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INTERVIEW GUIDANCE 2021

CURRENT AFFAIRS & MAJOR DEBATES

of

ECONOMY

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1 Global Hunger Index 2021

Context:

India has slipped to 101st position in the Global Hunger Index (GHI) 2021 of 116 countries, from its 2020 position of 94th.

About the Global Hunger Index

- **Annual Report:** Published jointly by European NGOs of Concern Worldwide and Welthungerhilfe.
- It began production in **2006.** It is published every **October.**
- The 2021 edition marks the **16th edition** of the **GHI.**
- **Purpose:** To fully measure and track poverty at the **global, regional, and national levels.**
- **Calculation:** Calculated on the basis of **four indicators:**
  - **Undernourishment:** Share of the population with insufficient caloric intake.
  - **Child wasting:** Share of children under age five who have low weight for their height, reflecting acute undernutrition.
  - **Child stunting:** The proportion of children under the age of five with low birth weight, indicating chronic malnutrition.
  - **Child Mortality:** Child mortality rate under five years of age.
- **Scoring:** Based on the values of the four indicators, GHI determines hunger by a score of 100 points where **0 is the best score (no hunger)** and **100 is the worst.**
  - The GHI score for each country is sharply divided, from the lowest to the most alarming.
- **Data Collection:** Information on malnutrition is provided by the **Food and Agriculture Organization** and details of child mortality are available from the **UN Inter-agency Group for Child Mortality Estimation (UN IGME).**
  - Child wasting and stunting data are drawn from the joint database of **UNICEF, the World Health Organization (WHO) and the World Bank,** among others.

Indian scenario

- Since 2000, India has made substantial progress, but there are still areas of concern, particularly regarding **child nutrition.**
- India's GHI score dropped from **2000 GHI with 38.8 points** - considered a shock - to **2021 GHI 27.5 points** - considered serious.
- Although infant mortality has seen a dramatic decline - from **54.2% in 1998-1999** to **34.7% in 2016-2018** - it is still considered the highest.
- At **17.3%,** India has the highest rate of child wasting in all GHI countries. This rate is slightly higher than during **1998-1999, when it was 17.1%.**
- According to the Index, only **15 countries** are worse off than India.
- India was also behind many neighboring countries. **Pakistan ranked 92nd, Nepal and Bangladesh 76 and Sri Lanka ranked 65th.**

Related Initiatives by India

- Eat Right India Movement
- POSHAN Abhiyan
- Pradhan Mantri Matru Vandana Yojana Food Fortification
- National Food Security Act, 2013
- Mission Indradhanush
- Integrated Child Development Services (ICDS) Scheme

2 Data revolution in Indian agriculture

Context:

Two significant documents relating to the Indian agriculture sector were released recently. The first is a consultation paper on the India Digital Ecosystem of Agriculture (IDEA) from the Ministry of Agriculture and Farmers' Welfare (MoA&FW) and the second on Indian Agriculture: Ripe for Disruption from a private organisation, Bain and Company.

Background

- Agriculture is a key pillar of Indian economy but continues to be beset with structural drawbacks.
- Average landholding size has declined from 1.15 hectares in 2010-11 to 1.08 hectares; with around 68 per cent marginal farmers and value chain of most crops continues to consist of multiple intermediaries.
- While **production and supply chain inefficiencies** abound keeping farmers small and marginal, the nation is catching up with global trends of both consumption (organic, healthy, convenience) and calls for sustainability.
- There is an immediate need for disruption in the sector led by data and innovative technology, as it has potential to:
  - solve for problems of scale
  - reduce information asymmetry
  - allow for supply chain disintermediation to make farming more profitable, inclusive and equitable

Analysis

How is data revolution, a global revolution?

- We are living in the age of information that is called data by researchers from which inferences can be drawn and conclusions reached.
- The quality, quantum, and coverage of data determine how effectively the decisions arrived at will fulfil our aims and objectives. The value of data is in their use.
- Every organ, agency, or institution in a democratic set up is ultimately accountable to the public for every decision and action.
- Hence, it is virtually a global revolution towards the rule of data or Data Raj.

Internet penetration in India

- India has over 1 billion mobile phone connections and over 500 million smartphone users.
- Backed by the lowest mobile data rates in the world, India is more than ready for digitisation.
- Rapid proliferation of mobile technologies in rural populations could let farmers in these areas to improve productivity based on decision made backed by better information grounded on Big Data.

Data revolution in India

- Data enabled digital tools offered by startups like Agribazaar, Crofarm and DeHaat are providing market access, price information.
- They are being used to buy and sell agricultural produce, therefore managing food supply and averting possible scarcity.
- Recent progress in **Big Data** and advanced analytics capabilities and agri-robotics such as aerial imagery, sensors, and sophisticated local weather forecasts can truly transform the agri-scape and thus holds promise for increasing global agricultural productivity over the next few decades.

What is Big Data in Agriculture?

- Big data in the agriculture industry relies on the utilization of information, technology, and analytics in order to create useful data that can be utilized by farmers.
- Big data can be used to provide information for the agricultural industry as a whole, or it can help specific segments or locations with improving their efficiency.
- In order to create this vital information, big data relies on data mining processes.
- Various modern systems such as machine learning statistics, artificial intelligence, and database systems form the tools of big data mechanics.

Government steps

- **Digital agriculture mission:** A Digital agriculture mission has been initiated for 2021 -2025 by government for projects based on new technologies like artificial intelligence, block chain, remote sensing and GIS technology, use of drones and robots etc.
- **Agristack:** a collection of data driven technology-based interventions in agriculture
- **Unified Farmer Service Platform (UFSP)**: UFSP is a combination of Core Infrastructure, Data, Applications and Tools that enable seamless interoperability of various public and private IT systems in the agriculture ecosystem across the country.
- **Farmers Database:** For better planning, monitoring, policy making, strategy formulation and smooth implementation of schemes for the farmers a nationwide Farmers Database linked with land records is being created.
- **Soil health card scheme:** It is meant to give each farmer soil nutrient status of his/her holding and advice him/her on the dosage of fertilizers.
- **National Guidelines for Data Quality in Surveys**: These guidelines are released to provide comprehensive guiding principles and best practices for mitigating errors and biases that may occur during designing the project, conducting the surveys and analysing the responses.

- The initiatives for the guidelines came from the **National Data Quality Forum (NDQF)** housed at the ICMR.
- National e-Governance Plan in Agriculture (NeGPA)

Significance of data in agriculture

- **Easy access to required information**
- **Protection:** Optimising input factors (e.g., nutrients, irrigation, and pest control) can help protect natural resources.
- **Better output**
- **Easy yield predication**
- **Enhanced sustainability**

3 Bad Bank to Clean up the Balance Sheets

Context:

In a recent development Union Finance Minister Nirmala Sitharaman has made an announcement that the government is extending a guarantee of Rs 30,600 crore to the National Asset Reconstruction Company Ltd (NARCL) to help clear stressed loans.

What is a Bad Bank?

- It is a corporate structure that takes charge ofthe toxic assets held by banks in a separate entity.
- It is established to buy non-performing assets (NPAs) from a bank and later selling them in the market.
- This relieves the commercial banks from getting rid of their stressed assets and enables them to focus on resuming their normal banking operations.

Need for a Bad Bank:

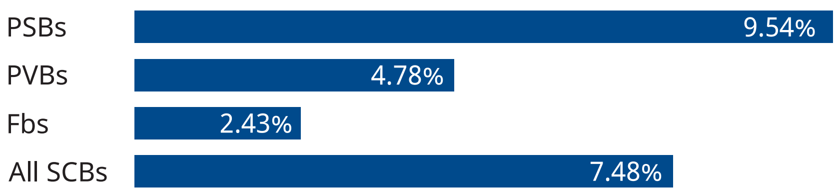
- To put it simply, commercial banks accept deposits and provides loans to their customers. The deposits are considered a **liability** because the bank is supposed to return the money to the depositor and also pay the interest on those deposits. On the contrary, the loans that banks give is considered as their **assets** because in this case, the bank can earn interest and this is the money that borrower will have to return.
- This business model is based on the idea that the earnings made by the banks by lending money to the borrowers will be more than what it would have to pay to its depositors. But in scenarios where the borrowers fail to repay the principal amount or the interest. This aggravates the risk of a loan converting into a **non-performing asset (NPA).**
- The overwhelming chunk of the NPAs is lying mostly with the public sector banks, owned by the government and hence by the public. To keep these banks running the government is sometimes forced to recapitalise them, using the taxpayer's money so that the bank can continue with the lending and funding economic activities.
- To set free the banks from these stressed assets or NPAs, the need for the creation of bad banks aroused. An entity where the stressed assets can be parked. Now the commercial banks can resume their usual business operation, especially lending and the bad bank would try to sell these assets in the market.

NPAs that banks have:

- The total bad loans in the Indian Banking system amount to Rs 8.35 lakh crore in March 2021.

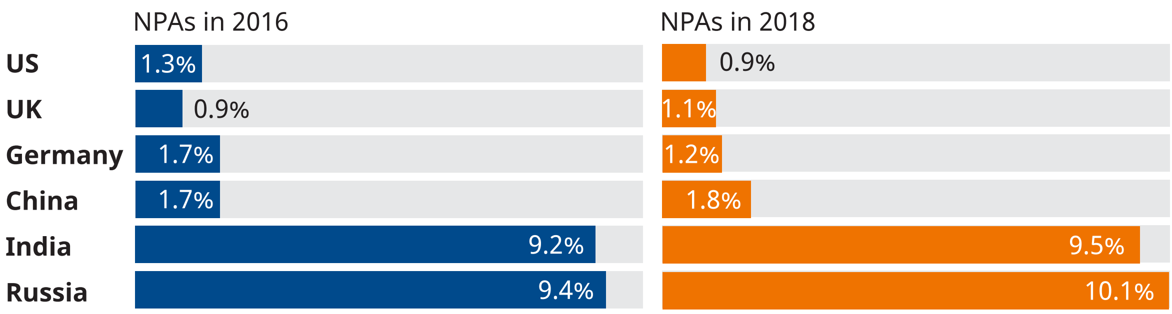
Existing level of NPAs in banks

Fb: Foreign Banks; PSB: Public Sector Bank; PVB: Private sector bank; SCB: Scheduled commercial bank



- According to the World Bank data, the share of NPA to gross loans in Indian banking is significantly higher compared to developed western economies.

NPAs in 2016 NPAs in 2018



- According to the financial stability report issued by RBI, the (CRAR) of SCBs increased from 14.7 percent in March 2020 to 16 percent in March 2021.

CRAR is also known as **Capital Adequacy Ratio (CAR)** measures a bank's financial stability by measuring its available capital as a percentage of its weighted credit risk exposure. The **Basel III norms** stipulated a capital to risk-weighted assets of 8%.A higher CRAR shows that the bank is better capitalised to handle NPAs.

4 Privatization of Banks

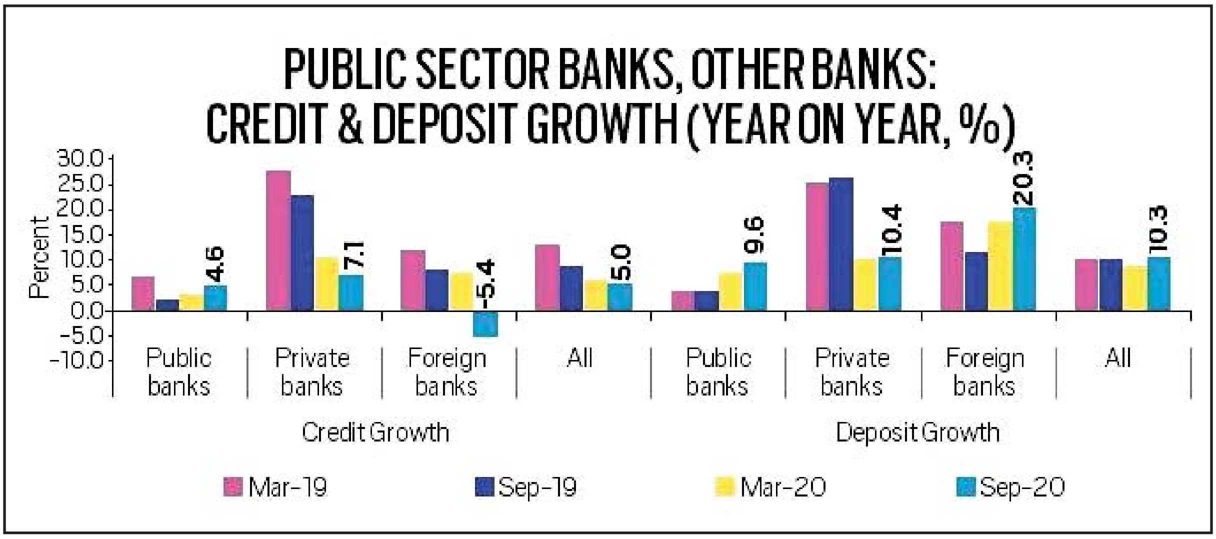
Context:

Recently NITI Aayog released its last round of consolidation plans. In that, the NITI Aayog listed 6 banks for the privatization plan.

What are the reasons for the privatization of banks?

- **Degrading Financial Position of Public Sector Banks:**
  - Years of capital injections and governance reforms have not been able to improve the financial position of public sector banks significantly.

  - Many of them have higher levels of stressed assets than private banks and also lag the latter on profitability, market capitalization, and dividend payment record.
- **Issue of Dual Control: At present PSBs are under the dual control of RBI and Dept. of Financial Services of Min of Finance.**
  - The RBI handles the governance side of the PSBs under the RBI Act, 1934
  - On the other hand, the Dept of Financial Services under the Finance Ministry maintains the regulation of PSBs under the Banking Regulation Act, 1949.
  - Thus, RBI does not have the powers to revoke a banking license, shut down a bank, or penalize the board of directors for their faults. The Privatization will provide the powers to RBI to control them effectively.
- **Part of a Long-Term Project**
  - Privatization of two public sector banks will set the ball rolling for a long-term project that envisages only a handful of state-owned banks, with the rest either consolidated with strong banks or privatized.
  - The initial plan of the government was to privatize four. Depending on the success with the first two, the government is likely to go for divestment in another two or three banks in the next financial year.
  - This will free up the government, the majority owner, from continuing to provide equity support to the banks year after year.
  - Through a series of moves over the last few years, the government is now left with 12 state-owned banks, from 28 earlier.
- **Reduced performance:** The PSBs in the past failed to perform effectively when compared to Private Banks. This will result in a loss for the government at the end of the day.
  - For example, The PSBs had almost 71% of the overall lending ratio in 2005. But in 2020 their overall lending ratio came below 57% due to intense competition from the Private Banks.
  - Public sector bank boards are still not adequately professionalized. Further, the Bank Board Bureau is not fully functional. So the government still decides board appointments. This creates an issue of politicization and interference in the normal functioning of Banks.
- **Impact of Covid:**



  - After the Covid-related regulatory relaxations are lifted, banks are expected to report higher NPAs and loan losses.
  - As per the RBI's recent Financial Stability Report, the gross NPA ratio of all commercial banks may increase from 7.5% in September 2020 to 13.5% by September 2021.

- This would mean the government would again need to inject equity into weak public sector banks.

What was the Contribution of PSBs so far?

According to RBI data, there were only 1,833 bank branches in rural areas in the country in 1969. But after the nationalization in the 1970s, the rural branches increased to 33,004 by 1995 and continued to grow over the next decades. This provided various benefits to economic development. Such as,

- **Agricultural growth**: PSBs expanded agricultural credit, short-term agricultural credit ('crop loans'). According to an estimate, the PSBs in 2017-18 account for a total of Rs 622,685 crores of Agricultural credit.
- Further, The PSBs also played a huge role in making the country self-sufficient by supporting the green, blue, and dairy revolutions.
- **Priority sectors:** The PSBs pioneered the concept of 'priority sector lending. This provided credit to certain priority sectors which were earlier deprived of credit such as housing, etc.
- **Solution for poorest:** The Differential Rate of Interest (DRI) loans are the brainchild of public sector banking. Under this poorest section of people will receive the loan at a very marginal interest rate.
- **Women empowerment:** The PSBs extended loans to women's self-help groups under various programs. This contributed to women's empowerment in India.
- **Rural growth:** PSBs also funded rural infrastructure projects through the Rural Infrastructure Development Fund.

In conclusion, the PSBs provided access to a formal banking network for all and facilitated financial inclusion in India.

Views against the Privatization of PSBs

The supporters of PSBs provide many arguments against the privatization of PSBs. Such as,

- **Credibility of Private Sector Banks:** The Private sector bank is not always efficient. On a global level, many private banks have failed, thus challenging the idea of private banks are efficient. For example, the recent YES Bank problem in India.
- **Reason for NPA's:** The present NPA problem lies majorly with the PSBs. But the NPA's increased due to the credit provided to the private corporate entities. So the private corporate entities have to be regulated and not the PSBs.
- **Against inclusive banking:** The Private Sector focussed on profit motive might restrict the credit to rural, agricultural, women, poor sections of society, etc. Thus, after Privatised PSBs the remaining PSBs have to take care of all of such credits. This might stress the remaining PSBs also.
- **Governance and policy issue of RBI:** Restructuring schemes such as strategic debt restructuring and schemes for sustainable structuring of stressed assets, initiated by RBI, are the major reasons for delayed recognition of bad loans from banks. This applies to all banks irrespective of ownership (public as well as private) of the banks.
- For these reasons only the Former governor of RBI, Raghuram Rajan also opposed the Privatization of PSBs. He also mentioned that India at present needs changes in banking regulation.

Suggestive Measures

To improve the governance and management of PSBs, there is a need to implement the recommendations of the **PJ Nayak committee**. The government must properly implement the recommendations of various committees. Such as,

- **Recommendation of PJ Nayak Committee:**
  - Though the government approved the Bank Board Bureau, the government has to provide enough support for proper functioning.
  - The government can split the Chairman and Managing Director roles. Further, the state can allow them a fixed tenure of 3 to 5 years.
- **Recommendations of Narashimham committee**
  - The government can review the Banking Regulation Acts.
  - India can explore the concept of Narrow Banking. Under this weak PSBs will be allowed to place their funds only in the short term and risk-free assets. This will improve the performance of PSBs.
  - Apart from that, the government has to create strong recovery laws and taking criminal action against wilful defaulters.
  - The government has to rectify the challenges in the Insolvency and Bankruptcy Code. This will provide a faster resolution process.
  - In the meantime, the government can explore alternate steps such as the concept of Bad Banks.

5 Conclusive Land Titling

Context:

Niti Aayog, the country's planning body has crafted a new model bill in which states will guarantee the accuracy of 'land titles' and provide compensation in case of disputes.

Background

- The Union Government wants to reform the country's land markets through a fundamental legal and procedural shift in how land titles are awarded.
- In 2020, even as laws for farm reform and labour code reform were being enacted, the government's think tank, NITI Aayog, took steps to initiate land reforms.
- A **Model Bill on Conclusive Land Titling** was sent to States and Union Territories last June seeking their comments.
- In September, after many States failed to send in their feedback, the Centre warned that their agreement would be presumed.

Land conflicts in India

- The **World Bank** estimates about two-thirds of pending case in courts are related to land.
- **Land Conflict Watch**, a group of researchers, estimates that roughly 800 disputes in India impact 7.3 million people and threaten more than $200 billion in investments across an area bigger than the country of Israel.
- A **NITI Aayog** study on strengthening arbitration estimated that disputes on land or real estate take an average time of 20 years in the courts to be resolved.

Analysis

■ What is the current procedure?

- India currently follows a system of presumptive land titling. This means that land records are maintained, with information on possession, which is determined through details of past transactions.
- Ownership, then, is established on the basis of current possession.
- Land titles were now awarded, under the **Transfer of Property Act, 1882**, and **Civil Procedure Code, 1908**, on the basis of documentation and possession of the property.
- Any dispute was fought in a civil court.
- Registration of land is actually a registration of transactions, such as sale deeds, records of inheritance, mortgage and lease.
- Holding registration papers does not actually involve the government or the legal framework guaranteeing the ownership title of the land.

The conclusive land titling system

- Under a conclusive land titling system, land records designate actual ownership.
- The title is granted by the government, which takes the responsibility for accuracy.
- Once a title is granted, any other claimant will have to settle disputes with the government, not the title holder.
- Further, under conclusive land titling, the government may provide compensation to claimants in case of disputes, but the title holder is not in any danger of losing ownership.

■ What is the proposed process?

- **Setting up of land authority:** Under the proposal, each state is to set up a **land authority** that will have a **title registration officer (TRO)** who will prepare a title record based on document-based claims from the presumptive owners and any claimants.
- **Draft list of presumptive ownership:** The authority will then publish a draft list of the presumptive ownership of every plot (on which it has received applications) and invite claims within a given deadline from anyone else with an interest in the property.
- **Dispute resolution:** The TRO will be free to mention any number of people as owners of a particular plot if satisfied with their documents. If the official cannot come to a decision, he or she might refer the case to the land **dispute resolution officer (LDRO),** appointed under the land authority.
- **Record of titles:** A “record of titles” will then be notified. Over the next three years, “land titling appellate tribunals”, made up of retired or serving district judges, will hear disputes arising out of the orders passed by the TRO and the LDRO.
- **Conclusive title:** Once three years have passed since the notification, the title will be deemed conclusive, open to challenge only through writ petitions in the higher courts.
- Plots already enmeshed in court cases will remain outside the ambit of the conclusive titling process, which an official said would provide an incentive to a dubious claimant to quickly lodge a legal case before the proposal is enacted.

■ How Land conflicts are hindering India’s growth?

- **Black market for land transaction:** While the Digital India Land Records Modernization Program dashboard shows that land records in 90.1% of villages have been computerized, many records haven’t been properly updated -- forcing investors to deal with multiple parties to acquire land and often face requests for bribery.

- **Issue in taxation:** In cities, urban local bodies depend on property taxes that can be levied properly only if there is clear ownership data available. Ambiguity in ownership also deprives the government of taxes.
- **Debt burden in rural areas:** In rural areas, access to agricultural credit is dependent on the ability to use land as collateral. Without being able to prove their ownership of land and access formal credit from banks, small and marginal farmers are often left at the mercy of unscrupulous moneylenders, entrenching themselves in a mountain of debt.
- **Stalled investments:** Land conflicts have also stalled investments across cement, steel, mining and power sectors.
- **Clogged judiciary:** Land disputes account for the largest set of cases in Indian courts-25 percent of all cases decided by the Supreme Court involved land disputes. The average pendency of a land acquisition dispute case, from its creation to its resolution by the Supreme Court, is 20 years.

Judicial causes for pendency

Once a land dispute goes to court, serious judicial incapacity leads to pendency of cases because of three reasons:

- India's low judge-to-people ratio
- lack of financial, technical, and infrastructural capacity necessary to resolve disputes quickly, particularly at the judiciary's lowest levels
- poor enforcement of court decisions by the government, and limited judicial capacity to follow up on such enforcement

6 'One District One Product: A Potential Gamechanger for Northeast Economies'

Context:

The Centre is mulling a "one product one district" scheme to boost manufacturing hit by Covid-19 and it has begun initial preparations with the states. The scheme can act as a potential game-changer for Northeast economies.

Why 'development' is becoming a major issue?

- The predominantly tribal population of the Northeast have always believed in sustainable development and have resisted the economic exploitation of the land and its resources by governments in the past.
- The Northeast has always been a predominantly agrarian economy with immense potential for agriculture.
- Additionally, the inhabitants of the land — consisting of a number of tribes and sub-tribes — have had a vigorous craft tradition and almost every tribe in the region excels in craftsmanship.
- However, even though the Northeast has been producing the best quality spices, herbs, vegetables and fruits for years, the region has had minimal institutional support from the government at the local level.

Other major issues

- lack of economic development

- connectivity or access to the mainland
- logistics, storage, connect to buyers worldwide and training
- the pursuit of economic development

How will ODOP Scheme help?

- The government seems to have finally struck the right chord in the Northeast with the aspirational One District One Product(ODOP) scheme, which aims to boost the economy of the region district by district through encouraging indigenous and specialised products of each district.
- The new ODOP programme has come as a new ray of hope for the people of the region as it aims towards giving a push to the ailing traditional industries by working alongside the local communities and empowering the citizens through the **Make in India.**
- The programme aims to promote local indigenous specialised products and the crafts of each district through various development initiatives, including:
  - providing loans to local production units, artisans, and farmers
  - establishing common facility centres
  - helping market these products at a global level
  - facilitating these traditional craft and art forms to gain an international market and be preserved for the next generations.

What are the recent Government initiatives in the region?

In a bid to address the concerns, government has proactively taken steps to integrate the Northeast with the rest of the country through various initiatives such as:

- the Act-East Policy
- Northeast Special Infrastructure Development Scheme
- Non Lapsable Central Pool of Resources (NLCPR) Scheme

What other efforts are required for the region?

- **Focus on priority sector**
- **Employment generation**
- **Inclusive governance**
- **Infrastructure development:** With 96 per cent of the borders of the NE Region constituting **international boundaries**, it is necessary to factor "new inputs" in foreign, defence, internal security and international trade policy. To this end, the immediate priority is to build the required infrastructure right up to the border areas, establishing connectivity and communication links to the cross-border points.

7 Proposition 22, the future of the gig economy

Context:

- **Proposition 22, a ballot measure that will allow these companies to retain their drivers and other workers as "independent contractors" instead of "employees", has been passed, setting a new high-water mark for spending on a California ballot measure.**

- **As a result, gig workers for Uber, Lyft, DoorDash, Instacart and Postmates in the state will remain as independent contractors, rather than being subject to being reclassified as employees under AB5, the state's gig-work law.**

What is Gig Economy?

- A gig economy is a free market system in which temporary positions are common and organizations hire independent workers for short-term commitments.
- The term "gig" is a slang word for a job that lasts a specified period of time; it is typically used by musicians.
- Non-traditional or gig work consists of income-earning activities outside of traditional, long-term employer-employee relationships.

The Pros and Cons of Gig Work

Pros of Gig Work

- **Flexibility:** The most obvious gig work pro is flexibility. The worker himself choose when and where he wants to work.
- **Test Drive Something New:** Gig work is something some people do for additional income. But for other people, it's a way to test-drive a new career.
- **Greater independence**
- **A variety of jobs**

Cons of Gig Work

- **Lack of Benefits:** Once you're in business for yourself, you're in business for yourself. And that means it's up to you to provide the benefits. And, as a gig worker, you likely won't have health insurance or other benefits, either.
- **Inconsistent Income:** With most gig jobs, one is paid by the project or task. The income remains inconsistent.
- **Burnout:** Working multiple jobs or at odd hours isn't for everybody. Some people find that as flexible as the work is, gig work becomes tiring and stressful after a while.
- **Quarterly taxes, personal expenses**

8 Taxing Virtual Currencies

Context

The Finance Ministry recently proposed instituting an 18% goods and services tax (GST) on crypto trading. Though it's not clear whether such a proposal will become law, but the government appears serious about pushing it.

What are Virtual Currencies and Cryptocurrencies?

- A virtual currency is a digital representation of value that can be digitally traded and functions as:
  - a medium of exchange, and/ or
  - a unit of account and/or

- a store of value, but does not have a legal tender status

- It fulfils the above functions **only by agreement** within the community of users of the virtual currency.
- It is **not issued nor guaranteed by any jurisdiction.**
- **Cryptocurrency** is a type of virtual currency that uses cryptography to secure transactions that are digitally recorded on a distributed ledger, such as a blockchain.
- A transaction involving cryptocurrency that is recorded on a distributed ledger is referred to as an "on-chain" transaction; a transaction that is not recorded on the distributed ledger is referred to as an "off-chain" transaction.

Financial Action Task Force (FATF) on Cryptocurrencies

- Another vital definition given legal sanction in Indian laws by virtue of this judgment is that of Cryptocurrencies as defined by the FATF.
- Cryptocurrency, according to FATF, is a math-based, decentralized convertible virtual currency protected by cryptography by relying on public and private keys to transfer value from one person to another and signed cryptographically each time it is transferred.

How is virtually currency regulated in India?

- Currently, the regulatory mechanisms to govern virtual currencies are almost non-existent in India.
- Although bitcoins are not legal as yet, they have not been outrightly declared illegal either.
- Being a relatively unregulated form of currency, there is not much jurisprudence available which discusses the ability of the citizens in India to transact through bitcoins.

Reserve Bank of India, Government of India & Bitcoins: the trio

- Originally, RBI had issued a Press Release in 2017 cautioning the users, holders of Virtual Currencies that they are not recognised as legal tender. The Press Release also stated that the investors should avoid participating in them.
- RBI Circular prohibited entities regulated by RBI from dealing in Virtual Currencies (VCs) or provide services for facilitating any person or entity in dealing with dealing with or settling VCs.
- The Circular also instructed the entities which already provide such services to exit the relationship within three months from the date of the Circular.
- After a series of Writ Petitions being filed in various High Courts and the Petition finally reaching the Supreme Court through transfer petitions, the matter was kept in abeyance as an Inter-Ministerial Committee was constituted and was deliberating on the issue.
- The Inter-Ministerial Committee, on 28.02.2019 submitted a report along with a draft bill, namely, 'Banning of Cryptocurrency and Regulation of Official Digital Currency Bill, 2019'.
- The Finance Minister in his budget speech on 01.02.2018 had also stated that the **Government did not consider crypto-currencies as legal tender** or coin and all measures to eliminate the use of these currencies in financing illegitimate activities or as a part of payment system will be taken by the Government.
- In April 2018, the RBI issued a circular banning regulated financial institutions from providing services to businesses dealing in exchange/trading of cryptocurrencies, which put the entire Indian cryptocurrency trading industry in turmoil.

What is Supreme Court's view on virtual currencies?

- The Supreme Court in the case**Internet and Mobile Association of India v. Reserve Bank of India**, deliberated on cryptocurrency and struck down the 2018 circular.
- The Supreme Court analyzed the role of RBI in the economy as a central bank to manage currency, money supply and interest rates and recognized that the maintenance of price stability as an objective of RBI.
- The Supreme Court noted that cryptocurrency is capable of being accepted as valid payment for the purchase of goods and services, and payment systems can be regulated by the RBI.
- This verdict gave a thumbs-up to the crypto exchanges and crypto as an asset class, as indirectly they have not been found violating any other law of the land.

Taxation of cryptocurrencies

- The power to levy taxes is prescribed under **Article 246** which grants power to the Parliament as well as state legislatures to impose taxes.
- **Article 265** provides that no tax can be imposed or collected without the authority of law.
- By virtue of **Constitution (One Hundred and First Amendment) Act, 2016**, the Parliament made several amendments with respect to the imposition of **Goods and Services Tax ('GST')** including **Article 246A**, wherein exclusive power was given to the Parliament to make laws with regard to interstate trade and commerce.
- Furthermore, **Schedule VII** lists the subject matters where Parliament and state legislatures can impose taxes.
- Broadly speaking, any transaction involving virtual currency could be analysed from two viewpoints – income and expenditure.
- Depending upon the nature and parties to the transaction, it may be taxable under
  - the Income Tax Act, 1961 ('ITA') (in case of income), or
  - Central Goods and Services Tax Act, 2017 ('Act') and
  - other laws (in case of expenditure)
- Since the regulatory framework regarding cryptocurrencies is uncertain, the taxation (or non-taxation) can be analyzed by considering them as both goods and currency.

With this, two major approaches currently prevalent across the world:

1. **Treatment under Indirect Tax:**
   - GST was implemented with effect from July 1, 2017, across India. GST subsumes most of the indirect taxes, barring few.
   - Treatment of cryptocurrencies as goods/property would mean that supply of bitcoins is a 'taxable supply' and hence subject to GST.
2. **Treatment under Direct Tax:**
   - The treatment of cryptocurrencies under direct tax regime is mainly governed by the ITA in India.
   - Till date, the Income Tax Department ('ITD') has neither issued any guidance regarding taxation of digital currencies nor do any disclosure requirements exist in relation to such income earned.
   - Bitcoins are considered as 'currency', they would not be susceptible to tax under ITA.

> The European Court of Justice ruled in 2015 that trades involving cryptoassets should be exempt from GST (also known as VAT in certain jurisdictions), while nations like Singapore have in fact reversed previous laws where exchanges involving crypto were subject to GST/VAT.

International Practices

- **United States:** The USA FinCEN (Financial Crimes Enforcement Network), being at the forefront of regulation of cryptocurrencies, issued a guidance on regulating decentralised virtual currencies bringing them within the ambit of the Bank Secrecy Act, 1970.
- As per the US Internal Revenue Service ('IRS'), cryptocurrencies are treated as property for the purpose of federal tax.
- **Germany:** Germany formally recognised bitcoins as units of account allowing them to be used for tax and private trading purposes throughout the country.
- **United Kingdom:** In the United Kingdom (UK), they are classified as an asset or private money, on which capital gains tax is applicable, but VAT is exempted.
- **Australia:** In Australia, digital currencies were previously considered 'intangible property' and were therefore subject to GST.
- **China:** Although no regulation governs cryptocurrency in China, the Government has taken an aggressive stance towards digital currencies. Recently, the People's Bank of China conducted on-site inspections of bitcoin exchanges and plans to impose penalties on these exchanges for violating upgraded norms related to anti-money laundering.

9 GDP is no longer an accurate measure of growth

Context:

The World Economic Forum with its report, Dashboard for a New Economy Towards a New Compass for the Post-COVID Recovery, which outlines a framework for macroeconomic metrics that could fill the gaps currently left by GDP has attempted to provide a metric that looks beyond a nation's income and considers welfare, the environment and people.

What is GDP?

- Gross domestic product (GDP) by definition, is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.
- GDP can be calculated in three ways, using expenditures, production, or incomes. It can be adjusted for inflation and population to provide deeper insights.

How GDP falls short?

- **No scope of inclusion of positive and negative effects:** GDP by definition is an aggregate measure that includes the value of goods and services produced in an economy over a certain period of time. There is no scope for the positive or negative effects created in the process of production and development.
  - **For example**, GDP takes a positive count of the cars we produce but does not account for the emissions they generate; it adds the value of the sugar-laced beverages we sell but fails to subtract the health problems they cause; it includes the value of building new cities but does not discount for the vital forests they replace.
- **No reflection of environmental degradation:** Environmental degradation is a significant externality that the measure of GDP has failed to reflect. The production of more goods adds to an economy's GDP irrespective of the environmental damage suffered because of it.

- **No inclusion of income distribution across society:** GDP also fails to capture the distribution of income across society – something that is becoming more pertinent in today's world with rising inequality levels in the developed and developing world alike. It cannot differentiate between an unequal and an egalitarian society if they have similar economic sizes.
- **Lack of focus on actual production:** Another aspect of modern economies that makes GDP anachronistic is its disproportionate focus on what is produced. Today's societies are increasingly driven by the growing service economy – from the grocery shopping on Amazon to the cabs booked on Ola. As the quality of experience is superseding relentless production, the notion of GDP is quickly falling out of place.
- Recent years have seen several extensive and rigorous efforts to identify relevant elements of well-being and tackle different dimensions of the measurement question. These include the:
  - UNDP's Human Development Index (1990-2020)
  - the comprehensive review of well-being dimensions by Stiglitz, Sen and Fitoussi (2009)
  - the OECD's Better Life project (2018, 2020); the Bennett Institute's Wealth Economy Project (2019)
  - the Recoupling Dashboard (2019)
  - the World Economic Forum's Global Competitiveness Index (1979-2019)
  - Inclusive Development Index (2015, 2017)
  - Social Mobility Index (2020)

Proposal of the World Economic Forum

- In its new report, the Forum has proposed a scorecard made up of four dimensions that need to bring into balance: **prosperity, the planet, people and the role of institutions**.
- The Forum's 'Prosperity' metric includes aspects such as social mobility, income inequality and financial resilience. GDP still features within the Prosperity dimension, but updated to reflect different dynamics within the world economy.
- In high-income economies, it has to track the slowing economic growth, its impact on standards of living and an increasingly unequal income distribution with a view to facilitating effective policy countermeasures. Whereas, in emerging markets, the metric needs to account for those countries' more evenly spread growth, which has contributed to ending poverty for millions to date.

Prosperity	Planet	People	Institutions
GDP (updated)	Energy mix and intensity, GHG emissions	Human capital: education and skills	Institutional context
Income and wealth inequality, social mobility	Distributional issues: impact and mitigation	Human capital: public health	
Financial resilience	Natural resilience	Social resilience	

Dashboard for a new economy (as proposed by the wEF)

10 RBI to introduce Central Bank Digital Currency: deputy governor

Context:

- **As per a recent update, the Reserve Bank of India (RBI) is planning to introduce its own version of Central Bank Digital Currency (CBDC). The Currency is to be introduced in a phased manner after proper assessment on issues such as-**
  - **how it could hamper the deposit mobilization abilities of banks**
  - **its potential effect on the conduct of the monetary policy**

Understanding the CBDC Structure

- Central Bank Digital Currency (CBDC) is nothing but a digital version of so-called "fiat money".
- Fiat money is the regular currency a country uses, as established and regulated by its government.
- CBDC is a digital payment instrument that is denominated in a national currency.
- **Issued by:** Central bank.

> Today, India is the leader in the world in terms of digital payments systems, growing at 55 per cent compounded annual growth rate for the past five years.

How it can be compared to cryptocurrency?

- **Similarity:** CBDC is similar to cryptocurrencies as
  - It uses blockchain technology as its core means of representation.
  - It's digital.
- **Difference:** It differs from cryptocurrency because unlike the latter, the former is issued, centralized and regulated by the monetary authority (in most cases governments) of the issuing country.

How is it different from private virtual currency?

- The value of private virtual currencies is based on its ownership, distribution and trading on exchanges
- A CBDC's intrinsic value is equivalent to any other form of money issued by the central bank.

Important points to be discussed by RBI

In particular, the Indian central bank would evaluate the following scope of the digital currency:

- **Usage:** Whether they should be used in retail payments or also in wholesale payments.
- **Technology:** The underlying technology, whether it should be a distributed ledger or a centralized ledger, is also being evaluated. Whether the underlying technology should vary based on use cases is being debated at the central bank.
- **Mechanism:** Besides, other modalities such as token-based or account-based validation mechanism, distribution architecture (direct issuance by the RBI or through banks).

- **Anonymity:** What would be the degree of anonymity granted for such CBDCs are also being determined at the RBI.

Significance of the transition

- **Cost effective:** With the adoption, large cash usage can be replaced by CBDCs, the cost of printing, transporting, storing, and distributing currency can be reduced.
- **Multiple benefits:** It would provide significant benefits, such as reduced dependency on cash, higher seigniorage due to lower transaction costs, reduced settlement risk.
- **Reduced disintermediation:** CBDCs can cause a reduction in the transaction demand for bank deposits and will reduce the intra-day liquidity for settlement of transactions. They could also cause a shift away from bank deposits.
- **Safety:** In an environment of virtual currencies, CBDCs are necessary to protect the general public.

Assessing the challenges

- **Lack of proper jurisdiction:** While these private currencies have their own benefits, they are not backed by any government and therefore do not follow any proper jurisdiction.
- **Threat to established currency:** The wide adoption of these currencies threatens to upend the established model of fiat currencies issued by countries within a border.
- **Cyber security:** The risk of cyber crime will continue to pose challenges in the case of CBDCs.
- **Social and economic consequences:** In case, if the digital currencies gain recognition, national currencies with limited convertibility are likely to come under threat. Adding such private currencies can therefore have potentially damaging social and economic consequences.

Major countries leading adoption of CDBC

- As of now, no country has officially adopted the CBDC, but many nations such as China, Russia, Japan, United States, China, and the UK are planning on launching CBDC.
- They have all launched the initial test program and research projects to test the credibility of CBDC programs.
  - England was among the first countries to propose this idea. China joined soon after.
  - Russia is on the verge of making its own ‘crypto rubel.’

11 What the G7 corporate tax deal means for India?

Context:

Advanced economies making up the G7 grouping have reached a “historic” deal on taxing multinational companies and to ratify a global minimum corporate tax rate to counter the possibility of countries undercutting each other to attract investments.

About

- **About the agreement**
  - The first decision is to force multinationals to pay taxes where they operate.

- The second decision in the agreement commits states to a global minimum corporate tax rate of 15% to avoid countries undercutting each other.
- The agreement will now be discussed in detail at a meeting of G20 financial ministers and central bank governors in July.

Challenges and problems

- Getting all major nations on the same page due to right of the sovereign to decide the nation's tax policy.
- A global minimum rate would essentially take away a tool that countries use to push policies that suit them.
- Also, a global minimum tax rate will do little to tackle tax evasion.

Where does India stand?

- India already had announced a sharp cut in corporate taxes for domestic companies to 22% and for new domestic manufacturing companies to 15%, broadly at par with the average 23% rate in Asian countries.
- Also, existing domestic companies opting for the concessional taxation regime will not be required to pay any Minimum Alternate Tax.
- The effective tax rate, inclusive of surcharge and cess, for Indian domestic companies is around 25.17%.
- The economic division will look into the pros and cons of the new proposal and then will decide.

About G7

- The G7 (Group of Seven) is an organisation made up of the world's seven largest so-called advanced economies. They are Canada, France, Germany, Italy, Japan, the UK and the United States.
- Russia joined in 1998, creating the "G8", but was excluded in 2014 for its takeover of Crimea.
- China has never been a member, despite its large economy, as its relatively low level of wealth per person is not seen as an advanced economy in the way the G7 members are.
- Representatives from the European Union are usually present and India, South Korea and Australia have been invited this year.
- The UK holds the G7 presidency for 2021

12 Interim report of 15th finance commission: Continuity and fiscal follow through.

Context:

The 15th Finance Commission has recommended maintaining States' share in the divisible pool of tax collections at the same level of 42% for 2020-21.

Background

- To factor in the changed status of the erstwhile State of Jammu & Kashmir, the rate at which funds may be shared with the States has been reset at 41%.

- This is after adjusting 1 percentage point for the needs, including special ones of the two new Union Territories of J&K and Ladakh.
- An official said that the actual pool of funds available to States will be equivalent to what they were receiving from the 42% share granted by the 14th Finance Commission, as the number of States is now 28 instead of 29.
- The one percentage point reduction is what would have been earmarked for J&K as a State.

Main aspects of 15th finance commission

- **Vertical Devolution**: It recommends the distribution of the net proceeds of taxes of the Union between Union and the States.
- **Horizontal Devolution**: It allocates among the States the proceeds of the Vertical Devolution.
- **Post Devolution Revenue Deficit Resources To Local Bodies:** Article 280 (3) (bb) and Article 280 (3) (c) of the Constitution mandate the Commission to recommend measures to augment the Consolidated Fund of a State to supplement the resources of Panchayats and Municipalities based on the recommendations of the respective State Finance Commissions (SFCs). This also includes augmenting the resources of Panchayats and Municipalities.
- **Grants:** It has to look at the States, where the devolution alone could not cover the assessed gap. It takes into account the expenditure requirements of the States, the tax devolution to them and the revenue mobilisation capacity.
- **Disaster Management**: Allocations for disaster management are also done.

Recommendations for six years by the 15th Finance Commission

- 15th Finance Commission was appointed on November 27, 2017.
- Originally, it was to submit report by October 30, 2019 for five years i.e., for the period 2020-21 to 2024-25.
- Now, Finance Commission is submitting two reports. Interim Report for 2020-21 and the Main Report covering the period of five years beginning April 1, 2021 and ending March 31, 2026.
- The first report was placed in Parliament.

Why The Recommendation Period Is For Six Years This Time?

Dimension 1:

- The abolition of Statehood to Jammu and Kashmir required the Commission to make an estimation excluding the Union Territory.

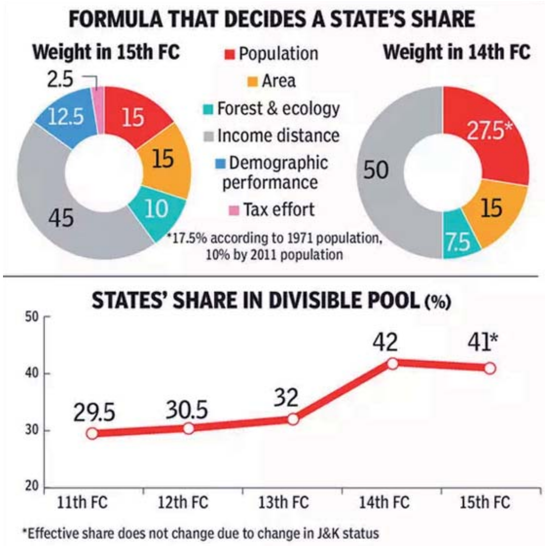
Dimension 2:

- The deceleration in growth and low inflation has substantially slowed down the nominal GDP growth, which is the main tax base proxy.
- Making projections of tax revenues and expenditures based on this could have posed serious risks.

Dimension 3:

- Moreover, poor revenue performance of tax collection and more particularly Goods and Services Tax, combined with the fact that the compensation agreement to the loss of revenue to the States was effective for only two years of the period covered by the Commission's recommendations (till 2022) posed uncertainties.

WHAT CHANGED FROM 14th FC TO 15th FC?



TOP GAINERS

State	14th FC (% all taxes)	15th FC (% all taxes)	% change in share
Arunachal	1.37	1.76	28.5
Meghalaya	0.64	0.77	20.3
Manipur	0.62	0.72	16.1
Nagaland	0.5	0.57	14
Punjab	1.58	1.79	13.3

TOP LOSERS

State	14th FC (% all taxes)	15th FC (% all taxes)	% change in share
Andhra	4.3	4.11	-4.4
Assam	3.31	3.13	-5.4
Telangana	2.44	2.13	-12.7
Kerala	2.5	1.94	-22.4
Karnataka	4.71	3.65	-22.5

Summary of the Recommendations

- ### Changes in the horizontal devolution methodology
  - **Major changes**:
    - In addition to income distance, population, area and forest cover, it has used two additional factors, demographic performance and tax effort.
    - It assigned 15% weight to the 2011 population.
    - It reduced the weight of income distance to 45%, it increased the weight to forest cover and ecology to 10%.
    - Demographic performance is given 12.5% and tax effort is given 2.5%.
  - **Towards balancing**
    - By keeping the weight of 2011 population at 15% and giving additional 12.5% to demographic performance, which was the inverse of fertility rate, the Commission has shown sensitivity to the concerns of these States.
  - **Consequences**
    - In the relative shares in tax devolution, among the major States, the biggest loser is Karnataka. The other States which lost heavily include Uttar Pradesh, Kerala, Telangana and Andhra Pradesh.
    - Kerala and Andhra Pradesh have post-devolution gaps and hence qualify for revenue deficit grants.
  - **What are the reasons?**
    - The major reason for Karnataka and Kerala losing on devolution is that their per capita income growth has been faster than most other States.
    - The difference from the highest per capita income in both Karnataka and Kerala is just about 10% now as compared to 34% and 23%, respectively for the two States, when the 14th Finance Commission made the recommendation.

- ### Revenue deficit grants
  - It also recommended revenue deficit grants for the States, which had post-devolution gaps.

- It has not deviated from the past practice even though the terms of reference given to the Commission indicated, "The Commission may also examine whether revenue deficit grants be provided at all".

- **Grants to Panchayats**
  - The recommended grants for panchayats amount to Rs. 60,750 Cr.
  - All the three layers of panchayats will receive the grant and 50% of the grant is tied to improving sanitation and supply of drinking water, the remaining is untied. However the 14th FC recommended one-tenth of the grants to be performance-based.

- **Grants to municipalities**
  - In the case of municipal bodies, Rs. 9,229 Cr is allocated to cities with a million-plus population and the remaining Rs. 20,021 Cr is allocated to other towns.

- **Disaster relief**
  - The Commission recommended the creation of Disaster Mitigation Fund at the Central and State levels.
  - For disaster management, a total of Rs. 28,183 crore has been determined, of which the Central contribution will be Rs. 22,184 crore.
  - Inter-State allocation is made based on past expenditures, area and population and disaster risk index.

Other sectoral recommendations

- For 2020-21, it has recommended Rs. 7,735 crore for improving nutrition, based on the number of children in the 0-6 age group and lactating mothers.
- It also proposed to give grants for police training, maintenance of the Pradhan Mantri Gram Sadak Yojana roads, strengthening the judicial system and improving the statistical system.
- It also presented a broad framework for recommending monitorable performance grants for agricultural reform, development of aspirational districts and blocks, power sector reforms and incentives to enhance trade including exports and pre-primary education.

13 National Monetisation Pipeline

Context:

The Centre launched the National Monetisation pipeline (NMP) in an effort to list out the government's infrastructure assets to be sold over the next four-years.

Key Features

- NMP aims to unlock value in Brownfield projects by engaging the private sector, transferring to them revenue rights and not ownership in the projects.
- Ownership of the Brownfield assets to remain with the government.
- The generated funds will be used for infrastructure creation across the country.

What is brownfield project India?

A brownfield is an investment when a company or government entity purchases or leases existing production facilities to launch a new production activity.

Objective of the programme:

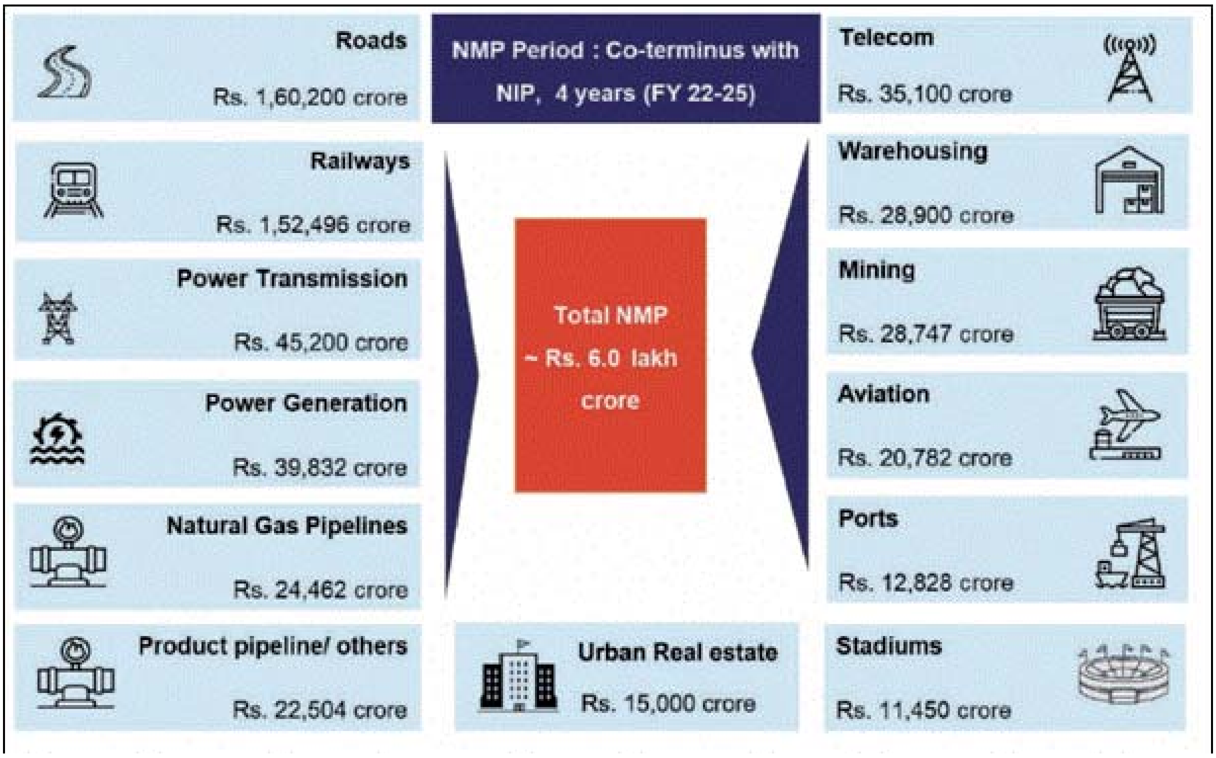
- To unlock the value of investments in Brownfield public sector assets by tapping institutional and long-term capital, which can thereafter be leveraged for public investments.
- To enable 'Infrastructure Creation through Monetization' wherein the public and private sector collaborate, each excelling in their core areas of competence, so as to deliver socio-economic growth.

Major sectors

- Roads, railways and power to be priority sectors.
- Roads, railways and power sector assets will comprise over 66% of the total estimated value of the assets to be monetised, with the remaining upcoming sectors including:
  - telecom
  - mining
  - aviation
  - ports
  - natural gas and petroleum product pipelines
  - warehouses
  - stadiums

Estimated fund allocation

NMP is indicatively valued at Rs 6.0 lakh crore for 4 years for FY 2022-2025.



- **Significance of the scheme**
  - The NMP document is a critical step towards making India's Infrastructure truly world class.
  - Assets monetisation needs to be viewed not just as a funding mechanism, but as an overall paradigm shift in infrastructure operations, augmentation and maintenance considering the private sector's resource efficiencies and its ability to dynamically adapt to the evolving global and economic reality.
  - Such new models will enable not just financial and strategic investors but also common people to participate in this asset class thereby opening new avenues for investment.

Challenges to National Monetisation pipeline (NMP)

- Lack of identifiable revenue streams in various assets
- Level of capacity utilisation in gas and petroleum pipeline networks
- Regulated tariffs in power sector assets
- Low interest among investors in national highways below four lanes

14 PM Gati Shakti Master Plan

Context:

On India's 75th Independence Day, 'PM Gati Shakti Master Plan', was launched, with a Rs. 100 lakh-crore project for developing 'holistic infrastructure'.

What is the Gati Shakti Master Plan?

- PM Gati Shakti Plan is a national infrastructure master plan.
- Aim: To make a foundation for holistic infrastructure and give an integrated pathway to the economy.

Focus area of the project:

- **Employment opportunity:** To act as a source of employment opportunities for the youth in future.
- **Leveling up local manufacturers:** To help raise the global profile of local manufacturers and help them compete with their counterparts worldwide.
- **Economic zones:** To raise possibilities of new future economic zones.
- **Infrastructure development:** Infrastructure development has the ability to create a multiplier effect with every rupee invested, yielding much higher returns.

Infrastructure sector

- Infrastructure is a major sector that propels overall development of the Indian economy.
- As per Indian Infrastructure Sector in India Industry Report, India plans to spend US$ 1.4 trillion on infrastructure between 2019 to 2023, which is predicted to boost the expansive growth of the sector.

15 Artificial Intelligence & Agriculture- use of ICT in farming

Context:

The AI and Robotics technologies have the potential to solve various agricultural problems efficiently.

What is Artificial Intelligence (AI)?

- AI is the science of building computers that can solve problems the way humans do.
- With intelligent machines enabling high level cognitive processes like thinking, perceiving, learning, problem solving and decision making, coupled with advances in data collection and aggregation, analytics and computer processing power, AI presents opportunities to complement and supplement human intelligence and enrich the way people live and work.
- The term was coined in **1956** by **John McCarthy** at the **Dartmouth conference, Massachusetts Institute of Technology.**
- It encompasses everything from robotic process automation to actual robotics.
- Recently it has become widely popular and gained prominence due to its multifaceted application ranging from healthcare to military devices.
- AI is a constellation of technologies that enable machines to act with higher levels of intelligence and emulate the human capabilities of sense, comprehend and act.
- The natural language processing and inference engines can enable AI systems to analyse and understand the information collected.

Significance of digitalization of agriculture

- Digital technologies including the Internet, mobile technologies and devices, data analytics, artificial intelligence, digitally-delivered services and apps—are changing agriculture and the food system.
- Examples abound at different stages of the agri-food value chain: farm machinery automation allows fine-tuning of inputs and reduces demand for manual labour; remote satellite data and in-situ sensors improve the accuracy and reduce the cost of monitoring crop growth and quality of land or water; and traceability technologies and digital logistics services offer the potential to streamline agri-food supply chains, while also providing trusted information for consumers.
- Digital technologies can also help governments improve the efficiency and effectiveness of existing policies and programmes, and to design better ones. For instance, freely available and high-quality satellite imagery dramatically reduces the cost of monitoring many agricultural activities.
- This could allow governments to move towards more targeted policies which pay (or penalise) farmers based on observed environmental outcomes. In addition to monitoring compliance with environmental policies, digital technologies enable automation of administrative processes for agriculture and the development of expanded government services, such as in relation to extension or advisory services.
- Finally, digital technologies can support trade in agriculture and food products, by connecting private sector suppliers to new markets, and enabling new ways for governments to monitor and ensure compliance with standards and to provide faster and more efficient border procedures that are essential for perishable products.

Digital technologies in agriculture

- **Internet of Things (IoT):** world agricultural the disrupting unstructured and structured data to provide insights into food production.
- **Data driven farming:** by analyzing and correlating information about weather, types of seeds, soil quality, probability of diseases, historical data etc farmers will make more informed decision
- **Chatbots:** AI powered chatbots can also be leveraged by agriculture sector.

Challenges for digitalization of agriculture

- For policymakers, the challenge will be to shape policy and regulatory settings so that they facilitate opportunities offered by digital technologies.
- At the same time, and not unique to the agriculture sector, digital technologies raise questions about privacy, interoperability, and even potential liability issues, all of which will need careful consideration.
- Reaping the benefits of digital technologies in agriculture requires the participation and co-operation of farmers, researchers, private sector, non-profits and government.

16 Role of NITI Aayog

Context:

- **India has undergone a paradigm shift over the past six decades - politically, economically, socially, technologically as well as demographically.**
- **The role of Government in national development has seen a parallel evolution. Keeping with these changing times, the Government of India has decided to set up NITI Aayog (National Institution for Transforming India), in place of the erstwhile Planning Commission, as a means to better serve the needs and aspirations of the people of India.**

About NITI Aayog

The new institution will be a catalyst to the developmental process; nurturing an overall enabling environment, through a holistic approach to development going beyond the limited sphere of the Public Sector and Government of India.

The NITI Aayog aim to accomplish the following objectives and opportunities:

- An administration paradigm in which the Government is an ‘enabler” rather than a “provider of first and last resort.”
- Progress from “food security” to focus on a mix of agricultural production, as well as actual returns that farmers get from their produce.
- Ensure that India is an active player in the debates and deliberations on the global commons.
- Ensure that the economically vibrant middle-class remains engaged, and its potential is fully realized.
- Leverage India’s pool of entrepreneurial, scientific and intellectual human capital.
- Incorporate the significant geo-economic and geo-political strength of the Non-Resident Indian Community.

- Use urbanization as an opportunity to create a wholesome and secure habitat through the use of modern technology.
- Use technology to reduce opacity and potential for misadventures in governance.

Benefits of NITI Aayog

- NITI Aayog will seek to provide a critical directional and strategic input into the development process. The centre-to-state one-way flow of policy, that was the hallmark of the Planning Commission era, is now sought to be replaced by a genuine and continuing partnership of states.
- NITI Aayog will emerge as a "think-tank" that will provide Governments at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy.
- The NITI Aayog will also seek to put an end to slow and tardy implementation of policy, by fostering better Inter Ministry coordination and better Centre-State coordination. It will help evolve a shared vision of national development priorities, and foster cooperative federalism, recognizing that strong states make a strong nation.
- The NITI Aayog will develop mechanisms to formulate credible plans to the village level and aggregate these progressively at higher levels of government. It will ensure special attention to the sections of society that may be at risk of not benefitting adequately from economic progress.
- The NITI Aayog will create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and partners.
- It will offer a platform for resolution of inter-sectoral and inter-departmental issues in order to accelerate the implementation of the development agenda.
- In addition, the NITI Aayog will monitor and evaluate the implementation of programs, and focus on technology upgradation and capacity building.

Role of NITI Aayog in cooperative federalism

- NITI Aayog acts as a coordinating bridge between state and centre.
- It envisages formation of national development priorities sectors and strategies with the active involvement of States in the light of national objectives by fostering cooperative federalism and to develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- Role of NITI Aayog in establishment of cooperative federalism.
  - Consultative and direct decision making of the state chief ministers in governing council to deliberate on complex issues. **Example-** 3 subgroups on swachh bharat, skill development.
  - NITI Aayog governing council is playing a greater role in assisting states where Centre-state investment agreements signed for bilateral invest treaty to boost investments in states to ensure better implementation of international treaties that building the spirit of competitive federalism.
  - NITI Aayog knowledge hub to act as knowledge and best practices repository for all states who want to emulate
  - NITI Aayog creates a congenial atmosphere for states in planning- with recent upgradation of share in divisible pool to 42%, it can help in better utilization of resources.
  - NITI aayog constituted sub group of chief ministers for rationalizing and restructuring the centrally sponsored schemes to states greater freedom in designing and restructuring of developmental plans. **Example -** the Beti Bacho scheme would be of little relevance to states like Kerala while they are important to Haryana.

- NITI aayog have constituted task forces on agriculture and poverty alleviation. In this regard NITI has come up with model land leasing bill that each state would adopt according to their needs to ensure effective land leasing and tenancy to increase agriculture productivity and farmer incomes.
- NITI Aayog role in ensuring implementation of SDGs analyzing the present targets and demanding of each state.
- NITI Aayog as a think tank can help in guiding the states in a co-operative spirit and be a force multiplier in national development by building strong states.

17 Credit Rating Agencies: Credibility and Accountability

Context:

- **US-based Moody's has recently upgraded India's sovereign credit rating by a notch to 'Baa2' with a stable outlook citing improved growth prospects driven by economic and institutional reforms.**
- **The rating upgrade comes after a gap of 13 years - Moody's had last upgraded India's rating to 'Baa3' in 2004.**

What are Credit Rating Agencies

- A credit rating agency is a company that assigns credit ratings, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default.
- Credit ratings provide individual and institutional investors with information that assists them in determining whether issuers of debt obligations and fixed-income securities will be able to meet their obligations with respect to those securities.
- Credit rating agencies (CRAs) play a key role in financial markets by helping to reduce the informative asymmetry between lenders and investors, on one side, and issuers on the other side, about the creditworthiness of companies or countries.
- The debt instruments rated by CRAs include government bonds, corporate bonds, CDs, municipal bonds, preferred stock, and collateralized securities, such as mortgage-backed securities and collateralized debt obligations.
- The issuers of the obligations or securities may be companies, special purpose entities, state or local governments, non-profit organizations, or sovereign nations.
- A credit rating facilitates the trading of securities on a secondary market. It affects the interest rate that a security pays out, with higher ratings leading to lower interest rates. Individual consumers are rated for creditworthiness not by credit rating agencies but by credit bureaus which issue credit scores.

Why needed?

- Globalization in the investment market, coupled with diversification in the types and quantities of securities issued, presents a challenge to institutional and individual investors who must analyze risks associated with both foreign and domestic investments.
- Hence CRAs role has expanded with financial globalization and has received an additional boost from Basel-II which incorporates the ratings of CRAs into the rules for setting weights for credit risk.

Criteria's for credit ratings

- Credit ratings express an agency's opinion about the ability and willingness of any issuer –governments, financial institutions, corporations, insurance companies and structured finance to meet its financial obligations in full and on time.
- Though there are slight differences in the rating scales that the big agencies use, all fall into two broad categories. These are investment and speculative grades.
  - The investment grades range from AAA, very high credit quality, to BBB-, moderate credit risk. There are eight other notches between AAA and BBB-.
  - The speculative grade ratings start from BB+, which is associated with substantial risk.
- The bottom of the scale of the non-investment or speculative grade ratings is designated as C by Moody's, and D by Standard & Poor's and Fitch.
- The last rating on the scale suggests that the issuer is very close to default or already in default. When considered as numerical scales, there are 22 - from AAA to D ratings.

Importance of the credit rating agencies for developing countries:

- Credit rating agencies are incredibly important for developing countries for a number of reasons.
- The ratings act as a kind of moral suasion that compels developing countries to pursue more prudent and sensible monetary and fiscal policies.
- Sovereign ratings serve as an incentive for sound monetary and fiscal policies because performance on these policies forms an integral part of the rating methodologies.
- A favorable rating enables governments and companies to raise capital in the international financial market.
- Institutional investors in both the developed and developing world rely heavily on rating agencies in making investment decisions.
- This is because credit ratings are essentially opinions about credit risk. Ratings provide insight into the credit quality of an individual debt issue and the relative likelihood that the issuer may default.
- Fund managers often don't know enough about the risk associated with parties they're interested in. Credit rating agencies provide an opinion about the credit quality of borrowers such as governments, corporates, financial institutions, and their related debt instruments such as bonds.

Accountability and Credibility issues

- Critics maintain that this rating, out looking, and watching of securities has not worked nearly as smoothly as credit rating agencies suggest. They point to near-defaults, defaults, and financial disasters not detected by the rating agencies' post-issuance surveillance, or ratings of troubled debt securities not downgraded until just before (or even after) bankruptcy, especially the 2007–08 subprime mortgage crisis.
- During the subprime crisis, when hundreds of billions of dollars' worth of triple-A rated mortgage-backed securities were abruptly downgraded from triple-A to "junk" status within two years of issue, the CRAs' ratings were characterized by critics as "catastrophically misleading" and "provided little or no value".
- The fact that the issuer pays for the rating provides a strong bias for a higher rating. Because the borrower pays, not the lender, the built-in incentive is to serve the interest of the borrower and to assign a better/higher credit rating. This clearly provides a conflict of interest, as the interest of the lender is not really protected and the lender has no recourse for a bad rating.

- CRAs have also been the subject of controversy during the Euro-zone sovereign debt crisis. They have been accused both of failing to predict the crisis in the first place, and then of precipitating it by downgrading the ratings of Euro-zone sovereigns too far and too fast.

Reforms needed

- The modern credit rating system is fraught with problems that have already resulted in trillion-dollar losses and untold suffering by many nations. These problems extend to municipal, corporate, and structured-finance ratings.
- The system has proven to be a massive failure and needs to be entirely overhauled. The reform must necessarily provide for more transparency, more competition, and more flexibility. Experience during the financial crisis has also heightened concerns that rating agencies' decisions may be subject to conflicts of interest.
- Since their revenues are predominantly driven by rating fees earned from issuers, there is a concern that CRAs devote disproportionate resources to chasing new business and rating new products, rather than improving their analysis of existing instruments. Furthermore, the revenue incentives of a CRA are such that ratings may be biased upwards (inflated) so as to meet an issuer's expectations and thereby gain or keep its business.
- First there is a need to rank the CRAs in terms of performance, in particular the accuracy of their ratings.
- Second, there is a need to facilitate the ability of investors to hold CRAs accountable in civil lawsuits for inflated credit ratings, when CRAs knowingly or recklessly fails to conduct a reasonable investigation of the rated security.
- Third, there is a need to ensure CRAs institute internal controls, credit rating methodologies, and employee conflict of interest safeguards that advance rating accuracy. Fourth, regulators should use their inspection, examination, and regulatory authority to ensure CRAs assign higher risk to financial instruments whose performance cannot be reliably predicted due to their novelty or complexity.

18 Concept of Crypto-Currencies

Context:

- **Recently crypto-currencies were in news as hackers asked ransom for unlocking computer devices infected by Wannacry ransomware in Bitcoins. On the other hand, China, South Korea and Japan have adopted use of Bitcoins with regulations.**
- **In the wake of these two developments it is important to understand benefits and risks associated with them and regulatory framework across world in general and in India in particular.**

What are Crypto Currencies

- Crypto currency is a form of digital money that is designed to be secure and, in many cases, anonymous.
- It is a currency associated with the internet that uses cryptography, the process of converting legible information into an almost untraceable code, to track purchases and transfers.

Benefits of Crypto currencies

- **Freedom in Payment:** With Crypto-currency it is very possible to be able to send and get money anywhere in the world at any given time without third party like bank as intermediary; there is no intermediary in Crypto-currency exchange.
- **Low collapse risk:** Regular currencies depend on governments which fail occasionally. Such events either cause hyperinflation or a complete collapse of a currency, which can wipe out savings of a lifetime in day. Bitcoin is not regulated by any one government. It's a virtual global currency.
- **Transparent and safe:** All finalized transactions are available for everyone to see, however personal information is hidden. Your public address is what is visible; however, your personal information is not tied to this. Bitcoin protocol cannot be manipulated by any person, organization, or government. This is due to Bitcoin being cryptographically secure.

Risks

- **Untraceable:** This feature of crypto-currencies of also attracts crime. People can buy and sell drugs and other illegal items with significantly less risk of being traced by authorities. Transactions that occur through the use and exchange of these altcoins are independent from formal banking systems, and therefore can make tax evasion simpler for individuals. Since charting taxable income is based upon what a recipient reports to the revenue service, it becomes extremely difficult to account for transactions made using existing crypto-currencies.
- **Volatility:** Bitcoin has volatility mainly due to the fact that there is a limited amount of coins and the demand for them increases by each passing day. Currently, Bitcoin's price bounces everyday mainly due to current events that are related to digital currencies.
- There is no easy way to buy them or sell them. There aren't a lot of places where Bitcoins or other crypto-currencies are accepted as payment.
- **Still Developing:** Crypto-currencies are still at its infancy stage with incomplete features that are in development. To make the digital currency more secure and accessible, new features, tools, and services are currently being developed.

Status in India

- India, despite being at the cusp of a digital revolution is yet to officially recognize the crypto currency.
- India's central bank, the Reserve bank of India or the RBI, which regulates Indian rupee, had earlier cautioned users, holders and traders of Virtual currencies (VCs), including Bitcoins.
- However, the central bank hasn't unequivocally banned Bitcoins in the country.

19 Practice of Agriculture Loan Waiver

Context:

- **Agriculture in India has been facing many issues like fragmented land holding, depleting water table levels, deteriorating soil quality, rising input costs, low productivity, and vagaries of the monsoon and also output prices may not be remunerative.**

- **Because of that farmers are often forced to borrow to manage expenses. Also, many small farmers not eligible for bank credit borrow at exorbitant interest rates from private sources.**
- **In the situation of indebtness, loan waivers provide some relief to farmers in such situations, but there are debates about the long-term effectiveness of the measure.**
- **Government has provided loan waiver to farmers, but it had major implications on the government exchequer.**

Analysis

Issues faced by farmers in India

- **Chronic debt problems:** Lack of money prompts farmers to take loans for growing crops and is over debt due to crop failure year by year.
- **Farmers Suicide:** The data suggest the farmers are undergoing through very stressful situations as 9,000 farmers have taken their lives in Maharashtra alone in the three years since 2014. Similar scenarios are said to have happened in other states too.
- **Input Costs and Climate Change:** Costs of inputs have been increasing, along with the reduction in the prices of agricultural produce in real terms. Apart from it, climate change is causing too frequent crop failures and farming is becoming a loss-incurring business.
- **Land Fragmentation:** Some surveys and agricultural censuses show that there is excessive pressure on land, with unabated fragmentation leading to decreasing sizes of average landholdings.
- **Dependence on traders:** The real crisis for Indian farmer is that s/he is not in control of the produce, unlike other businesses, and is dependent on cartel of traders to fetch a decent price.
- **Demonetization:** The demonetization has have a short term affect as it compelled farmers to throw away their produce as when the traders refuse to sell them with no alternative available for use in the food processing industry.

Arguments in favour of agriculture loan waivers

- Objective of loan waiver is to provide relief to the ailing rural economy and bring some respite to the distressed farmers as a large population is dependent on agriculture.
- Farmer suicides are rising and one of the main reasons is indebtedness. As nothing is more important than saving the life of a farmer and thus one shouldn't question loan waivers.

Arguments against agriculture loan waivers

- Reserve Bank of India Deputy Governor and State Bank of India Chairman expressed their reservations over waiving crop loans in U.P.
- Negative effect on economy - Loan waivers cost tax payers. For instance, about ¹ 525 billion was spent on the loan waiver of 2008, as per the International Council for Research on International Economic Relations. The larger worry is that these costs may not be one-off, as politicians may wave this carrot to win elections.
- Investor in bank stocks may have to worry, as waivers may add to the already elevated non-performing assets of banks.
- Therefore, the loan waiver can offer temporary relief, but long-term solutions are needed to solve farmer woes. It might be good for individual farmers, but not for agriculture.

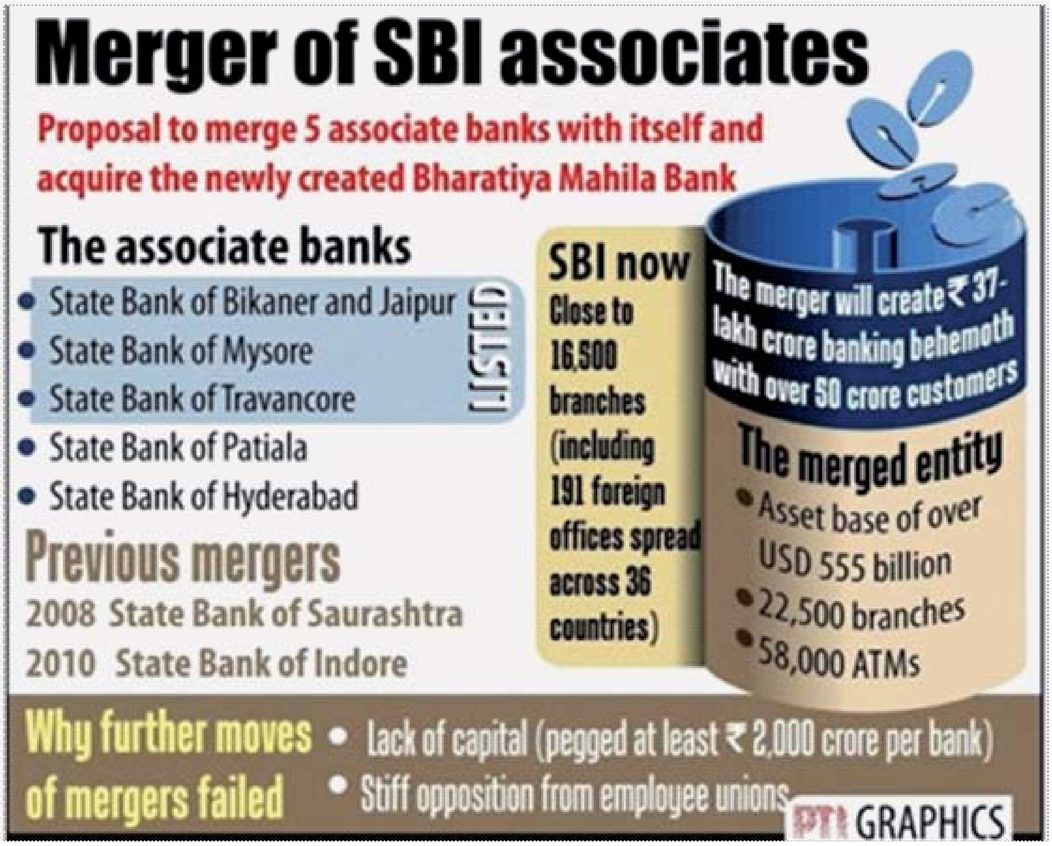
20 Consolidation in Banking Sector: Pros & Cons

Context:

State Bank of India's associate banks, Bharatiya Mahila Bank will be merged with State Bank of India. The new entity will be among the top 50 banks in the world, with a balance sheet of around Rs 41 trillion, 277,000 employees, 22,500 branches and 500 million customers.

Will this step be able to boost the economy?

- Government of India decided to merge 5 associate banks of State Bank of India, and Bharatiya Mahila Bank with SBI. There are a total of 21 PSBs (excluding regional rural banks and local area banks) after the merger of SBI and its associate banks.
- According to the RBI's report, PSBs hold 70% of the total banking system assets. It clearly shows that PSBs hold lion share of banking sector and Indian economy cannot move forward without strengthening them.
- Moreover, with increase in credit penetration and as credit to GDP ratio increases from present levels of 50 percent, PSBs with a market share of over 70 per cent need to contribute significantly in the process of easing credit availability.



Why bank consolidation and what will be benefits?

- Indian economy is growing at a pace which is one of the highest in the world. The sustainable growth requires efficient financial system, which can provide capital for large scale investment in infrastructure sector. With many of Indian companies looking for large investments locally and internationally, mergers and acquisitions in other sectors going on (e.g. merger in Telecom sector), it is the need of the hour.

- Market Share of PSBs is on decline. Their share in total deposits fell from 77% in 2012 to 71% in 2016. Credit share also fell from 76% to 68%. Therefore there was need to bring more professionalism into the PSBs. With large number of small banks it would have been difficult for government to carry out this task.
- Along with this the banking sector is looking to tackle NPA problem, with losses mounting. Merger will help in boosting the profile of the bank, will help it access capital at low cost; will help in reducing its operational cost and thus losses.
- With better synergies, technical and professional capacities the NPA problem can be tackled in much more efficient way. It may also reduce government burden in the form of need for recapitalization of banks.
- Corporate are moving towards bond market because of increasing NPAs and high cost of borrowing, which could further hurt the profitability of banks. Therefore it makes sense to make it easy for borrowers to borrow from banks by providing them access to a single bank with large sums of money, having diversified products, professionalism and low cost of funding.

Benefits of the merger

Merger of banks will provide a large number of benefits to economy, banks and customers. Merger will have following benefits:

- **For Economy:**
  - A large bank will be much more efficient in mobilization and allocation of capital. The needs of large scale infrastructure projects will be fulfilled in much better way. The issue of lack of co-operation among various banks will be removed.
  - With greater synergies, greater reach the cost of internal operations of the banks will be reduced, which in turn will reduce cost of lending. The companies accessing funds will benefit from it.
- **For Bank:**
  - Banks will benefit from economies of scale, cost savings, improved standards, reduced manpower, greater use of technologies etc.
  - It will help in improving the efficiency by benefiting from economies of scale and improving technical efficiency.
  - It will help smaller banks and their workers to get accustomed to latest managerial practices, new products; latest technologies which will help them improve their efficiency and standards.
  - It will also reduce artificial competition between the PSB banks, wherein they were involved in getting same set of customers, with same set of needs and banks offering similar products.
  - The costs of banking operations like renting of office spaces, cost of processing of retail customers, administration (similar posts at district will be abolished); inter-bank clearance transaction charges etc will be reduced.
- **For Customers:**
  - Customers will benefits from greater basket of products, more efficient staff, single source for multiple products and in a way improve their overall experience.
- **For Employees:**
  - The employees of associate banks will benefit in the form of better access to new technologies, better working culture; whereas employees of SBI will benefit from the more localized knowledge and experience of associate banks. Therefore it will be beneficial for both.

What are the possible problems and issues?

- Though bank merger provides lot of benefits it is not without its problems and challenges in the form of overall financial stability, single bank dominance and transition to new system for employees and customers.
- **Impact on financial stability:** World over it has been proved that large banks do not improve the overall financial stability. Any systemic risks to the big bank can create problems for whole economy. Big banks have created stability problems as happened in Japan in 1990s, US during financial crisis and in China.
- **Situation of one bank domination:** SBI after merger will be 5 times larger than its nearest rival. What impact it will have on competition in the banking sector needs to be seen. It will also create interests within political class, employees and managers of the bank. Managing such a behemoth will need skillfulness on part of all stakeholders.
- **Does it solve NPA problems:** There is no direct evidence that will help in solving the NPA problem which is afflicting the banking sector?
- **Political interference: PSBs** in India are known to suffer from political interference. With such a large bank the inducements to interfere will be much more.
- **Employees:** Many employees will have to opt for VRS (Voluntary Retirement Scheme), remaining will have to adapt to new culture, practices. This will create some confusion, aberrations which need to be sorted out.
- Immediate negative impact would be from pension liability provisions (due to different employee benefit structures) and harmonization of accounting policies for bad loans recognition.
- It is also said that the regional flavor and regional focus of small banks will be lost. Along with this the problems which were faced by associates bank may get transferred to big bank.

Way forward

- It is said that despite some difficulties and challenges it is a welcome step. Efforts should be towards minimization of interim glitches and difficulties for staff, customers.
- Proper training mechanisms for staff members, support system for customers must be created.
- In the long run the banking regulator must look at the competition scenario in banking sector and enhanced regulatory practices to minimize the associated risks.

21 Women & their role in economy

Context

- **Every year, International Women's Day on 8 March gives us a lot to cheer about—but it gives even more to introspect. Despite gradual gains over the decades, Indian women's economic well-being and financial independence remains a far cry, continually hindered by stubborn structural and societal barriers.**
- **This brief aims to analyse the role of women in economy and also assess the present challenges and way to improve the overall situation.**

Background

- To spread the message of gender equality, the United Nations observance of International Women's Day is celebrated on March 8.

- The theme for this year's Women's Day is: "Gender equality today for a sustainable tomorrow".
- 2022 is pivotal for achieving gender equality in the context of climate change, and environment and disaster risk reduction.
- Today, women are the agent of change in several fields. One buzzing idea where women business leaders have scripted great success.
- As the name suggests, the circular economy lays special emphasis on reusing and recycling products. Recycling leads to optimum use of resources.
- But executing the idea is easier said than done.
- **Consider this:** The world generates 2.01 billion tonnes of solid waste annually, with at least 33% of that — an extremely conservatively estimate — is not managed in an environmentally safe manner.

Analysis

Contribution of women in economy

- Women in India represent **29 percent** of the labour force, down from **35 percent** in 2004.
- According to the World Bank, Indian women's participation in the formal economy is among the lowest in the world—only parts of the Arab world fare worse.
- **Agriculture:** Even when they comprise almost 40 percent of agricultural labour, they control only 9 percent of land in India.
- **Contribution to GDP:** It is therefore unsurprising that at 17 percent, India has a lower share of women's contribution to the GDP than the global average of 37 percent.
- More than half of the work done by women in India is unpaid, and almost all of it is informal and unprotected.
- Women are not well represented in most sectors, including business leaders.
- Women are also shut out of the formal financial system. Nearly half of India's women do not have a bank or savings accounts for their own use, and 60 percent of women have no valuable assets to their name.
- Women in India also face great physical insecurity. The rate of crimes against women in India stands at 53.9 percent in India.

Women, Business and the Law 2022

- The World Bank's "Women, Business and the Law 2022" report, outlines the importance of women's economic empowerment and involvement in business.
- The annual study, which looks into "laws and regulations affecting women's economic opportunity," scores and ranks 190 countries in eight areas: mobility, pay, parenthood, assets, workplace, marriage, entrepreneurship, and pensions.
- According to the 2022 report, "nearly 2.4 billion women globally don't have [the] same economic rights as men."

Positive impacts on Indian Economy of women's economic empowerment

- The economic impact of achieving gender equality in India is estimated to be US$700 billion of added GDP by 2025.

- The IMF estimates that equal participation of women in the workforce will increase India's GDP by 27 percent.
- There are also social benefits to empowering women.
- Women spend 90 percent of their income on their families, and economically empowered women boost demand, have healthier and better-educated children, and raise human development levels.
- It has been reported that profits increase when efforts to empower women in emerging markets are made.

Sustainable Development Goals that can be achieved by economically empowering women:

- SDG 1: No poverty
- SDG 4: Quality Education
- SDG 5: Gender Equality
- SDG 8: Decent work and economic growth
- SDG 10: Reduced inequality

Initiatives by the Government

- The Government of India's MUDRA scheme to support micro and small enterprises and direct benefit transfers under the Jan Dhan Yojana seeks to empower women.
- Women entrepreneurs account for about 78 percent of the total number of borrowers under MUDRA.

Potential Areas of Focus:

- The private sector and business community will be crucial in helping bridge the gap between skills and jobs and enable access to decent work for women.
- Vocational and technical training, life skills and financial literacy programmes for women to help them develop marketable skills and better decision-making abilities cannot be undertaken in a meaningful way without the involvement of industry.
- Companies can also invest in women entrepreneurs through microfinance, and bring their goods and services into supply chains.
- Enhancing women's access to the internet and ICT can create a merging market of connected women who can be linked to business opportunities.
- The private sector can invest in women's security against violence at home and in public spaces, and take steps to ensure their mobility through inclusive transport.

Activities undertaken by UN India Business Forum to economically empower women?

- UNIBF agreed that increasing women's participation in the workforce would have a direct, positive impact on productivity and profitability.
- A consensus has developed at the UNIBF that gender equality in the workforce is now a business imperative.
- Best practices within the industry are shared in the UNIBF to leverage existing platforms to educate the industry on the benefits of gender equality in the workforce and identify role models to "grow the tribe".

- The UNIBF has agreed on the following next steps:
  - Encourage more CEOs to pledge their support towards gender equality.
  - Identify mentors who can lead other organisations in their sector to adopt gender equal policies
  - Create ways to increase brand/ PR value for organisations that encourage women in their workforce
- Enable cross pollination of best practices by:
  - Leveraging existing platforms and content
  - Identifying role models
  - Storytelling
  - Sharing success stories and policies

22 Circular Economy: From New to Forever New

Context:

The European Union has called for support to enhance 'circular economy' at a working group of the fifth session of the United Nations Environment Assembly (UNEA 5.2).

Analysis

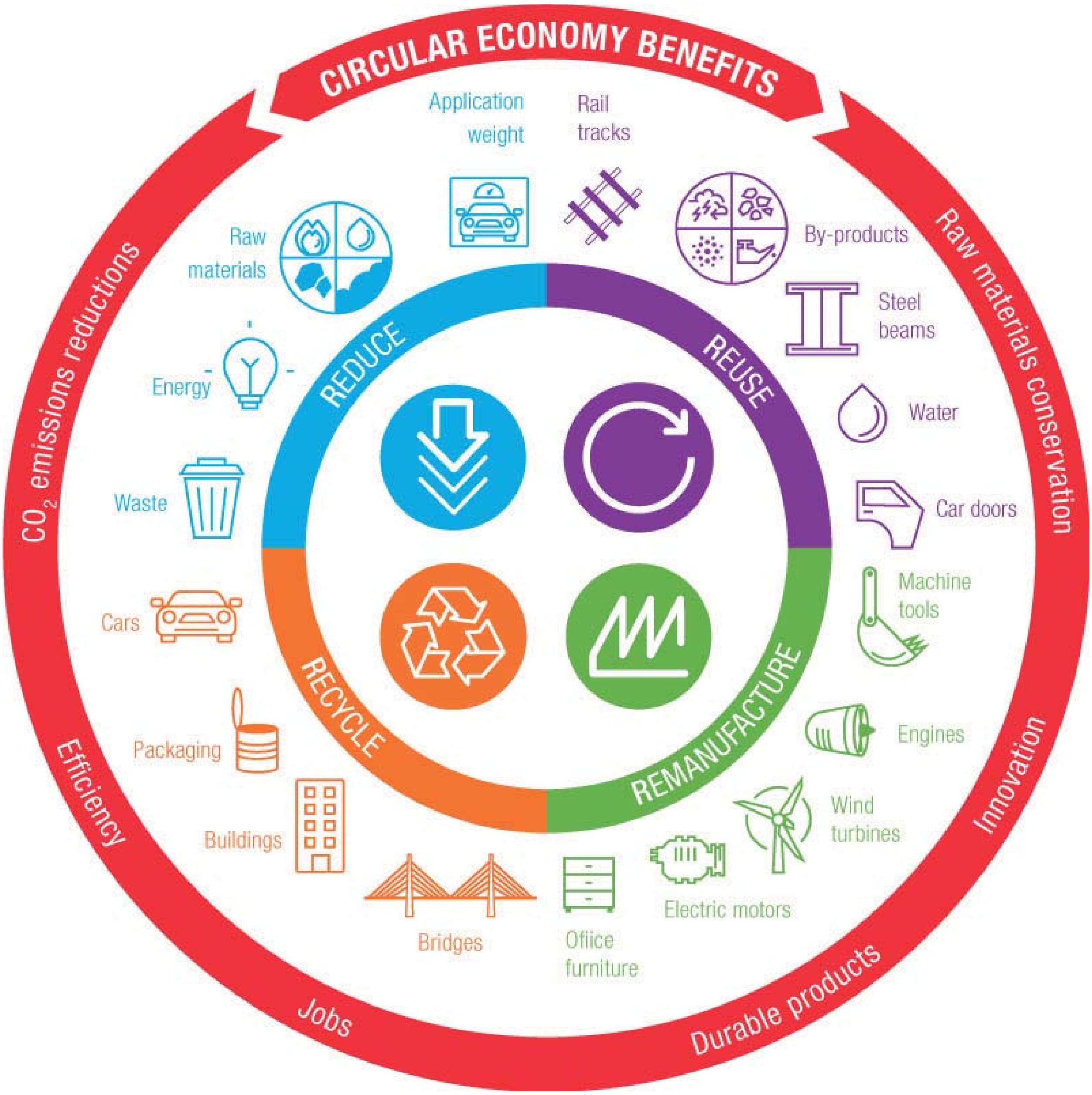
What is the concept of Circular Economy?

- A circular economy entails markets that give **incentives to reusing products,** rather than scrapping them and then extracting new resources.
- Circular economy, therefore, is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the **life cycle of products is extended.**
- In practice, it implies **reducing waste** to a minimum. When a product reaches the end of its life, its materials are kept within the economy wherever possible. These can be productively used again and again, thereby **creating further value**.
- This is a **departure from the traditional linear economic model,** which is based on a take-make-consume-throw away pattern. This model relies on large quantities of cheap, easily accessible materials and energy.
- This can provide a way to **not only protect the environment, but use natural resources more wisely, develop new sectors, create jobs and develop new capabilities.**
- In such an economy, all forms of waste, such as clothes, scrap metal and obsolete electronics, are returned to the economy or used more efficiently.
- According to United Nations, the concept of Circular Economy works on the principle - "**the goods of today are the resources of tomorrow at yesterday's resource price".**

Why do we need to switch to a circular economy?

- The world's population is **growing** and with it the **demand** for raw materials. However, the supply of crucial raw materials is limited.
- Finite supplies also means some countries are **dependent on other countries** for their raw materials and the **supply of the same can be hampered** due to various reasons e.g. supply of semiconductors being disrupted due to Russia's war on Ukraine.

- In addition extracting and using raw materials has **a major impact on the environment.** It also increases energy consumption and CO2 emissions. However, a smarter use of raw materials can lower CO2 emissions.



What are the benefits?

- Measures such as **waste prevention, eco-designand re-use** could save money while also reducing total annual greenhouse gas emissions.
- Currently, the production of materials we use every day account for 45% of the **CO2 emissions.**

What is Eco-design?

Eco design is both a principle and an approach. It consists of integrating environmental protection criteria over a service or a product's lifecycle. The main goal of eco design is to anticipate and minimize negative environmental impacts (of manufacturing, using and disposing of products). Simultaneously, eco design also keeps a product's quality level according to its ideal usage.

- Moving towards a more circular economy could deliver benefits such as:
  - Reducing pressure on the environment
  - Improving the security of the supply of raw materials
  - Increasing competitiveness
  - Stimulating innovation
  - Boosting economic growth
  - Creating jobs.
- Consumers will also be provided with **more durable and innovative products** that will increase the quality of life and save them money in the long term.

What are Economic barrier to Circular Economy?

- **Social and environmental externalities are not considered in prices.** Hence financial market signals instead of people and nature are taken into consideration when economic decisions are made.
- **The GDP index** doesn't consider social and environmental externalities, discouraging the creation of value in both these areas.
- **Prices of raw materials are fickle and at low** therefore good quality secondary resources are not competitive.
- Circular economy business models are harder to develop, as most **investors are still working under a linear economy logic** and sometimes upfront investments are required which are at this point of time.
- The **demand** for circular products and alternatives **is still small**
- There **aren't still many qualified professionals with technical or information and communication technology' (ICT) knowledge** who can be the workforce for Circular Economy.
- Many companies still have **goals and appraisal systems** that **focus on short-term value creation,** whereas the circular economy model is a long-term value creation model

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