of utmost importance.
- For this, the government has ushered in a number of measures, the most important is online e-auctions of coal beds.
- In this regard, usage of technology for promoting more transparency has brought into focus 'Coal Mitra', which is being earmarked as the next step in the coal sector reforms.
- UPSC has also focused on this segment conceptually, for e.g.

Q. Despite having large reserves of coal, why does India import millions of tonnes of coal?(# Pre-2013)

1) It is the policy of India to save its own coal reserves for future, and import it from other countries for the present use.

2) Most of the power plants in India are coal-based and they are not able to get sufficient supplies of coal from within the country.

3) Steel companies need large quantity of coking coal which has to be imported.

Which of the statements given above is/are correct?

a) 1 only

b) 2 and 3 only

c) 1 and 3 only

d) 1, 2 and 3

What is the current context?

- The Union Ministry of Coal has launched **Coal Mitra**, a web portal for allowing flexibility in utilization of domestic coal

Core and Concept: Points to focus

- **Coal production in India**
  - In the year 2016, India surpassed United States to become the second largest coal producing country in the world, second only to China.
  - India is both importer and exporter of coal.
  - Jharkhand is the largest coal producing state in the country followed by Orissa, Chhattisgarh, West Bengal, Madhya Pradesh, Telangana and Maharashtra.

- **Types of coal in India**
  - Most of the coal in India is **Gondwanan coal**. Gondwana coal is free from moisture, but it contains Sulphur and Phosphorous.
  - **Tertiary coal** is found in the rocks of the Oligocene period of the Tertiary Era. The Tertiary coal is also known as the **'brown coal'**. The Tertiary coal contributes only about two per cent of the total coal production of the country.
  - It is an inferior type of coal in which the carbon varies between 30 per cent to 50 per cent.
  - Namchick-Namrup coalfield is an important tertiary coal field in Arunachal Pradesh.
  - Depending upon its grade from highest to lowest following, The coal found in India can be classified as Anthracite Coal, Bituminous Coal, Lignite (Brown Coal), Peat etc.
- **Anthracite Coal**
  - This is the best quality of coal and contains over 85 per cent carbon. It is very hard, compact, jet black coal having semi-metallic lustre.
  - Anthracite coal ignites slowly and burns with a nice short blue flame. In India, it is found only in Jammu and Kashmir and that too in small quantity.
- **Bituminous Coal (Gondwana Coal)**
  - This is the most widely used coal and contains 50 to 85 per cent carbon.
  - It is dense, compact, and brittle and is usually of black colour.
  - A good bituminous coal is composed of alternate dull and bright bands.
  - Its calorific value is very high due to high proportion of carbon and low moisture content.
  - Most of the bituminous coal is found in Jharkhand, Orissa, West Bengal, Chhattisgarh and Madhya Pradesh.
- **Lignite (Brown Coal)**
  - Also known as brown coal, lignite is a lower grade coal and contains about 35-50 per cent carbon.
  - It represents the intermediate stage in the alternation of woody matter into coal. Its colour varies from dark to black brown.
  - It is found in Neyveli (Tamil Nadu)which the largest, Palna of Rajasthan, Lakhimpur of Assam and Karewa of Jammu and Kashmir.
- **Peat**
  - This is the first stage of transformation of wood into coal and contains less than 35 per cent carbon.
  - It is seldom sufficiently compact to make a good fuel without compressing into bricks.
  - Left to itself, it burns like wood, gives less heat, emits more smoke and leaves a lot of ash after burning.
- **COAL MITRA**
  - For promoting transparency through the use of technology.
  - The Coal Mitra Web Portal aims at optimum utilisation by private as well as public power companies of the coal.
  - It facilitates transfer of the coal reserves to more cost efficient State/Centre owned or Private sector generating stations.
  - The portal allows coal swapping between PSUs and the Private Sector in transparent manner and also helps to reduce operational and logistic costs, bringing power tariffs down for the consumers.
  - The web portal would be used by the State/Central Gencos to display information about normative fixed and variable charges of electricity for the previous month as well as margin available for additional generation so as to enable the utilities identify stations for transfer of coal.

Practice Questions

Q44. The COAL MITRA is

(a) a person involved in community policing of coal beds.

(b) a web portal for optimum utilisation of coal.

(c) a new technology for reducing impact on climate change due to coal burning.

(d) for promoting online auctions of coal beds.

Q45. Which of the following statements is/are correct?

1. Most of the coal produced in India is Gondwana coal.
2. Anthracite coal is a Gondwana coal.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

THEME 5

BANKING AND FINANCIAL SECTOR REFORMS

20. ASSET QUALITY REVIEW

Bank Reforms

Why is this topic important for the exam?

- Indian banking system is sitting on a huge stockpile of Non-Performing Assets (NPAs).
- Even the assets quality of the extended loans is questionable as asset classification was not being done properly and that banks were resorting to ever-greening of accounts.
- Thus banks were postponing bad-loan classification and all these were not reflected clearly in the annual books.

What is the current context?

- The Reserve Bank of India (RBI) has conducted an Asset Quality Review (AQR) with a view to cleaning up balance sheets of banks. This has resulted in mounting losses for the banking sector.
- It was prescribed by the previous RBI Governor Raghuram Rajan as a desperate measure to clean up bank books.
- This exercise is broadly similar to stress tests conducted by the US and European authorities on banking sector after the global financial crisis.

Core and Concept: Points to focus

- **Asset Quality Rating**
  - An asset quality rating is a review or evaluation assessing the credit risk associated with a particular asset. These assets usually require interest payments - such as a loans and investment portfolios. How effective management is in controlling and monitoring credit risk can also have an affect on the what kind of credit rating is given.
  - Basically, proper assessing of the potential risks involved in extending credit is essential to preventing piling up of stressed assets leading to NPAs.
  - Many factors are considered when rating asset quality. For example, consideration must be put into whether or not a portfolio is appropriately diversified, what regulations or rules have been put in to place to limit credit risks and how efficiently operations are being utilized.
  - Typically, a rating of one shows that asset quality is good and there is very little credit risk, while a rating of five can signify that there are major asset quality problems and issues that need to be managed.
- **Asset Quality Review (AQR)**
  - Typically, Reserve Bank of India (RBI) inspectors check bank books every year as part of its annual financial inspection (AFI) process. However, a special inspection was conducted in 2015-16 in the August-November period. This was named as Asset Quality Review (AQR).
  - In a routine AFI, a small sample of loans is inspected to check if asset classification was in line with the loan repayment and if banks have made provisions adequately.
  - However, in the AQR, the sample size was much bigger and in fact, most of the large borrower accounts were inspected to check if classification was in line with prudential norms.
  - Some reports suggest that a list of close to 200 accounts was identified, which the banks were asked to treat as non-performing. Banks were given two quarters, October-December and January-March of 2016 to complete the asset classification.

- The RBI believed that asset classification was not being done properly and that banks were resorting to ever-greening of accounts. Banks were postponing bad-loan classification and deferring the inevitable.
- Investors were also facing uncertainties as guidance by banks on bad loans was erratic. So finally, Mr. Rajan decided to end the uncertainty as he committed to cleaning up bank balance sheets by March 2017.
- The AQR created havoc on banks' profit & loss accounts as many large lenders slipped into losses in both the said quarters, which resulted in some of them reporting losses for the full financial year. Record losses were posted, Almost all public sector banks were impacted, while the impact in the private sector was limited to biggies such as ICICI Bank and Axis Bank.

Practice Questions

Q46. Which of the following statements is/are correct?

1. An asset quality rating is a review or evaluation assessing the credit risk associated with a particular asset.
2. A rating of one shows poor asset quality and there is huge credit risk.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

21. BAD BANK

Bank Reforms

Why is this topic important for the exam?

- Banks and Financial Institutions (FIs) across the country are reeling under huge financial stress due to bad loans and defaults by various borrowers, especially by big borrowers.
- The Supreme Court of India has also highlighted this issue by asking RBI to reveal the names of 57 big defaulters, with their total debt amounting to Rs. 85000 crores.

What is the current context?

- To address the issue of NPAs and to ease the financial burden of Banks and Financial Institutions across India, the Ministry of Finance in consultation with Reserve Bank of India (RBI) has proposed an idea of setting up of a Bad Bank which will exclusively deal with the problem of NPAs.

Core and Concept: Points to focus

- **NPA**
  - An asset becomes non-performing when it ceases to generate income for the bank. An NPA is a loan or an advance where interest or the instalment of principal remains overdue for a period of more than 90 days in respect of a loan,
  - For loans related to agriculture the if instalment of principal or interest remains overdue for two crop seasons for short duration crops and one crop season for long duration crops, the loan is classified as an NPA.
  - RBI acts as the apex body of regulating and determining the conditions under which an NPA is declared. Currently, Banks are mandated to classify an account as NPA only if the interest due not paid fully within 90 days from the end of the quarter.

- **BAD BANK**
  - A "Bad Bank" is a bank or some type of financial institution that buys and holds all of the "bad" or toxic assets from banks and financial institutions which have stopped earning interests.
  - Such bad loans are then sold to the highest bidder in the market. Bad Bank when backed by the government, gains creditworthiness and reliability among investors thereby attracting them to invest in such schemes.
  - Bad bank will buy NPAs from banks and FIs to free up their stressed balance sheet. It will further help banks and FIs in creating space for fresh lending which will eventually help them in asset creation thereby mobilizing the economy.
  - The concept of Bad Bank was pioneered at the **Mellon Bank** in 1988 (now merged with Bank of New York) in response to problems in the bank's commercial real-estate portfolio. The concept of a bad bank was also applied in previous banking crises in Sweden, France and Germany in the early 1990s.
- **Route from Non-Performing to Performing Assets**

  Once an asset is recognised as NPA by the banks, they can employ various means to convert these assets from non-performing to performing assets.
  - **One**, they can try to seize the assets pledged by the borrower and sell them in the market. This may incur losses on such loans as the assets have to be sold at huge discounts.
  - **Two**, under the RBI's Strategic Debt Restructuring (SDR) scheme, they can convert their loans into equity, acquire a majority stake in the firm, dislodge the promoters or management and bring in new promoters and management. However, Indian banks lack experience and expertise in running businesses and management till such time as new promoters are found.
  - **Third**, banks can restructure the loans for the borrowers. This involves stretching out the period of payment, or waiving a portion of the loans, or reducing the interest rate on loans, or some combination of these. Such restructuring often results in loss to the banks. However, in such restructuring schemes, PSBs may be accused of favouring certain borrowers which may invite action from investigative agencies. This will further lead to paralysis in functioning of such banks.
  - **Fourth,** banks can sell their NPAs at a discount to an Asset Restructuring Company (ARC). This again involves a significant loss on loans when the transaction is made but it has the benefit of getting NPAs off the books.
- **Modus Operandi of a Bad Bank**
  - The bad bank proposal is a variant of the fourth option. The idea is to transfer NPAs of banks to the bad bank for further conversion into performing assets. The bad bank will manage these NPAs as per need. Some may be liquidated, some may be restructured and others may be sold off at discounted rates.
  - Getting NPAs off the books will ease bank's routine work and also help them to attract new business instead of focusing on recoveries which will be done by such bad bank. However, if bad bank is set up as another government owned bank, then it will amount to transferring the problem from one part of the government to another.
  - Bad bank will be subject to the same regulations and constraints with respect to managing NPAs and may encounter same hindrances in its operations as faced by other government sector banks. Managing the sheer size and diversity of bad loans acquired from multiple banks will be challenging for bad bank. Also, a government entity may not be very willing to hire specialists from the market.
- **The idea of Public Sector Asset Rehabilitation Agency (PARA)**
  - The failure of Private Asset Reconstruction Companies(ARCs) that were introduced in India under the SARFAESI Act, 2002 has indicated the need of a formal agency to resolve the large bad debt problem. It could solve the coordination problem since debts would be centralised in one agency.
  - Further such an agency could be set up with proper incentives by giving it an explicit mandate to maximise recoveries within a defined time separating the loan resolution process from concerns about bank capital.
  - PARA would purchase specified loans from banks and then work them out, depending on professional assessments. Once the loans are off the books of the public-sector banks, the government would recapitalise them, thereby allowing them to shift their resources back toward the critical task of granting new loans giving the much-needed boost to investment in India.

- Once the financial viability of the over-indebted enterprises is restored, they will be able to focus on their operations, rather than their finances. Such an agency has been extensively employees across the world especially the East Asian Countries in the 1990s.

- **Twin Balance Sheet Problem**
  - Ever since the Global Financial Crisis, India has been trying to come to grips with its twin balance-sheet (TBS) problem which simply put is the simultaneous existence of over-leveraged (indebted) corporates and the banks with enormous volumes bad-loans.
  - With balance-sheets of companies under such strain, the private corporate sector has been forced to reduce its investments. At the same time, the banks reeling under the pressure of NPA have been forced to reduce further loans.
  - This Twin Balance Problem is seen as the major impediment of India's growth. Majority of the NPAs are with the Public-sector banks which is why the Government is trying to implement ideas like Bad Bank and PARA.

Practice Questions

Q47. Which of the following statements is/are correct?

1. The Bad Bank is basically an Asset Restructuring Company (ARC).
2. The concept of the Bad Bank was pioneered at the Mellon Bank.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

22. INSOLVENCY AND BANKRUPTCY CODE 2016

Bank and Company Reforms

Why is this topic important for the exam?

- At present, there are multiple overlapping laws and adjudicating forums dealing with financial failure and insolvency of companies and individuals in India.
- The current legal and institutional framework does not aid lenders in effective and timely recovery or restructuring of defaulted assets and causes undue strain on the Indian credit system..
- It takes almost 4 years to wind up an ailing company in India, almost the double the time taken in a country like China.
- Laws dealing with issues of solvency requires a relook for faster settling of insolvency cases and reduce piling up of NPAs.

What is the current context?

- Recently, The Insolvency and Bankruptcy Code, 2016 was passed by Parliament.
- It has been presaged on the creation of a complementary eco-system including insolvency professionals, information utilities and a bankruptcy regulator.

Core: Points to focus

- **Insolvency and Bankruptcy**
  - Insolvency is essentially the state of being that prompts one to file for bankruptcy. An entity – a person, family, or company – becomes insolvent when it cannot pay its lenders back on time. In general, this occurs when the entity's cash flow-in falls below its cash flow-out.

- Typically, those who become insolvent will take certain steps toward a resolution. One of the most common solutions for insolvency is bankruptcy.
- Bankruptcy is a legal declaration of one's inability to pay off debts. When one files for bankruptcy, one obliges to pay off what is owed with help from the government. In general, there are two main forms of bankruptcy – *reorganization and liquidation bankruptcy*.
- Under reorganization bankruptcy, debtors restructure their repayment plans to make them more easily met. Under liquidation bankruptcy, debtors sell certain assets in order to make money they can use to pay off their creditors.

Concept : Points to focus

- **Insolvency and Bankruptcy Code** (Key Features)
  - **Insolvency Resolution**: The Code outlines separate insolvency resolution processes for individuals, companies and partnership firms. The process may be initiated by either the debtor or the creditors. A maximum time limit, for completion of the insolvency resolution process, has been set for corporates and individuals. For companies, the process will have to be completed in 180 days, which may be extended by 90 days, if a majority of the creditors agree.
  - **Insolvency regulator**: The Code establishes the Insolvency and Bankruptcy Board of India, to oversee the insolvency proceedings in the country and regulate the entities registered under it. The Board will have 10 members, including representatives from the Ministries of Finance and Law, and the Reserve Bank of India.
  - **Insolvency professionals**: The insolvency process will be managed by licensed professionals. These professionals will also control the assets of the debtor during the insolvency process.
  - **Bankruptcy and Insolvency** Adjudicator: The Code proposes two separate tribunals to oversee the process of insolvency resolution, for individuals and companies: (i) the National Company Law Tribunal for Companies and Limited Liability Partnership firms; and (ii) the Debt Recovery Tribunal for individuals and partnerships.

Practice Questions

Q48. Which of the following statements is/are correct with respect to Insolvency and Bankruptcy Code, 2016?

1. The code outlines separate insolvency resolution processes for individuals, companies and partnership firms.
2. According to the code, the insolvency process will be managed by licensed professionals.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

Q49. Which of the following statements is/are correct?

1. An entity – a person, family, or company – becomes insolvent when it cannot pay its lenders back on time.
2. Insolvency is a legal declaration of one's inability to pay off debts.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

23. INDIA POST PAYMENTS BANK (IPPB)

Banking and Financial Inclusion Reforms

Why is this topic important for the exam ?

- Financial Inclusion is an exercise to cover the entire unbanked population through institutional credit.
- India has a rich history of financial inclusion initiatives starting nationalisation of banks in 1969.
- Recently, the pace of financial inclusion has increased with the launch of Jan Dhan Yojana, Payment Banks, Mobile Banking etc.
- In this regard, post offices with their wider reach in the rural areas can also play an important role in the extension of institutional finance for the unbanked.

What is the current context?

- India Post Payments Bank (IPPB Ltd) has been incorporated by the Registrar of Companies, paving the way for the postal department's bank to begin operations in 2017. This will be the first public sector undertaking under the Department of Posts and will have 100% Government of India (GOI) equity.
- IPPB is a proposed state-owned commercial bank in India that would use the existing network of India Post, to provide banking services throughout India. Setting-up of the IPPB is being done to spread the cause of better and inclusive financial inclusion for all.

Core and Concept: Points to focus

- **Financial Inclusion**
    - Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable.
- **Importance of Financial Inclusion in India**
    - A large section of Indian population still remains unbanked. This malaise has led generation of financial instability and poverty among the lower income groups. Thus the policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:-
    - Habit of saving: To promote habit of saving among lower income groups which are continuously living under financial duress mainly because of the absence of savings.
    - Cut the role of informal credit: So far the unbanked population has been vulnerably dependent on informal channels of credit like family, friends and moneylenders. Availability of adequate and transparent credit from formal banking channels shall also allow the entrepreneurial spirit of the masses to increase outputs and prosperity in the countryside.
    - Plug gaps and leaks in public subsidies and welfare programmes through a push towards direct cash transfers to beneficiaries through their bank accounts.
- **Payment Banks**
    - In September 2013, the Reserve Bank of India constituted a committee headed by Dr Nachiket Mor to study 'Comprehensive financial services for small businesses and low income households'. The objective of the committee was to propose measures for achieving financial inclusion and increased access to financial services.
    - One of the key suggestions of the committee was to introduce specialised banks or 'payments bank' to cater to the lower income groups and small businesses so that each Indian resident can have a bank account.
    - A payments bank is like any other bank, but operating on a smaller scale without involving any credit risk. In simple words, it can carry out most banking operations but can't advance loans or issue credit cards. It can accept demand deposits (up to Rs 1 lakh), offer remittance services, mobile payments/transfers/purchases and other banking services like ATM/debit cards, net banking and third party fund transfers.

- **Coming up of IPPB and the proposed benefits**
  - All citizens, especially 40% of the country's population that is outside the ambit of formal banking in the country will benefit from this project.
  - The proposal will further the cause of financial inclusion by providing basic banking, payments and remittance services and facilitate financial services like insurance, mutual funds, pensions and access to credit in tie-up with third party financial providers with special focus on rural areas and the unbanked and under-banked segments.
  - It will generate new employment opportunities for skilled banking professionals and will generate opportunities for propagating financial literacy across the country.
  - It will create the largest bank in the world in terms of accessibility and in time, will encourage the move towards a less cash economy.

Practice Questions

Q50. Which of the following committees recommended setting up of the Payment Banks?

(a) Nachiket Mor Committee

(b) Rangarajan Committee

(c) N.K. Sinha Committee

(d) Bibek Debroy Committee

Q51. Which of the following statements is/are correct?

1. A payments bank is like any other bank, but operating on a smaller scale.
2. A payment bank can carry out most banking operations and can also advance loans or issue credit cards.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

24. PONZI SCHEMES

Reforms

Why is this topic important for the exam?

- India suffers from a very low rate of financial literacy. This makes the majority population vulnerable to the fraudulent schemes.
- Generally, people get attracted to such schemes based on the unrealistic rate of return and unverified company background.
- The mere existence of such schemes in a very large number in India itself is an indicator to a problem that needs to be addressed.
- In such a scenario, an unambiguous policy becomes a necessity to deal with this.

What is the current context?

- The government has come up with a series of guidelines for states to regulate the direct selling sector and curb related Ponzi schemes which dupe small investors of their hard earned savings.

- The ‘Direct Selling Guidelines 2016’ framework was released by the Ministry of Food and Consumer Affairs and has been sent to the states and Union Territories for adoption.
- In the guidelines, the government has clearly defined legitimate direct selling and differentiates it from pyramid and money circulation schemes to help investigating agencies identify fraudulent players.

Core and Concept: Points to focus

- **Ponzi Schemes**
    - A Ponzi scheme is an investment fraud where clients are promised a large profit at little to no risk. Companies that engage in a Ponzi scheme focus all of their energy into attracting new clients to make investments.
    - This new income is used to pay original investors their returns, marked as a profit from a legitimate transaction. Ponzi schemes rely on a constant flow of new investments to continue to provide returns to older investors. When this flow runs out, the scheme falls apart.
    - The first notorious Ponzi scheme was orchestrated by a man named Charles Ponzi in 1919 in Europe. The Saradha Group chit fund scam of West Bengal is one such example from India.
- **Modus operandi of pyramid schemes**
    - The guidelines have disallowed pyramid schemes that are based on an actual pyramid structure. It is very wide at the bottom and only one person at the top. The new person coming in pays a fee to join. Most of the time it is a very large fee and there is little to no product that you receive for promoting your new business.
    - As more and more people are brought in, they go to the bottom of the pyramid and the money moves upward in the company structure eventually reaching the top guy. When he makes enough money as agreed upon, he drops off and the pyramid shifts again. Those at the bottom levels do not see any money for a long time, if they ever get any at all.
    - At some point the structure will collapse and the pyramid scheme will be over, without any benefit to the people at lower part of pyramid thus making them lose their fee and hard work they put in.
- **Direct selling**
    - The government has clearly defined legitimate direct selling and differentiates it from pyramid and money circulation schemes to help investigating agencies identify fraudulent players.
    - In direct selling, marketing and retailing of goods and services is done by the provider, directly to the consumers, in their homes or in any other location away from permanent retail premises.
    - It is usually conducted in a face-to-face manner or through a catalogue or phone call to the customer to collect orders.
- **Components of ‘Direct Selling Guidelines 2016’**

a) Direct selling firms should be a registered legal entity.

b) Direct sellers should not get any remuneration or incentives for recruitment/enrolment of new participants.

c) Participants not to pay any entry/registration fee.

d) Company will have to give full refund or buy-back guarantee for goods and services sold to direct sellers.

e) Sets up grievance redressal mechanism for consumers.

f) Direct sellers shall carry their I-cards and not visit any household without prior permission.

g) The guidelines also lay down a remuneration system for the person engaged by direct selling firms on sharing of incentives, profit and commission.

h) All agreements between direct sellers and direct selling entity should be in writing describing the material impact of the participation.

Practice Questions

Q52. Which of the following statements is/are correct with respect to 'Direct Selling Guidelines 2016'?

1. Direct sellers should get incentives for recruitment/enrolment of new participants.
2. Direct sellers shall carry their I-cards and not visit any household without prior permission.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

THEME 6

FOREIGN TRADE

25. ADVANCE PRICING AGREEMENTS (APA)

Taxation

Why is this topic important for the exam ?

- The international transactions are complex and involve more than one country. The sole objective of the APA is to bring tax certainty in international transactions and overcome the issues due to transfer pricing between related parties.
- The Advance Pricing Agreement (APA) Programme was introduced by the Finance Act, 2012 with a view to provide a predictable and non-adversarial tax regime and to reduce the litigation in the Indian transfer pricing arena. An APA can be entered into for a maximum of 5 years at a time.
- Thus, APAs bring tax certainty, reduce litigation expenses and avoid risk of double taxation. An APA brings extra revenue to the tax administration.

What is the current context?

- India and the United Kingdom (UK) has signed three Bilateral Advance Pricing Agreements (APAs) in order to have a smooth tax regime and reduce litigation arising out of transfer pricing issues in a fair and transparent manner.

Core and Concept: Points to focus

- **Advance Pricing Agreements (APAs)**
    - An APA is a contract, usually for multiple years signed between a taxpayer and at least one tax authority specifying the pricing method that the taxpayer will apply to its related-company transactions.
    - These programmes are designed to help taxpayers voluntarily resolve actual or potential transfer pricing disputes in a proactive, cooperative manner, as an alternative to the traditional examination process.
    - Although styled as advance agreements, APAs often involve the resolution of transfer pricing issues pending from prior years and in some cases can provide an effective means for resolving existing transfer pricing audits or adjustments.
    - An APA offers several benefits like greater certainty on the transfer pricing method adopted, mitigating the possibility of disputes and facilitating the financial reporting of potential tax liabilities.
    - APA also reduces the incidence of double taxation and the costs associated with both audit defence and documentation preparation.
- **Transfer Pricing**
    - Transfer pricing is the balancing of the price for goods and services sold between controlled or related legal entities within an enterprise. For example, if a subsidiary company sells goods to a parent company, the cost of those goods paid by the parent to the subsidiary is the transfer price.
    - Transfer Pricing is not illegal per se but becomes subject to international tax laws when there is distortion in prices to avoid payment of taxes between different tax jurisdictions. At times double taxation avoidance agreement acts as a protective shield for such distorted price mechanism.
    - For e.g. Company A is situated in country Alpha and company B is a subsidiary of company A situated in country Beta. Tax rate of Beta is very high as compared to Alpha. So Company B tries to siphon most of its expenses to company A situated in Alpha through a dummy sale of goods or services by adjusting the balance sheet to avoid tax in his home country Beta.

- Thus, the effect of transfer pricing is that the parent company or a specific subsidiary tends to produce insufficient taxable income or excessive loss on a transaction. For instance, profits accruing to the parent company can be increased by setting high transfer prices to siphon profits from subsidiaries domiciled in high tax countries and vice versa.

Practice Questions

Q53. Which of the following statements are correct?

1. An Advanced Pricing Agreement (APA) is a contract, usually for multiple years signed between a taxpayer and at least one tax authority specifying the pricing method that the taxpayer will apply to its related-company transactions.
2. An APA offers several benefits like greater certainty on the transfer pricing method adopted, mitigating the possibility of disputes and facilitating the financial reporting of potential tax liabilities.
3. The concept of APA was introduced in India via the Finance Act of 2012.

Choose the correct code

(a) 1 and 2 only

(b) 1 and 3 only

(c) 1 and 3 only

(d) 1, 2 and 3

Q54. Which of the following statements is/are correct?

1. Transfer pricing is the balancing of the price for goods and services sold between controlled or related legal entities within an enterprise.
2. Advanced Pricing Agreements(APAs) also involve the resolution of pending transfer pricing issues.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

26. DOUBLE TAXATION AVOIDANCE AGREEMENT (DTAA)

Taxation

Why is this topic important for the exam ?

- India has comprehensive DTAAs with 88 countries, out of which 85 have entered into force.
- This means that there are agreed rates of tax and jurisdiction on specified types of income arising in a country to a tax resident of another country.
- Under the Income Tax Act 1961 of India, there are two provisions, Section 90 and Section 91, which provide specific relief to taxpayers to save them from double taxation.
- Section 90 is for taxpayers who have paid the tax to a country with which India has signed DTAA, while Section 91 provides relief to taxpayers who have paid tax to a country with which India has not signed a DTAA.
- With corruption and round tripping taking centre stage in all economic discussions, DTAA has become a crucial topic for question forming for this year as well.

What is the current context?

- India signed a new Double Taxation Avoidance Agreement (DTAA) with Cyprus.
- The new DTAA provides for a source-based taxation of capital gains arising from alienation of shares instead of a residence-based taxation as provided under the existing DTAA with Cyprus.
- With the new treaty approved by Cabinet, capital gains will be taxed in India for entities resident in Cyprus, subject to double tax relief.
- The new DTAA expands the scope of 'permanent establishment' and reduces tax rate on royalty from 15% to 10% to align with India's domestic tax law.
- Amended tax treaty also provides for assistance in collection of taxes and provides for effective exchange of information on tax matters including bank information.

Core and Concept : Points to focus

- **Double Taxation**
  - Double taxation occurs when an individual is required to pay taxes for the same income, asset, or financial transaction in different countries. Double taxation occurs mainly due to overlapping of tax laws and regulations of the countries..
- **Double Taxation Avoidance Agreement (DTAA)**
  - A DTAA is a tax treaty between two or more countries that aims to avoid or eliminate double taxation of the same income in two or more countries.
  - Its key objective is that tax-payers are not taxed twice for the same income. To protect Indian tax payers from double taxation in different jurisdictions, the Indian government enters into DTAA with several countries.
- **Capital Gains**
  - Capital gain is an increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price.
  - The gain is not realized until the asset is sold. A capital gain may be short-term (one year or less) or long-term (more than one year) and must be claimed on income taxes.
- **Permanent Establishment (PE)**
  - A permanent establishment (PE) is a fixed place of business in India of a foreign enterprise. Such fixed place of business can be a branch office, a place of management, a factory, a warehouse, a workshop etc.
  - As per the Income Tax Act 1961, business profits of a non-resident enterprise are taxable if it has a 'business connection' in India and has some degree of permanence.
  - PE determines the right of a country to tax the profits of an enterprise which is resident of another country.

Practice Questions

Q55. Which of the following statements is/are correct?

1. Capital gain is an increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price.
2. Permanent Establishment (PE) determines the right of a country to tax the profits of an enterprise which is resident of another country.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

27. INTERNATIONAL ARBITRATION CENTRE

Trade dispute

Why is this topic important for the exam?

- In the absence of an international arbitration centre in the country most of the business disputes involving Indian parties land in Singapore or London International Arbitration Centres.
- Indian parties make up an estimated 30% of the arbitration cases handled by the Singapore and London Arbitration Centres.
- With India lacking the skilled professionals to represent the country at various international organizations for dispute settlement, an International arbitration centre can go a long way.

What is the current context?

- The first International Arbitration Centre of India was inaugurated in Mumbai to provide an arbitration platform for Indian business houses to negotiate commercial disputes.

Core: Points to focus

- **Alternative Dispute Resolution (ADR)**
    - Alternative Dispute Resolution refers to the wide spectrum of legal avenues that use means other than trial to settle disputes. The general ADR alternatives to civil litigation are arbitration, conciliation and mediation.
- **Arbitration**
    - Arbitration is an ADR method where the disputing parties involved present their disagreement to one arbitrator or a panel of private, independent and qualified third party "arbitrators."
    - The arbitrator(s) determine the outcome of the case. While it may be less expensive and more accessible than trial, the arbitration process include the risk losing, formal or semi-formal rules of procedure and evidence, as well as the potential loss of control over the decision after transfer by the parties of decision-making authority to the arbitrator.
    - By employing arbitration, the parties lose their ability to participate directly in the process. In addition, parties in arbitration are confined by traditional legal remedies that do not encompass creative, innovative, or forward-looking solutions to business disputes.
- **Mediation**
    - Mediation is an ADR method where a neutral and impartial third party, the mediator, facilitates dialogue in a structured multi-stage process to help parties reach a conclusive and mutually satisfactory agreement.
    - A mediator assists the parties in identifying and articulating their own interests, priorities, needs and wishes to each other. Mediation is a "peaceful" dispute resolution tool that is complementary to the existing court system and the practice of arbitration.
    - Arbitration and mediation both promote the same ideals, such as access to justice, a prompt hearing, fair outcomes and reduced congestion in the courts. Mediation, however, is a voluntary and non-binding process.
- **Conciliation**
    - Conciliation is another dispute resolution process that involves building a positive relationship between the parties of dispute, however, it is fundamentally different than mediation and arbitration in several respects.
    - Conciliation is typically employed in labour and consumer disputes.
    - The "conciliator" is an impartial person that assists the parties by driving their negotiations and directing them towards a satisfactory agreement. It is unlike arbitration in that conciliation is a much less adversarial proceeding; it seeks to identify a right that has been violated and searches to find the optimal solution.

- **International arbitration**
  - It is arbitration between companies or individuals in different states, usually by including a provision for future disputes in a contract. International arbitration allows the parties to avoid local court procedures.
  - International arbitration has different rules than domestic arbitration, and has its own non-country-specific standards of ethical conduct.
  - The predominant system of rules is the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (New York Convention).
  - The International Centre for the Settlement of Investment Disputes (ICSID) also handles arbitration, but it is particularly focused on investor-state dispute settlement and hears relatively few cases.

Practice Questions

Q56. Which of the following statements is/are correct?

1. The first International Arbitration Centre of India was inaugurated in Mumbai.
2. International arbitration allows the parties to avoid local court procedures.
3. International arbitration has its own non-country-specific standards.

Choose the correct code

(a) 1 and 2 only

(b) 1 and 3 only

(c) 2 and 3 only

(d) 1, 2, and 3

Q57. Which of the following statements is/are correct?

1. Alternative Dispute Resolution (ADR) refers to the wide spectrum of legal avenues that use means other than trial to settle disputes.
2. Alternative Dispute Resolution (ADR) includes arbitration but rules out mediation.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

28. SOLAR CASE

Trade dispute

Why is this topic important for the exam?

- India's national solar programme was launched in the year 2010 to establish India as a global leader in solar energy, by creating the policy conditions for its diffusion across the country as quickly as possible
- India is also the founder and leading proponent of solar power through the International Solar Alliance (ISA).
- With the government striving hard towards accomplishing the goals stated under the Paris Agreement, solar energy as a renewal energy takes a centre stage in India's policy formation.

- As of now the total production of solar power in India has crossed 10000 MW and the desire is to achieve the target of 100GW by 2022 and for this India is sealing agreements with foreign players.
- As a result, the Ministry of New and Renewable Energy selected NTPC Vidyut Vyapar Nigam Limited and the Solar Energy Corporation of India as the agencies responsible for implementing the Jawaharlal Nehru National Solar Mission.
- It involves the government entering into long-term power purchase agreements(PPA) with solar power developers wherein the government undertakes to purchase solar power generated.
- A mandatory domestic content requirement was imposed on Power Developers participating under the PPAs
- Important topic for UPSC because all the concepts of WTO form potential topics for asking questions.

Q. To what factors can the recent dramatic fall in equipment costs and tariff of solar energy be attributed? What implications does the trend have for the thermal power producers and the related industry? (# Main-2015)

What is the current context?

- In 2013, the U.S. brought a complaint before the WTO arguing that the domestic content requirement imposed under India's national solar programme is in violation of the global trading rules. Specifically, it said, India has violated its "national treatment" obligation by unfavourably discriminating against imported solar cells and modules.
- In a setback to India, World Trade Organisation's (WTOs) appellate body has upheld the rulings of a panel which had stated that the government's power purchase agreements with solar firms were "inconsistent" with international norms.
- Under WTO rules, countries are not allowed to discriminate against imports and favour local producers, but in the past five years countries keen to support their own manufacturers have frequently resorted to local content requirements, while keeping a sharp eye out for their use by others.
- The appeal ruling is final and India will be expected to bring its laws into compliance with the WTO rules.

Core and Concept : Points to focus

- **World Trade Organisation (WTO)**
  - The World Trade Organization (WTO) deals with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.
  - The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. The bulk of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the 'Doha Development Agenda' launched in 2001.
  - Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.
- **Trade Related Investment measures (TRIMS)**
  - The agreement on the Trade Related Investment measures (TRIMS) calls for introducing national treatment of foreign investment and removal of quantities restrictions.
  - It identifies five investment measures which are inconsistent with the General Agreement on Trade and Tariff (GATT) on according national treatment and on general elimination of quantitative restrictions.
  - These are measure which are imposed on the foreign investors, the obligation to use local inputs, to produce for export as a condition to obtain imported goods as inputs, to balance foreign exchange outgo on importing inputs with foreign exchange earnings through export and not to export more than a specified proportion of the local production.
- **Dispute Settlement Body**
  - The General Council convenes as the Dispute Settlement Body (DSB) to deal with disputes between WTO members.

- The DSB has authority to establish dispute settlement panels, refer matters to arbitration, adopt panel, Appellate Body and arbitration reports, maintain surveillance over the implementation of recommendations and rulings contained in such reports, and authorize suspension of concessions in the event of non-compliance with those recommendations and rulings.

- **Appellate Body**
  - The Appellate Body was established in 1995 under Article 17 of the Understanding on Rules and Procedures Governing the Settlement of Disputes .
  - It is a standing body of seven persons that hears appeals from reports issued by panels in disputes brought by WTO Members.
  - The Appellate Body can uphold, modify or reverse the legal findings and conclusions of a panel, and Appellate Body Reports, once adopted by the Dispute Settlement Body (DSB), must be accepted by the parties to the dispute. The Appellate Body has its seat in Geneva, Switzerland.
- **National Treatment**
  - Imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market. The same should apply to foreign and domestic services, and to foreign and local trademarks, copyrights and patents.
  - This principle of “national treatment” (giving others the same treatment as one’s own nationals) is also found in all the major WTO agreements.
  - National treatment only applies once a product, service or item of intellectual property has entered the market. Therefore, charging customs duty on an import is not a violation of national treatment even if locally-produced products are not charged an equivalent tax.
- **Jawaharlal Nehru National Solar Mission**
  - The Jawaharlal Nehru National Solar Mission, also known as the National Solar Mission, is an initiative of the Government of India to promote renewable energy, especially solar power.
  - Named after Jawaharlal Nehru, the Mission is one of the several initiatives that are part of National Action Plan on Climate Change.
  - The objective of the National Solar Mission is to establish India as a global leader in solar energy, by creating the policy conditions for its diffusion across the country as quickly as possible. The immediate aim of the Mission is to focus on setting up an enabling environment for solar technology penetration in the country both at a centralized and decentralized level.

Practice Questions

Q58. Which of the following statements is/are correct with respect to provisions under World Trade Organisation (WTO)?

1. The Trade Related Investment measures (TRIMS) calls for introducing national treatment of foreign investment and removal of quantities restrictions.
2. The principle of ‘National Treatment’ states that the imported and locally-produced goods should be treated equally — at least after the foreign goods have entered the market.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

Q59. The Appellate Body of World Trade Organisation (WTO) is headquartered at

(a) Geneva

(b) Montreal

(c) Rome

(d) Genoa

29. MARKET ECONOMY TAG

Trade relations

Why is this topic important for the exam ?

- Chinese government's influence in the international market causes distortions in international trade by the export of cheap Chinese goods to other countries.
- These distortions includes government subsidies for various sectors, currency manipulation and the related price fixing, bad loans of banks and absence of transparency in lending rates, minimum wages and property rights, lack of proper business accounting standards
- Market Economy Status (MES) to China, will severely limit India's ability to resort to anti-dumping on cheap imports from China. It will have negative impact on India's manufacturers in chemicals, steel, electrical and electronics sectors as they will be severely hurt by unfairly low-priced imports from China
- Important topic for UPSC.

Q. In the context of which of the following do you sometimes find the terms amber box, blue box and green box? (# Pre-2016)

a) WTO

b) SAARC

c) UNFCCC

d) India-EU FTA

What is the current context?

- India is not inclined to automatically grant the coveted 'Market Economy Status' (MES) to China under World Trade Organisation (WTO) norms.
- The main reason India is reluctant to grant MES to China is that it will severely curb India's ability to impose anti-dumping duties on "unfairly priced" Chinese imports.

Core and Concept : Points to focus

- **Market Economy Status(MES)**
  - Under WTO norms, once a country gets MES status, price of commodities is determined by the market forces(demand and supply) and hence the exports from it will have to be accepted at the production costs and selling price as the benchmark.
  - In other words, from MES countries, the govt does not impose any tariff barrier or quantitative restriction to protect domestic industries.
  - Prior to this status, country is considered as a Non Market Economy (NME).
  - Under the WTO norms, the importing countries are allowed to use alternative methodologies for the determination of normal values for the exports from NME country. It often leads to imposition of higher anti-dumping duties by importing countries to protect its domestic market.

- **MES issue of China**
  - As per the 2001 agreement *(Protocol on accession of China to the WTO)*, WTO-member countries had then decided to deem China as a 'market economy' from December 2016.
  - The 15-year time period (i.e. till December 2016) was given to China to carry out internal reforms and transition into a 'market economy.'
  - This period allowed WTO member nations to ignore selling price and production costs in China for 15 years in calculating the 'normal value' of the exported goods.
  - It also gave permission WTO member nations to compare prices or costs with external benchmarks to calculate the 'normal value' and 'dumping margin'.
  - However, unlike in 'market economies' where prices of items are market determined there is still a significant government influence in the Chinese market. So many countries are opposing to give MES status to China.
- **Dumping**
  - Dumping, in reference to international trade, is the export by a country or company of a product at a price that is lower in the foreign market than the price charged in the domestic market.
  - A standard technical definition of dumping is the act of charging a lower price for the like goods in a foreign market than one charges for the same good in a domestic market for consumption in the home market of the exporter. This is often referred to as selling at less than "normal value" on the same level of trade in the ordinary course of trade.
  - Home Market Price – Export Sales Price = Margin of dumping
  - Under the World Trade Organization (WTO) Agreement, dumping is condemned (but is not prohibited) if it causes or threatens to cause material injury to a domestic industry in the importing country
  - As dumping usually involves substantial export volumes of the product, it often has the effect of endangering the financial viability of manufacturers or producers of the product in the importing nation.
- **Anti-Dumping Duty**
  - The Department of Commerce in the Union Ministry of Commerce and Industry has an Anti-dumping Unit which investigates cases where the domestic industry (domestic producers) provide evidence that dumping has taken place by producers abroad.
  - It is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.

Practice Questions

Q60. Which of the following statements is/are correct with respect to provisions under World Trade Organisation (WTO)?

1. Under the MES status, price of commodities is determined by the market forces (demand and supply) and hence the exports from it will have to be accepted at the production costs and selling price as the benchmark.
2. Dumping, in reference to international trade, is the export by a country or company of a product at a price that is lower in the foreign market than the price charged in the domestic market.

Choose the correct code

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) None of the above

ANSWERS

Q1	**Q2**	**Q3**	**Q4**	**Q5**	**Q6**	**Q7**	**Q8**	**Q9**	**Q10**
b	c	c	d	a	c	d	b	a	a
Q11	**Q12**	**Q13**	**Q14**	**Q15**	**Q16**	**Q17**	**Q18**	**Q19**	**Q20**
c	d	c	a	a	c	b	c	d	c
Q21	**Q22**	**Q23**	**Q24**	**Q25**	**Q26**	**Q27**	**Q28**	**Q29**	**Q30**
c	d	d	c	c	b	a	c	a	a
Q31	**Q32**	**Q33**	**Q34**	**Q35**	**Q36**	**Q37**	**Q38**	**Q39**	**Q40**
a	a	a	c	c	b	c	c	d	d
Q41	**Q42**	**Q43**	**Q44**	**Q45**	**Q46**	**Q47**	**Q48**	**Q49**	**Q50**
a	c	c	b	b	a	c	c	a	a
Q51	**Q52**	**Q53**	**Q54**	**Q55**	**Q56**	**Q57**	**Q58**	**Q59**	**Q60**
a	b	d	c	c	d	a	c	a	c