GOOD MORNING TIMES

Economics –PT Shots

(JANUARY-2019)

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

December 2018

1. **NATIONAL AGRICULTURAL HIGHER EDUCATION PROJECT (NAHEP)**
    - ICAR has recently launched Rs 1100 crore ambitious NAHEP to attract talent and strengthen higher agricultural education in the country.
    - **Need of Agricultural Education**

• Increases Agricultural Productivity: Effective agricultural education (both for farmers as well as researchers) leads to better economic and technical decision making in agricultural processes, which is further reflected in increase in agricultural productivity.

• Understanding Value Chain of Agriculture: The entire value chain of agriculture i.e. from farm input to market linkages, suffers from various bottlenecks which can well be addressed by agricultural education.

• Creates Employment: Agricultural education is needed in order to absorb the emerging labour force, especially with the emerging arenas of biotechnology, GM food, precision agriculture etc. which require detailed knowledge.

• Increases Labour value: Market value of individual in agricultural field in India is lower than many developing countries and agricultural education adds to an individual's productivity and therefore increases the market value of his labour.

- **Challenges face by Agricultural Education**

• Inadequate Finance: Agriculture is a state subject and the statutory responsibility for it vests with the state governments which lack in funds. Moreover, the establishment cost of agricultural universities has risen substantially while the operational budget has reduced which constrains institution for innovation.

• Faculty: State Agricultural Universities (SAUs) are facing non-replacement of retired faculty and high inbreeding of faculty (nearly 51% of faculty members have their degrees from the same university in which they are teaching), which hampers the quality of academic and research programmes.

• Lack of Networking and quality: It has been noticed that most of the universities are lacking in association and integration with different national and international universities for academic activities.

• Low quality: The quality provided in these universities is low which further affects their global ranking.

• Not a first option: Negative attitude towards agricultural education due to low returns and limited career opportunities makes agricultural education not a preferred choice amongst students.

- **About NAHEP**

• Funding: It will be funded by the World Bank and the Indian Government on a 50:50 basis.

• Objective: To support Participating Agricultural Universities (AUs) and ICAR in providing more relevant and higher quality education to Agricultural University students.

• Advantage: It addresses quality by supporting interested AUs to propose and implement technically sound and verifiable investments that increase faculty performance, attract better students to these AUs, improve student learning outcomes and raise their prospects for future employability, particularly in the private sector.

- **Components**

• Institutional Development Plans (IDPs): NAHEP would provide Institutional Development Grants to selected participating AUs, which seek to improve learning outcomes and future employment for AU students and faculty teaching performance and research effectiveness.

• Centre of Advanced Agricultural science & Technology (CAAST): CAAST Grants will be provided to selected participating AUs to establish multidisciplinary centers for teaching, research and extension on critical and emerging agricultural topics.

• Innovation Grants to selected participating AUs to make AUs reform ready (i.e., attain accreditation); and promote mentoring of non-accredited AUs by existing reform-ready AUs and other interstate and international academic partnerships.

• Results Monitoring and Evaluation: The Education Division/ ICAR would establish a Monitoring and Evaluation (M&E) Cell to oversee the progress of activities across all NAHEP components.

- **Indian Council of Agricultural Research (ICAR)**

• It is an autonomous organisation under the Department of Agricultural Research and Education (DARE), Ministry of Agriculture and Farmers Welfare.

• It is the apex body for coordinating, guiding and managing research and education in agriculture including horticulture, fisheries and animal sciences in the entire country.

• The Agricultural Education Division, ICAR is involved in strengthening and streamlining of higher agricultural education system to enhance the quality of human resources in agri-supply chain to meet future challenges in agriculture sector in the country.

- **Student READY (Rural Entrepreneurship Awareness Development Yojana)** scheme under ICAR:

• Under it, practical experience of agriculture and entrepreneurship is provided to undergraduate students.

- **Kisan Pathshala Yojana of the Uttar Pradesh (UP)**

• It is an extension and outreach programme to connect the agricultural department's scientific and technical staff with the state's farming community.

2. <u>URANIUM REQUIREMENTS IN INDIA</u>

- A parliamentary panel has recommended that necessary steps must be taken to open new uranium mines to ensure sufficient amount of uranium in India.
- **Current Scenario in India**

• Presently, a major portion of uranium for domestic production comes from the Jaduguda mines in Jharkhand.

• India currently imports uranium from Kazakhstan, Canada, France and Russia. Recently India also signed deal with Uzbekistan to get Uranium supply.

• In India, Uranium Corporation of India Ltd. (UCIL) under the Department of Atomic Energy, is the only organisation responsible for mining and processing of uranium ore for commercial purposes. o Uranium mined by the UCIL is used for weapons and civil nuclear programmes both. The imported uranium is used for civil nuclear energy purposes only.

• Atomic Minerals Directorate (AMD) is responsible for survey and exploration of atomic mineral reserves in India—particularly, to harness uranium resources required for the development of the nuclear programme.

- **Need**

• Fuel for current Nuclear Plants: The scarcity of uranium has often made the nuclear power plants to run below their capacities. A stockpile of 15,000 tonnes of uranium is required to achieve supply security of fuel for nuclear plants in the country.

• Need Domestic Uranium for Non-IAEA plants: Domestic uranium is used in nuclear plants which are not under the international nuclear energy watchdog, International Atomic Energy Agency (IAEA).

• Fuel for Future capacity addition: The government has planned 22,480 MW nuclear power capacity addition target by the year 2031-32.

- **Challenges**

• Uranium contamination of ground water due to Mining: Recently, a study has found uranium contamination in groundwater from aquifers in 16Indian states. For example, most of the wells tested in Rajasthan and Gujarat had more uranium than the WHO's recommended limit of 30 µg/L.

• Purity of Uranium: In comparison to world occurrences, uranium deposits established in India are mostly of low-grade (less than 0.15per cent U).

• Shift towards Renewable energy: This has often been cited as a factor that calls for a shift away from nuclear fuel. The plants, with a shorter processing route, need to incorporate measures to maximize the re-use of water, high recovery of the product and minimum discharge of effluents.

• Anti-nuclear protests: Following the 2011 Fukushima nuclear disaster in Japan, populations around proposed Indian Nuclear power plant sites have launched protests. E.g. Protests in Jaitapur protests and Mithi Virdi.

• Other Issues: Factors such as problems on land acquisition, rehabilitation/resettlement of affected persons, reserve forest/tiger sanctuary locations, socio-political issues, public consensus, etc. also influence the decisions on mining and exploitation of established uranium and thorium resources in the country.

- **Steps taken by the government**

• Apart from signing deals with countries for importing uranium, domestic production is expected to achieve to record ten-fold increase by 2031-32 as per the vision plan prepared by the government.

• The Government has taken measures to augment domestic uranium supply by state-of-the-art, integrated, multi-disciplinary exploration in several prospective and potential geological domains in various parts of the country and opening of new mines and processing facilities.

3. **<u>TECHNICAL TEXTILES</u>**

- National Conclave on Technical Textiles was held recently in Mumbai.
- **What are technical textiles?**

• These are textile material and products manufactured primarily for technical performance and functional properties rather than aesthetic and decorative characteristics.

• They can be woven or non-woven and combinations of both. They can be made up as a single or multi-player and can be produced as a composite or a coated material.

• They can be made from any fibre yarn or filament of purely natural or synthetic origin or combination of the two types.

• They find application not only in clothing but also in areas like agriculture, medical, infrastructure, automotive, aerospace, sports, defence and packaging. Technical textiles in India

• It is a sunshine sector for the textile industry and it is one of the fastest growing segments of the Indian Economy. They are driven by demand, development and industrialisation in a country.

• India has 4-5% share in the global technical textiles market size across twelve segments.

• Technical textiles constitute 12-15% of the total textile value chain in India, whereas in some of the European countries technical textiles constitute 50% of the total textiles value chain.

• There are around 2100 units manufacturing technical textiles in India, most are concentrated in Gujarat followed by Maharashtra and Tamil Nadu.

• Per capita consumption of technical textiles in India is 1.7 per kg visa-vis 10-12 kg in developed countries.

• This industry is import-intensive. In the last few years, the industry has witnessed a rise in imports - it stood at USD 1.4 Billion in 201415. Government initiatives for this sector

• Government launched Scheme for growth and development of technical textiles (SGDTT). Its 3 components were:

o Baseline survey to build technical textile industry database.

o Setup centres of excellence for infrastructural support like BTRA for Geotextiles, SASMIRA for Agrotextiles, NITRA for Protective Textiles and SITRA for Medical Textiles.

o Awareness generation among entrepreneurs.

• Subsequently, government launched Technology Mission on Technical Textiles (2010-2014) to overcome the issue of technical textile industry. It has 2 mini-missions –

o Mini Mission-I – For standardization, creating common testing facilities, indigenous development of prototypes and IT based resource centres.

o Mini Mission-II – It focuses on support for domestic and export market development through assistance for business start-ups, contract research and participation in international exhibitions.

• All technical textiles-based machinery is covered under Technology Upgradation Fund Scheme, which facilitates new and appropriate technology for making the textile industry globally competitive.

• Government has allowed up to 100% FDI under automatic route for the technical textiles segment.

• Under Scheme for Integrated Textile Parks (SITP), the Government provides assistance for creation of infrastructure in the parks to the extent of 40%.

4. **MINIMUM BASIC INCOME and UNIVERSAL BASIC INCOME**

  - Recently, there have been calls for introduction of Minimum Basic Income (MBI) in the country.
  - Sikkim's ruling party, the Sikkim Democratic Front (SDF), recently declared to include the **Universal Basic Income** scheme in its manifesto ahead of the Assembly

election in 2019 and aims to implement it by 2022.

• If everything goes according to the plan, it will be the first state to implement UBI in India.

- Sikkim has set up examples in the country in different areas in the past also, some of them being:

• Sikkim is the best state for women in the workplace, thanks to its high rates of female workforce participation, there's less crime against women.

• Sikkim's literacy rate increased to 82.2% from 68.8% in 2001, among the country's highest.

• Sikkim is the least populated state in India, has its per capita GDP growing in double digits since 200405.

• Sikkim also decreased its poverty ratio by 22% to 51,000 (8.2%) in 2011-12 from 1.7 lakh (30.9%) in 2004-05.

• Sikkim also became the first fully organic state.

- **What is Universal Basic Income?**

• Universal Basic Income (UBI) is a programme for providing all citizens of a country or other geographic area/state with a given sum of money, regardless of their income, resources or employment status.

• The main idea behind UBI is to prevent or reduce poverty and increase equality among citizens. The essential principle behind Universal basic income is the idea that all citizens are entitled to a livable income, irrespective of the circumstances they're born in.

- **Concept of Minimum Basic Income (MBI)**

• The Minimum Basic Income is a social welfare system that guarantees a basic income to households, provided they meet certain conditions.

- This is different from Universal Basic Income (UBI) scheme, which is a periodic, unconditional cash transfer to all citizens on individual basis, without means-test or work requirement. To that extent, the Minimum Basic Income is a conditional UBI or a quasi UBI (targeted).

- **What are merits of the idea of Minimum Basic Income?**

• Social Justice & Equity: There is a need for such ways to ensure a just society that needs to provide every individual a minimum income to provide for basic necessities.

• Freedom of choice: The poor in India are treated as subjects of Government's welfare policies, rather than economic decision makers. MBI treats them as agents and entrusts them with the responsibility of using welfare spending as they see best.

• Poverty alleviation: According to Economic Survey (2016-17), income transfers can reduce poverty to 0.5% at a cost of about 4% to 5% of the GDP, if those in the top 25% income bracket are not included. Moreover, minimum income guarantee also covers urban poor.

• MBI has potential to reduce rural distress for e.g. it can decrease long term rural indebtedness, as propensity to save increases.

• Better social development: Pilot studies in Madhya Pradesh have shown that the income supplements can improve nutrient intake, school enrolment and attendance of female students, toilet building etc.

• Financial Inclusion: by augmenting rural income & promoting usage of bank accounts, which further expands banking services.

• Other advantages include administrative efficiency, gender equity (by taking individuals and not household as beneficiaries), insurance against shocks and flexibility in labor market.

- **Challenges**

• Definition of basic income: It is difficult to reach on a consensus-based definition of 'Basic Income', which will be sufficient to meet basic needs. Tendulkar Committee poverty line of 33/- a day works out basic income of 12,000/- a year. It will cost 11-12% of GDP, in comparison to the existing subsidy burden of 4-4.5% of GDP.

• Fiscal challenges: Total fiscal cost will depend on 2 factors:

(i) Coverage of the scheme

(ii) Extent of substitution with existing subsides/schemes.

Further there are various challenges like difficulty in exiting subsidies, hostility in extracting more tax revenue from wealthy, medium term fiscal risk, and rising consumption may stroke inflationary pressure.

• Cash vs Kind Dilemma: While giving income support, it is assumed that the beneficiaries would be wise in their discretion. However, it suffers from challenges like misuse of cash (on demerit or sin goods), increasing vulnerability of women and child as finances of families are controlled by men, direct monetary benefits not being inflation proof, etc.

• Targeted vs universal: Universalisation is the key to efficient delivery of services against targeting proposed by these cash transfer schemes. Strict targeting may have its own problems like issues related to identification of beneficiaries. This needs an easily identifiable objective criterion. Otherwise, it cannot be claimed to be superior in terms of the leakages.

• Basic income is no substitute for state capacity: In developed countries, the cash transfers supplement existing social security provisions and are a top-up over and above universal provision of health & education. In the Indian context, most arguments in favour of MBI are premised on the inefficiencies of existing social security interventions and seek to replace them with direct cash transfers. o Cash transfers seek to create demand for services without supplying the services, which leaves the poor to depend on private service providers. The privatisation of basic services such as health and education may lead to the problem of accessibility (e.g. in remote areas) and large-scale exclusion of the poor and marginalised. • Reduce worker productivity and reduce incentive for skill development and increasing employability through constant effort.

• Implementation Challenges: The success of cash transfers depends upon the outreach of banking system & last mile connectivity.

- **Income Support:**

National Examples

• Madhya Pradesh Unconditional Cash Transfers Project, more than 6000 beneficiaries were given income support besides existing subsidies.

International Examples

• Under Finland's "**Perustulokokeilu**" (Basic Income Experiment), unconditional income support was provided to the selected pool of unemployed people between 25 & 58.

• Brazil has an 'anti-poverty' programme called '**Bolsa Familia'**, involving a cash grant to families below a certain income level, provided they meet conditions such as overseeing their children's school attendance.

5. **EXPORT-IMPORT BANK OF INDIA**

- Recently, cabinet approves recapitalisation of Export-Import Bank of India (Exim Bank).
- Recapitalisation will be done by issuance of Recapitalization Bonds by Government and will not impact the fiscal deficit.
- **Advantage**: It will enable bank to augment capital adequacy and support Indian exports with enhanced ability.

o Impetus to anticipate new initiatives like supporting Indian textile industries, Concessional Finance Scheme (CFS) and new Line of Credits in future in view of India's active foreign policy and strategic intent.

• Further, cabinet also approved an increase in the bank's authorised capital from ₹ 10,000 crore to ₹ 20,000 crore.

- **Role of Exim in Foreign Policy and Trade**

• Improve Foreign Trade: Bank provides assistance in various financial, marketing and technical aspects to accelerate growth of Indian economy by engaging into various programs and services in the interests of Indian exporters, commercial banks, financial institutions to promote foreign trade in the country.

• Increasing India's Sphere of Influence: Exim Bank has 233 Line of Credit (LOCs) in place at present, covering 62 countries in Africa, Asia, Latin America and the CIS, with credit commitments of around $22.86 billion, available for financing exports from India.

• Role in Neighborhood Policy: Government of India provides Interest subvention for project exports through EXIM Bank of India for SAARC countries.

• Integrating ASEAN in India's Act East Policy by setting up Project Development Fund under EXIM bank to catalyse Indian economic presence in Cambodia, Laos, Myanmar and Vietnam.

• Cooperation with BRICS Bank: Exim Bank of India in 2018, entered into a MoU on general cooperation with the New Development Bank (NDB), aimed at establishing a cooperation framework in accordance with the national laws and regulations, besides skills transfer and knowledge sharing amongst the signatories.

o Exim Bank of India is the nominated member development bank under the BRICS Interbank Cooperation Mechanism.

- **Exim Bank of India**

• It was established in 1982 under an Act of Parliament as the apex financial institution for financing, facilitating and promoting India's international trade.

• The Bank primarily lends for exports from India including supporting overseas buyers and Indian suppliers for export of developmental and infrastructure projects, equipment, goods and services from India.

• It is regulated by RBI.

Concessional Finance Scheme (CFS).

• Under it, government has been supporting Indian Entities bidding for strategically important infrastructure projects abroad since 2015-16.

- Other EXIM initiative - **GRID (Grass Roots Initiative and Development) Initiative.**

• Financial support to promote grassroots initiatives/ technologies, particularly the ones with export potential and help the artisans/ producer groups/ clusters/ small enterprises/ NGOs realise remunerative return on their produce and facilitate exports from these units.

6. INSIDER TRADING

- SEBI has laid down mechanism to prevent insider trading on the recommendations of TK Viswanathan committee.
- **Background**

• **What is Insider Trading?**
It is the buying or selling of a security by someone who has access to material nonpublic information about the security.
• **Why is it illegal**?
As disclosures are often price sensitive, insiders are always in a better position to make bigger trading gains. But since this will be unfair to other investors, and in order to maintain trust and confidence in the market, trading on the basis of unpublished price-sensitive information is illegal.
• Prohibition of Insider Trading: In India, SEBI (Insider Trading) Regulation, 1992 framed under SEBI Act, 1992 intends to curb and prevent the menace of insider trading in securities. Companies Act 2013 also prohibits insider trading.
• Cases of Insider Trading: The number of insider trading investigations taken up by the market regulator in 2016-17 went up to 34 compared with 12 cases in the previous year.

- **SEBI's Mechanism to counter Insider Trading**

• Responsibility of Promoters: It has decided to hold company promoters, irrespective of their shareholding status, responsible for violation of insider trading norms if they possess unpublished price-sensitive information (UPSI) regarding the company without any 'legitimate' purpose.
• Defining an Insider: It comprises three elements - The person should be a natural person or legal entity; The person should be connected or deemed to be connected to the company; Acquisition of UPSI by virtue of such connection.
• Legitimate Purpose: It has specified that the term "legitimate purpose" will include sharing of the UPSI in the ordinary course of business by an insider, provided that such sharing has not been carried out to evade or circumvent the prohibitions of these regulations.
• Digital Database: The board of directors shall ensure that a structured digital database is maintained containing the names of such persons or entities, as the case may be, with whom the information is shared.

- **Why tackling Insider Trading is a challenging Task**?

• Lack of Manpower: The Kotak committee report on corporate governance highlighted, SEBI has just one employee for six listed companies, while the US securities market regulator, Securities and Exchange Commission, has about one employee for every listed company.
• Evolving Technology: The other problem is that evolving technology and modern means of communication are difficult to track. This only raises the level of complexity for the regulator in tracking insider trading cases.
• Lax Implementation: There is difference between rules on paper and reality on the ground which may affect investor confidence.

7. STATUS PAPER ON GOVERNMENT DEBT

- According to the Status Paper on Government Debt for 2017-18, the Centre's total debt as a percentage of GDP reduced to 46.5% in 2017-

18 from 47.5% as of March 31, 2014.

- **Why government debt needs to be controlled?**

• Affects investor confidence: In the absence of fiscal consolidation, there is an increased risk of default & hence, downgrading of sovereign credit ratings by the credit rating agencies. Loss of investor confidence will not only reduce FDI/FII in India but will also make future borrowing expensive.

• Affects credit growth: As more money is lent to government rather than invested in the market, corporate sector is crowded out leading to slower industrial and capital asset growth and potential loss of employment.

• Fiscal repression of commercial banks: When the government borrows more, it forces Public Sector Banks to purchase more of Government Securities (GSecs). When a commercial bank invests more in GSecs (where it earns lesser interest than commercial loans), it reduces the capital availability to private sector and affects profitability of the banks.

• Inflation: Too much of government debt can lead to inflation and reduction in real interest rates. It might prompt people to invest more in gold and real estate, thereby accentuating the problem of poor economic liquidity and black money.

• Exchange rate risk: The reduced demand of domestic securities relative to foreign securities (due to poor credit rating) might push the exchange rate down and weaken the domestic currency with respect to dollar. It will make imports more expensive and further fuel inflation.

• Committee Recommendations: N.K. Singh-headed FRBM (Fiscal Responsibility and Budget Management) Review Committee had recommended ratio to be 40% for the Centre & 20% for the States, respectively, by 2023, which is consistent with international best practices.

• Intergenerational parity: It will be hurt as future generations will have to pay increased taxes to settle the government debt.

- While Government borrowing is necessary to stimulate growth and aggregate demand by spending in welfare measures and capital asset development, high debt-to-GDP ratio isn't good for long term macroeconomic stability of the country.
- **Has fiscal consolidation worked for the central government?**

• Gross fiscal deficit (GFD) as a % of GDP has declined from 5.9% in 2011-12 to 3.5% in 2017-18.

• Borrowing more from market: Government has reduced its dependence on RBI (borrowing from RBI is inflationary as it increases currency in circulation) to cover up temporary deficits in receipts and expenditures. This is evident from greater share of marketable debt.

• Moving towards market interest rates: The Government has also progressively moved towards alignment of administered interest rates with the market rates to remove disparity between public and private sector in market borrowing and prevent crowding out of private sector.

• Lowering interest rate volatility: ~98% of the public debt in India is contracted at fixed interest rates insulating debt portfolio from interest rate volatility and providing certainty and stability to budget in terms of interest payments.

• Increasing debt sustainability: IP-RR ratio (interest payments to revenue receipts) of Centre has decreased to 35.3% in 2017-18 from about 52% in 2000s. In India, long-term sustainability of debt is because of being largely funded through domestic savings, using largely fixed interest rate instruments, and being supported by a large domestic institutional investor base.

Strategy of central government for debt sustainability

- The main objective of the Government debt management policy is to raise funds for the Government at low cost while ensuring that debt levels remain sustainable, debt structure remains stable and broader objective of financial stability is met.

• Dedicated Body - Institutionally, the Government has decided to setup a statutory Public Debt Management Agency (PDMA) to bring both, India's external (managed by Ministry of Finance) and domestic debt (managed by RBI) under one roof. The first step towards this direction was the establishment of a Public Debt Management Cell (PDMC) within Budget Division, Ministry of Finance in 2016.

• Medium-Term Debt Management Strategy (MTDS) - to be implemented over next 3 years (2018-19 to 202021) is based on three broad pillars:

o Low cost of borrowing: Issuing longer tenor bonds, better investor relations and advance notifications of borrowing calendar. o Risk mitigation:

✓ Currency Risk - Appropriate mix of domestic and foreign currency debt portfolio by improving access to foreign investors in domestic G-Sec market.

✓ Roll-over risk - A conscious strategy of elongating maturity, from 10-year maturity bucket to 10-14-year maturity bucket, has been adopted to reduce roll-over risk

✓ Commodity price risks - Launched the Sovereign Gold Bonds Scheme (SGB) to reduce demand for physical gold by providing an alternative investment instrument linked to gold prices.

✓ Interest rate risk – Though instruments such as, floating rate bonds (FRBs), inflation indexed bonds (IIBs) and sovereign gold bonds have been issued to cater to the preferences of different investors, their contribution has remained small to limit the risk.

o Market development: It would price debt efficiently.

- **Government Debt**

• Government liabilities have been broadly classified as debt contracted against the Consolidated Fund of India (defined as Public Debt) and liabilities in the Public Account, called Other Liabilities. Public Debt is 41% of GDP, while other liabilities are 5.5% of GDP.

• Public debt is further classified into internal (38.2% of GDP) and external debt (2.9% of GDP).

• Internal debt consists of marketable debt (32.9% of GDP) and nonmarketable debt (5.3% of GDP).

o Government dated securities and Treasury Bills, issued through auctions, together comprises marketable debt.

o Intermediate Treasury Bills (14 days ITB) issued to State Governments and select Central Banks, special securities issued to National Small Savings Fund (NSSF), securities issued to international financial institutions, etc., are part of non-marketable internal debt.

• Other Liabilities include liabilities on account of Provident Funds, Reserve Funds and Deposits, Other Accounts, etc.

- **Roll-over Risk:** It is a risk associated with the refinancing of debt. Rollover risk is commonly faced by countries and companies when a loan or other debt obligation (like a bond) is about to mature and needs to be converted, or rolled over, into new debt. If interest rates have risen in the meantime, they would have to refinance their debt at a higher rate and incur more interest charges in the future – or, in case of a bond issue, pay out more in interest.
- **Debt situation of states:** The total debt of the States has been rising to 24% in 2017-18, and is estimated to be 24.3% in 2018-19. Outstanding liabilities of states have increased

• Increasing Expenditure: due to issuance of UDAY bonds, introduction of 7th Central Pay Commission (CPC), increase in interest payments, populist measures like loan waivers etc.

• Increasing Debts: Post 12th Finance Commission (FC), the market borrowings of states are on the rise. Moreover, there is no institutional mechanism to incentivize higher investments in fiscally prudent states.

• Reducing Receipts: Centre has been levying multiple cesses, surcharges etc. instead of taxes, as the proceeds need not be shared with states. It has affected the revenue collection of the states. Steps to improve the fiscal situation

• Improve quality of states' Public Expenditure (ratio of capital expenditure to revenue expenditure).

o Share of state's revenue expenditure is 80% of the total expenditure.

o Even after the increase in quantum of "untied funds" from Centre to States (post 14th FC), expenditure of states on physical and social infrastructure has remained stagnant.

• Re-include "Fiscal Discipline" as a criterion in tax devolution from centre to states (not used by 14th FC)

• More stringent, apolitical and transparent criteria for approval of states' market borrowings under Article 293

• Better coordination b/w State Division Plan (approval to state borrowings) and Budget Division (monitor implementation of FRBM Act)

• Introduce transparent accounting practices so that there is no underestimation of State's public debt (e.g. off-budget expenses through SPSUs/guarantees issued).

8. **<u>FUGITIVE ECONOMIC OFFENDER</u>**

- Vijay Mallya has become the first person to be declared a fugitive offender under the Fugitive Economic Offenders Act. The order was passed under Section 2F of FEOA against Mallya by the PMLA court.
- **Implications**:

• The investigative agency can now confiscate properties of Mallya which are not directly related to the cases against him.

- **Background**:

• The decision comes against an application by the Enforcement Directorate before the special Prevention of Money Laundering Act (PMLA) court to classify Mallya as a fugitive economic offender.

- **Definition**- Fugitive Economic Offender:

• The fugitive economic offenders' law came into force in August last year.

• A person can be named an offender under this law if there is an arrest warrant against him or her for involvement in economic offences involving at least Rs. 100 crore or more and has fled from India to escape legal action.

- **The procedure:**

• The investigating agencies have to file an application in a Special Court under the Prevention of Money Laundering Act, 2002 containing details of the properties to be confiscated, and any information about the person's whereabouts.

• The Special Court will issue a notice for the person to appear at a specified place and date at least six weeks from the issue of notice.

• Proceedings will be terminated if the person appears. If not, the person would be declared as a Fugitive Economic Offender based on the evidence filed by the investigating agencies.

• The person who is declared as a Fugitive Economic Offender can challenge the proclamation in the High Court within 30 days of such declaration according to the Fugitive Economic Offenders Act, 2018.

9. RBI ALLOWS TOKENIZATION OF CARD TRANSACTIONS

- The Reserve Bank of India has allowed tokenization of debit, credit and prepaid card transactions to enhance the safety of the digital payment's ecosystem in the country.

• The bank has offered permission for the process using all types of payment services and methods, including near-field communication (NFC), magnetic secure transmission (MST), in-app payment methods and cloud services.

- **What is Tokenization?**

• Tokenization will replace card details with a code, called a "token," which will be specifically for the card, the token requestor and the device being used to pay.

• Instead of the card's details, the token will act as the card at point of sale (POS) terminals and quick response (QR) code payment systems.

• The goal of the process is to improve the safety and security of payments.

10. ANGEL TAX

- The government has notified changes to **Section 56 of the Income Tax Act**, in a move that brings relief to start-up founders and investors dealing with the issue of "Angel Tax".
- **Major Changes introduced:**

• As per the changes, all DIPP-recognised start-ups can apply to the department for approvals requesting exemption from Angel Tax, or Section 56 2 (viib) of the Income Tax Act, which will then be sent to the Central Board of Direct Taxes (CBDT) for approval. • The changes are applicable to start-ups, recognised by DIPP, where the amount of paid-up share capital, and share premium of the capital after the proposed issue of share does not exceed Rs. 10 crores.

• The notification specifies a list of documents that start-ups will have to submit to the DIPP while seeking approval. The CBDT is mandated to either approve or reject the applications within 45 days.

- **WHAT IS THE LATEST ISSUE**?

• At least 80 startups have received notices to pay angel tax since last year. Many founders have said they have been asked to pay up as much as 30% of their funding as tax.

• Angels have also received multiple notices asking them to furnish details on their source of income, their bank account statements and other financial data.

- **Way ahead**:

• The changes proposed do not ensure that start-ups will no longer receive notices on angel tax from the tax department.

• The start-up community views this as a step in the right direction, but insists that the issues facing founders and investors due to angel tax remain unaddressed through the notification.

11. <u>INPUT CREDIT UNDER GST</u>

- Concerned over a decline in GST revenues, tax officials are likely to examine the high usage of input tax credit (ITC) to set off tax liability by businesses.
- **Significance of ITC**:

• One of the positive features of GST is that it helps to avoid the undesirable cost cascading effect (or tax on tax) that existed previously. Now, in the case of GST, there is the mechanism of Input Tax Credit (ITC) which helps to eliminate the cost cascading effect of the preGST tax regime.

• Under GST, there is not cost cascading effect because of two facts. First, most of the taxes are merged under a single tax, and second, the input tax credit.

- **Concerns over its misuse:**

• There could be possibility of misuse of the provision by unscrupulous businesses by generating fake invoices just to claim tax credit.

• As much as 80% of the total GST liability is being settled by ITC and only 20% is deposited as cash.

• Under the present dispensation, there is no provision for real time matching of ITC claims with the taxes already paid by suppliers of inputs.

• The matching is done on the basis of system generated GSTR-2A, after the credit has been claimed. Based on the mismatch highlighted by GSTR-2A and ITC claims, the revenue department sends notices to businesses.

• Currently there is a time gap between ITC claim and matching them with the taxes paid by suppliers. Hence there is a possibility of ITC being claimed on the basis of fake invoices.

- **Need of the hour- real time updates:**

• To fill the gap, a new return filing system has been proposed. Once it becomes operational, it would become possible for the department to match the ITC claims and taxes paid on a real time basis.

• The revenue department would then analyse the large number of ITC claims to find out if they are genuine or based on fake invoices and take corrective action.

- **What is Input Tax Credit (ITC)?**

• It is the tax that a business pays on a purchase and that it can use to reduce its tax liability when it makes a sale. In other words, businesses can reduce their tax liability by claiming credit to the extent of GST paid on purchases.

• A business under composition scheme cannot avail of input tax credit. ITC cannot be claimed for personal use or for goods that are exempt.

12. DIFFERENCE BETWEEN A FULL BUDGET AND AN INTERIM BUDGET

- On February 1, the government is set to present its last Budget ahead of the elections. Conventionally, a government at the end of its term has gone in for a vote on account rather than a full Budget.

- Therefore, experts are divided over the issue. While few are in favour of a full budget, others oppose it on the ground that this is an election year and the government has already presented 5 full budgets.
- **Know about:**

• Article 266 of the Constitution of India mandates that Parliamentary approval is required to draw money from the Consolidated Fund of India.

• Besides, Article 114 (3) of the Constitution stipulates that no amount can be withdrawn from the Consolidated Fund without the enactment of a law (appropriation bill).

- **What is a vote on account?**

• A vote on account essentially means that the government seeks the approval of Parliament for meeting expenditure — paying salaries, ongoing programmes in various sectors etc. — with no changes in the taxation structure, until a new government takes over and presents a full Budget that is revised for the full fiscal.

- **Why present a vote on account?**

• The reasoning is that there is little time to get approvals from Parliament for various grants to ministries and departments, and to debate these as well as any provisions for changes in taxation.

• More importantly, the reasoning is that it would be the prerogative of the new government to signal its policy direction, which is often reflected in the Budget.

- **Difference between Full Budget and Vote on Account:**

• Full Budget deals with both expenditure and revenue side but Vote-on-account deals only with the expenditure side of the government's budget.

• The vote-on-account is normally valid for two months but full budget is valid for 12 months (a financial year).

• As a convention, a vote-on-account is treated as a formal matter and passed by Lok Sabha without discussion. But passing for budget happens only after discussions and voting on demand for grants.

- **What's an Interim Budget?**

• An Interim Budget is not the same as a 'Vote on Account'.

• While a 'Vote on Account' deals only with the expenditure side of the government's budget, an Interim Budget is a complete set of accounts, including both expenditure and receipts.

• An Interim Budget gives the complete financial statement, very similar to a full Budget.

13. CHALLENGES FOR START-UPS IN INDIA

- Citizens' engagement forum Local Circles has released a report on challenges faced by start- ups in India. The report is based on responses from over 15,000 start-ups, SMEs and entrepreneurs.
- **Challenge for start- ups:**

• Corruption
• Bureaucratic inefficiencies.
• Securing loans.
• Funding

- **Angel tax:**

• Angel tax is one area that falls under corruption and bureaucratic inefficiencies as it takes the focus of entrepreneurs away from building a product or service to responding to tax notices and filing appeals, something that start-ups can clearly do without.

• Angel tax continued to be a key pain point for start-ups, where the assessing officers in many cases reject the valuation method used by the start-up and instead treat the capital raised as income from other sources, thereby, raising a tax demand and penalty on the start-up.

• Several start-ups and angel investors have raised concerns over notices received from the authorities related to taxation of angel funds. The Centre has set up a panel to look into the taxation issues faced by start-ups and angel investors.

- **What is Angel Tax?**

• Angel Tax is a 30% tax that is levied on the funding received by startups from an external investor. However, this 30% tax is levied when startups receive angel funding at a valuation higher than its 'fair market value'. It is counted as income to the company and is taxed.

• The tax, under section 56(2) (viib), was introduced by in 2012 to fight money laundering. The stated rationale was that bribes and commissions could be disguised as angel investments to escape taxes. But given the possibility of this section being used to harass genuine startups, it was rarely invoked.

- **Why is Angel tax problematic?**

• There is no definitive or objective way to measure the 'fair market value' of a startup. Investors pay a premium for the idea and the business potential at the angel funding stage. However, tax officials seem to be assessing the value of the startups based on their net asset value at one point. Several startups say that they find it difficult to justify the higher valuation to tax officials.

• In a notification dated May 24, 2018, the Central Board of Direct Taxes (CBDT) had exempted angel investors from the Angel Tax clause subject to fulfilment of certain terms and conditions, as specified by the Department of Industrial Policy and Promotion (DIPP). However, despite the exemption notification, there are a host of challenges that startups are still faced with, in order to get this exemption.

14. THE NEW DELHI INTERNATIONAL ARBITRATION CENTRE BILL, 2018

- The Lok Sabha has passed the New Delhi International Arbitration Centre Bill to set up a revamped International Arbitration Centre at New Delhi with an aim to make India the hub of arbitration.
- **Key features of the Bill include**:

• New Delhi International Arbitration Centre (NDIAC): The Bill seeks to provide for the establishment of the NDIAC to conduct arbitration, mediation, and conciliation proceedings. The Bill declares the NDIAC as an institution of national importance.

• International Centre for Alternative Dispute Resolution (ICADR): The ICADR is a registered society to promote the resolution of disputes through alternative dispute resolution methods (such as arbitration and mediation). The Bill seeks to transfer the existing ICADR to the central government.

• **Composition:** Under the Bill, the NDIAC will consist of seven members including:

(i) a Chairperson who may be a Judge of the Supreme Court or a High Court, or an eminent person with special knowledge and experience in the conduct or administration of arbitration;

(ii) two eminent persons having substantial knowledge and experience in institutional arbitration;

(iii) three ex-officio members, including a nominee from the Ministry of Finance and a Chief Executive Officer (responsible for the day-to-day administration of the NDIAC); and

(iv) a representative from a recognised body of commerce and industry, appointed as a part-time member, on a rotational basis.

• **Term and superannuation:** The members of NDIAC will hold office for three years and will be eligible for re-appointment. The retirement age for the Chairperson is 70 years and other members is 67 years.

• **Objectives and functions of the NDIAC:** The key objectives of the NDIAC include

(i) promoting research, providing training and organising conferences and seminars in alternative dispute resolution matters;

(ii) providing facilities and administrative assistance for the conduct of arbitration, mediation and conciliation proceedings;

(iii) maintaining a panel of accredited professionals to conduct arbitration, mediation and conciliation proceedings.

- **Key functions of the NDIAC will include**:

(i) facilitating conduct of arbitration and conciliation in a professional, timely and cost-effective manner; and

(ii) promoting studies in the field of alternative dispute resolution.

• **Finance and audit:** The NDIAC will be required to maintain a fund which will be credited with grants received from the central government, fees collected for its activities, and other sources. The accounts of the NDIAC will be audited and certified by the Comptroller and Auditor-General of India.

• **Institutional support:** The Bill specifies that the NDIAC will establish a Chamber of Arbitration which will maintain a permanent panel of arbitrators. Further, the NDIAC may also establish an Arbitration Academy for training arbitrators and conducting research in the area of alternative dispute resolution. The NDIAC may also constitute other committees to administer its functions.

- **What is Arbitration?**

• Arbitration is a settlement of dispute between two parties to a contract by a neutral third party i.e. the arbitrator without resorting to court action. The process can be tailored to suit parties' particular needs.

• Arbitrators can be chosen for their expertise. It is confidential and can be speedier and cheaper than court. There are limited grounds of appeal.

Arbitral awards are binding and enforceable through courts.

- **Significance of ADR**:

• It is felt that a reliable and responsive alternative dispute resolution system is essential for rapidly developing countries like India. While business disputes need speedy resolution, litigation is the least favoured method for that.

• The Indian judicial system is marred by delays because of which businesses suffer as disputes are not resolved in a reasonable time period.

• Therefore, need for alternative dispute resolution processes like negotiation, mediation conciliation and arbitration is felt from time to time.

15. NATIONAL ENTREPRENEURSHIP AWARDS 2018

- National Entrepreneurship Awards 2018, aimed at recognizing and honoring outstanding young first-generation entrepreneurs and those who have contributed immensely in building the entrepreneurship ecosystem.
- **About this third edition of National Entrepreneurship Awards:**

• A total of 43 awards were given, including 39 awards for Young Entrepreneurs in different sectors and 4 awards for Entrepreneurship Ecosystem Builders.

- **About National Entrepreneurship Award –**

• To catalyze a cultural shift in youth for entrepreneurship, the Ministry of Skill Development and Entrepreneurship (MSDE) has instituted the National Entrepreneurship Awards (NEA) to recognize and honour outstanding young first-generation Entrepreneurs and their Ecosystem Builders for their outstanding contribution in entrepreneurship development.

16. GLOBAL ECONOMY WATCH BY PWC

- Global Economy Watch report has been released by London based multinational professional services network- PricewaterhouseCoopers (PwC).
- PwC's Global Economy Watch is a short publication that looks at the trends and issues affecting the global economy and details its latest projections for the world's leading economies.
- A look at India's economy in 2019 as per the report:

• India is likely to surpass the United Kingdom in the world's largest economy rankings in 2019.

• As per the report, while the UK and France have regularly switched places owing to similar levels of development and roughly equal populations, India's climb up the rankings is likely to be permanent.

• The report projects real GDP growth of 1.6% for the UK, 1.7% for France and 7.6% for India in 2019.

• As per the report, India should return to a healthy growth rate of 7.6% in 2019-20, if there are no major headwinds in the global economy such as enhanced trade tensions or supply side shocks in oil.

• The growth will be supported through further realisation of efficiency gains from the newly adopted GST and policy impetus expected in the first year of a new government.

- **Global Scenario:**

• The report notes that global economy as a whole is expected to slow in 2019 as G7 countries return to long-run average growth rates.

• PwC expects that the pick-up in growth of most major economies seen between the end of 2016 and the beginning of 2018 is now over.

• The report also notes that workers and wages will come to the fore and trade conflicts will deepen. The main focus of tensions is likely to remain US-China trade, but there will always be the risk of this escalating into a wider trade conflict and businesses accordingly need to plan for different scenarios.

17. **<u>SC UPHOLDS INSOLVENCY AND BANKRUPTCY CODE</u>**

- Supreme Court has upheld the Insolvency & Bankruptcy Code's constitutional validity in its 'entirety', and rejected petitions challenging the bankruptcy laws, in a major setback to defaulting promoters hoping for a chance to remain in control of their firms.
- **The Code creates various institutions to facilitate resolution of insolvency. These are as follows:**

• Insolvency Professionals: A specialised cadre of licensed professionals is proposed to be created. These professionals will administer the resolution process, manage the assets of the debtor, and provide information for creditors to assist them in decision making.

• Insolvency Professional Agencies: The insolvency professionals will be registered with insolvency professional agencies. The agencies conduct examinations to certify the insolvency professionals and enforce a code of conduct for their performance.

• Information Utilities: Creditors will report financial information of the debt owed to them by the debtor. Such information will include records of debt, liabilities and defaults.

• Adjudicating authorities: The proceedings of the resolution process will be adjudicated by the National Companies Law Tribunal (NCLT), for companies; and the Debt Recovery Tribunal (DRT), for individuals. The duties of the authorities will include approval to initiate the resolution process, appoint the insolvency professional, and approve the final decision of creditors.

• Insolvency and Bankruptcy Board: The Board will regulate insolvency professionals, insolvency professional agencies and information utilities set up under the Code. The Board will consist of representatives of Reserve Bank of India, and the Ministries of Finance, Corporate Affairs and Law.

- **Salient features of the Insolvency and Bankruptcy Code- how it works?**

1. The Insolvency and Bankruptcy Code 2016 is a comprehensive law and covers all individuals, companies, Limited Liability Partnerships (LLPs) and partnership firms.
2. The adjudicating authority is National Company Law Tribunal (NCLT) for companies and LLPs and Debt Recovery Tribunal (DRT) for individuals and partnership firms.
3. The insolvency resolution process can be initiated by any of the stakeholders of the firm: firm/ debtors/ creditors/ employees.
4. If the adjudicating authority accepts, an Insolvency resolution professional or IP is appointed.

5. The power of the management and the board of the firm is transferred to the committee of creditors (CoC). They act through the IP.
6. The IP has to decide whether to revive the company (insolvency resolution) or liquidate it (liquidation).
7. If they decide to revive, they have to find someone willing to buy the firm.
8. The creditors also have to accept a significant reduction in debt. The reduction is known as a haircut.
9. They invite open bids from the interested parties to buy the firm. 10. They choose the party with the best resolution plan, that is acceptable to the majority of the creditors (75 % in CoC), to take over the management of the firm.

- **Significance of the SC's latest judgment**:

• The endorsement of the law and its provisions by the Supreme Court would come as a boost to the government which pushed for a modern bankruptcy law in the first half of its term and managed to get an exit mechanism which would help the reallocation of capital and ease the huge debt burden of banks in India.

• In the working of the code, the flow of resources to the commercial sector in India has increased exponentially as a result of financial debts being repaid, the Supreme Court said.

• Crucially, the judgement upheld Section 29A of the code. The section specifies a broad range of criteria that would disqualify potential bidders from bidding for assets undergoing the corporate insolvency resolution process and, among other things, bars promoters of a company facing insolvency proceedings from bidding to regain its control.

- **Performance of IBC:**

• It has been an effective tool for creditors, with a threat to refer a case under the insolvency law helping force many debtors to come to the negotiating table and reinforcing what former RBI Governor, Raghuram Rajan, had famously said about promoters having no divine right.

• A measure of the success of this law will be a rising graph of cases of corporate debtors being resolved.

- **Challenges present and measures to address them**:

• The major worry of the law now is the failure in many cases to stick to the prescribed timeline of 180 to 270 days to firm up a resolution plan with elaborate hearings at NCLT benches. Such delay goes against the very raison d'étre of the law which is to ensure a swift resolution or closure and thus lower the risk for banks and the government arising from a rising pile of bad debts and the subsequent need to recapitalise state-owned lenders.

• It is important that these timelines are adhered to. Over time, the NCLT may be better tuned to these kind of summary proceedings with capacity building and training of professionals.

- **Way ahead**:

• With the Supreme Court now upholding the law barring promoters of defaulting companies from buying back the stressed assets, we can perhaps look to quicker resolutions of bad debts.

• This is no small matter given that Indian banks have among the world's lost ratios when it comes to nonperforming assets or bad loans, and the twin balance sheet problem— where there is stress on both the lenders' and borrowers' books—is one of the biggest elephants in the room.

• The Supreme Court's ruling, then, is a welcome one that should circumvent efforts by vested interests to try and stymie the revival of debtladen companies, and will go a long way in enhancing India's stature as a good place to do business in.

18. UNIVERSAL BASIC CAPITAL

- Though economy is doing well, human development as a whole is not up to the expected levels in the country. Here, the country continues to be compared with countries in Sub-Saharan Africa.
- Need of the hour: India's economic growth must trickle down much faster to people at the bottom of the pyramid: to poorer farmers, landless rural labour, and hundreds of millions of workers living on the edge in low-paying, 'flexible' forms of employment with no social security.
- **Solution**: Economists seem to be offering three solutions to the economy's structural problems. One, that there is no problem. Two, more privatisation. And, three, a universal basic income (UBI) to be provided by the state.
- **UBI**:

1. UBI has appeared as a silver bullet solution to all the problems that the country is facing on the economy side. It will be an income provided to everybody by the very state that the capitalists say should get out of their way, and to whom they are unwilling to pay more taxes.

2. The beauty of a 'universal' basic income, its proponents say, is that it avoids messy political questions about who deserves assistance. It also side-steps the challenge of actually providing the services required: education, health, food, etc. Just give the people cash: let them buy what they need.

3. However, if the cash will not provide citizens with good quality and affordable education and health, because neither the government nor the private sector is able or willing to, this will not solve the basic human development problems that must be solved.

- **What about QUBRI (quasi-universal basic rural income)?**

To make UBI financially and politically feasible, few economists have suggested a QUBRI (quasi-universal basic rural income), targeted only at poorer people in the rural areas. Their scheme is no longer universal.

1. First, it will exclude the not-so-poor in rural areas as morally it should. Political questions about who should be included will have to be addressed.

2. Second, it will not cover the masses of urban poor working for low and uncertain wages. Therefore, a simplistic UBI will not solve the fundamental problems of the economy.

- **Universal basic capital:**

• A better solution to structural inequality than UBI is universal basic capital, or UBC, which has begun to pop up in international policy circles.

• In this alternative approach, people own the wealth they generate as shareholders of their collective enterprises. Amul, SEWA, Grameen, and others have shown a way.

• Some economists go further and also propose a 'dividend' for all citizens, by providing them a share of initial public offerings on the stock market, especially from companies that use 'public assets', such as publicly funded research, or environmental resources.

- **Overall measures concluded:**

• One, focus on building state capacity beginning with implementation of the recommendations of the Second Administrative Reforms Commission.

• Two, strengthen the missing middle-level institutions for aggregation of tiny enterprises and representation of workers. Three, the creativity of economists could be better applied to developing ideas for UBC than UBI.

19. AGRI-VISION 2019

- Agri-Vision 2019, a two-day conference on 'Envisioning Agro Solutions for Smart and Sustainable Agriculture' was held at Hyderabad.

- **Indian Agriculture**

• Agriculture sector accounts for 18 per cent of India's GDP and provides employment to 50 per cent of the workforce of the country.

• The Gross Value Added by agriculture, forestry and fishing is estimated at Rs 17.67 trillion (US$ 274.23 billion) in FY18.

• During 2017-18 crop year, food grain production is estimated at record 284.83 million tonnes.

• The introduction of high yielding varieties, irrigation facilities, increased input flow through fertilizers and pesticides, farm mechanization, credit facilities, price support, and other rural infrastructure facilities ushered the green revolution over the past few decades.

• Growth of Agricultural sector is important for inclusive growth and poverty alleviation.

• Need for concerted efforts from all stake holders to find long term solution to various challenges faced by Agricultural sector, Loan waiver is only a temporary relief but proves futile in long run in addressing Farmers concerns

• India today is not only self-sufficient in respect of demand for food, but is also a net exporter of agriproducts occupying seventh position globally. It is one of the top producers of cereals (wheat & rice), pulses, fruits, vegetables, milk, meat and marine fish. However, we are still facing deficit of pulses and oilseeds. Although, the availability of fruits, vegetables, milk, meat and fish has increased, the most important aspect is to ensure access and affordability to a vast majority of Indians, including farmers.

- **Food processing industry**

• Plays a critical role in improving agrarian economy, raising farm incomes, reducing wastages, ensuring value addition, promoting crop diversification and generating employment opportunities as well as export earnings.

• Vital link between agriculture and industry.

• The Indian food and grocery market is the world's sixth largest.

• The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India.

- **Organic Farming**

• India holds a unique position among 172 countries practicing organic agriculture.

• India is home to 30 per cent of the total organic producers in the world, but accounts for just 2.59 per cent (1.5 million hectares) of the total organic cultivation area of 57.8 million hectares.

- **Horticulture**

• leading horticultural country of the world with a total annual fruits and vegetable production of 306.82 million tonnes during 2017-18

• India is the second largest fruit producer in the world.

- **Livestock**

• Has been growing faster than crop sector.

• The contribution of livestock output to the total output of the agriculture sector has significantly

increased from 15 per cent in 1981-82 to 29 per cent in 2015-16
• acts as cushion and engine for agricultural growth.

- **Dairy industry**

• India is also the world's second largest milk producer and is emerging as a major exporter now.
• It is contributing around 26 per cent to total agriculture GDP.

- **Challenges**

• Climate change, fragmented land holding, increase in demand for food, stagnating farm incomes, declining productivity, diminishing and declining natural resources etc.
• Lack of favourable terms of trade, vagaries of monsoon, technology not reaching farmers in time, absence of proper marketing strategies etc.
• 85 per cent farmers are small and marginal with land holding of less than 2 hectares.
• Linking these small farmers with market is another major challenge in our system.
• To enhance the farmers' income, it is necessary to link them with marketers, traders and exporters.
• Challenges for food security in the 21st century is not only improving productivity but also yield stability through the development of crops which are disease-resistant, pest-resistant and adaptable to climate change.

- **Solution to address the challenges**

• Some ways to address the issues – accord top priority to farmer-oriented marketing, providing adequate cold storage facilities and refrigerator vans, focusing on food processing through value addition, extending timely and affordable credit to farmers and ensuring that innovations and technologies reach the farmers, researchers and farm experts to come out with solutions to the multi-dimensional problems faced by the farming sector.
• United efforts by governments, scientific community, Krishi Vigyana Kendras and farmers to realize the ambitious goal of doubling farmers' income by 2022.
• Students pursuing agri courses must spend at least six months with farmers to have a first-hand understanding of the problems faced by the latter.
• Adopt the latest technologies from seeds to post harvest management to marketing and to improve productivity on par with the other leading nations.
• The use of Information Technology, Space Technology, Geo-Informatics, Internet of Things (IoT), Block Chain Technology, Artificial Intelligence and Big Data Analytics and their first-mile connectivity to farmers is vital for enhancing farm incomes. Digital technologies can also help in countering vagaries in farming and optimising the resources.

- **Government initiatives**

• Improve soil fertility on a sustainable basis through the soil health card scheme.
• Provide improved access to irrigation and enhanced water efficiency through Pradhan Mantri Krishi Sinchai Yojana (PMKSY).
• Support organic farming through Paramparagat Krishi Vikas Yojana (PKVY).
• Creation of a unified national agriculture market to boost the income of farmers.
• To mitigate risk in agriculture sector, "Pradhan Mantri Fasal Bima Yojana (PMFBY) has been launched for implementation from Kharif 2016.
• Focusing on irrigation with schemes like "Per Drop More Crop", provision of quality seeds and nutrients based on soil health, setting up warehouses and cold chains to prevent post-harvest crop losses, promoting value addition through food processing, creating a National Farm

Market, removing distortions and e-platform across 585 Stations.

- To achieve the target of doubling farmer income by 2022 increasing investments in agricultural R&D and rolling out efficient institutional reforms are vital to tackle the emerging challenges in agriculture, including food and nutrition security both at national and regional levels.

20. SMALL FARMERS' AGRI-BUSINESS CONSORTIUM (SFAC)

- Silver Jubilee Celebrations of the Small Farmers' Agri-Business Consortium (SFAC).
- **About SFAC**:

• The Government established Small Farmers' Agri-Business Consortium (SFAC) as a Society in January 1994 to facilitate agri-business ventures by catalysing private investment through Venture Capital Assistance (VCA) Scheme in close association with financial institutions. The role of State SFACs is to aggressively promote agribusiness project development in their respective States.

• Management: The Society is governed by Board of Management which is chaired, ex-officio, by Hon'ble Union Minister for Agriculture and Farmers Welfare as the President and the Secretary, Department of Agriculture, Cooperation and Farmers Welfare, Government of India, is the ex-officio Vice-President.

- **The main functions of SFAC are:**

• Promotion of development of small agribusiness through VCA scheme.

• Helping formation and growth of Farmer Producer Organizations (FPOs) / Farmer Producer Companies (FPCs).

• Improving availability of working capital and development of business activities of FPOs/FPCs through Equity Grant and Credit Guarantee Fund Scheme.

• Implementation of National Agriculture Market (e-NAM) Electronic Trading platform

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