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

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1) MERGER OF BANKS

The government plans to merge 10 public sector banks into four. This would take the number of banks in the country from 27 in 2017 to 12.

New mergers include:

• Punjab National Bank, Oriental Bank of Commerce and United Bank of India will combine to form the nation's second-largest lender.

• Canara Bank and Syndicate Bank will merge.

• Union Bank of India will amalgamate with Andhra Bank and Corporation Bank.

• Indian Bank will merge with Allahabad Bank.

Why merger is good? – Benefits for various stakeholders:

For Banks:

• Small banks can gear up to international standards with innovative products and services with the accepted level of efficiency.

• PSBs, which are geographically concentrated, can expand their coverage beyond their outreach.

• A better and optimum size of the organization would help PSBs offer more and more products and services and help in integrated growth of the sector.

• Consolidation also helps in improving the professional standards.

• This will also end the unhealthy and intense competition going on even among public sector banks as of now.

• In the global market, the Indian banks will gain greater recognition and higher rating.

• The volume of inter-bank transactions will come down, resulting in saving of considerable time in clearing and reconciliation of accounts.

• This will also reduce unnecessary interference by board members in day to day affairs of the banks.

• After mergers, bargaining strength of bank staff will become more and visible.

• Bank staff may look forward to better wages and service conditions in future.

• The wide disparities between the staff of various banks in their service conditions and monetary benefits will narrow down.

For economy:

• Reduction in the cost of doing business.

• Technical inefficiency reduces.

• The size of each business entity after merger is expected to add strength to the Indian Banking System in general and Public Sector Banks in particular.

• After merger, Indian Banks can manage their liquidity – short term as well as long term – position comfortably.

• Synergy of operations and scale of economy in the new entity will result in savings and higher profits.

• A great number of posts of CMD, ED, GM and Zonal Managers will be abolished, resulting in savings of crores of Rupee.

• Customers will have access to fewer banks offering them wider range of products at a lower cost.

• Mergers can diversify risk management.

For government:

• The burden on the central government to recapitalize the public sector banks again and again will come down substantially.

• This will also help in meeting more stringent norms under BASEL III, especially capital adequacy ratio.

• From regulatory perspective, monitoring and control of less number of banks will be easier after mergers.

Committees in this regard:

1. Narasimham committee (1991 and 1998) suggested merger of strong banks both in public sector and even with the developmental financial institutions and NBFCs.
2. Khan committee in 1997 stressed the need for harmonization of roles of commercial banks and the financial institutions.
3. Verma committee pointed out that consolidation will lead to pooling of strengths and lead to overall reduction in cost of operations.

Concerns associated with merger:

• Problems to adjust top leadership in institutions and the unions.

• Mergers will result in shifting/closure of many ATMs, Branches and controlling offices, as it is not prudent and economical to keep so many banks concentrated in several pockets, notably in urban and metropolitan centres.

• Mergers will result in immediate job losses on account of large number of people taking VRS on one side and slow down or stoppage of further recruitment on the other. This will worsen the unemployment situation further and may create law and order problems and social disturbances.

• Mergers will result in clash of different organizational cultures. Conflicts will arise in the area of systems and processes too.

• When a big bank books huge loss or crumbles, there will be a big jolt in the entire banking industry. Its repercussions will be felt everywhere.

Way ahead:

• Merger is a good idea. However, this should be carried out with right banks for the right reasons. Merger is also tricky given the huge challenges banks face, including the bad loan problem that has plunged many public sector banks in an unprecedented crisis.

2) TOURISM INDUSTRY

Recently, the Prime Minister urged people to visit at least 15 tourist destinations within India by 2022.

Potential of Tourism for India

• Large number of domains and destinations in India- including heritage tourism, natural tourism, spiritual tourism, medical tourism etc.

• Economic Potential- towards employment generation, incoming foreign exchange and added income for the locals of these places.

• Contribution to India's soft power- in terms of people to people contact and stature in the global arena.

Steps taken towards it

• Augmenting Tourism Infrastructure- through schemes such as-

o Swadesh Darshan Scheme- Under this scheme fifteen thematic circuits have been identified for development such as North-East India Circuit, Buddhist Circuit etc.

o Prashad Scheme (Pilgrimage Rejuvenation and Spiritual Augmentation Drive)- Under this, 25 sites have been identified for development in India such as Amravati, Ajmer, Varanasi etc.

o Adopt of Heritage Scheme- whereby outsourcing of the maintenance of some of the monuments have been done by the Ministry.

• Ensuring Ease of Travel- through-

o Issuance of e-Visa in the areas of travel, business and medical reasons.

o Multilingual Toll free tourism infoline- to provide information services and also guide the tourists during any emergencies such as medical, crime, natural calamities etc.

• Promotion and Publicity- the Ministry of Tourism promotes products and destinations of India through-

o Organising and Participation in tourism related events such as Paryatan Parv, Bharat Parv

o Campaigning in the print, electronic, social, online and outdoor media,

o Producing brochures, maps, posters, promotional films etc.

o Also launched the 'Incredible India 2.0' Campaign during 2017-18 to cover both major and emerging markets.

• Promotion of Service Quality Standards- through hotel classification into various stars (one to five), heritage, legacy vintage hotels etc.

• International Cooperation- the Ministry engages in various consultations and negations with organisations such as UN World Tourism Organisation (UNWTO), Economic and Social Commission for Asia and the Pacific (ESCAP) etc.

Way Forward

• Developing an all-encompassing One Stop Solution including information on tourism related services through a web based application and a Grievance Redressal Mechanism through Twitter and Tourist-Helpline

• The States/ UTs should adopt Adventure Tourism and Bed & Breakfast / Homestay Scheme Guidelines.

• There is a need to change the perception of India in the mind of foreign tourists, which will yield good results for promotion of tourism. The states should also organize surveys to understand how the foreign tourists perceive India and should work towards removing negative impressions.

Major Issues with Tourism in India

• Infrastructural issues- including suitable lodging and connectivity to the tourism sites.

• Cleanliness concerns- owing to poor maintenance and dumping of waste.

• Lack of basic amenities- such as good quality food, safe drinking water, clean toilets among others.

• Safety concerns- especially pertaining to women safety. Also there is issue of terrorism, insurgency in some of the border states like Jammu and Kashmir, North-Eastern states.

• Environmental issues- where the local environment faces degradation owing to increasing tourist traffic.

3) SUGAR INDUSTRY IN INDIA

The Union cabinet recently approved the creation of a buffer stock of 4mt of sugar.

• The buffer stock will be created for one year from August 1, 2019, to July 31, 2020, for which the government would be reimbursing the carrying cost of about ₹ 1,674 crore to participating sugar mills.

• The reimbursement under the scheme would be met on quarterly basis to sugar mills which would be directly credited into farmers' account on behalf of mills against cane price dues and subsequent balance, if any, would be credited to the mill's account.

o The step is aimed at increasing wholesale prices of sugar and improving cash flow to sugar mills, which in turn will help mill owners to clear the dues of farmers.

o Since the 2019-20 marketing year is likely to commence with huge carryover/opening stock, building a sugar buffer stock will help maintain demand-supply balance and to stabilize sugar prices.

• The cabinet also approved a proposal on the fair and remunerative price (FRP) of sugar cane payable by sugar mills for the 2019-20 sugar season, at the same rate as was offered in 2018-19.

Sugar industry in India

• India is the largest producer of sugar including traditional cane sugar sweeteners, khandsari and Gur equivalent followed by Brazil.

• Sugarcane provides raw material for the second largest agro-based industry after textile.

• The sugar industry is an instrumental in generating the sizable employment in the rural sector directly and through its ancillary units.

• Broadly there are two distinct agro-climatic regions of sugarcane cultivation in India, viz., tropical and subtropical. o Tropical Sugarcane region: It includes the states of Maharashtra, Andhra Pradesh, Tamil Nadu, Karnataka, Gujarat, Madhya Pradesh, Goa, Pondicherry and Kerala.

o Sub-tropical sugarcane region: Around 55 per cent of total cane area in the country is in the sub-tropics. U.P, Bihar, Haryana and Punjab comes under this region.

Challenges faced by Sugar Industry in India

• Low level of productivity of sugarcane: Due to inadequate irrigation facilities and untimely supply of quality seed material. Average rate of recovery in India is less than ten per cent which is quite low as compared to other major sugar producing countries.

• Inefficient govt policies: More problems of sugar industry are the result of the Government policy regarding to the policies on the cane prices, control of price of sugar, dual pricing etc.

• Pricing Mechanism: The production of sugar is influenced by the purchasing price of sugarcane depending upon the cost of cultivation. The industries price of the main raw material in turn depends upon the prices of competitive food crops on one hand and the cane price fixed by the Government on the other.

• Seasonal nature: The sugar industry has a seasonal character and the crushing season normally varies between 4 and 7 months in a year leaving the mill and the workers idle for almost half of the year

• Problem of By-products: An important problem of sugar industry is the utilization of by products specially bagasse and molasses. The industry faces problems in disposing these by-products especially under pollution control devices.

• High Prices of Sugar: The inefficiency and uneconomic nature of production in sugar mills, low yield and short crushing season, the high price of sugarcane and the heavy excise duties levied by the Government - these are responsible for the high cost of production of sugar in India.

• Obsolete and old machinery: Majority of the machines which are currently in use in sugar mills across India, mainly in states like Bihar and Uttar Pradesh, are obsolete and old.

• Small and uneconomic size of mills: Most of the sugar mills in India are of small size with a capacity of 1,000 to 1,500 tonnes per day. This makes large scale production uneconomic. Many of the mills are economically not viable.

• Regional imbalances in distribution: Over half of sugar mills are located in Maharashtra and Uttar Pradesh and about 60 per cent of the production comes from these two states. On the other hand, there are several states in the north-east, Jammu and Kashmir and Orissa where there is no appreciable growth of this industry. This leads to regional imbalances which have their own implications.

• Uncompetitive in global markets: The Indian sugar is uncompetitive in the global market as there is a fixed minimum support for the sugarcane with no impact arising from market forces. As a result, the export of excess output of sugar is not a viable proposition for the Indian sugar mills.

Way Forward

• Miniaturization of sugar industries: This will help group of small farmers to setup a small scale sugar industry themselves near their sugarcane fields. They need not to depend on anybody to sell their sugarcane.

• Improve cane pricing: The ideal way to manage sugar surplus is to link the sugarcane price to output price.

o The government should come up with a formula that arrives at the cane price after factoring the value of the output (including price of sugar, ethanol and power generated from bagasse)

• Power generation: Using cogeneration technology is another option through which companies can generate revenues by selling extra electricity generated as a by-product of sugar production to power distribution companies.

• Encourage public to use more jaggery and mechanization of jaggery plants

• License to farmers to produce alcohol from molasses

• Encourage all sugar industries to have co-generation plants

• Recommendation Rangarajan Committee on the Regulation of Sugar Sector in India o It suggests that sugar pricing should be based on a revenue sharing formula based on 75 per cent of sugar prices or 70 per cent of the price of sugar and major by products.

o States should not declare State Advised Price (SAP). It suggested determining cane prices according to scientifically sound and economically fair principles.

o All existing quantitative restrictions on trade in sugar should be removed and converted into tariffs.

o Removing the regulations on release of non-levy sugar.

o States should encourage development of market-based long-term contractual arrangements, and phase out cane reservation area and bonding.

o The prices of the by-products should be market-determined with no earmarked end-use allocations.

Sugarcane Pricing mechanism in India

• In India, the pricing of sugarcane is governed by the statutory provisions of the Sugarcane (Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955

• There are mainly two prices for sugarcane o Fair and Remunerative Price (FRP): It is the cane price announced by the Central Government on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP) after consulting the State Governments and associations of sugar industry.

o State Advised Prices (SAP): Citing differences in cost of production, productivity levels and also as a result of pressure from farmers' groups, some states declare state specific sugarcane prices called State Advised Prices (SAP), usually higher than the SMP/FRP

- This dual sugarcane pricing distorts sugarcane and sugar economy and leads to cane price arrears
- High SAPs without any linkage with the output price becomes unviable
- Industry association recommends to remove the system of SAP; in case states announce SAP, such price differential should be borne by the state governments.

Factors for fixation of FRP

- Cost of production of sugarcane
- Inter-crop price parity
- Reasonable margins for the growers of sugarcane on account of risk and profits
- Recovery of sugar from sugarcane price at which sugar is sold by sugar producers
- The realization made from sale of by-products or their imputed value
- Recovery of sugar from sugarcane
- Price at which sugar is sold by sugar producers
- Availability of sugar to consumers at a fair price

Various Steps taken by Government

- Ethanol Blended Programme (EBP): It seeks to achieve blending of Ethanol with motor sprit with a view to reducing pollution, conserve foreign exchange and increase value addition in the sugar industry enabling them to clear cane price arrears of farmers. The Central Government has scaled up blending targets from 5% to 10% under the EBP.
- National Policy on Bio-Fuels, 2018: Under this policy sugarcane juice has been allowed for production of ethanol. Government fixed remunerative price of ethanol produced from C-Heavy molasses and BHeavy molasses/sugarcane juice separately for supply under Ethanol Blended Petrol (EBP) during ensuing ethanol season 2018-19.
- Scheme for Extending Financial Assistance to Sugar Undertakings (SEFASU-2014): It envisages interest free loans by bank as additional working capital to sugar mills, for clearance of cane price arrears of previous sugar seasons and timely settlement of cane price of current sugar season to sugarcane farmers

Shifting trend of sugar industry to peninsular India

- Apart from Uttar Pradesh, in recent year many peninsular states like Maharashtra, Karnataka, Tamil Nadu etc. have emerged as major producer of sugar which has also caused sugar mill industries to shift to peninsular India.
- The reason for this shift is also due to better conditions available for cultivation in the peninsular part like

o longer crushing period
o adequate rainfall o higher recovery rates
o higher sucrose content than northern India
o easier transportation access due to port areas etc.

4) REDISCOVERING DEVELOPMENT BANKS

In order to improve access to long-term finance, the government has proposed to establish an organisation to provide credit enhancement for infrastructure and housing projects, particularly in the context of India now not having a development bank and also for the need for us to have an institutional mechanism.

- The announcement could have far-reaching implications for India's financial system. It is a welcome initiative, but questions remain on its design.

What are development banks?

• They are financial institutions that provide long-term credit for capital-intensive investments spread over a long period and yielding low rates of return, such as urban infrastructure, mining and heavy industry, and irrigation systems.

• Development banks are also known as term-lending institutions or development finance institutions.

Features of development banks:

• Such banks often lend at low and stable rates of interest to promote long-term investments with considerable social benefits.

• Fund generation: To lend for long term, development banks require correspondingly long-term sources of finance, usually obtained by issuing long-dated securities in capital market, subscribed by long-term savings institutions such as pension and life insurance funds and post office deposits.

• Support by the government: Considering the social benefits of such investments, and uncertainties associated with them, development banks are often supported by governments or international institutions.

• Such support can be in the form of tax incentives and administrative mandates for private sector banks and financial institutions to invest in securities issued by development banks.

Genesis of development banks in India:

• In the context of the Great Depression in the 1930s, John Maynard Keynes argued that when business confidence is low on account of an uncertain future with low-interest rates, the government can set up a National Investment Bank to mop up the society's savings and make it available for long-term development by the private sector and local governments.

• Following foregoing precepts, IFCI, previously the Industrial Finance Corporation of India, was set up in 1949. This was probably India's first development bank for financing industrial investments.

• In 1955, the World Bank prompted the Industrial Credit and Investment Corporation of India (ICICI) — the parent of the largest private commercial bank in India today, ICICI Bank — as a collaborative effort between the government with majority equity holding and India's leading industrialists with nominal equity ownership to finance modern and relatively large private corporate enterprises.

• In 1964, IDBI was set up as an apex body of all development finance institutions.

How were these banks financed initially?

As the domestic saving rate was low, and capital market was absent, development finance institutions were financed by:

• Lines of credit from the Reserve Bank of India (that is, some of its profits were channelled as long-term credit).

• Statutory Liquidity Ratio bonds, into which commercial banks had to invest a proportion of their deposits.

• In other words, by sleight of government hand, short-term bank deposits got transformed into long-term resources for development banks. The missing capital market was made up by an administrative fiat.

Challenges faced by them:

• Development banks got discredited for mounting non-performing assets.

• This was mainly caused by politically motivated lending and inadequate professionalism in assessing investment projects for economic, technical and financial viability.

• After 1991, following the Narasimham Committee reports on financial sector reforms, development finance institutions were disbanded and got converted to commercial banks.

• The result was a steep fall in long-term credit from a tenure of 10-15 years to five years.

Way ahead:

• Finance Minister's agenda for setting up a development bank is welcome. However, a few hard questions need to be addressed in designing the proposed institution.

• How will it be financed?

If foreign private capital is expected to contribute equity capital (hence part ownership), such an option needs to be carefully analysed, especially in the current political juncture.

• The design of the governance structure is fraught with dangers with many interest groups at work.

• Therefore, the political and administrative leadership should carefully weigh in the past lessons to lay a firm foundation for the new institution

5) RENEWABLE HYBRID ENERGY SYSTEMS

India recently conducted two auctions for wind/solar hybrid projects.

About Renewable Hybrid energy system

• Hybrid energy system usually comprises of two or more renewable energy sources combined in such a way to provide an efficient system with appropriate energy conversion technology connected together to feed power to local load or grid.

• Various types of Hybrid Renewable Energy Systems include: Biomass-wind-fuel cell, a photovoltaic cell array coupled with a wind turbine, hydro-wind energy system etc.

Benefits

• Hybrid energy systems are inclined towards providing customized power solutions according to the diverse needs of the customer. They were devised to overcome the constraints of standalone systems and fulfil the need for a reliable power source.

• They are beneficial in terms of reduced line and transformer losses, reduced environmental impacts, increased system reliability, improved power quality and increased overall efficiency.

• Hybrid energy systems often yield greater economic and environmental returns than wind, solar or geothermal stand-alone systems.

o For example: Hybrid energy systems run on solar energy to provide power in the daytime and use wind energy to provide power in the night time. Having been able to supply continuous power to clients, there is a reduced power storage cost.

• It is estimated that wind-solar storage hybrid systems could generate round-the-clock power with cost as well as reliability levels comparable to existing coal-fired power plants in the next 4-5 years.

• They can therefore become a viable solution to meeting future baseload power requirements, all at zero carbon emissions and future cost-inflation proof.

Challenges in implementing such system

• Technical challenges: The renewable energy sources, such as solar PV and FCs, need innovative technology to harness more amount of useful power from them. The poor efficiency of solar is major obstruction in encouraging its use.

• High manufacturing cost: The manufacturing cost of renewable energy sources needs a significant reduction because

the high capital cost leads to an increased payback time.
• Power loss: It should be ensured that there should be minimal amount of power loss in the power electronic devices.
• Storage issues: The storage technologies need to increase their life-cycle through inventive technologies.

Way forward

• Rightful use of storage: If we can store some energy during excess renewable generation hours and release it into the grid during peak demand hours, the combined "hybrid" system can produce 24x7 clean energy in response to varying levels of demand through the day.
o The storage can take many forms, such as batteries, pumped hydro or mechanical storage through flywheels.
• Ramping source of power: The intermittency of wind and solar could also be balanced by adding a fast; for example, an open cycle gas turbine. The overall output of the hybrid system can thus be matched against a required load on an hourly basis.
• Technical advancement: It is equally important to have proper R&D for such systems so that they can be used effectively.
• Collaboration with other countries for viable storage solutions.

Conclusion

This approach of using hybrid models would not only help in village electrification but it will also be more significant as its implementation is a smarter approach towards conservation of our environment ultimately making power grid smarter. To support this Ministry of new and renewable energy released a solar-wind hybrid policy in 2018 which provides a framework to promote grid-connected hybrid energy through set-ups that would use land and transmission infrastructure optimally and also manage the variability of renewable resources to some extent.

6) MARINE FISHERIES SECTOR

Recently, Marine Fisheries Regulation and Management (MFRM) Bill 2019 is circulated in the public domain for discussion.

Marine Fisheries sector in India

• Marine Fisheries is that branch of fisheries which deals primarily with marine fishes and other sea products. For E.g. Oil sardines, tunas, crabs, marine algae etc.
• India is the second largest fish producer in the world with a total production of 13.7 million metric tonnes in 2018-19.
• The sector has been showing a steady growth in the total gross value added and accounts for 5.23 % share of agricultural GDP.
• Indian fisheries and aquaculture is an important sector of food production providing nutritional security. besides livelihood support and gainful employment to more than 14 million people, and contributing to agricultural exports.
• It also helps in maintaining the contribution national economic development, tourism and recreation.

Challenges

• Issue with Deep sea Fishing: Deep sea fishing policy had been criticized by various fisher groups, mechanized fishing vessel owners, fish processors etc. due to opening of Indian seas to the foreign factory fishing ships.
o Also, no suitable data is available about the deep sea resources.
o The deep-sea fishing needs higher capital investment and recurring cost.
o There is also non availability of skilled manpower for deep sea fishing.

• Unorganized marketing system: The existing marketing system in India does not have any forward or backward linkages.

o There is a wide difference between fish sale price at landing centres and the retail markets which indicates that the middlemen is benefitted with the substantial share of the prices.

• Unutilised resources: Most of the resources caught in the high seas are discarded out at sea except for high value resources like shrimps and sharks.

• Lack of value addition technology: There is a huge gap in the technological expertise and further standardization of the developed technology by research institutes.

• Lack of Infrastructure facility: The infrastructure facility like Standard Boat building yards for construction of New boats and repair of existing crafts, exclusive fishing harbor etc. pose a huge challenge for this sector in fisheries.

• Declining catches and overfishing in coastal waters due to Climate change, Habitat degradation (industrial waste, domestic sewage, pesticides), Illegal, unreported and unregulated landings etc.

• Post harvest losses due to discard, spoilage, reduced quality.

• No social security: The fishing community does not get any proper social security benefits.

Way forward

• Funding: The funding from the Government needs to be channelized considering the importance and scope of the deep-sea sector in the coming years. o It is suggested that refinancing from NABARD can be arranged by the Govt. by issuing a notification or the subsidy schemes may be made available to the interested entrepreneurs by the Govt.

• Special insurance system for the fishing community and cooperation in safety and security of fishermen with neighbouring countries should be paramount to averse the loss of many fishers lives.

• Revival of cooperative sector with constant engagement of center government would help in achieving the doubling the famers Income 2022.

• Training: Pro-active support, possibly through the provision of objective and competent advice and training, to facilitate industry privatization initiatives with a view to making it more efficient and competitive.

• Awareness: It is also essential to create awareness on the edible qualities and the nutrient values of the nonconventional resources among the public so as to generate a free market for many such deep sea resources. o Research and development programmes should be strengthened through projects on exploratory deep sea surveys.

• Conservation of sea resources: The Govt. should take steps to ensure conservation of threatened and endangered deep sea resources such as shrimp and lobsters through legal provisions.

• Cooperative governance between centre & state over different territories of sea is key to the sustainable management of marine fisheries, which should ideally go into the Concurrent List.

Steps taken by government

• Blue Revolution: Integrated Development and Management of Fisheries approved by the Government provides for a focused development and management of the fisheries sector to increase both fish production and fish productivity from aquaculture and fisheries resources of the inland and marine fisheries sector including deep sea fishing.

• A draft national policy on Mariculture has been formulated to ensure sustainable farmed seafood production for the benefit of food and nutritional security of the nation.

• Government had notified National Policy on Marine Fishing 2017.

• "Letter of Permit"(LOP) system in the exclusive economic zone (EEZ) has been stopped in order to boost the livelihood of local fisherman.

• Traditional fishers have been exempted from the fishing ban implemented during monsoon period in the EEZ.

• Prohibited the use of LED lights and other artificial lights and practice of bull-trawling, purse seining and gill netting operations in the Indian EEZ to protect the marine ecology.

Marine Fisheries Regulation and Management (MFRM) Bill 2019

India has proposed Marine Fisheries Regulation and Management (MFRM) Bill 2019 as per its obligation under the United Nations Convention on the Law of the Sea (UNCLOS) 1982 and the World Trade Organisation (WTO) agreements.

• Covering the gap between centre and state: Since fisheries is a state subject, fishing in the internal waters (IW) and the territorial sea (TS) come within the purview of the states concerned. Other activities in the TS and activities, including fishing beyond the TS up to the limit of the EEZ, are in the Union list. No Central government, so far, has framed laws covering the entire EEZ.

• Social security: It proposes social security for fish workers and calls for protection of life at sea during severe weather events.

• Fishing in EEZ: The Bill prohibits fishing by foreign fishing vessels, thus nationalising EEZ. An Indian fishing vessel desirous of fishing in the EEZ, outside the TS, must obtain a permit.

• Fisheries management plan: It will ensure that the ecological integrity of the maritime zones of India, including prevention, control and mitigation of any form of pollution arising through fishing and fishing related activities is maintained.

Potential of Marine fisheries in India

• India has vast potential for fisheries considering long coastline of about 8118 km, and an Exclusive Economic Zone (EEZ) of 2.02 million sq Km apart from the inland water resources.

• The annual fishery potential of the country's EEZ is about 5 million tonnes.

• India has large coastal wetlands which cover an area of over 40,230 km2.

7) RBI PANEL ON ECONOMIC CAPITAL FRAMEWORK

Reserve Bank of India (RBI) has approved the transfer of record Rs 1.76 lakh crore dividend and surplus reserves to the government.

• The excess reserve transfer is in line with the recommendation of former RBI governor Bimal Jalan-led panel constituted to decide size of capital reserves that the central bank should hold.

Background:

• RBI had constituted a panel on economic capital framework. It was headed by Ex-RBI governor Bimal Jalan.

• The expert panel on RBI's economic capital framework was formed to address the issue of RBI reserves—one of the sticking points between the central bank and the government.

What's the isssue?

• The government has been insisting that the central bank hand over its surplus reserves amid a shortfall in revenue collections. Access to the funds will allow the government to meet deficit targets, infuse capital into weak banks to boost lending and fund welfare programmes.

What is economic capital framework?

• Economic capital framework refers to the risk capital required by the central bank while taking into account different risks. The economic capital framework reflects the capital that an institution requires or needs to hold as a counter against unforeseen risks or events or losses in the future.

Why it needs a fix?

• Existing economic capital framework which governs the RBI's capital requirements and terms for the transfer of its surplus to the government is based on a conservative assessment of risk by the central bank and that a review of the framework would result in excess capital being freed, which the RBI can then share with the government.

• The government believes that RBI is sitting on much higher reserves than it actually needs to tide over financial emergencies that India may face.

• Some central banks around the world (like US and UK) keep 13% to 14% of their assets as a reserve compared to RBI's 27% and some (like Russia) more than that.

• Economists in the past have argued for RBI releasing 'extra' capital that can be put to productive use by the **government. The Malegam Committee estimated the excess (in 2013) at Rs 1.49 lakh crore.**

What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?

• Although RBI was promoted as a private shareholders' bank in 1935 with a paid up capital of Rs 5 crore, the government nationalised RBI in January 1949, making the sovereign its "owner". What the central bank does, therefore, is transfer the "surplus" — that is, the excess of income over expenditure — to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.

Does the RBI pay tax on these earnings or profits?

• No. Its statute provides exemption from paying income-tax or any other tax, including wealth tax.

Why RBI needs excess reserves?

• The RBI needs adequate capital reserves for monetary policy operations, currency fluctuations, possible fall in value of bonds, sterilisation costs related to open-market operations, credit risks arising from the lender of last resort function and other risks from unexpected increase in its expenditure.

• The RBI has maintained the view that it needs to have a stronger balance sheet to deal with a possible crisis and external shocks.

8) CHIT FUNDS (AMENDMENT) BILL, 2019

The Union Cabinet has approved the introduction of the Chit Funds (Amendment) Bill, 2019 in the Lok Sabha.

• The Bill makes amendments to the Chit Funds Act, 1982, to facilitate orderly growth of the Chit Funds sector and remove bottlenecks being faced by the Chit Funds industry, thereby enabling greater financial access of people to other financial products.

Provisions under Chit Funds (Amendment) Bill, 2019

• Additional names for chit funds: The 1982 Act specifies various names which may be used to refer to a chit fund. These include chit, chit fund, and kuri. The Bill additionally inserts 'fraternity fund' and 'rotating savings and credit institution' to this list.

• Presence of subscribers through videoconferencing: The Act specifies that a chit will be drawn in the presence of at least two subscribers. The Bill seeks to allow these subscribers to join via video-conferencing.

• Increase in foreman's commission: Under the 1982 Act, the 'foreman' is responsible for managing the chit fund. He is entitled to a maximum commission of 5% of the chit amount. The Bill seeks to increase the commission to 7%.

• Aggregate amount of chits: The Bill has increased the limits of maximum amounts that can be collected under the chits by firms, associations or individuals.

• Application of the Act: At present, the 1982 Act does not apply to chits smaller than ₹100. The Bill seeks to remove the limit of ₹100 and allows State government to set the limit.

Chit fund

• A chit fund is a type of saving scheme where a specified number of subscribers contribute payments in instalment over a defined period.

• Each subscriber is entitled to a prize amount determined by lot, auction or tender depending on the nature of the chit fund.

• Typically, the prize amount is the entire pool of contribution minus a discount which is redistributed to subscribers as a dividend.

• With a reported 10,000 chit funds in the country handling over Rs 30,000 crore annually, chit fund proponents maintain that these funds are an important financial tool.

• However, these can be misused by its promoters and there are many several instances of people running such Ponzi schemes and then absconding with investor's money. Regulation of chit funds: being part of the Concurrent List of the Indian Constitution; both the centre and state can frame legislation regarding chit funds.

• Neither RBI nor SEBI regulates the chit fund business.

• Under the Chit funds Act, 1982 all chit fund companies need to be registered with respective state government.

9) MICROCREDIT

Recently, some experts have suggested that the existing systems of microcredit have a limited impact on the long-term wellbeing of the recipients.

Microcredit

• Microcredit refers to the granting of very small loans to impoverished borrowers, with the aim of enabling the borrowers to use that capital to become self-employed and strengthen their businesses.

• Loans given as microcredit are often given to people who may lack collateral, credit history, or a steady source of income.

• The core idea of microcredit is that a small loan will provide access to the larger economy to people who typically live outside the scope of the institutions on which the mainstream economy rests.

• Microcredit falls under the larger umbrella of microfinance, financial services for individuals who don't have access to traditional services of this kind.

• In India, the microcredit model has been dominated by the Self Help Group movement.

o It now has a savings account balance of Rs. 19,500 cr and credit outstanding of over Rs. 75,500 cr.

o There are more than 5000 channel partners and 8.7 Million groups touching more than 100 Million rural households

• Recently, a review article published in, Ideas for India, a policy research portal claimed that certain flaws in how microcredit transactions occur has led to the outcomes having muted benefits in improving the lives of its beneficiaries in a meaningful way.

Benefits of microcredit

• Poverty alleviation- as these small loans helps them to begin production and attain self-sufficiency.
• Promoting Entrepreneurship- which lead to development of new ventures such as Lijjat Papad among others.
• Help casual labour- such as rural labourers to diversify their source of income by starting new work during lean seasons.
• Women Empowerment- Lending to microfinance borrowers, mostly women in rural areas, has increased by 900% over the last six years, from $2 billion in 2012 to $20 billion 2018.
• Social Security- as it can be used to dampen the effects of shocks like floods by providing people with a form of insurance that both increases production before the shock and provides a safety net after.

Issues in microcredit in India

• Lack of flexibility- Many microcredit programmes require that repayment starts almost immediately and then follows a strict weekly schedule. It makes it difficult for borrowers to use the money they receive for productive investments that may take time to be realised.
• Non-maintenance of Credit History- The rigidity surrounding repayment is largely a response to lack of information about the creditworthiness of clients. Many microcredit borrowers have little or no formal credit history, meaning lenders have been unable to screen out unproductive borrowers.
• Vulnerability of Microfinance Institutions- to even a small adverse development, as their finances remain fragile due to small size of these institutions. Unlike banks, which have multi products and an assured deposit base, micro lenders are dependent on markets for funds, which turn hostile at the smallest of events that affect business.
• Create further debt traps- when a small business fails and takes another loan to fulfil the previous one. It rather exacerbates the debts.

Steps taken towards microcredit in India

• The Self Help Groups Bank linkage (SHGBLP) programme- It is an initiative of NABARD to link the unorganised sector with the formal banking sector.
Under this programme:
o banks were allowed to open savings accounts for Self-Help Groups (SHGs). o banks can provide loans to the SHGs against group guarantee and the quantum of loan could be several times the deposits placed by such SHGs with the banks.
• The Livelihood and Enterprise Development Programme (LEDP)- for creating sustainable livelihoods amongst SHG members was introduced on pilot basis in select states, which now has been mainstreamed in all states in the country
• The India Microfinance Equity Fund (IMEF)- to support the Microfinance Institutions (MFIs).
• The Micro Units Development & Refinance Agency Ltd (MUDRA)- set up by the Government of India in 2015 with its total focus on microenterprise, has to hand-hold and facilitate the development process of smaller Microfinance Institutions and not for profit MFIs.

<u>10) NEGATIVE RATE POLICY</u>

Negative rate policy – once considered only for economies with chronically low inflation such as Europe and Japan – is becoming a more attractive option for some other central banks to counter unwelcome rises in their currencies.

Why have some central banks adopted negative rates?

• To battle the global financial crisis triggered by the collapse of Lehman Brothers in 2008, many central banks cut interest rates near zero.

• A decade later, interest rates remain low in most countries due to subdued economic growth.

• With little room to cut rates further, some major central banks have resorted to unconventional policy measures, including a negative rate policy.

• The euro area, Switzerland, Denmark, Sweden and Japan have allowed rates to fall slightly below zero.

How does it work?

• Under a negative rate policy, financial institutions are required to pay interest for parking excess reserves with the central bank.

• That way, central banks penalise financial institutions for holding on to cash in hope of prompting them to boost lending.

What are the pros of negative rates?

• Lowers borrowing costs.

• Help weaken a country's currency rate by making it a less attractive investment than that of other currencies.

• A weaker currency gives a country's export a competitive advantage and boosts inflation by pushing up import costs.

What are the cons?

• Negative rates put downward pressure on the entire yield curve.

• Narrow the margin financial institutions earn from lending.

• If prolonged ultra-low rates hurt the health of financial institutions too much, they could hold off on lending and damage the economy.

• There are also limits to how deep central banks can push rates into negative territory – depositors can avoid being charged negative rates on their bank deposits by choosing to hold physical cash instead.

11) PARTIAL CREDIT GUARANTEE SCHEME TO PSBS

In pursuance of the announcement made in the Union Budget 2019-20, the Government has issued a scheme regarding partial credit guarantee.

• The scheme provides for a one-time partial credit guarantee to PSBs for purchase of pooled assets of financially sound NBFCs.

• **Objective**: To address temporary asset liability mismatches of otherwise solvent NBFCs/HFCs without having to resort to distress sale of their assets for meeting their commitments.

• Validity of the scheme: The window for one-time partial credit guarantee offered by GoI will open from the date of issuance of the Scheme by the Government for a period of six months, or till such date by which Rupees One lakh crore assets get purchased by banks, whichever is earlier.

Significance:

• The stress on NBFCs and HFCs is seen as a key reason for a slowdown in the economy, as it has caused reduced credit flow to small businesses and consumers.

• The step would provide liquidity to NBFCs and enable them to continue to play their role in meeting the financing requirements of productive sectors of economy.

Notable facts:

• As per the guidelines of the scheme announced in the budget, the Department of Economic Affairs will provide government guarantee of up to 10% of the fair value of assets purchased by a bank from a stressed NBFC or HFC. The scheme is capped at Rs 1 lakh crore and will be open for up to six months.

• The Department of Financial Services will obtain information on transactions in a prescribed format from PSBs and send a copy to the budget division of the Department of Economic Affairs. The government will settle claims by banks within five working days.

• NBFCs will have to pay a fee to the government, at 0.25% per annum of the fair value of assets sold to banks. They will be able to sell 20% of standard assets, worth up to Rs 5,000 crore, as on March 31.

• Assets sold must be at least AA or equivalent rated and the NBFC/HFC selling assets should have appropriate capital, net NPAs of less than 6% and been profitable for the last two financial years.

• NBFCs will also have to rework the asset-liability structure within three months to have a positive asset liability management in each bucket for the first three months and on cumulative basis for the remaining period.

• The one-time guarantee on the pooled assets will be valid for 24 months from the date of purchase and can invoked in specified circumstances. The guarantee shall cease earlier if the purchasing bank sells the pooled assets to the originating NBFC or HFC or any other entity before the validity of the guarantee period.

12) FIT-AND-PROPER CRITERIA

The Reserve Bank of India (RBI) has tightened the fit-and-proper criteria for directors on the boards of state-run banks.

• The revised norms are applicable only to public sector banks (PSBs).

Key changes proposed:

• As per the Reserve Bank of India ('Fit and Proper' Criteria for Elected Directors on the Boards of PSBs) Directions, 2019, all the banks — SBI and nationalised banks — are required to constitute a Nomination and Remuneration Committee (NRC).

• Centre's nominee director shall not be part of the nomination and remuneration committee (NRC).

• The terms with regard to the NRC and the manner of the appointment of directors have been aligned with the practice in private banks, the recommendations made by the Banks Board Bureau, and with the provisions in the Companies Act.

• Composition of NRC: The NRC will have a minimum of three non-executive directors from amongst the board of directors. Of this, not less than one-half shall be independent directors and should include at least one member from the risk management committee of the board.

• Eligibility: As per the directions, the candidate who wants to become an elected director should at least be a graduate. He/She should be between 35-67 years old as on the cut-off date fixed for submission of nominations for election. The candidate should have special knowledge or practical experience in areas useful for banks.

• An elected director shall hold office for three years and shall be eligible for re-election, provided that no director hold office for a period exceeding six years, whether served continuously or intermittently.

• What will also be under scrutiny is the 'list of entities' in which a prospective director has an interest – to ascertain if such a firm is in default or has been in default in the past decade.

The negative list says that:

• The candidate should not be a member of the board of any bank, the RBI, financial institution (FI), insurance company or a non-operative financial holding company (NOFHC).

• The candidate should not be connected with hire-purchase, financing, money lending, investment, leasing and other para-banking activities. But "investors of such entities would not be disqualified for appointment as directors if they do not enjoy any managerial control in them".

• No person is to be elected or re-elected to a bank board if the candidate has served as a director in the past on the board of any bank, the RBI or insurance company under any category for six years, whether continuously or intermittently.

• The candidate should not be engaging in the business of stock broking.

• The candidate should not be a member of Parliament, state legislature, municipal corporation, municipality, or other local bodies — notified area council, city council, panchayat, gram sabha or zila parishad.

• Other conditions are that candidate should not be a partner of a chartered accountant (CA) firm currently engaged as a statutory central auditor of any nationalised bank or State Bank of India; or when the firm is engaged as statutory branch auditor or concurrent auditor of the bank in which nomination is sought.

13) BOND YIELD AND INVERSION

Talks on Bond yield and Bond Inversion were recently in news amid global slowdown and rising fears of recession. In India, government bond yields fell sharply in the wake of the Union Budget.

Bond and Bond Yield

• A bond is a debt instrument issued by a country's government or by a company to raise funds and having a maturity period of more than one year.

• Every bond has a price fixed by the issuer known as face value and an annual interest known as coupon payment.

• Later when the bond is traded in the secondary market, its price fluctuates in response to changes in interest rates in the economy, demand for the instrument, time to maturity, and credit quality of that particular bond.

• The effective rate of return or the profit that the bond earns is called as Bond Yield and is calculated by dividing the bond's coupon rate by its face value. Bond Yield has an inverse relationship with the bond price.

• Government bonds (referred to as G-secs in India, Treasury in the US, and Gilts in the UK) come with the sovereign's guarantee and are considered one of the safest investments compare to other investment options like shares, corporate bonds etc.

• Thus, when an economy slows, investors prefers to invest in government bonds, leading to rise in their demand and prices and thus fall in their yields.

• On the other hand, when an economy grows, there will be rise in inflation leading to increase in repo rate. This may increase rate of interest in other investment options thus decreasing the demand for government bonds and their prices leading to rise in their yield.

• Bond yields can therefore be a useful parameter in assessing economic health.

Bond Yield Inversion

• Yield inversion happens when the yield on a longer tenure bond becomes less than the yield for a shorter tenure bond.

• A yield inversion typically signals a recession.

• An inverted yield curve shows that investors expect the future growth to fall sharply; in other words, the demand for money would be much lower than what it is today and hence the yields are also lower.

Yield Curve

• It is a graphical representation of yields for bonds (with an equal credit rating) over different time horizons.

• The term is normally used for government bonds which come with the same sovereign guarantee.

• If bond investors expect the economy to grow normally, yield curve is upward sloping.

• When the economy is expected to grow only marginally, the yield curve is flat.

• And the yield curve is inverted when the economy is expected to slow down.

14) DIRECT TAX CODE

Recently, the draft legislation of the new Direct Tax Code (DTC) was submitted by the task force, headed by Akhilesh Ranjan, to the Government of India.

• The Direct Tax Code (DTC) is an attempt by the Government of India to simplify the direct tax laws in India.

o It will revise, consolidate and simplify the structure of direct tax laws in India into a single legislation.

o When implemented, it will replace the Income-tax Act, 1961 (ITA), and other direct tax legislations like the Wealth Tax Act, 1957.

• The task force was constituted by the government to frame draft legislation for this proposed DTC in November 2017 and review the existing Income Tax Act.

Need

• The Income Tax Act, 1961 with over 700 sections was drafted as per the nature of Indian economy in 1960s and the capacity to mobilize resources from taxpayers directly.

• However, in these 58 years, there have been following developments-

o Changes in the Indian economy towards liberalisation and privatisation.

o Changes in the Global economy towards more integration and globalisation.

o Changes in the models of doing business such as e-commerce.

o Changes in the technology which can be leveraged towards better tax administration

• Also, the IT Act has been amended various times which has made it complex and increased tax litigations.

Key Provisions of the draft DTC

• Rejig of tax brackets- to widen them and which can bring a significant relief for the middle and upper middle class o A common corporate rate of 25% will apply to both large local as well as foreign companies that are present in India without a subsidiary.

• Removal of Surcharges and Cesses- which are currently imposed above a certain income slab and for specific purposes.

• Negotiated Settlements- a new concept of settling disputes through mediation between the taxpayer and a collegium of officers. Here, the assessee will only have to pay the tax and interest and no penalty in case of a negotiated settlement.

• Assessment System- creation of an assessment unit to replace an assessing officer and a separate litigation unit. It has favoured jurisdiction-free, anonymous assessment by domain experts with the involvement of senior officials. • Incentives for Start-Ups- by treating them differently from that of a normal company. It is proposed that the funds raised by the start-ups will not require any kind of scrutiny.

Benefits

• Simplification of processes for taxpayers- due to features such as basic tax slabs and limited number of efforts needed to file taxes.

o E.g. Surcharge and cess complicate the tax calculations especially for tax-deduction purposes and also add to unnecessary disputes.

• Expansion of tax base- as large number of people will be covered in the lowest tax slab, which will promote voluntary tax compliance.

o Despite being a country of over 1.3 billion people, there are only 74 million effective taxpayers in India as per the last count.

• Address contemporary needs- such as greater mobility of capital, capital account convertibility, tax competition among countries.

o Further, it will be capable of dealing with new business models in a digital economy. Evolution of the digital economy has allowed companies to offer their services despite not having physical presence in a country.

• Bring objectivity in tax architecture- as the draft has also proposed concrete principles of taxation, which would guide the future tax proposals by all governments.

• Reduction in malpractices- through faceless assessment, whereby there will be no requirement of physical presence of the assesse (tax payer) or the identity of the assessor (tax official).

o There is an emphasis on reducing litigation and making the interface of the department with taxpayers anonymous to eliminate harassment and corruption.

• Boost to savings and investment- as the corporate tax regime will be rationalised which will create predictability in the minds of individual and corporate players.

o The DTC also pays specific attention to startups under stressed positions due to taxation.

o The capital gains tax regime, minimum alternate tax and dividend distribution tax have also been reviewed by the task force.

Way Forward

• Although previous efforts to develop an alternative mechanism for settlement of tax disputes, including mediation, have not had too much success, but it can be ensured through the DTC in the following way-

o There is a need for a robust database of jurisprudence, and proper training to tax officers, chartered accountants and other professionals empanelled to ensure a proper, effective and impartial approach to settling litigation.

o Periodically release internal manuals, which contain the revenue department's interpretation of the provisions keeping in mind court rulings.

• Further, there should be an institutional mechanism, with participation of all the stakeholders, to periodically oversee the changing requirement and amend the DTC as required.

15) JALAN COMMITTEE REPORT

Recently, the Reserve Bank of India (RBI) decided to transfer a surplus of Rs 1.76 lakh crore to the Government of India exchequer.

• One of the many issues of friction between the government and the central bank is the transfer of higher surplus by the latter to the government.

o The RBI transfers the "surplus", i.e. the excess of income over expenditure, to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934. o Earlier, the RBI used keep a major chunk of this surplus for its contingency and asset development. However, after the Malegam Committee (2013) recommendations its transfer of surplus increased.

• Last year, RBI formed a committee under the chairmanship of Bimal Jalan to review the provisions under the Economic Capital Framework.

• Recently, based on the recommendations of the committee, the RBI Central Board has decided to increase its net transfer to the government.

• The recent transfer includes Rs 1.23 lakh crore of surplus for 2018-19 and Rs 52,637 crore of excess provisions identified under a revised Economic Capital Framework (ECF) adopted by the RBI board.

o The transferred amount is over three times the five-year average of Rs 53,000 crore.

o The higher surplus is due to the long-term forex swaps and the open market operations (OMO) conducted by the central bank over the last fiscal.

Key Recommendations of the Committee

• Guiding principle- The committee has given the recommendations on the principle that the alignment of the objectives of the government and the RBI is important.

• Defines economic capital- as a combination of realized equity and revaluation reserves. (Central Board has decided to keep this entire capital at the level of 24.5-20%)

o Realized equity- it is a form of contingency fund for meeting all risks/losses primarily built up from retained earnings. The committee states that the entire income above the realised equity should be transferred. It currently stands at 6.8% and the committee recommends it to be in the range of 6.5-5.5% of the balance sheet. (Central Board has decided to set this at 5.5% of the balance sheet).

o Revaluation reserves- it comprises of the periodic marked-to-market unrealized/notional gains/losses in values of foreign currencies and gold, foreign securities and rupee securities, and a contingency fund.

• Surplus Distribution Policy- which targets the level of realized equity to be maintained by RBI within the overall level of its economic capital.

Arguments in favour

• More Judicious use of resources- as the RBI's reserves are far in excess of prudential requirements. These funds be utilised to provide capital to government-owned banks.

o It can help offset the expected shortfalls in various tax revenues in 2019-20 and aid the government in meeting its fiscal deficit target.

o It will also improve the yield of the government securities due to improved financing capability.

• Help government deal with economic slowdown- which can be addressed using these resources to provide fiscal stimulus to a sagging economy, reduce off-balance sheet borrowings or meet the expected shortfall in revenue collections.

• Many governments decide on this issue- e.g. in Japan, the government decides the quantum of surplus which the central bank transfers to the government.

• Strong position of the Reserve Bank- which had an overall fifth rank in 2018 at 26.8 per cent of its balance sheet with respect to central banking economic capital.

Arguments against

• Buffer against externalities- such as potential threats from financial shocks, and the need to ensure financial stability and provide confidence to the markets.

• Crucial towards autonomy- of the Reserve Bank, which can be ensured only, maintaining a larger reserve, so that it doesn't depend on Government in times of financial stress. o In the backdrop of resignation of the last RBI Governor, this move has been criticised by some experts as having led to erosion of autonomy of RBI.

• Can create inflationary pressures- in the economy with an immediate increased government spending, if it is not done in a proper manner.

Way Forward

In the future, it should be the endeavour of both the Government and the Reserve Bank to ensure that both risks management and needs of the economy are balanced.

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6. Sociology, political science and Public administration full course and crash course with writing skills.

7. Ncert Foundation btach.

8. GS-FOUNDATION batch for 2020… from 15th June 2019.

All the Best to all my Economics students…
Hope this material will help you.
God bless…
JaiHind ☺