Economics MADE EASY – **THEORY to APPLIED**

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TOPIC GENERAL STUDIES 3: ECONOMICS- ECONOMIC DEVELOPMENT- GOV POLICIES

April 2018

1. **Petroleum, Finance Ministers Can Award Hydrocarbon Blocks**
    - The Union Cabinet has given its approval for delegating the powers to Minister of Petroleum and Natural Gas and Finance Minister to award the blocks/contract areas to successful bidders under Hydrocarbon Exploration and Licensing Policy (HELP) after International Competitive Bidding (ICB) based on the recommendations of Empowered Committee of Secretaries (ECS). The government has last year introduced HELP replacing new exploration and licensing policy (NELP).
    - The move may reduce the time taken to complete the process of awarding a block or area for exploration and production of oil and gas to companies since thus far only the Cabinet headed by Prime Minister had powers to approve it.
    - In a separate decision the Cabinet Committee also approved the issuance of a notification that would allow Coal India Limited (CIL) and its subsidiaries to extract coal bed methane (CBM) in their coal bearing areas without applying for a licence or lease under the Petroleum & Natural Gas Rules, 1959.
    - **Purpose**

• Expedite decision-making: Under HELP blocks are to be awarded twice in a year. Delegating powers would expedite the decision-making process in awarding the blocks.

• Promote ease of doing business: The decision is also in line with the government initiative of ease of doing business.

• Expedite exploration and exploitation: The decision will expedite the exploration and exploitation of CBM, enhance the availability of natural gas and reduce the gap in demand and supply of natural gas.

• Increase domestic production: India is the third largest importer of oil in the world and aims to reduce import dependency in oil and gas by 10% by 2022. Oil exploration and production in the country has been slow as new awards take time. Simplifying the process may reduce the time taken in decision-making and help the country step up its domestic production.

• Generation of economic activity and creation of employment: The increased development activities for exploration and exploitation of CBM gas reserves in and around the block will generate economic activities, which in turn has potential to create employment opportunities in CBM operations and in the industries.

2. **With 19 Crore People Without Accounts, India World's Second Largest Unbanked Population: World Bank**
    - Unbanked population: At least 19 crore Indian adults do not have bank accounts making the country the second largest in terms of unbanked population according to a report by World Bank (WB) report titled Global Findex Database. Thus at least 11 per cent of the world's unbanked population resides in India.
    - Jan dhan Yojana: This despite the government's successful PM Jan Dhan Yojana, which is a national mission to ensure financial access in an affordable manner for the poorer sections of the society.
    - Inactive account: The report goes on to highlight that almost half of the country's bank accounts have seized to remain active for the past year despite the government's claims that an additional 30-plus crore Indians were added to the formal banking system by March 2018.
    - Adult population with bank account doubled: The country's adult population with bank accounts increased more than two-fold to 80 per cent since 2011.
    - Global scenario: The World Bank report also says that at least 69 per cent of adults or 3.8 billion people have bank account access up from 62 per cent in 2014 and just mere 51 per cent in 2011.
    - Global ranking: China has an unbanked population of 225 million adults followed by India, which is just 35 million shorts with 190 million. Next on the list in Pakistan with an unbanked population of 100 million and the fourth spot was occupied by Indonesia with 95 million.
    - Global gender gap: The report also notes the reduced gender gap in ownership by 6 per cent compared to 2014, with 83 per cent men and 77 per cent women now having an account.
    - Suggestion: Another factor the government should focus on is educating people in rural pockets about the importance of financial services.

3. **India To Soon Have Its First Gas Trading Exchange**
    - India plans to set up a natural gas trading exchange as early as October 2018 to prepare for a surge in supply from India's east coast and a slew of liquefied natural gas (LNG) terminals.
    - The first gas trading exchange will work on the lines of existing online platforms that trade in power.
    - India currently produces close to 90 million standard cubic meters per day (mscmd) of gas and imports another 70 mscmd as LNG according to government figures for 2016-17.

- India has laid out a plan to increase the share of gas in India's energy mix to 15 percent by 2030 from below 6.5 percent now. Purpose of Setting Up Of Gas Exchange
- Market mechanism for price determination: The setting up a gas exchange platform is driven by the idea that the pricing in the sector should eventually be fully governed by the market mechanism.
- Standardization of prices: The exchange is aimed at standardizing natural gas prices so that domestic prices are not set at such a discount to international market rates.
- Reduce risk relating to price differences: The exchange will also help to reduce the risks associated with the pricing differences. As India currently imports LNG at global rates LNG-AS of around $7.50 per mmBtu, while the government sets domestic gas prices at $3.06 per mmBtu.
- Development of gas sector: If India have proper pricing and market access then it is easier for the gas sector to develop.
- Transparency: The creation of gas trading exchange into this will also help in creating a transparent bidding mechanism.

4. **<u>Government Sets Up Think Tank To Help Domestic E-Commerce Thrive</u>**

- The government has set up think tank to look into ways to encourage home grown ecommerce players and develop a domestic policy to respond to doubts raised by other countries on India's stance on cross-border digital trade.
- The think tank has been set up with the purpose to see what should be done domestically to take advantage of the existing situation in India's ecommerce sector and what can be done in future. Thus, the group will predict technologies that are likely to come in future and help the government decide the policy flexibilities needed to be put in place accordingly.
- Till now India has opposed negotiations on ecommerce on two fronts. It is waiting for its food security concerns to get resolved first. Moreover, it is against the rationale for ecommerce as a trade facilitating platform to become the back door for securing market access objectives, especially in the garb of small and medium enterprises.
- Led by commerce and industry minister Suresh Prabhu the think tank includes officials from ministries of finance, home affairs, corporate affairs, and electronics and information technology, among others besides representatives from telecom, IT and ecommerce firms including Bharti Enterprises, Reliance Jio,

TCS, Wipro, Ola, Snapdeal, Makemytrip, Urban Clap, Justdial, PepperFry and Practo.

- **Final Analysis**

•WTO and E-commerce: A domestic policy on ecommerce is seen critical as a group of 71 WTO countries almost half the membership and accounting for around 77% of global trade have launched intensive discussion on ecommerce.

• Negotiation of E-commerce rules at global platform: Many countries have time and again asked India for its stance on negotiating rules on ecommerce at WTO and the Regional Comprehensive Economic Partnership agreement but India has refused to engage in these talks. Thus, this will ensure that India have a policy to back our stance at global platform.

• Development of domestic E-commerce sector: Further the growth of India's e-commerce sector has given the economy a much-needed boost and is expected to cross over $50 billion in 2018. As new local players continue to enter the market at break neck speed any change in the delicate dynamics causes a fluctuation in the consumer behaviour and consumption pattern. Hence, the thinktank will be looking into ways to encourage the domestic players so that they are able to take on competition from foreign firms.

• Organized E-Commerce sector: Thus, this will spell a new dawn for a more organised e-commerce sector in the country.

5. US CURRENCY WATCH LIST

- Recently, United States Treasury Department has added India to the currency practices and macroeconomic policies monitoring list.
- **More about news**

• **About Report:** Treasury report is used by Congress to identify countries that are trying to artificially manage the value of their currency to gain a trade advantage, for example by keeping the exchange rate low to promote cheaper exports.

• Countries on list: In addition to India, five other countries on the list are China, Germany, Japan, South Korea and Switzerland.

• Reason for Inclusion: India met two of the three criteria a significant bilateral surplus with the US ($23 billion) and net purchase of foreign currency was 2.2% of gross domestic product (GDP).

• Possible impact – After being designated as a Currency Manipulator, a 25% tariff onto imports into the U.S can be imposed to discourage cheap import.

- Three pre-conditions for being named currency manipulator

• A trade surplus of over $20 billion with the US,

• A current account surplus of 3% of the GDP with rest of the world.

• Persistent foreign exchange purchases of 2% plus of the GDP over 12 months.

- **Why do Central banks intervene?**

• To reduce volatility in the exchange rate and often to build foreign exchange reserves or to manage these reserves.

• To ensure that their currencies are neither overvalued or undervalued.

• To reassure global financial markets that a country is resilient to external shocks, particularly hot money outflows

6. IMF WORLD ECONOMIC OUTLOOK

- The International Monetary Fund (IMF) has published its World

Economic Outlook (WEO), 2018 Report.

- **More on news**

• WEO is a survey by the IMF staff economists, usually published twice a year.

• It presents an analysis of global economic developments during the near and medium term; considers issues affecting industrial countries, developing countries, and economies in transition to market; and addresses topics of pressing current interests.

• It has projected that India will grow (7.4% in 2018 and 7.8% in 2019) faster than China due to strong private consumption.

7. **PRADHAN MANTRI GRAM SADAK YOJANA (PMGSY)**

- Recently, Public Accounts Committee (PAC) has found issues in the implementation of PMGSY.
- **Issues highlighted by the Report**

• Delay in Execution: It found that in 26 states, around 4,500 projects were delayed by one month to 129 months owing to land disputes, lack of forest clearances, delay in getting permission for mining operations and paucity of funds among host of other reasons.

• States deviated from the prescribed procedures while preparing District Rural Road Plan (DRRP) and Core Network. Consequently, eligible habitations were either left out or wrongly shown as connected.

• It was also found that no state has implemented the online fund processing and even after 13 years of introduction on online management, monitoring and accounting system (OMMAS), the Rural Development Ministry was still relying on manual monthly progress reports for decision making.

• Other issues highlighted include – no mechanism evolved by the ministry to ensure utilization of funds for intended purposes due to which diversion is taking place, delay in transfer of funds by State Govts, lack of rural road maintenance policy by certain states, etc. • Some measures to be initiated urgently to address the shortcomings –

o Replicating the modalities of social audit in the PMGSY

o Constant monitoring to ensure that guidelines issued are scrupulously followed and implemented by the States

o Create a comprehensive Geographical Information System (GIS) database of Rural Road Information System for sharing with different agencies involved in construction and maintenance.

o Preparation of Comprehensive New Connectivity Priority List/ Comprehensive Upgradation Priority List (once the Core Network is ready) with involvement of panchayats.

- **About Pradhan Mantri Gram Sadak Yojana (PMGSY)**

• It's a centrally sponsored flagship scheme of the Ministry of Rural development.

• Objective: to provide all-weather rural road connectivity and to access eligible unconnected habitations as a strategy for poverty alleviation and to overcome deficiencies in rural road planning, inadequacy and unpredictability of funds and lack of maintenance of rural roads.

• Criteria for Habitation: Habitations with 500 populations in plain areas and 250 in hilly areas had to be connected by all-weather roads.

• Out of a total of 1,78,184 eligible habitations under PMGSY, 1,45,158 habitations have been connected till 2017, achieving 82% of the target.

• It is aggressively encouraging use of "Green Technologies" and non-conventional materials like waste plastic, cold mix, geo-textiles, fly-ash, iron and copper slag etc. in rural roads.

• Mobile Application "Meri Sadak" is launched to enable citizens to register complaints regarding the quality and pace of construction of PMGSY roads.

• PMGSY-II aims to cover upgradation of existing selected rural roads based on a criterion to make the road network vibrant.

• PMGSY-III is also proposed for upgradation of 1.07 lakh kilometers of rural roads. For this, the annual funding support of Rs. 19000 crores from the Central Government will be maintained upto 2022.

- **About Public Accounts Committee**

• It is a joint committee consisting of 15 members from Lok Sabha and 7 from Rajya Sabha.

• Since 1967, its chairman by convention is selected from the Opposition parties.

• Primary Functions of the Committee: In scrutinizing the Appropriation Accounts and the Reports of the Comptroller and Auditor-General.

8. **UTTAM APP**

- The Union Minister for Railways and Coal launched UTTAM App for Coal Quality Monitoring.
- About Unlocking Transparency by Third Party Assessment of Mined Coal (UTTAM)

• The Ministry of Coal and Coal India Limited (CIL) has developed the app to facilitate a bidirectional channel between Coal India Limited and common citizens

• It is aimed at ensuring transparency and efficiency in the coal quality monitoring process

• The salient features of UTTAM APP are:

(i) provides for Third Party Sampling

(ii) holistic coverage of coal quality across subsidiaries

(iii) Comparison between Declared and Analysed Gross Calorific Value

(iv) reflects the trend of complaints pertaining to quality of Coal

(v) represents the trend of coal imported over the years.

9. **EXPLORATION OF COAL BED METHANE (CBM)**

- The Cabinet Committee on Economic Affairs chaired by the Prime Minister gave its approval for issuing a notification amending Oil Fields (Regulation and Development) Act, 1948 (ORD Act, 1948).
- **More on news**

• Government had earlier issued a notification in 2015 granting rights to CIL and its subsidiaries for exploration and exploitation of CBM from all coal bearing areas for which they possess mining lease for coal. However, permission was required for Mining Lease (ML) for CBM by Ministry of Petroleum and Natural gas.

• Now with new amendment, requirement of permission has been done away with for CIL and its subsidiaries.

- **Significance of the amendment**

• It is in line with the Government's initiatives of 'Ease of Doing Business'.

• It will expedite the exploration and exploitation of CBM, enhance the availability of natural gas and reduce the gap in demand and supply of natural gas.

• Since most of CBM regions are in backward regions of the country, it can encourage development by providing employment.

- **About Coal Bed Methane**

• Coal Bed Methane (CBM) is an unconventional form of natural gas found in coal deposits or coal seams.

• It is formed during the process of coalification, the transformation of plant material into coal.

• It can be recovered from underground coal before, during, or after mining operations.

• It can also be extracted from "unminable" coal seams that are relatively deep, thin or of poor or inconsistent quality.

• It is a cleaner and more efficient fuel than coal or furnace oil

• In CBM, as opposed to conventional oil and gas, the production increases gradually till it hits it peak, and so it is best suited for small and medium enterprises (SMEs) who require smaller amounts of fuel.

10. RURAL ELECTRIFICATION

- Recently, Government has achieved village electrification targets under 'Deen Dayal Upadhyaya Gram Jyoti Yojana' (DDUGJY).
- Leisang in Manipur has become the last village to be added to the national power grid under the Rural Electrification Scheme.

- **More about news**

• As per Government of India, out of 18,452 villages in India that were power deprived 3 years ago, 17,181 have been electrified. Others are uninhabited or classified as grazing reserves.

• According to DDUGJY website, 99.8% of census villages have been electrified by February, 2018, while "intensive electrification" (household electrification) has been completed in around 80% of villages.

- **Significance**

• Socio-Economic benefit: Providing electricity helps in improving education, health, and connectivity apart from having a multiplier effect on increased economic activities and job creation.

• Gender Empowerment: It mainly affects women and girls more as they have to bear the primary responsibility for collecting firewood, cooking and other domestic work

• It will help in improving India's per capita power consumption of around 1,200 kWh which is among the lowest in the world.

• Improving Discoms Health: Electricity access to households with meters will create demand which in turn will help in improving the financial health of the respective discoms.

• Better Policy Formulation: It will help in appropriately estimating, planning and budgeting for complete household electrification over the next two years.

• Boost to rural demand: There is a direct correlation between improving electricity access and business environment in country. Electrification, therefore, would provide a fillip to rural demand.

• Achieving Climate Commitment: It will lead to decline in black marketing of kerosene oil and meeting country global climate change commitments as electricity will substitute kerosene for lighting.

• Sustainable Development Goal: Access to energy services is critical for advancing human development, furthering social inclusion of the poorest & most vulnerable in society and to meeting many of the SDGs.

- **Concern**

• Vague Definitions of Electrification: It only create a false sense of achievement, while all inhabited villages out of them have now been electrified, only 1,321 have access to power for all their households.

• Quality of Electricity Access: Electricity access is about affordability and reliability. However, some States in India have struggled to provide less than ten hours with electricity access per day to households.

• Rural-Urban gap in access: In India only around 71% of all households have electricity with considerable rural-urban gap. Further, DDUGJY website shows that only six states had 24-hour power supply in rural areas in December 2017.

• Transmission and Distribution (T&D) or Aggregate Technical & Commercial (AT&C) losses are around 20% in 2015-16 with huge disparity in T&D losses across the states mainly due to poor grid connectivity. States with high T&D losses are relatively slow in electrifying rural households.

- **Way Forward**

• Electrification of Household (Intensive Electrification): Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya) strives to provide electricity connections to more than 40 million families in rural and urban areas by December 2018.

• Augmenting Generation capacity: According to NITI AAYOG, the energy demand in India is likely to go up by 2.7-3.2 times between 2012 and 2040.

- **Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY):** Launched in 2014, components of DDUGJY include:

• separation of agricultural and non-agricultural electricity feeders to improve supply for consumers in rural areas.

• improving sub-transmission and distribution infrastructure in rural areas.

• rural electrification by carrying forward targets specified under the RGGVY.

• The central government provides 60% of the project cost as grant, the state power distribution companies (discoms) raise 10% of the funds, and 30% is borrowed from financial institutions and banks.

• Rural Electrification Corporation Ltd (REC), is the nodal agency for executing DDUGJY

- **GARV II APP**: Power ministry launched GARV app to provide real time data about rural electrification in all villages of the country.

- **Rural Electrification Corporation**

• Established in 1969, it is a Navratna company under the Ministry of Power.

• It is also the nodal agency for the implementation of DDUGJY (Deen Dayal Upadhyay Gram Jyoti Yojana) and contributing agency for rolling out UDAY (Ujjwal DisComs Assurance Yojana). National Rural Electrification Policy, 2006

• It was notified in compliance with the Electricity Act, 2003 by the Central Government.

• According to it, an electrified village is defined as one that has the following:

o provision of basic infrastructure such as distribution transformers and lines in the inhabited locality,

o provision of electricity in public places like schools, panchayat office, health centers, dispensaries, and community centers, and
o At least 10% of the total numbers of households in the village are electrified.

11. NATIONAL BAMBOO MISSION

- Recently, Cabinet has approved restructured National Bamboo Mission under National Mission for Sustainable Agriculture (NMSA) for 2018-2020.
- **Background**

• National Bamboo Mission (NBM) was launched by Government as a Centrally Sponsored Scheme in 2006-07 and was subsumed under Mission for Integrated Development of Horticulture (MIDH) during 2014-15.
• Government has taken out bamboo from the tree category (in non-forest areas) to encourage people to grow bamboo on private lands, thus, enhance the green cover and carbon stock of the country.
• According to government in the FY 2016-17, Export value of Indian bamboo stand at Rs 18 crore while it's import value is around Rs 25 crore.

- **About the Mission**

• Objectives of Restructured NBM
o to increase the area under bamboo plantation in non-forest Government and private lands to supplement farm income and contribute towards resilience to climate change.
o to improve post-harvest management through establishment of innovative primary processing units, treatment and seasoning plants, primary treatment and seasoning plants, preservation technologies and market infrastructure.
o to promote product development at micro, small and medium levels and feed bigger industry.
o to rejuvenate the under developed bamboo industry in India.
o to promote skill development, capacity building, awareness generation for development of bamboo sector.
• **Implementation strategy and targets of Mission**
o The Mission will focus on development of bamboo in limited States where it has social, commercial and economical advantage with focus on genetically superior planting material of bamboo species of commercial and industrial demand.
o Adoption of end to end solution in bamboo sector i.e. complete value chain approach starting from bamboo growers to consumers would be emphasized.
o Mission has been developed as a platform for integration of Ministries/Departments/Agencies with implementation responsibilities given based on their mandate.
o Capacity building of the officials, field functionaries, entrepreneurs and farmers through skill development and trainings will be emphasised.
o Focus will be given on Research & Development (R&D) to increase the production and productivity of bamboo.
• State covered: North Eastern region and States including Madhya Pradesh, Maharashtra, Chhattisgarh, Odisha, Karnataka, Uttarakhand, Bihar, Jharkhand, Andhra Pradesh, Telangana, Gujarat, Tamil Nadu and Kerala.
• Empowerment of Executive Committee for formulation of guidelines of the NBM and to make the changes therein.

- **Significance**

• Sustainable Growth: It serve as a potential instrument for enhancing income of farmers (including small & marginal farmers) by optimizing farm productivity and contributing towards climate resilience and environmental benefits

• Increasing Production: It's expected to establish about 4000 treatment/ product development units and bring more than 100000 ha area under plantation.

• Enhancing Local Economy: It will directly and indirectly benefit the farmers, local artisans, handicraft entrepreneurs and associated personnel engaged in bamboo sector.

• Employment Potential: About one lakh farmers are expected to be directly benefitted in terms of plantation in both skilled and unskilled areas.

• Region based Strategy: promoting holistic growth of bamboo sector by adopting area-based, regionally differentiated strategy and to increase the area under bamboo cultivation and marketing.

• Promoting Exports: By addressing forward integration to strengthen marketing of bamboo products, especially those of handicraft items

- **National Mission for Sustainable Agriculture (NMSA)**

• It is one of the eight Missions outlined under National Action Plan on Climate Change (NAPCC)

• Aim: Promoting sustainable agriculture through a series of adaptation measures focusing on ten key dimensions encompassing Indian agriculture namely; Improved crop seeds, livestock and fish cultures, Water Use Efficiency, Pest Management, Improved Farm Practices, Nutrient Management, Agricultural insurance, Credit support, Markets, Access to Information and Livelihood diversification.

• Focus: To infuse the judicious utilization of resources of commons through community-based approach.

- **Bamboo in India**

• India has 125 indigenous and 11 exotic bamboo species belonging to 23 genera, in which more than 50% of the Indian bamboo resource is confined to North-East.

• India is only second to China in bamboo reserves, accounting for 20 per cent of the global production

• Bamboo Area: According to India State of Forest Report (ISFR) 2017, bamboo-bearing area in country is estimated at 15.69 million ha.

• Applications of Bamboo: use in building materials, agricultural implements, furniture, musical instruments, food items, handicrafts, large bamboo-based industries (paper pulp, rayon etc.), packaging, etc.

12. PM FASAL BIMA YOJANA

- Recently centre allowed States to set up their own insurance companies for implementing Pradhan Mantri Fasal Bima Yojana (PMFBY).
- **More on news**

• The move comes after several requests from states as well as observations made by the Comptroller and Auditor General (CAG) in its 2017 report that old crop insurances schemes which have now been merged with PMFBY, were poorly implemented during 2011-2016.

• Presently, five public sector insurers and 13 private insurance companies are empaneled for implementation of the scheme

• The public insurers include Agriculture Insurance Company of India (AIC), United India Insurance Company (UICC), National Insurance Company (NIC), Oriental Insurance Company (OIC) and New India Assurance Company (NIAC).

- **Challenges faced in the implementation of PMFBY**

• Delayed compensation – the delay in settlement of the claims of farmers was due to state governments delaying the payment of their share of premium and further delay in carrying out crop cutting experiments to estimate crop yield.

• Crop Cutting Experiment used to assess losses are not being done in a timely manner and also the data collected is questionable as they reflect the gap between the claims approved by them and losses estimated by the states.

• High Insurance charged – There was an increase in the premium being charged by the private companies whereas it was expected to be reduced even though they are allotted areas with less risk.

• Inadequate Data collection - The data hasn't been collected adequately as specified in the scheme guidelines i.e. no use of smart phones and drone in assessing the losses.

• Poor capacity to deliver: There has been no concerted effort by the state government and insurance companies to build awareness of farmers on PMFBY. Insurance companies are not putting in place any ground infrastructure required for grievance redressal and assessing crop losses in individual plots.

• Problems with internal functioning of insurance companies – Due to the complexities in agriculture insurance the complete understanding takes time and the senior positions in insurance do not function till the tenure is complete and some posts have been vacant.

• Lack of manpower –The Implementing agencies have been functioning in an ad-hoc manner and face severe staff shortage.

- **Way forward:** Following steps can be taken to improve the implementation of the scheme:

• Farmers must be informed before deducting crop insurance premium. They must be given a proper insurance policy document, with all relevant details.

• Robust assessment of crop loss should be done through capacity building of state governments, involvement of PRIs and farmers.

• PMFBY timelines from insurance coverage to claim payment should be strictly adhered to

• Coverage of tenants and sharecroppers should increase.

• All PMFBY related data related to farmers must be available in the public domain and shared openly with farmers.

13. **<u>Pradhan Mantri Fasal Bima Yojana (PMFBY)</u>**

- **Objectives of the scheme**

• To provide insurance coverage and financial support to the farmers in the event of natural calamities, pests & diseases.

• To stabilize the income of farmers to ensure their continuance in farming.

• To encourage farmers to adopt innovative and modern agricultural practices.

• To ensure flow of credit to the agriculture sector.

- **Features of PMFBY**

• It was launched in 2016 replacing the existing two schemes National Agricultural Insurance Scheme (NAIS) as well as Modified NAIS.

• A uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops and 5% for horticultural crops.

• The balance premium was to be paid by state and central government in equal proportions.

• There is no upper limit on Government subsidy so farmers will get claim against full sum insured without any reduction.

• The PMFBY is compulsory for loaned farmers availing crop loans for notified crops in notified areas and voluntary for non-loanee farmers.

• Yield Losses – Natural Fire and Lightning, Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane, Tornado. Risks due to Flood, Inundation and Landslide, Drought, Dry spells, Pests/ Diseases. It also includes Post Harvest losses.

• It also includes mandatory use of technology such as smart phones, drones etc. while assessing losses.

14. PARAMPARAGAT KRISHI VIKAS YOJANA

- Recently, Ministry of Agriculture and Farmer welfare has revised the guideline of Paramparagat Krishi Vikas Yojana.
- **About the move**

• Under revised guidelines farmers will be eligible for an assistance of Rs 48,700 per hectare for a three-year period for adopting the traditional methods of cultivation and standard organic farming practices like zero budget natural farming and permaculture.

• These measures include a focus on natural practices.

• These Traditional methods include: yogik farming, gou mata kheti, Vedic farming, Vaishnav kheti, Ahinsa farming, Adhvoot Shivanand farming, and rishi krishi.

- **Paramparagat Krishi Vikas Yojana (PKVY)**

• It is an elaborated component of Soil Health Management (SHM) of major project National Mission of Sustainable Agriculture (NMSA).

• Its objectives are-

o to support and promote organic farming and thereby improving soil health.

o Reduce farmer’s dependence on fertilizers and agricultural chemicals to improve yields.

o Motivate the farmers for natural resource mobilization for input production.

o Plans to form around 10 thousand clusters in three years and cover an area of 5 Lakh hectares under organic farming.

• Every farmer will be provided Rs. 20,000 per acre in three years for seed to harvesting of crops and to transport produce to the market.

15. LIBERALISED REMITTANCE SCHEME

- Reserve Bank of India has recently, tightened reporting norms for the Liberalized Remittance Scheme (LRS) Scheme.
- **Highlight**

• Prevalent Situation

o Transactions LRS are being permitted by authorised dealer (AD) banks based on the declaration made by the remitter.

o However, it is difficult for the authorised dealer banks to monitor/ensure that a remitter has not breached the prescribed limit by approaching multiple authorised dealer banks.

• Changed situation

o Banks will be required to upload daily transaction-wise information undertaken by them under LRS.

o Move is aimed at improving the monitoring and ensuring compliance with the LRS ceilings.

- **The Liberalized Remittance Scheme (LRS)**

• It’s a facility provided by the RBI for all resident individuals including minors to freely remit upto $

250,000 per person per year for current and capital account purposes or a combination of both. • Regulations for the scheme are provided under the FEMA Act 1999.

• Under LRS, remittances can be made for overseas education, travel, medical treatment, apart from maintenance of relatives living abroad, gifting and donations. The money can be remitted for the purchase of shares and property as well. Restriction on Remittance – Individuals are not allowed

• to send money to countries identified as 'non-cooperative jurisdictions' by the Financial Action Task Force.

• to entities identified as posing terrorist risks. Etc.

• for trading on the foreign exchange markets, purchase of Foreign Currency Convertible Bonds issued by Indian companies abroad.

16. **RBI DECIDES TO USE GDP INSTEAD OF GVA**

- Reserve Bank of India has decided to use Gross Domestic Product (GDP), instead of Gross Value Added (GVA) to measure economic activity in the country.
- **Background Information and Key Definitions**

• Through revision of National Accounts statistics in 2015 by following changes were made:

o Gross Value Added (GVA) from different sectors will be calculated at basic prices.

o GDP of the country is to be estimated in terms of Market Price

• GDP means the total value of a country's annual output of goods and services and GDP at factor cost represents what the producers in the economy make from industrial activity — wages, profits, rents and capital — called 'factors of production'.

• Gross value added (GVA) is the value addition done to a product resulting in the production of final product. GVA provides the rupee value of the amount of goods and services that have been produced, less the cost of all inputs and raw materials while producing these goods and services. There can be GVA for a firm, industry, sector or the entire economy.

• GVA at basic prices include production taxes and exclude production subsidies available on the commodity and GDP at market prices include both production and product taxes and excludes both production and product subsidies.

• GVA gives a picture of the state of economic activity from the producers' side or the supply side. GDP gives the picture from the consumers' side or the demand perspective.

- **Reasons for switching over to GDP**

• GVA is considered a closer representative of economic activities because it provides sector wise breakdown measure and helps policymakers decide which sectors need incentives or stimulus and accordingly formulate sector specific policies.

• However, RBI has decided to shift to GDP as it is the measure of economic performance used not only by multilateral institutions, international analysts and investors but it is also in consonance with international practice and thus facilitates easy cross-country comparisons.

• Even CSO has started using GDP as the main measure of economic activity from this year.

- GVA at factor cost + (Production taxes - Production subsidies) = GVA at basic prices GDP at market prices = GVA at basic prices + Product taxes- Product subsidies

17. FOREIGN PORTFOLIO INVESTMENT

- The Reserve Bank of India (RBI) has relaxed its rules for investments by Foreign Portfolio Investors (FPIs) in Indian bonds.
- **The New norms**

• RBI has withdrawn the clause that forced FPIs to buy government bonds and state development loans with at least three years of residual maturity. However, investment in bonds with maturity below a year must not exceed 20% of the total investment of that FPI.

• It has increased aggregate FPI investments in a single government bond to 30% of outstanding stock from 20% earlier.

• The central bank also removed the three-year residual maturity rule for corporate bond investments by allowing FPIs to buy securities with at least one-year maturity.

• It has also Withdrawn the Auction Mechanism, wherein FPIs were required to purchase investment limits once the limit utilisation breached 90 per cent of the permitted quota. The Clearing Corporation of India Ltd (CCIL) will monitor utilisation of G-sec limits online.

- **Reasons for relaxing the norms:** The bond market is struggling with lower demand and rising bond yields (negative sentiments in the market, falling rupee, uncertainty over interest rate trajectory).
- **Clearing Corporation of India Ltd. CCIL:**

• The CCIL was set up in April, 2001 to provide guaranteed clearing and settlement functions for transactions in Money, G-Secs, Foreign Exchange and Derivative markets.

• It also provides non-guaranteed settlement for Rupee interest rate derivatives and cross currency transactions through the CLS (Continuous Linked Settlement) Bank.

• It has been recognised as a Qualified Central Counterparty (QCCP) by the Reserve Bank of India in 2014.

• It has also set up a Trade Repository to enable financial institutions to report their transactions in OTC (Over-the counter) derivatives.

- G-Secs or Government Securities: These are debt obligations issued by Central or State Governments for short (Treasury Bills) or long terms (Bond or dated securities). These securities have lower interest rates and are considered more secure. State Governments can only issue Bond or dated securities called State Development Loans.
- Bond Yield: As investors sell bonds, prices drop and yields increase (inversely proportional). A higher bond yield indicates greater risk. If the yield offered by a bond is much higher than what it was when issued, there is a chance that the company or government that issued it is financially stressed and may not be able to repay the capital.

18. REITS AND INVITS

- Recently, the Securities and Exchange Board of India (SEBI) has decided that REITs and InvITs will have to provide a mechanism for resolution of disputes with their shareholders and partners.

- **Details about the news**

• It will make real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) more attractive investment options.

• The regulator had notified REITs and InvITs Regulations in 2014, allowing setting up and listing of such trusts which are very popular in some advanced markets.

• However, despite various earlier relaxations, only two InvITs have got listed on stock exchanges so far and not a single REIT has been listed in the country due to many challenges such as low yield when compared with other developed markets; regulatory risk, tax risk, litigation risk and business risk in India etc.

- **What is a 'Real Estate Investment Trust – REIT?**

• It is a company that owns, operates or finances income-producing real estate.

• An REIT works very much like a mutual fund. It pools funds from a number of investors and invests them in rent generating properties.

• In India, the Real Estate Investment Trusts were introduced by the Securities and Exchange Board of India (Sebi) in 2007

• There are primarily two types of REITs – equity and mortgage. Real Estate Investment Trusts are extremely beneficial for the development of an economy as they allow dormant investable funds to be channelled into real estate projects.

- **What is an infrastructure investment trust -InvITs?**

• It is to facilitate investment into the infrastructure sector in India.

• They are designed to pool small sums of money from a number of investors to invest in infrastructure assets that give cash flow over a period of time.

• Part of this cash flow would be distributed as dividend back to investors. They too work like mutual funds.

19. EXEMPTION FROM ANGEL TAX

- Recently, the government has put in place a mechanism for start-ups to secure exemption from the 'angel tax' with retrospective effect.

- **Background**

• Under Section 56 of I-T law, a startup receiving equity infusion in excess of fair value faces tax, named as angel tax. Fair value is a rational and unbiased estimate of the potential market price of a good, service, or asset.

• The law treated such equity infusion as other income and is accordingly taxed.

• Many startups have received tax notices for this 'angel tax'.

- **Recent changes**

• Startups with total investment including funding from angel investors up to Rs 10 crore can seek approval from an eight-member government board for exemption from tax.

• Angel investment tax, a hefty amount of 30.9%, is a huge setback for startups. Exempting startups from this would provide easy access to funding, which in turn will ensure ease in starting of new businesses, promote startup eco-system, and encourage entrepreneurship.

• However, Startups will still have to meet stringent conditions to avail the tax exemption such as

o Need to obtain a report from a merchant banker specifying fair market value of shares under income-tax rules increasing their costs.

o Recognisation as an innovative startup by the inter-ministerial board of certification.

- **What are angel investors?**

Angel investors invest in small startups or entrepreneurs. The capital angel investors provide may be a one-time investment to help the business propel or an ongoing injection of money to support and carry the company through its difficult early stages.

- The DIPP notification has defined a startup as an entity that is incorporated or registered in India with following criteria:

• Up to a period of seven years from the date of incorporation/registration. For biotechnology firms, that period is ten years

• An annual turnover not exceeding Rs 25 crore in any preceding financial year, and

• If it works towards innovation, development or improvement of products or processes or services, or if it's a scalable business model with a high potential of employment generation or wealth creation.

20. <u>ALGORITHM TRADING</u>

- Recently, Securities and Exchange Board of India (SEBI) has relaxed restrictions on algorithm trading at commodity derivatives exchanges.
- **Details about SEBI's recent move**

• SEBI raised the limit to process up to 100 orders per second by a user for algo trade from the existing limit of 20 orders per second per user. It has asked exchanges to ensure that the limit it provides is subject to its ability to handle the load.

• It has also decided to do away with the requirement of listing of system auditors by the exchanges for system audit of algorithmic trading.

- Other regulations by SEBI in algo trading

• Penalty levied on algo orders placed more than 0.75 per cent away from the last traded price, to check price swings.

• Introduction of shared co-location services to cut costs. In order to minimise or eliminate delay in the execution of trade orders, stock exchanges offer co-location or proximity hosting services. Through this, a broker or a data-vendor is permitted to be located within or at close proximity with the stock exchange and can connect to the trading platform through a direct and private network.

• The exchanges where algos are used, need to get their programmes approved by SEBI, before they are put to use.

- **What is algorithm trading?**

• Algorithmic trading or 'algo' in market parlance refers to orders generated at a super-fast speed by use of advanced mathematical models that involve automated execution of trade, and it is mostly used by large institutional investors accounting for 35-40 per cent of turnover on the Indian exchanges.

• It helps institutional investors increase the efficiency of trade execution and spot fleeting trading opportunities.

• However, there are concerns also that it may trigger a large volume of trades that magnify the trend causing wild swings and crashes in the market.

• Lack of explicit guidelines from SEBI has prevented many brokers from providing algo trading platforms to retail investors giving institutional investors an unfair advantage over retail investors.

• However, SEBI has proposed various measures to reduce disadvantage faced by retail investors such as:

o Minimum Resting Time for Orders

o Random Speed Bumps or delays in order processing / matching which would affect High Frequency Trading but not non-algo order flow.

o Maximum order message-to-trade ratio requirement which requires a market participant to execute at least one trade for a set number of order messages sent to a trading venue.

o Separate queues for colo orders and non-colo orders to ensure fair and equitable access to the stock exchange's trading systems

o Review of Tick-by-Tick data feed which provide details relating to orders and trades on a real-time basis.

21. INTEGRATION OF COMMODITY SPOT AND DERIVATIVES MARKET

- Report of Expert Committee on Integration of Commodity Spot and Derivatives Market headed by Ramesh Chand was put into public domain.
- **Structure of the Commodity Markets**

• The trading in the commodities market can be broadly categorized into two major segments viz., spot/physical segment and derivatives segment.

• The commodity derivatives markets are well regulated under a statutory regulator while the spot markets are fragmented, geographically dispersed and primarily regulated by the state governments of the country

- Integrating Spot and Derivative Markets: Need for integration of spot and derivative markets

• Although Spot and Derivative Markets operate in same ecosystem but on different market principles and function differently from each other, they have a symbiotic relationship.

• The commodity derivatives markets provide a platform for discovery of future prices of a commodity and also offer the participants in the spot market an opportunity to hedge themselves against fluctuations in future prices of the underlying commodities. • Since the derivatives market ensures that the future and spot price of a commodity converges on the day the derivative contract expires for settlement, the discovery of real-time spot prices of a commodity on a pan-India electronic spot exchange will certainly strengthen the convergence of spot and future prices of a commodity thereby enhancing efficiency of both spot and derivatives market.

- Challenges for integration of spot and derivative markets

• Legal Challenges- There is no specific central law for setting-up of or regulation of pan-India electronic spot market platform, spot exchanges in agricultural or non-agricultural commodities.

• Multiple regulators and regulations-

o SEBI is regulator for the commodity derivatives markets for agricultural as well as non-agricultural commodities.

o the spot markets for the agricultural commodities are within the purview of the respective state governments. As regards nonagricultural commodities there is no dedicated central agency.

• Storage - The capacity of the available warehousing infrastructure is inadequate and the industry is localized, unorganized, and fragmented.

• Lack of ancillary infrastructure such as adequate transport system, regulated assaying and refining and testing facilities, trained and certified human resources, uniform quality standards etc.

- Action Plan for integration of spot and derivative markets

• Spot Markets

o Agricultural Spot Markets -

▪ States should change their existing APMC Acts on the lines suggested in Model Agricultural Produce and Livestock Marketing (Promotion and Facilitating) Act (APLM) Act, 2017.

▪ Providing multiple modes to the farmer for selling his farm produce, encourage formation of Farmer Producer Organizations (FPOs), scientific storage of commodities, institution for developing grades and standards of commodities, Improvements in eNAM etc.

o Non- Agricultural Spot markets –

▪ Regulated warehouse and ancillary infrastructure, developing India delivery standards and aligning with global standards, dedicated Ministry / Department for Precious metals, Gems and Non-ferrous Metals and recycling of non-agricultural commodities. o Other issues include – reviewing Free Trade Agreements (FTA) as reportedly some are having adverse impact on the growth of the domestic sector and developing formal and regulated structure of spot exchanges.

• Derivatives Markets – Increasing participation of different stakeholders (institutions such as banks, mutual funds and entities like FPOs), introduction of new products (e.g.- weather derivatives), linkages with the Global commodities market etc.

• Integration of commodity Spot and Derivatives - collection and dissemination of data with regard to spot and derivative market, warehousing and development of storage infrastructure, certification requirements for skilled workforce, robust dispute resolution mechanism etc.

- **Related Information**

• Spot Markets - The spot is a market for financial instruments such as commodities and securities which are traded immediately or on the spot. In spot markets, spot trades are made with spot prices. It is also referred to as the "physical market" or the "cash market"

o spot markets for agriculture are of two types namely primary markets where mainly producers sell their commodities to traders and secondary market where transactions happen between traders. • Derivatives- A derivative is a financial security with a value that is derived from an underlying asset or group of assets. Some common form of derivatives includes:

o Futures contracts: It is an agreement between two parties for the sale of an asset at an agreed upon price. One would generally use a futures contract to hedge against risk during a particular period of time.

o Forward contracts: It is similar to futures contracts, but they are not traded on exchange, rather only over-the-counter.

o Options: It is similar to a futures contract in that it is an agreement between two parties granting one the opportunity to buy or sell a security from or to the other party at a predetermined future date. The key difference is that with an option, the buyer is not obligated to make the transaction if he or she decides not to, hence the name "option."

22. <u>RBI bars banks from dealing with virtual currencies</u>

- The Reserve Bank of India (RBI) has asked banks to stop providing service to any entity dealing with virtual currencies, with immediate effect.
- It has also asked regulated entities that are already providing such services to exit the relationship within three months.
- **Background**:

☐ Widely seen as a disruption for the traditional banking and financial institutions, cryptocurrencies have gained significant traction over the last half a decade, at the same time creating a regulatory nightmare for banking regulators across the globe. At present, there are around 969 cryptocurrencies in existence across the globe, with a total market capitalization close to 116 Billion USD.

- **What are virtual/ cryptocurrencies?**

☐ Founded as a peer-to-peer electronic payment system, cryptocurrencies enable transfer of money between parties, without going through a banking system.

☐ These digital payment systems are based on cryptographic proof of the chain of transactions, deriving their name, Cryptocurrency.

☐ They employ cryptographic algorithms and functions to ensure anonymity (privacy) of the users (who are identified by an alphanumeric public key), security of the transactions and integrity of the payment systems.

- **Associated concerns:**

☐ Despite numerous advantages and user-friendly processes, cryptocurrencies have their own set of associated risks in the form of volatility in valuation, lack of liquidity, security and many more.

☐ Cryptocurrencies are being denounced in many countries because of their use in grey and black markets. There are two sets of interconnected risks; one being to the growth and expansion of these platforms in the uncertain policy environment, and the other being the risks these platforms pose to the users and the security of the state.

☐ They also have the potential use for Illicit Trade and Criminal Activities and can be used for Terror Financing.

☐ They also have the Potential for Tax Evasion.

- **Regulation of these currencies:**

☐ The acceptability of cryptocurrencies as a legal instrument currently varies from country to country; while some are in the process of formulating laws and measures, others are yet to respond to this disruptive change.

☐ The burgeoning use of cryptocurrencies in terror financing, ransomwares, illicit drugs or arms trade and cybercrime has also raised red flags among the security and law enforcement agencies.

☐ The displace the existing financial systems which enable electronic flow of money across different political boundaries.

23. **'Samridhi – the virtual assistant'**

- SIDBI celebrated its Foundation day on April 2nd with launch of 'Samridhi – the virtual assistant'. It will answer standard queries of aspirants 24*7.
- **About SIDBI:**

☐ Small Industries Development Bank of India (SIDBI) was set up on 2nd April 1990 under an Act of Parliament.

☐ It acts as the Principal Financial Institution for Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector as well as for co-ordination of functions of institutions engaged in similar activities.

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All the Best
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