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CONTEMPORARY ISSUES of ECONOMY

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Contents

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The era of; Gig Economy;

Context

As the gig economy is expanding, there are rising concern regarding the status of gig workers under labour laws, lack of social security, ambiguity of rights, and vulnerability to fluctuation in demand.

Background

- As the pandemic disrupted the normal functioning of business leading to loss of jobs and income, the spread of the gig economy to provide some support is a welcome move.
- With the boom in the gig market, concerns related to merge income labour rights and status of employment is becoming a debatable issue.

Analysis

- **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.
  - Non-traditional or gig work consists of income-earning activities outside of traditional, long-term employer-employee relationships.

Social Security Code, 2020

- The SS Code, for the first time, defines 'gig workers' and 'platform workers'.
- In this code, gig workers are classified as unorganised sector workers, although the security coverage is unclear.
- The central and state governments are required under section 109 of the law to "design and notify, from time to time, suitable assistance plans for unorganised workers".
- The national and state governments will predominantly fund social security measures, with the aggregator contributing a modest amount (1-2% of their yearly turnover).

- **Scope and prevalence of the gig economy:**
  - India constitutes about 40% of freelance jobs offered globally.
  - According to a report on the future of jobs in India by FICCI, EY, and NASSCOM, with a 24% share, India is leading in terms of online labour market globally.
  - **Gig hubs in India:** Prevalence of gig economy is more in metro cities; with Delhi NCR at 43 percent emerging as the biggest hub, followed by Mumbai at 19 percent and Bangalore at 18 percent.
  - Use of gig work platforms has grown by more than 30% in emerging economies.
  - Only 20% of freelancers would prefer full-time employment.
  - 40% of companies expect that gig workers will become an increasing part of their workforce

- **Features of the gig economy**
  - **Based on temporary hiring:** In a gig economy, temporary, flexible jobs are commonplace and companies tend toward hiring independent contractors and freelancers instead of full-time employees.
  - **Technology dependent:** Technology facilitates work from home and Internet offers workers connectivity with employers and customers.

- **Confined more to urban areas:** Gig economy is highly technologically dependent and as cities tend to have the most highly developed services, they are the most entrenched in the gig economy.
- **Attracts young workers:** Gig economy attracts millennials because it offers them alternative work arrangements. It provides them with what they value:
  - flexible working hours
  - ability to work from home
  - a variety of experiences
  - a sense of excitement to be working on different projects with varied companies
- **Wide range:** The gig economy is prevalent in wide-ranging sectors/segments; Finance, agriculture and forestry, transportation, education, healthcare and construction.
- **Change of traditional roles:** Workers are taking upon themselves a much larger share of the market risk of economic ups and downs, changing trends, and fickle consumer preferences, which were traditionally borne by capitalist business owners who employed wage and salaried workers.

Advantages	Disadvantages
• Make work more adaptable to the needs of the moment and the demand for flexible lifestyles • Cheaper and more efficient for employers who cannot afford to hire full-time employees • Wider choice for employers as well as employees • Professional services firms are hiring gig workers to add deep domain expertise to client-impact teams. • Perfect platform for the engagement of youth in productive employment activities. • Gig economy offers relatively high gender parity in the workforce, as compared to traditional employment.	• Erosion of traditional economic relationships • Discourage Investment in Human Resources • Crowding out traditional workers • Disrupted work-life balance for gig workers • No employment-related rights

Gig Economy and Women

Advantages	Disadvantages
• Balancing Home and Work • Safe Work Environment for Women • Addressing Migration issue • On-Demand Work • Earning Extra Income	• Gender segregation of work • Wage Disparities • Dual burden • Digital Divide

Social Security Code

Context

The government proposes to bring at least half a dozen social security schemes, including old age pension and insurance, under the ambit of the proposed social security code.

What does social security mean?

- Social security means the measures of protection afforded to employees, inclusive of unorganised workers, gig workers and platform workers to ensure access to health care and to provide income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner.
- Generally, India's social security schemes cover the following types of social insurances:
  - Pension
  - Health Insurance and Medical Benefit
  - Disability Benefit
  - Maternity Benefit
  - Gratuity

Code on Social Security, 2020

- The Code on Social Security, 2020 subsumes nine central labour legislations.ie.,
  - The Employees' Compensation Act, 1923
  - The Employees' State Insurance Act, 1948
  - The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
  - The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959
  - The Maternity Benefit Act, 1961
  - The Payment of Gratuity Act, 1972
  - The Cine Workers Welfare Fund Act, 1981
  - The Building and Other Construction Workers Welfare Cess Act, 1996
  - The Unorganised Workers' Social Security Act 2008.

What is the need behind the move?

- **Universalization:** The move is aimed at universalisation by bringing all existing schemes under one umbrella without any additional cost to the exchequer and is expected to cover more than 20% of the bottom of the population.
- **Consolidation under one administration:** The move is aimed at consolidating millions of beneficiaries of the existing social security schemes under one administration for effective implementation and to avoid duplication.
- **Better decision making:** Introduction of this section will make it easy for the government in making better decisions.
- **Effective enforcement**: Consolidation would enable effective enforcement of Social Security Acts through institutional mechanisms.
- **To increase the coverage ratio of the schemes**

- **Current issues**
  - Maximum of Indian population is in the unorganized sector
  - Dichotomy between informal and formal workers
  - Fragmented insurance policy and medical benefits
  - Lack of benefits
  - Unequitable system
  - Lack of access
- **Which schemes will be included?**
  - Section 13 of the proposed social security code provides for bringing all existing social security **schemes** under the code through notification.
  - The schemes expected to immediately come under the code are the
    - PM Shram Yogi Maandhan scheme
    - PM Laghu Vyapari Maandhan Yojana
    - Atal Pension Yojana
  - Schemes completely funded by the Centre such as the old-age pension scheme and the health insurance schemes, including the **Pradhan Mantri Jeevan Jyoti Bima Yojana** under which individuals contribute a miniscule amount year after year for availing health insurance, could be brought in next.

> **E-Shram,** a national database of unorganised workers across the country, aims to provide social security benefits and much-needed help to the vulnerable labour force during calamities.

- **How effective are social security and welfare in India?**
  - India spends 1.4 percent of its GDP on social protection, among the lowest in Asia, far lower than China, Sri Lanka, Thailand, and even Nepal.
  - India's growth story of the last two decades has had one recurring theme: that the pattern of economic growth is accentuating insecurities.
    - Yet, there continues to be a deep divide over whether the gains from growth ought to be ploughed back to achieve social security for everyone.
  - Social security has come to be linked to job benefits, tying it to one's status as a worker in the formal or the informal economy when, fundamentally, it originates from the notion of ensuring everyone protection against vulnerability and deprivation.

Semiconductor and Indian Economy

Context

The Cabinet's recent approval of the **Production Linked Incentive** scheme for the semiconductor industry carries geopolitical and geo-economic significance.

Analysis

- Semiconductors are critical technological components for emerging technologies viz. artificial intelligence (AI) and internet of things applications, 5G communications, cloud computing, automation, electric vehicles, with a wide coverage of applications from basic consumable electronic gadgets and automobiles to areas of strategic operations.

What India needs a Semiconductor Mission?

- India Semiconductor Mission (ISM) is a specialized and independent business division within the Digital India Corporation (a not for profit company set up by the **Ministry of Electronics and Information Technology).**
- **Aim:** To build a vibrant semiconductor and display ecosystem to enable India's emergence as a global hub for electronics manufacturing and design.
- The mission is authorized to negotiate with the applicants under the semiconductor fab scheme and the display fab scheme.

Projected Growth

- The global semiconductor chip industry is expected to reach approximately $600 billion in 2022.
- Industry body Indian Electronic and Semiconductors Association (IESA) pegged the Indian semiconductor market at $27 billion in 2021 and projected it to reach $64 billion in 2026.

Need of Promoting Indigenous Semiconductor Industry

- Employment creation
- Disruption in Global Supply Chains
- Promoting 'Make in India' Program
- To become Atmanirbhar
- National Security and defence manufacturing
- Capital intensive sector
- Shortage of process engineers
- Sudden surge in demand for microcontrollers, AI processor and new generation baseband chips, sensors and memory chips
- **Reducing Imports Dependency:** As the world continues to experience supply chain disruptions from China, India is now emerging as a strong alternative for manufacturers hoping to avoid these problems.

Issues/Challenges	Required measures
• **Dominance of Few Countries:** Taiwan and South Korea dominated the semiconductor manufacturing space. 75% of the semiconductor manufacturing capacity is concentrated in East Asia and China. • **Pursuing Western Companies:** India needs to attract foreign investment to built-up chip fab capacity by overcoming the intense competition from other countries. • **Inadequate logistics and absence of proper waste disposal** have further exacerbated the poor state of its production.	• **Supporting startups Ecosystem** • **Budgetary support** • **Impetus on back-end of manufacturing:** India should especially look at back-end of manufacturing such as assembly, packaging and testing. Once it stabilises and an ecosystem develops, front-end of manufacturing will follow. • **Cooperation of states:** Transport logistics: Roads, railway and air connectivity to the site are also critical.

State of (Un)employment in India

Context

Latest data from the Centre for Monitoring Indian Economy (CMIE) shows that India's labour force participation rate (LFPR) has fallen to just 40% from an already low 47% in 2016.

Background

- **Pre-Covid-19 Era:** Even before COVID-19, the unemployment rate touched a peak in 2017-18 at 6.1%.
- **Post- Covid-19 Era:** Meanwhile, the rural unemployment rate rose to 8.35% in February 2022 after mild fluctuations around 5-7% since June 2021.

LFPR Trend

- Global average of LFPR is around 60%. In India, it has been sliding over the last 10 years and has shrunk from 47% in 2016 to just 40% as of December 2021. In India, the LFPR is not only lower than in the rest of the world but also falling.
- As per the Centre for Monitoring Indian Economy, the average urban unemployment rate remained higher at 9.04% in 2021 and above 7% in January-February 2022.
- Recent trend suggests that not only that more than half of India's population in the working-age group is deciding to sit out of the job market, but also that this proportion of people is increasing.

Analysis

What is Labour Force Participation Rate (LFPR)?

- According to the CMIE, the labour force consists of persons aged 15 years or older, who are either employed or unemployed and actively looking for a job.
- LFPR represents the "demand" for jobs in an economy.

Status of women unemployment

- In urban areas unemployment went up to 19.8% in 2017-18 from 10.3% in 2011-12.
- For rural educated women, unemployment stood at 17.3% in 2017-18 increasing sharply from 9.7 per cent in 2011-12.
- 'Gender Inclusion in Hiring in India' Report: 8.7% of working-age urban, educated women in the country are unemployed but only 4% of comparable men find themselves without a job.

Reasons to Low Female Labour Force Participation (FLFP):

- There is growing feminisation of agriculture due to socio-cultural restrictions, lack of alternate skills, and movement of men to cities away from agriculture.
- High Unpaid care and domestic work hours of Women in India
- There are also social barriers such as restriction on women's mobility outside the house, Flexibility in
- timings, proximity to their households, early age at marriage and child-birth etc.

Factors responsible for high unemployment rate	Impacts of unemployment
• Boost in labour supply • Rising job aspirations • Reduced workforce and disguised unemployment in agriculture • Severe setback to Manufacturing sector • Unskilled and poor skilled labour supply • Pandemic induced unemployment • Prevalence of unorganised sector • Inadequate growth of infrastructure • Lack of women empowerment	• Poverty • Extra burden on government • Increased revenue expenditure, declining the quality of the expenditure • Rise in antisocial elements and extremist ideas • Increase in crime rate • Rise in socio-economic cost

- **How to create employment?**
  - Increase in infrastructure spending
  - Non-farm employment opportunities and diversifying rural economy
  - Increase investment
  - Focus on demand size
  - Impetus to manufacturing sector and employment-linked production incentives
  - Bridging the digital divide
  - Strengthening rural jobs scheme

Agricultural distress

Context

- **National Bank for Agriculture and Rural Development (NABARD)** is planning to formulate a **farmer distress index (FDI)** to track, identify and support the real needy and distressed farmers.
- As the small and marginal farmers getting a raw deal in farm loan waivers and the government schemes unable to support them under such distress situations.

- **What is Farmer distress Index?**
  - The Index will track, identify and support the real needy and distressed farmers.
  - It will measure the level of distress, by which the government and the financial institutions can decide on an appropriate package of support instead of the current practice of doling out distress package to all the farmers across the board.
  - This index won't be uniform across the country as it changes from place to pace depending on the stress levels.
  - It will also help the entire financial sector, government departments and insurance companies.

- **Why Indian farmers are stressed?**
  - Increased shortage of fertilizers
  - Fragmented land holding

- depleting water table
- deteriorating soil quality
- increasing input costs
- low productivity
- forced to borrow
- Limitations of loan waiver schemes to benefit 'very high' and 'high' distress farmers.
- Growing instances of Farmers' suicides

- **What kind of data will be integrated?**

  The index can integrate the available high-frequency data on key agricultural variables like:
  - deviation of monsoon rains
  - excessive rainfall, drought and dry spells
  - variations in temperature and soil moisture
  - yield of major crops in the district, proportion of area under irrigation
  - Depth of underground water
  - unusual frost
  - marketing opportunities available to the farmer that may include the proportion of wheat, paddy, chana, tur, groundnut, soybean etc. produced and procured at MSP

- **Significance**
  - Use of weather data derived from remote sensing technology, automatic weather stations, mobile telephony and artificial intelligence can help in identifying the distressed villages.
  - The index can be used by the policy makers and the government to plan and design a timely and targeted method of supporting distressed farmers.

Invigorating Ayush Industry

Context

AYUSH system of treatment, if integrated with the mainstream system of medicine, will give wider acceptance to traditional systems of India.

Background

- India has a tradition of rich and diverse history of traditional medicines.
- Rise of Allopathy had side-lined the use of Indian traditional medicine and health systems.
- World as a whole and India in particular nevertheless is moving back to the traditional medicines.
- It is therefore necessary that the government takes effective steps to make treatment from Indian Medicinal systems available to all.

- **What is the market value of traditional medicinal treatment today?**
  - In 2020, global market for herbal medicine was valued at $657.5 billion.
  - It is expected to grow exponentially in the coming times.
  - Globally, in terms of value, the Chinese traditional medicine market leads the way.

- **Healthy China 2030** plan forecasts that the value of **traditional Chinese medicine (TCM)** market may reach $737.9 billion within China and globally by 2030.
- In India, the **National Ayush Mission (NAM)** was launched in 2014 by the **Department of Ayush, Ministry of Health and Family Welfare**, to promote Ayush systems and address the needs of the sector in a comprehensive way.
  - The Indian Ayush sector has seen the growth of 17% between 2014 and 2020.

About AYUSH

- AYUSH is the acronym of the medical systems, which includes **Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homeopathy.**
- These systems are based on, way of healthy living with established concepts on prevention of diseases and promotion of health.

National AYUSH Mission

Positive features of the Indian systems of medicine

- diversity and flexibility
- treasure house of knowledge for preventive and promotive health care
- accessibility
- affordability
- a broad acceptance by a large section of the general public
- comparatively lesser cost and growing economic value
- have great potential to make them providers of healthcare that the large sections of people need

What are the Objectives of National Ayush Mission?

- Bridging the gap in health care services; providing health care services and education, particularly in vulnerable and far-flung areas.
- Providing universal access via AYUSH Hospitals and Dispensaries in a cost effective manner.
- Collaboration with P**rimary Health Care Centres (PHCs), Community Health care Centres (CHCs) and District Hospitals (DHs).**
- Strengthening institutional capacity: By Educational Institution and enforcement mechanism.
- Promoting cultivation of medicinal plants for sustained and quality supply of raw material.

Challenges Faced by AYUSH System of Medicine in India:

- Human Resource Crunch to pass on the knowledge of Ayurveda.
- Inefficient and insufficient course curriculum
- Inadequate utilization of infrastructure
- Insufficient scientific and clinical trials
- Emergence and acceptability of modern medicines
- Lack of public awareness

How Traditional System of Medicine could be strengthened?

- Government of India's efforts to set up WHO-Global Centre for Traditional Medicine in Jamnagar.
- More study and clinical trials are required.
- Inclusion of traditional medicine in the 11th revision of the International Classification of Diseases by WHO; help in establishing reliable data on the use of traditional medicine.
- The strengthening the organisational structure of State Medicinal Plant Boards (SMPBs)

Collapse of economy and role of state

Context

Refugees arriving in Tamil Nadu from Sri Lanka due to economic crises developing in the island country.

What type of economic crises is Sri Lankan facing?

- Sri Lanka is facing the **Balance of Payment (BoP) crisis.**

What are the reasons behind Sri-Lanka's troubled economy?

- Debt sustainability, or the lack thereof

> Debt sustainability, according to the International Monetary Fund, refers to the government's capacity to meet its current and future debt obligations without exceptional financial assistance or defaulting on its obligations.

- Affected tourism industry
- Dropped forex reserve
- Risen cost of imported goods
- Rise in food price
- Depreciation of currency
- Reduced agricultural production
- Food crisis
- Other factors
  - Corruption
  - Ad hoc-ism and overnight decisions
  - Miscommunication

How India tried to help?

- India and Sri Lanka agreed to a four-pronged approach to discuss initiatives on food and energy security to help mitigate Sri Lanka's economic crisis.
- The decisions included a four-pillar initiative, comprising
  - **Line of credit:** lines of credit for food, medicines and fuel purchases granted by India
  - **Currency swap agreement:** a currency swap agreement to deal with Sri lanka's balance of payment issues
  - **Modernization of Trinco oil farms:** an "early" modernisation project of the Trinco oil farms that India has been pursuing for several years
  - **Facilitating Indian Investment:** a Sri Lankan commitment to facilitate Indian investments in various sectors

State of Biofertiliser and organic fertilizer

Context

Drastic reduction in the production of organic fertilizers observed in India in 2020-21 when compared to the data of 2017-18.

What are organic fertilizers?

- Biofertilizers and organic fertilizers not only provide nutrients to crops, they also help in restoring soil health and ecological balance
- Organic fertilizers comprise a variety of plant-derived materials that range from fresh or dried plant material to animal manures and litters to agricultural by-products.

Benefits of using	Disadvantages of using
• Helps improve the Soil Structure • Microbes Thrive • Sustainable and Environmentally Friendly • Reduces the use of Fertilizers and Pesticides • Limits ground water contamination	• Not All Products Are Created Equally • Nutrient Levels Are Low • DIY Compost is a Complicated Procedure

Production of Fertilizers in India:

- Making compost out of agriculture, animal and plant waste has been practised in India for a long period of time.
- India, at this point of time, is the biggest producer of organic fertilizer in the world. Though the production of the same in the last few years has gone down drastically.
- Karnataka alone produces 94% of organic fertilizers in India.
- **Carrier-based solid bio-fertilizers:**
  - In 2020–21, India produced about 1,34,323 tonnes of carrier-based solid bio-fertilizers.
  - With a 48 per cent share, Tamil Nadu was the biggest producer of carrier-based solid bio-fertilizers in 2020–21, followed by Gujarat, Maharashtra, Uttar Pradesh and Haryana. Together, these five states were responsible for more than 90 per cent of the countrywide production of carrier-based solid bio-fertilizers.
- **Liquid bio-fertilizers**:
  - In 2020–21, the total production of liquid bio-fertilizers in India was about 26,442 kilo litre (kl). This marked a growth of about 552 per cent over the 2014–15 figures.
  - Karnataka was the single largest producer, with a 37 per cent share in countrywide liquid bio-fertilizers production, followed by Gujarat, Maharashtra, Kerala and Uttarakhand.

What the reasons for reduction of organic fertilizers in India?

- Structural shift from inorganic to organic fertilizers, from the farmers side remains the biggest hurdle.
- Green Revolution and spread of inorganic fertilizers
- Inadequate resource allocation to agricultural sector.
- Faulty and opaque tender process
- Low competitive market, leading to low standard product availability

- Lack of farmers' confidence due to low quality input and insufficient yield.

- **Other concerns**

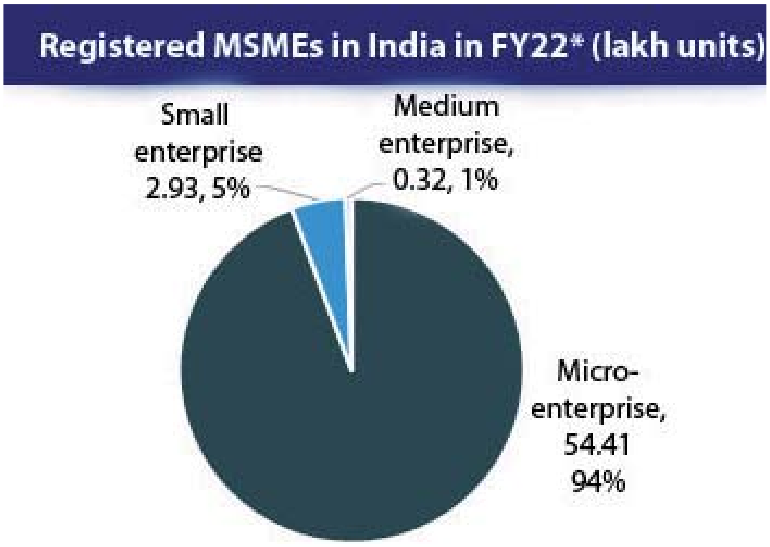
  There are concerns regarding the
  - poor quality of biofertiliser and organic fertiliser products
  - poor fertiliser control order (FCO) implementation by state agriculture departments
  - variation in laboratory test results between state and centre-owned laboratories
  - existence of fake companies
  - Poor quality control infrastructure

- **Way forward:**
  - Spreading awareness and confidence among the farmers.
  - Awareness about ill-effects of inorganic fertilisers.
  - Adequate resource allocation for promotion of organic fertilisers.
  - Democratizing the process of procurement and distribution process, making it more transparent.

Increasing role of MSMEs

Context

- MSME manufacturing firms have been imperative to the growth of the Indian economy. These small to medium sized ventures have always contributed largely to the country's GDP, hence contributing to different aspects of its development.
- Thus, there is urgent need of exclusive emphasis on this sector to further transform the economy.



- **Increasing role of MSMEs in Indian Economy:**
  - The Indian MSME sector contributes to about 29% towards the GDP through its national and international trade.
  - As per the **MSME Ministry data**, as of May 16, 2021, India has approximately 6.3 crore MSMEs (including both service and manufacturing firms).
  - It is to be noted that this sector still has a lot of unexplored territories for growth.
  - It won't be wrong to say that with so much of growth potential, emphasising on the development of MSME manufacturing firms can work as a long-term development tool for India.

Benefits of MSME

- Rural growth
- Inclusion of remote areas
- All-inclusive growth
- Industrialization
- Balanced regional development
- Absorb a large workforce
- Further generating new entrepreneurs
- Competition led growth
- **Employment generation:** According to the estimates of the Ministry of MSME, Government of India, the sector generates around 100 million jobs through over 46 million units situated throughout the geographical expanse of the country.
- **Different arenas:** It has a role in different areas due to benefits like low investment, flexibility in operations, low rate of imports, and a high contribution to domestic production.
- **Multiple benefits:** They are also important for the promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products.

Problems faced by MSME sector	Measures need to be taken
• Lack of Finance • Lack of Basic Infrastructure • Access to Market • Access to Modern Technology • Labour Laws • Access to Raw material and Other Inputs • Lack of Skill development and training • Poor tax structure	• Tax reforms • Industrial Training Institutes and management schools • Promote R&D • E-Commerce and Marketing • Time bound procedure for bankruptcy and insolvency

Recent government initiatives

- Public Procurement Policy 2012
- **FDI:** In many FDI proposals such as FDI in Retail, there is clause that 20-30% inputs shall be procured only from MSME
- Mudra Scheme
- Udyog Aadhaar Memorandum (UAM)
- A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE)
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI)
- Stand Up India
- Credit Linked Capital Subsidy Scheme

Special Purpose Acquisition Company

Context

The government is now considering a regulatory framework for **special purpose acquisition companies (SPACs)** to lay the ground for the possible **listing of Indian companies**, to boost **ease of doing business**.

Background

- SPACs have emerged since 1990s but surged in popularity only in the last few years.
- In 2020, SPAC IPOs raised more capital than traditional IPOs for the first time.
- In 2020, 247 SPACs were created with $80 billion invested, and in 2021, there were a record 613 SPAC IPOs. By comparison, only 59 SPACs came to market in 2019.
- **Special Purpose Acquisition Company (SPAC),** an alternate method for a company to go public, other than conventional methods.

What are Special purpose Acquisition companies?

- A special purpose acquisition company (SPAC) is formed strictly to raise capital through an **initial public offering (IPO)** or the purpose of acquiring or merging with an existing company.
- Also known as "blank check companies.
- SPACs are generally formed by investors or sponsors with specific expertise in a particular industry.

Objectives of SPACs

- Raising money through an initial public offering (IPO) to buy another company.
- At the time of their IPOs, SPACs have no existing business operations or even stated targets for acquisition.
- Investors in SPACs can range from well-known private equity funds and celebrities to the general public.
- SPACs have two years to complete an acquisition or they must return their funds to investors.
- After an acquisition, a SPAC is usually listed on one of the major stock exchanges.

India's stand

- While SPAC deals in India are still at a nascent stage, the number of SPAC related conversations in the Indian transactions space is swiftly growing.
- According to data sourced from SPAC, 755 IPOs has diverted to SPAC routes.
- **Security and Exchanges Board of India (SEBI)** has reportedly formed a group of experts to study the feasibility of bringing SPACs under the regulatory ambit.
- However, the Indian regulatory framework does not allow the creation of these blank cheque companies as yet.
- For example, the **Companies Act 2013** stipulates that the Registrar of Companies can strike off a company if it does not commence operations within a year of incorporation.

Advantages of a SPAC	Risks associated
• Less tedious and beneficial for companies • More efficient way to go public than conventional IPO • Less Un-certainty • Easy to exit	• Risk of investor fradulant • The reduced degree of oversight from regulators • lack of disclosure from the typical SPAC • Low returns • Risk of bubble bursting • Increased regulations

LIC IPO

Context

In a bid to replenish the public coffers that have been drained out by the pandemic, India is planning one of the biggest IPO listings ever.

Background

- The state-run Life Insurance Corporation of India (LIC) recently filed its draft red herring prospectus with capital markets regulator SEBI.
  - According to the filing, the government, which owns 100 percent stake in the company, is offering 31.62 crore equity shares or a 5 percent stake in the IPO.

Initial public offering (IPO)

- Initial public offering is the process by which a private company can go public by sale of its stocks to general public.

Analysis

Reasons behind IPO

- Meeting the disinvestment targets of the government
- Financing the capital expenditure of the government, has been estimated value of Rs 39 lakh crore.
- Attracting foreign investors and foreign currency inflow.
- The government needs the proceeds of disinvestment to fund the infrastructure projects and other expenses that have built up due to the costs of the pandemic

Impact on LIC's structure

- The government used to be a 100 percent owner, now it will be a 95 percent owner. This doesn't change anything.
- The management will still be chosen by the government.

■ **What are the pros and cons of the LIC IPO?**

Pros	Cons
⊙ Reducing the fiscal burden on the exchequer ⊙ Improving public finances ⊙ Encouraging private ownership ⊙ Funding growth and development programs ⊙ Maintaining and promoting competition in the market ⊙ Structural change in the administration ⊙ Better transparency and accountability	⊙ Undermining investors ⊙ Failed arguments ⊙ Focus on increasing profits ⊙ Loss for small and marginal players ⊙ Effect on social objective ⊙ No policies for expansion in unprofitable regions

Economics of Oil

Context

While replying to questions raised in the Parliament regarding high petroleum prices in India, **Finance Minister Nirmala Sitaramaiha** stated that rates of petroleum products cannot be reduced due to the interest payments that the Indian Government has to do on **Oil Bonds** issued by the **Manmohan Singh regime.**

Background

- Oil bonds were issued by the government between 2005 and 2010 to insulate consumers from price shocks.
- They are issued by the government to compensate oil marketing companies for not passing on the higher costs to consumers.

Oil bonds are issued by the government to compensate **oil marketing companies (OMCs)** to offset losses that they suffer to shield consumers from rising crude oil prices.

■ **Why were the Oil Bonds issued?**

- To insulate the consumers from rising prices of petroleum products and to avoid the ballooning of government's fiscal deficit.
- As the government of the time wanted to avoid burdening the consumers to pay the whole amount, they directed the Oil Marketing Companies (OMCs) to sell the petroleum products at cheaper rates (controlled price).
- However, compensating the OMCs for the difference in value between the actual price and the retail price of petroleum products was necessary from the point of view of their financial viability.

■ **What would have been done instead of oil bonds?**

- Ideally in the above situation, it must have been the government of the time who should have paid for the difference in price but that would have increased the **fiscal deficit** of government and thus constraint it from undertaking welfare measures.

- It has to be also remembered that the global recession came about in **2008** causing economic slowdown all around the world including India.
- The priority of Indian Government therefore at this time was to utilise its limited fiscal resources for the purpose boosting economic activities in the country.
- An alternative path therefore was taken up by the Manmohan Singh government under which Oil Bonds were issued to the OMCs.
- It is prudent to remember that, in essence, these bonds are like **promissory notes** of deferred payment of subsidies that the government owes to oil marketing companies.
- Since the government did not subsidise these companies upfront, these payouts did not show up in budget documents, until the repayment of the principal or interest components took place.
- As a result petroleum products were made available to the people of India without increase seen in the fiscal deficit at that point of time and OMCs being saved from dreadful under-recoveries.

What are the other factors causing high price of petroleum products in India?

- **Dependency on imports**; increased price level in international markets leading to increase in oil price in domestic market.
- **Deregulation Policy:** It means that the retail price of fuel in India will be dictated by their actual price in the market with government providing very little to no subsidy.
- **Ukraine war** has let to economic sanctions been applied on Russia, who is one of the major exporters of hydrocarbon globally, causing the skyrocketing of fuel prices.

What are the effects of high fuel prices on Indian Economy?

- Petroleum products are non-substitutable imports and not buying them is out of question. Their high prices though severely impact the economy of India as a whole.
- Inflation in their cost leads to upswing of the input price of nearly all items of consumption and use.
- These leads to downfall of savings of the people of the country and that in turn negatively effects the capital available for investment in India.

Infrastructure in India

Context

Recently the government had unveiled a national infrastructure plan, planning to invest about Rs.102 lakh crore in the infrastructure sector in the next five years to achieve the GDP target of $5 trillion by 2024-25.

National Infrastructure Pipeline

- The National Infrastructure Pipeline (NIP) captures the **infrastructure vision** of the country for the period FY20-25 and is the first-ever such exercise undertaken.
  - To achieve the vision of making India a $5 trillion economy by 2024-25, India needs to spend about $1.4 trillion over these years on infrastructure.

Objectives:

- Enabling well-prepared infrastructure projects
- Job creation
- ease of living, equitable access

- supply-side interventions for potential GDP growth
- competitiveness of the Indian economy

- **Scope of the project:**
  - The infrastructure investment is distributed between Energy (24 percent), Roads (19 percent), Urban (16 percent), and Railways (13 percent), amounting to over 70 percent of the total projected capital expenditure.
  - Remaining 30 percent will go into irrigation, agriculture, rural and social infrastructure.

- **Importance of infrastructure development**
  - Necessary for growth and for making growth inclusive.
  - Development of economy
  - Investment in infrastructure is necessary for growth:
    - Power shortages lead to dependence on expensive captive power, which in turn impels high costs and lack of competitiveness for the economy.
    - Inadequate transport infrastructure leads to bottlenecks; both in the supply of raw materials as well as the movement of finished goods to the marketplace.
    - The price that farmers get for their produce is depressed if there is no connectivity through good quality rural roads, which in turn keeps rural incomes low, negating the fruits of high overall growth performance.

- **Major issues regarding the infrastructure sector in India**
  - Long gestation period
  - Time and cost overruns in sectors like roads, highways, power, railways, and petroleum.
  - Financing of infrastructure
    - The current adverse scenario in India's banking sector has made financing of projects even more difficult.
  - Unrealistic targets
  - Fiscal transparency and accountability
  - Insufficient private participation

Rural Tourism

Context

- Chhattisgarh government is set to inaugurate the first phase of **Ram Gaman tourism circuit project** at **Shivrinarayan.**
- This project will help the rural economy of the state to flourish and bring benefits to the State.

Analysis

- **Heritage tourism in India**
  - Heritage tourism is defined as **"travel undertaken to explore and experience places, activities, and artefacts that authentically represent the stories and people of the past and present".**
  - It is oriented toward cultural heritage of the tourist location.

- It involves visiting historical or industrial sites, religious travel or pilgrimages.
- India is well known for its rich heritage and ancient culture.
- The country's rich heritage is amply reflected in the various temples, majestic forts, pleasure gardens, religious monuments, museums, art galleries and urban and rural sites which are citadels of civilization.
- All these structures form the products of heritage tourism.

What is Ram Gaman tourism circuit project?

- The ambitious project of 'Ram Van Gaman Tourism Circuit' aims to preserve memories linked to Lord Ram's stay in Chhattisgarh during his exile from Ayodhya.
- The First phase of the project would include the development of the places related to the exile period of Lord Shri Ram as a world-class tourist destination.
- It is noteworthy that 'Ram Van Gaman' tourism circuit of about 2260 km is being developed from Harchowka in Sitamarhi of Korea district to Ramaram in Sukma.

Others related schemes

- SWADESH Darshan Scheme
- PRASHAD Scheme
- Buddhist Enclave
- Dekho Apna Desh initiative

How is Tourism important for nation's economy?

- **Generating Income and Employment:** Tourism in India has emerged as an instrument of income, employment generation, poverty alleviation and sustainable human development.
- **Source of Foreign Exchange Earnings**: Tourism is an important source of foreign exchange earnings in India. This has favourable impact on the balance of payment of the country.
- **Preservation of National Heritage and Environment**: Tourism helps preserve several places which are of historical importance by declaring them as heritage sites.
  - **For instance**, the Taj Mahal, the Qutab Minar, Ajanta and Ellora temples, etc, would have been decayed and destroyed had it not been for the efforts taken by Tourism Department to preserve them.
- **Developing Infrastructure:** Tourism tends to encourage the development of multiple-use infrastructure that benefits the host community, including various means of transports, health care facilities and the hotels and high-end restaurants that cater to foreign visitors.
- **Promoting Peace and Stability**: Tourism industry can also help promote peace and stability in developing country like India by providing jobs, generating income, diversifying the economy, protecting the environment, and promoting cross-cultural awareness.

What are the challenges in rural tourism Industry of India?

- Lack of Proper Infrastructure
  - Access and Connectivity
  - Amenities
  - Human Resource
  - Marketing and Promotion
  - Security issues

Rural economy needs a new deal

Context

Covid-19, the Ukraine war, and the climate crisis show that policymaking for rural India should**shift fromcasual approach** to one that invests in **long-term risk management.**

Need for revival of rural economy

- **Global conditions**: Three catastrophic global events — the **coronavirus pandemic, the Russia-Ukraine war, and the climate crisis —** have made visible sources of precarious resilience and fragility in **India's rural economy**.
- India is grappling with rising **food inflation** and **slowing rural demands.**
- **For pushing economic growth**: However, in 2020-21, agriculture was the only sector of the economy that remained strong**, growing at 3.3%.**
- In 2021-22, the sale of **rice and wheat** via government schemes was as high as **6 million tonnes.**
- **Source of employment**:Agriculture, long considered the **employer of last resort** for policymakers, emerged as the only employer and primary safety net for millions of Indians amid the pandemic.

Cause of decline in rural economy

- Disruptions in demand and supply chain:
- Rising Inflation
- Pandemic and shutdowns
- Failure of governmental schemes

Why rural economy for India is important to attain its future goals?

- **Targeting policy support** and **investment in rural areas** to build vibrant food systems and supporting agro-industries will allow more inclusive economy to thrive towards **a $5 trillion mark.**
- **Transformed rural economies** will generate much-needed jobs and will contribute to making out-migration to urban areas a more of a choice, rather than a necessity. This would reduce pressure on urban areas and would allow better urban planning and growth.
- Increase in agricultural production and the rise in the per-capita income of the rural community, together with the industrialisation and urbanisation, would lead to an increased demand in **industrial production** and thus **economic growth.**
- Without reaping demographic dividend locked in rural areas it is not possible to reach $5 trillion economy mark before 2022.
- The lessons drawn from the economic history of many advanced countries tell us that agricultural prosperity of rural areas contributed considerably in fostering economic advancement.
- Rural and agricultural advancement is necessary for improving the supply of raw materials for the **agro-based industries** especially **in developing countries.**
- The progress in agricultural sector provides surplus for increasing **the exports of** agricultural products. An increase in the exports earning is more desirable for economic growth.
- The development requires roads, market yards, storage, transportation railways, postal services and many others for an **infrastructure creating demand for industrial products** and the development of commercial sector.

- **Ways to attain a better of rural economy**
  - **Promoting education**: Education of the masses by establishing evening schools for adults in villages.
  - **Reduce out of the pocket expenditure**: Provisions for cheap medical aid through Ayurveda and Herbals – Naturopathy and Yogic Science should be promoted for affordable and accessible healthcare.
  - **Improving Infrastructure**: Construction of good roads and infrastructure is important to make roadways for economic growth.
  - **Incorporation of civil societies**: Establishment and promotion of the Co-operative Credit Societies to promote Self Help Groups of that particular Local area.
  - **Promoting Agro-based industries**: Co-operative system should be promoted in Agro based Industries and the advantages of the government schemes should reach to the last section of the society.
  - **Providing crop insurance**: Banks should not ridicule the crop Insurance scheme run by the central government. They should extend their best possible support in every way to our innocent farmers.

Care Economy via Universal Basic Income

Context

- With the recent study by ILO, the care giving economy can be a way for boosting post COVID economy of a country.
- Care giving economy will not only help in economic growth but it will also address several social issues like gender inequality and care for children and elderly in the society.

> **What is care economy?**
>
> - Care giving work is broadly defined as looking after the **physical, psychological, emotional and developmental needs** of one or more other people.
> - The care economy is growing as the demand for childcare and care for the elderly is increasing in all regions.
> - It will thus create a great number of jobs in the coming years.

- **Universal Basic Income**
  - The 'care givers and economy' was first highlighted by the **National sample survey of India** by the report of **Family and health survey.**
  - **Universal basic income-** To deal with the economic inequality, unemployment and poverty created by the Covid-19 pandemic, many advocated Universal Basic Income (UBI) programme to be a solution.

- **Will it benefit the Indian economy?**
  - Providing decent work for all to generate revenue and increase labour force participation.
  - Extending social security for women and elderly-
  - Gender role balancing
  - Reduce burden for Informal work
  - Health benefits

- Achieving the silver economy
- **Reduction in unemployment:** Unemployment rate in India reached a 45-year high of 6.1% in 2017-18, as per the recent NSS estimates. Care economy will help to reduce unemployment by giving care jobs in the sectors such as nurses, home care takers, child caring person and elderly cares.
- **Child care:** Child care services came to picture after female or mothers started participating in formal and informal jobs for helping the family income, which must be included in jobs to have gender neutral role in child care, e.g Paternity and maternity leaves

Important initiatives

- **Sage INDIA Project**- elderly care above 50 years of age.
- **Compassionate care leave-** In Canada, Introduced to take care of one's ailing relative, up to six months in discrete or in continuum.
- 'The Swedish Theory of Love'-encapsulates the public policy revolution in Sweden, when policymakers decided 'autonomous individual' (not the 'household') as the unit of analysis of a public policy.

Challenges associated

- Lack of a comprehensive policy
- Poor infrastructure
- Out-of-the-pocket expenditure is increasing
- Introduction of incentives for private firms
- Lack of funds
- Subjectivity of the term 'Care' remains a major societal hurdle

Risk of stagflation in the economy

Context

With rising tensions between Russia and Ukraine, disrupting supply chain, and increasing inflation, there are increasingly warning about stagflation in India.

What is Stagflation?

- A situation of high inflation combining with the high rate of unemployment, is referred as stagflation.

How can stagflation be compared to inflation?

Inflation	Stagflation
• The term inflation refers to a sustained increase in the average price level of all goods and services, not just a few of them, in an economy over time. • **Reasons:** Inflation happens when the money supply grows at a faster rate than the economy can produce goods and services (demand pull inflation), which leads to low unemployment rate and high job creation.	• Stagflation happens when inflation exists in tandem with slow economic growth and high unemployment. • Typically, these economic conditions don't occur together. Unemployment and inflation tend to be inversely correlated.

■ What are the factors responsible for Stagflation?

The possible causes of stagflation economists generally agree upon are

- Supply shocks
- Cost Push inflation
- Fiscal policy

Supply Shock

- A supply shock is anything that reduces the economy's capacity to produce goods and services at given prices. For example, throughout the pandemic, there have been supply shocks in:
  - Labor, with fewer people working
  - Goods, for example, semiconductor shortages, which started even before the pandemic
  - Services, as people postponed elective surgeries and other health-care procedures

■ What are the consequences of stagflation?

The trifecta of slow growth, high unemployment, and fast inflation can result into the following:

- Significant pressure on the economy
- Distort investment decisions
- Damaging to-fixed income markets (rising interest rates push bond prices lower and depress equity valuations)
- As consumer spending slows, corporate revenue declines, exacerbating the overall effect on the economy
- High rate of unemployment
- Economic distress
- Income and social inequality
- Emergence in extremist ideologies

Women and their role in economy

Context

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.

Background

- 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.

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.

■ Challenges faced by women

- **Unpaid work:** More than half of the work done by women in India is unpaid, and almost all of it is informal and unprotected.
- **Lack of representation**: Women are not well represented in most sectors, including business leaders.
- **Lack of access to financial system:** 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.
- **Physical insecurity:** 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

- **Impact on GDP:** Around 27% rise in India's GDP with equal participation of women, which can add up to US$700 billion to GDP by 2025.
- **Social benefits**
  - 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

- Beti Bachao Beti Padhao Scheme
- Working Women Hostel
- Mahila E-Haat
- Mahila Police Volunteers
- STEP (Support to Training and Employment Program for Women)
- SWADHAR Greh
- Mahila Shakti Kendras (MSK)
- Self Help Group
- **India's MUDRA scheme:** 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. (78% of total borrowers are women entrepreneurs)
- **One Stop Centre Scheme:** It is a centrally sponsored scheme and is funded through the Nirbhaya fund.

Need for reforms in Market Infrastructure Institutions

Context

The recent case (NSE's former M.D and CEO Chitra Ramkrihnan) has highlighted the need of bringing major reforms in the Market Infrastructure Institutions (MII).

What are MIIs?

- Stock exchanges, depositories and clearing houses are all Market Infrastructure Institutions.
- The primary function of this institutions is to provide a platform which makes working of capital markets possible in India.
- MIIs are responsible for making capital markets accessible to investors and oversee that the functioning of capital markets in fiduciary capacity to safeguard the interest of the investors.

What are the specific institutions in India that qualify as MIIs?

Few Major Stock Markets in India that are registered with SEBI and they are as follows:

- Bombay Stock Exchange Ltd
- National Stock Exchange Ltd

- Calcutta Stock Exchange Ltd
- Indian Commodity Exchange Ltd

What is a depository?

The above named depository function as banks. The only difference being that as banks holds the money of depositors, these depositories electronically store the financial securities of investors

And the seven clearing houses:

- Indian International Clearing Corporation (IFSC) Limited
- Indian Clearing Corporation
- Metropolitan Clearing Corporation of India Limited
- Multi Commodity Exchange Clearing Corporation Limited
- National Commodity Clearing Corporation Limited
- National Securities Clearing Corporation Limited (NSCCL)
- NSE IFSC Clearing Corporation Limited

What is a Clearing House?

- They are entities that are associated with **stock exchanges** constituted to act as a designated mediator between a buyer and a seller in a financial market.
- The primary function of a clearing house is validation and finalization of the transaction by ensuring that both – the seller and the buyer – honour their contractual obligations.

Why are they considered important?

- Important of MIIs in India can be fathomed from the phenomenal growth that these institutions have witnessed in terms of market capitalisation of listed companies, capital raised and the number of investor accounts with brokers and depositories and the value of assets held in the depositories' account.
- It has to be though remembered that unlike the typical financial institutions (e.g. banks and NBFCs), the number of stock exchanges, depositories and clearing corporations in an economy is limited.

Why are governance norms critical in the regulation of MIIs?

- Lapses in the functioning for these institutions for any reason e.g. technical glitch, misdeed or incapacity of their personnel etc. can result in catastrophic ramifications.
- Any news for poor performance due to above mentioned or some other reason can result and has directly resulted in withdrawal for capital from India's equity market, loss of valuable asset of the investors and mostly importantly the retail investors and loss of confidence in capital markets of India in the heart of both foreign and domestic investors.
- Given the potential for a domino effect that a failure of an MII could have on the wider market and economy, governance and oversight are absolutely critical and need to be of the highest standards.

Circular Economy: 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).**

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.
- 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?

- Waste prevention
- Eco-design and re-use
- Reducing waste to a minimum
- Protect the environment
- Utilization of natural resources more wisely
- Develop new sectors
- Creating further value addition
- Reduces the dependency on other countries for raw materials
- Creation of more jobs and
- Develop new capabilities

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.
- The GDP index doesn't consider social and environmental externalities.
- Prices of raw materials are fickle and at low

- 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.
- Inadequate demand for the products via circular process
- Inadequate knowledge and research base
- 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

Are Start-Ups really the New Growth Engines of Indian Economy?

Context

Increasing number of Start-ups in India.

What is a Start-up?

- The term start-up refers to a company in the first stages of operations.
- Start-ups are founded by one or more entrepreneurs who want to develop a product or service for which they believe there is demand.
- These companies generally start with high costs and limited revenue, which is why they look for capital from a variety of sources such as venture capitalists.

Venture Capitalist: is a private equity investor that provides capital to companies with high growth potential in exchange for an equity stake.

- A Start-up with valuation of $ 1 Billion is termed as Unicorn.

Why is India seeing the rise of start-ups?

- India's demographic dividend has blessed it with population of such age group that
- Government initiatives such as start-up India, stand-up India etc.
- Availability of investors, both foreign and domestic,
- Increasing demand of products and services
- Telecom and IT revolution in India has made getting access to new products and services

How can Start-ups help the Indian Economy?	Why start-ups are not a complete panacea to India's economic woos?
• Opportunity to the entrepreneurial youth their finances exponentially. • Wealth creation • Growth in employment opportunities. • Creation of products or services • solving a regional or local issue or catering to a local demand • creation of economic opportunities • Reducing regional disparity in economy	• Statistically, a large number of start-ups do not make it big and are shut down. • Risk of failure and loss of investment • Employment opportunities in start-ups, are not proportionate to their valuation. • Disparities in the salary and working conditions • Resource utilization are not at optimal level • Minimal legal provisions and legal safeguards for investors and workforce • Demand supply mismatch of skilled labour force

- **Some the reasons why many start-ups do not end up successful are-**
  - Weak business model followed by start-ups
  - Poor planning by the entrepreneurs
  - Faulty costumer insights
  - Lack in originality of the idea which results in multiple products and services catering to the same demand.
  - Lack of focus on the existing product and services under consideration or provided to the customers.
  - Less Risk appetite

Economic N-Bomb; Russia Excluded from SWIFT

Context

Exclusion of number of Russian banks by US, UK and European Union from SWIFT.

Background

- Western countries, led by USA, have imposed economic sanctions on Russia on the backdrop of its military attack on Ukraine.
- One of the modes in which these economic sanctions have been imposed is the exclusion of Russian Banks from the SWIFT arrangement.

Analysis

- **What is SWIFT?**
  - **Society for Worldwide Interbank Financial Telecommunication** (**SWIFT**) is an organisation that provides services related to the execution of financial transactions and payments between banks of different countries.
- **Why has Russia been expelled from SWIFT?**
  - Russian invasion of Ukraine
- **What impact will this step have?**
  - slowing down trade the country's trade and
  - Make its transactions costlier.
  - It harder to pay for imports and receive cash for exports.
  - Difficult for the Russian companies and individuals to borrow or invest overseas.
- **Are alternatives to SWIFT available?**
  - Russia, in the year 2014, has developed System for Transfer of Financial Messages also called as SPFS.
  - China had also launched the Cross-Border Interbank Payment System (CBIP) in 2015 to internationalise the use of the yuan, and allows global banks to clear cross-border yuan transactions.

Fiscal Federalism in India

Context

Fiscal Federalism focus on how expenditure and revenue are allocated across different vertical layers of the government administration.

- Article 246 and Seventh Schedule of the Indian Constitution distributes powers and allots subjects to the Union and the states with a threefold classification.

Analysis

- **Taxation power of Centre and State Government:**
  - Both the Union and State lists include the powers of taxation. The main source of income for the Union are direct taxes, mainly income tax. However, they are also entitled to collect various other taxes such as customs and corporate tax.
  - States normally derive their income from indirect taxes, most commonly from sales tax. Besides this, State List also includes land revenue, excise on alcoholic liquor, estate duty, tax on vehicles and more.
  - The Concurrent List does not comprise any tax power. The distribution of revenues and approaches for determining grants between the States and Union are legislated by various Articles of the Indian Constitution.
- **Recent Changes to the Indian Fiscal Federalism Structure**
  - The three landmark changes include:
    - Replacement of Planning Commission by NITI Aayog in January Fundamental changes in the system of revenue transfers from the centre to the states on the recommendations of the 14th Finance Commission
    - Constitutional status to GST Council, creating a platform to centre and state to come together and take decision jointly.
- **Issues under the Current Fiscal Federalism Structure**

  A. Horizontal Imbalances
  - Finance commissions, post 1990s, have become essential to implement fiscal reforms as part of economic liberalisation.
  - This has been exacerbated by the replacement of the Planning Commission with the NITI Aayog. This move has reduced the policy outreach of the government, which leads to a serious problem of increasing regional and sub-regional inequities.
  - Unfortunate surge in horizontal imbalances, resulting from the differential growth rates and their developmental status in terms of the state of social or infrastructure capital.
  - A "fragmented" transfer system between the union and the states.
  - The transfer of financial resources from the union to the states flow through various streams which fall in either of the following categories:
    - **General purpose:** Untied transfers
    - **Conditional transfers**: Tied Transfers
  - Twelfth Financial Commission has emphasized on equalization among the states and higher degree of importance to transfer through grants.
  - Increasing share of tied transfers or conditional grants, limits the states for specific developmental projects.

- In the Thirteenth Financial Commission, the opposite movement took place, where the share of tax devolution rose again, and further increased in the 14th FC.
- However, this has changed to some extent in the 15th FC.
- Momentarily, approximately 40% of the total transfers are still linked to conditional transfers, which are largely linked to the
- Transfers made under the Centrally Sponsored Schemes are outside the Finance Commission's purview.
- These transfers are used by the central government to improve development outcomes in specific sectors, primarily economic and social services.
- Increased share of conditional transfer will fundamentally change the way resources flow to the state, impacting the freedom and manoeuvrability of the states with regards to setting priorities.
- Two major persistent issues:
  - Availability of fiscal space with the finance commission for making conditional grants after tax devolution.
  - Desirability of such grants as well as their effectiveness.

B. Vertical Imbalances

- Asymmetric powers of taxation and expenditure responsibility of centre and the states.
  - **Central government** : 60% taxation power with 40% expenditure responsibility
  - **State government** : 40% taxation power with 60% expenditure responsibility
- These imbalances are further exacerbated in cases of third tiers governance structure, weakening the democratic institutions
- Vertical imbalances can have a hostile impact on India's urbanisation, the quality of local public goods, which thereby, would further aggravate the negative externalities for climate change and the environment.

Introduction of GST

- The introduction of the GST is a demonstrative example of the working of cooperative federalism. However, it is questionable as to how far this conforms to actual practice.
- Under article 279A of the Indian Constitution, two-thirds of the voting rights belong to the states while the centre has one-third voting rights at the GST Council.
- Nonetheless, passing a resolution required three fourths majority.
- In effect, this confers a veto power for the centre, even when states jointly propose a change.
- The states should be able to adopt a change in their tax structure without the centre's consent, given that each state is governed differently based on local legislations.
- Furthermore, the GST's apportionment has raised some concerns. The suggested apportionment between the states and the centre by the committee on revenue neutral rates of the central government was a 60:40 ratio, as almost 44% of the states' own tax revenue was subsumed under the GST as compared to 28% for the centre.
- The centre still retains their power to levy additional excise duty on, for instance, tobacco products, even though it has been brought under the GST.
- States, on the other hand, have no such right.
- This deprives the state of their main source of income, being indirect taxes, thereby slowly causing the state government to fail in upholding their end of the bargain in relation to their responsibilities.

Battery Swap Policy

Context

In order to meet its decarbonization goals, India will introduce a new policy for battery swapping to boost sales of electric vehicles (EVs).

Background

- This was a part of the 2022-23 Union Budget's focus on sunrise opportunities, energy transition, and climate action.
  - A battery swapping policy will be brought out and interoperability standards will be formulated.
  - The private sector will be encouraged to develop sustainable and innovative business models for 'Battery or Energy as a Service. This will improve efficiency in the EV ecosystem.
- The move to come out with a policy on battery swapping is essentially an extension of the government's scheme for **e-buses** to swap drained batteries with fully-charged ones at depots across key metros, as a part of its ambitious plan for a mass shift to electric vehicles by the year 2030.

Analysis

- **Key Takeaways from the policy**
  - Lowering of cost
  - Incentive to owner
  - Uniform standards
  - Infrastructure
  - Facilitating credit facility
  - Building storage
  - Linking with PLI Scheme
  - Awareness
  - Sustainable business models
  - Extension of FAME Scheme

Government's initiative

FAME SCHEME

- FAME India is a part of the National Electric Mobility Mission Plan. Main thrust of FAME is to encourage electric vehicles by providing subsidies.
- The FAME India Scheme is aimed at incentivizing all vehicle segments.
- Two phases of the scheme:
  - **Phase I:** started in 2015 and was completed on 31st March 2019
  - **Phase II:** started from April 2019, will be completed by 31st March 2022
- The scheme covers Hybrid & Electric technologies like Mild Hybrid, Strong Hybrid, and Plug-in
- Hybrid & Battery Electric Vehicles.
- **Monitoring Authority:** Department of Heavy Industries, the Ministry of Heavy Industries and Public Enterprises.

- Fame India Scheme has four focus Areas:
  1. Technology development
  2. Demand Creation
  3. Pilot Projects
  4. Charging Infrastructure

Objectives of FAME Scheme:

- Encourage faster adoption of electric and hybrid vehicles by way of offering upfront Incentives on the purchase of Electric vehicles.
- Establish a necessary charging Infrastructure for electric vehicles.
- To address the issue of environmental pollution and fuel security.

Data 4.0 – Rethinking rules for a data-driven economy

Context

Recently, estimates showed that the world could generate more data in the next three years than over the past 30.

- The explosive growth of data owes not only to "human" activities since as much as 40% of internet traffic is being generated by machines, between machines.
- However, this trend will likely continue and accelerate in the years ahead, with the number of networked devices in the world projected to reach a staggering 125 billion by 2030.

Analysis

What is a Data-Driven Economy?

- A data economy is a **global digital ecosystem** in which data is gathered, organized, and exchanged by a network of vendors for the purpose of deriving value from accumulated information.
- **Sources:** Data inputs are collected by a variety of factors including search engines, social media websites, online vendors, brick and mortar vendors, payment gateways, software as a service (SaaS) purveyors, and an increasing number of firms deploying connected devices on the Internet of Things (IoT).

Data economy categories

- Big data economy
- Human-driven data economy
- Personal data economy
- Algorithm economy

How to unlock and harness the current data opportunity?

1. **Firms need to institutionalize data strategy at a human level**
   - Designing, implementing, and overseeing a holistic data strategy (from collection to analytics to monetization) that informs business decisions and units;
   - Facilitating the free-flowing of data, data-driven insights, and data-related managerial decisions both internally and with external partners and regulators; and

- Supporting HR in recruiting or upskilling/reskilling employees.

2. **Institutions need to rise to the challenge**
   - With data as a new strategic asset, present and future economy incentivizes the smart and responsible generation, exchange, and use of high-quality, interoperable data. To this end, institutions—including data-related rules, regulations, agreements, and governing bodies within and across national borders—must be modernized.
   - The recently adopted global agreement on the Ethics of Artificial Intelligence led by UNESCO is among the most promising global effort to guide smart regulation towards the healthy development of this field.
3. **All stakeholders in the data ecosystems must embrace and promote a truly data-oriented culture**
   - Data skill knowledge with training programs on digital and analytical skills now along with governments and educational institutions, who can deliver that should be encouraged more.

Telecom Sector and its issues

Context

The board of Vodafone Idea (Vi) has approved the conversion of part of their liability owed to the government into equity.

- Thus, roughly Rs 16,000 crore of the interest on the deferred spectrum and **adjusted gross revenue (AGR)** liabilities will now be converted to government equity, making it the single-largest stakeholder, owning 35.8 percent of the entity.

Analysis

Evolution of Telecom Sector in India

- Indian telecom sector is more than 165 years old.
- Telecommunications was first introduced in India in 1851 when the first operational land lines were laid by the government near Kolkata (then Calcutta).
- Although telephone services were formally introduced in India much later in 1881.
- The Indian telecom sector was entirely under government ownership until 1984
- The actual evolution of the industry started after the separation of the **Department of Post and Telegraph in 1985** by setting up the **Department of Posts** and the **Department of Telecommunications (DoT).**

Current status of the Sector

- India is currently the **world's second-largest telecommunications market** and has registered strong growth in the past decade and half with a **subscriber base of 1.20 billion.**
- The liberal and reformist policies of the Government of India have been instrumental along with strong consumer demand in the rapid growth in the Indian telecom sector where key policies are enhancing the use of internet in various sector leading to growth of telecom sector, like:
  - National optical fibre mission
  - National digital communication policy 2018
  - PM-WANI scheme

FDI IN TELECOM SECTOR

- In October 2021, the government notified 100% foreign direct investment (FDI) via the automatic route from the previous 49% in the telecommunications sector.
- FDI of up to 100% is permitted for infrastructure providers offering dark fibre, electronic mail and voice mail.
- The Telecom sector is the 3rd largest sector in terms of FDI inflows, contributing 7.1% of total FDI inflow in India.

What are the challenges faced by the sector?

- Poor Financial Health of the Sector
- Limited Spectrum Availability
- Higher cost of Spectrum auction
- High competition and tariff war
- Lack of Telecom Infrastructure in Semi-rural and Rural areas
- Government policies against this sector
- Low Broadband Penetration
- Newer technologies decrease the revenue
- License fee

Forward looking

- As a next step, like other countries, DoT would need to strongly consider allowing Cloud, Voice **Services and Software-Defined Wide Area Network (SD-WAN)** over the internet, by avoiding data forwarding technologies such as MPLS, exempting CDR storage in India, and allowing **Voice over Internet Protocol (VoIP).**
  - This will help organisations be cost-effective, agile, and focus on providing better products and services with superior customer experience.
- Going forward, the latest technologies like 'Internet via satellite' will drastically increase internet penetration to the remotest locations in the country.
- This is expected to further propel digitisation efforts, with many rural and remote users gaining access to the World Wide Web.

Need of a comprehensive agricultural policy

Context

The recent agricultural law repeal must serve as springboard for wider reform in the agricultural sector.

Background

- The repealing of the three controversial legislations by the Government of India needs to be seen as a reminder to the policymakers that laws and policies must be enacted after detailed consultations with all stakeholders and after giving due consideration to the interests of all concerned.

Analysis

- **Why agricultural sector never became priority for the government?**
  - In India, the government had laid down clear sectoral policies, starting with the Industrial Policy in 1948 followed by its detailed version in 1956, agricultural policy never went beyond a draft.
  - In India, where well over 50% of the workforce is still directly or indirectly dependent on agriculture, none of the governments at the Centre initiated a process of enacting farm policies in consultation with the state governments.
- **The state of agriculture (overview)**
  - Agriculture is the primary source of livelihood for about 58% of India's population. The total agricultural and allied products exports stood at US$ 41.25 billion in FY21.
  - Agriculture and related sectors such as forestry and fisheries account for 19.9 percent of the country's GDP.
  - India is among the 15 leading exporters of agricultural products in the world.
- **What are the challenges for growing inefficiencies in the sector?**
  - Inadequate irrigation facility, along with continued dependence on the monsoon
  - Decreasing sizes of agricultural land holdings
  - Continued dependence on the monsoon
  - Imbalanced use of soil nutrients resulting in loss of fertility of soil
  - Uneven access to modern technology in different parts of the country
  - Lack of access to formal agricultural credit
  - Deficient investment
  - Inadequate infrastructure supporting agriculture
  - Inadequate investment coupled with diminishing funding for agricultural research
  - Environmental challenges – climate change, poor soils and depleting groundwater
- **How a policy framework would help the sector?**
  - Accountability and transparency
  - Diversification
  - Effective engagement for better outcomes
  - Enhancement of competitiveness
- **Recent Government initiatives for agricultural sector**
  - Krishi UDAN 2.0 scheme
  - Crop varieties with special traits
  - PLI Scheme
  - TMA Scheme

A More Connected Global Economy Is a Double-Edged Sword: WTO

Context

In its annual report on the status of global trade, the World Trade Organization finds that the increasing interconnectedness of the world's economies is a double-edged sword.

Background

- Globalizationis a multifaceted concept that describes the process of creating networks of connections around the world.
- It involves the interdependence of national economies and the integration of information, goods, labour and capital, to name a few.
- In recent years, globalization has been the subject of growing discontent and criticism, particularly after the COVID-19 pandemic.

Analysis

- WTO's take on connected world
  - **Shock plus recovery:** While this globalization makes individual countries more vulnerable to short-term shocks, also allows them to recover far more quickly.
  - **Better crisis management:**
  - **Interconnectedness tied to stability**
- Understanding 'Globalization'
  - Globalization is the term used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information.
- India and Globalization
  - The wake of globalization was first felt in the 1990s in India when the then finance minister, Dr Manmohan Singh initiated the economic liberalization plan.
  - The new policy was called as **Liberalization, Privatization and Globalization Policy (LPG Policy)** or the **New Economic Policy, 1991.**

    Since then, India has gradually become one of the economic giants in the world.
- Components of Globalization

  There are three major components of globalization: economic, social and political.
  - **Economic globalization**
  - **Social globalization**
  - **Political globalization**
- **The changing globalization**
  - Globalization itself is evolving, with changes in global trade flows, capital flows, and the **Fourth Industrial Revolution.**
  - **More trade flow**

- **Increasing trade in services**
- **Technology:** Technology has become a bigger force of globalization, changing cross-border mobility of goods and services, and capital flows.
- New technological revolution has huge spillovers and externalities.
- **Digitalization**

Challenges faced by India

- Demographic dividend
- Rapid technological change
- Technological gap and barrier
- Digital divide
- Socio-economic inequality
- Accessibility and affordability constraints

What are the positive sides of globalization?

- Competitive Markets
- Growing Economies of developing countries
- Diversified workforce
- Better Future to skilled manpower
- Better Products and services
- Sharing of technology and knowledge
- Cultural and heritage exchange

Negative side of globalization

COVID-19 has shown us the darkest side of increasing Globalization:

- Easy spread of vulnerabilities
- Occurrence of a catastrophe can affect the whole world.
- Confusing local system
- Exploitation of manpower
- Immigration challenges
- Affected culture and language
- Rapid urbanization

State of food and agriculture

Context

- The recently released Food and Agriculture Organization’s (FAO) 2021 State of Food and Agriculture (SOFA) report – *Making agri-food systems more resilient to shocks and stresses contains* some shocking revelation.
- To deal with the situation it proposes urgent reform to the ‘agri-food systems’ of the world.

Background

- The COVID-19 pandemic exposed the vulnerability of agri-food systems to shocks and stresses and led to increased global food insecurity and malnutrition.
- Action is needed to make agri-food systems more resilient, efficient, sustainable and inclusive.
- The State of Food and Agriculture 2021 presents country-level indicators of the resilience of agri-food systems.
- The indicators measure the robustness of primary production and food availability, as well as physical and economic access to food.
- They can thus help assess the capacity of national agri-food systems to absorb shocks and stresses, a key aspect of resilience.

Analysis

- **Key-findings of the Report**
  - **Unaffordable diet**
  - **Reduced income, reduced diet**
  - **Increased food cost due to critical transport link**
  - **Vulnerability irrespective of the economic and development status of the countries.**
  - The report states that, without proper preparation, unpredictable shocks will continue to undermine these systems., having negative impacts on system, people's well-being, assets, livelihoods, safety and ability to withstand future shocks.
- Why sustainable Agri-food system is essential?
  - Affordability and availability of sufficient, nutritious and safe food for all; no one remain hungry.
  - Agri-food systems accounts for 11billion tonnes of yearly yield
  - Provides employment opportunity both direct and indirect ways
  - Occupies 37% of Earth's land area.
  - Also plays an important role in achieving other SDGs related to poverty, resources and energy efficiency, cleaner economies etc.
- **What are the challenges to agri-food systems?**
  - **Complex system with multiple actors:** Agri-food systems are complex in nature (including primary production, food supply chains, domestic transport networks and households) and involve many interlinked actors. Thus, a shock in any component can spread rapidly throughout systems.
  - **Extra fragile system:** The fragility of agri-food systems can affect large numbers of people.
- **What needs to be done?**
  - Resilient agri-food system
  - Absorptive capacity building for unforeseen shocks
  - Diversifying the scope of agro-food industry
  - Risk management
  - Effective Government support for promotion and social security protection
  - Economic access to food
  - Policies and investments

India and its commitments to renewable energy

Context

At the recently concluded COP26 summit in Glasgow, Prime Minister Narendra Modi announced that India would increase the installed capacity of renewables to 500GW by 2030.

Background

- While the government's earlier plan was to ramp up renewable capacity of 450 GW, another 50 GW has been added to the target.
- India, until now, has been able to achieve only a fourth of this target.

Renewable Energy

- Renewable energy is energy derived from natural resources (sunlight, wind, rain, tides, waves, biomass, and thermal energy) that replenish themselves in less than a human lifetime without depleting the planet's resources.
- available in one form or another nearly everywhere, virtually inexhaustible
- emits no or low greenhouse gases (better for climate)
- emits no or low air pollutants (better for health)
- Low cost; accessible to all
- Makes the energy system resilient

Analysis

Indian renewable energy sector

- The Indian renewable energy sector is the **fourth most attractive renewable energy market in the world.**
- **Renewable power installed capacity:** India was ranked fourth in wind power, fifth in solar power, and fourth in renewable power installed capacity, as of 2020.
- Installed renewable power generation capacity has gained pace over the past few years, posting a CAGR of 17.33% between FY16-20.
- To meet the energy demand India has a target to reach 15,820TWh
- As India looks to meet its energy demand on its own, which India is expected to reach 15,820 TWh by 2040.
- As of August 2021, India had 100.68 GW of renewable energy capacity, and represents 25.2% of the overall installed power capacity,

Commitment to become a 'net-zero nation'

- India has committed to becoming a net-zero nation that is it will offset its emission, by 2070.
- India has also committed to phase down the usage of coal and other fossil fuels.

What does India need to do for the new target?

- India had achieved 39% of its target, having a capacity of 151.4GW of non-fossil fuel-based energy production
- India needs to add about 38GW per year to installed renewable energy capacity to achieve the target of 500GW
- New targets are also necessary to emerge as a global leader in climate action plans.

- **How this new target is different from the previous set target?**
  - The 500 GW is a version of the target set by Modi at the **2019United Nations Climate Action Summit in New York** when he announced that India would aim to install **450 GW of renewable energy electricity generation capacity by 2030.**
  - But there are two crucial differences between the **New York summit** and **COP26 announcements.**
    - First, the New York announcement wasn't part of India's commitment under the Paris Agreement.
    - Second, it was worded as "renewable electricity generation capacity" as opposed to "non-fossil-fuel generation capacity".
  - This means the target India has now committed to under the Paris Agreement includes large hydroelectric projects.
- **Major issues faced by India**
  - air pollution
  - water scarcity
  - energy security
  - energy access
  - Affordability
  - Environmental concerns
  - Anti-democratic process
- **Regulation of renewable energy sector**
  - **Ministry of New and Renewable Energy (MNRE):** nodal unit for all matters relating to Renewable Energy.
  - **India Renewable Energy Development Agency (IREDA):** public limited company to promote, develop and extend financial assistance for RE and energy efficiency/conservation projects.
- **Important initiatives taken by Government**
  - Encouraging consumers
  - Rooftop Solar Programme Phase II
  - India Renewables Dashboard
  - Draft National Electricity Policy (NEP) 2021
  - Gram Ujala
  - Green Energy Corridor Scheme
  - Encouraging domestic production
  - Measures by Indian Railways

PM Gati Shakti National Master Plan

Context

Prime Minister Narendra Modi has kicked off much talked about PM Gati Shakti National Master Plan for multi-modal connectivity.

Background

The Prime Minister had already announced 'PM Gati Shakti - National Master Plan' in his Independence Day speech on August 15 this year.

Analysis

- **What is Gati Shakti?**
  - The national master plan is aimed at breaking inter-ministerial silos
  - integrating the planning and designing of projects
  - enhance India's global competitiveness through next-generation infrastructure and seamless multi-modal connectivity
  - It aims to lend more **speed (Gati)** and **power (Shakti)** to projects by connecting all concerned departments on one platform.
- **Digital platform**
  - Under the programme, a **digital platform** has also been created which will bring 16 ministries including rail and roadways together for integrated planning and coordinated implementation of infrastructure connectivity projects.
  - The platform will provide high resolution satellite images, infrastructure, utilities, administrative boundaries, land and logistics.
- **Implementation of the initiative**
  - **Integrated Multimodal Network Planning Group (NPG)**
  - The **National Networking Group** will consist of experts or officials from all the stakeholder departments.
  - The **Department of Promotion of Industry and Internal Trade** : nodal agency.
  - Implementation ofSpecific **Action Plans for 2020-21 to 2024-25**
- **What are the targets under Gati Shakti?**
  - 11 industrial corridors, achieving a Rs 1.7 lakh crore turnover in defence production and having 38 electronics manufacturing clusters and 109 pharma clusters by 2024-25.
  - It fixes targets up to 2024-25 for all infrastructure ministries.
- **Road Transport and Highways Ministry**
  - Like for the **Road Transport and Highways Ministry**, the target is to have National Highways of 2 lakh km
  - Completion of four or six-lane national highways of 5,590 km along coastal areas
  - All state capitals in north-east to be connected with four-lane national highways or two two-lane national highways
- **Indian Railways**
  - For Railways, the target by 2024-25 is to handle cargo of 1,600 million tonnes from 1,210 million tonnes in 2020
  - Decongesting 51 percent of the Railway network by completing additional lines and implementation of two **Dedicated Freight Corridors (DFCs)**
- **Energy**
  - Further, the gas pipeline network in the country is aimed to be doubled to 34,500 km by 2024-25 by building an additional 17,000 km long trunk pipeline connecting major demand and supply centres for industries, as per the plan.

- And in power lines, the total transmission network by 2024-25 is targeted to be 4.52 lakh circuit km and the renewable energy capacity is expected to be increased to 225 GW from 87.7 GW presently.

- **The need**
  - wide gap between macro planning and micro implementation
  - lack of coordination
  - lack of advance information
  - hampered construction
  - wastage of budget

Account Aggregator

Context

Recently, State Bank of India, ICICI Bank, Axis Bank, IDFC First Bank, Kotak Mahindra Bank, HDFC Bank, IndusInd Bank and Federal Bank have joined the Aggregator Account (AA) network) which will enable customers to easily access and share their financial information.

- **What is an Account Aggregator (AA)?**
  - AA is a framework that facilitates the distribution of financial information in real time and blindly (AA data flow encrypted) between regulated entities (Banks and NBFCs).
  - Enable data flow between **financial information providers (FIPs)** and **financial information users (FIUs).**
  - It is based on the **Data Empowerment and Protection Architecture (DEPA) framework.**

- **Issues with India's current financial system**
  - India's financial system today involves many hassles for consumers –
  - sharing physical signed and scanned copies of bank statements
  - running around to get documents notarized or stamped
  - having to share personal username and password to give a financial history to a third party

- **How is AA different from Aadhaar eKYC data sharing, and other platforms?**
  - Aadhaar eKYC and CKYC allow sharing of four 'identity' data fields only for KYC purposes (such as name, address, gender, etc.).
  - Similarly, credit bureau data only show loan history and credit score.
  - The AA network allows sharing of transaction data or bank details from savings/deposit/current accounts.

- **Significance**
  - **For Consumers:** The AA framework allows customers to access a variety of financial services from a number of providers on a single site depending on the consent process, where consumers can choose which financial data to share and which organization.
  - **Less physical Interaction:**
  - **Banking:** As an addition to India's digital infrastructure, it will allow banks to access the flow of approved data and verified data. This will help banks reduce transaction costs, which will enable them to offer low-size ticket loans and products and services tailored to their customers.

- **Minimize fraud:** AA reduces fraud associated with virtual data by introducing secure digital signatures and end-to-end data sharing encryption.

Bad Banks

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.

Background

- This announcement is in line with the In Budget 2021-22 when the finance minister had announced for setting up of a bad bank to resolve the bad loans.
- **National Asset Reconstruction Company Limited" (NARCL)** has been incorporated under the Companies Act, which will be tasked to acquire stressed assets worth Rs 2 lakh crore from various commercial banks.
- Then another entity- **"India Debt Resolution Company Ltd (IDRCL)"**, will try to sell the stressed assets in the market. Jointly NARCL-IDRCL forms the new bad bank.

Analysis

What is a Bad Bank?

- It is a corporate structure that takes charge of the 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, ensuring financial stability of the bank.

Need for a Bad Bank:

- The risk of a loan converting into a **non-performing asset (NPA), impacting the financial credibility of the banks.**
- 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 recapitalize 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.
- According to the World Bank data, the share of NPA to gross loans in Indian banking is significantly higher compared to developed western economies
- 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.

- **Concerns involved:**
  - Transferring of stressed asset from one government entity to another, making no economic and financial change on government's fiscal burden.
  - Increased burden on government's exchequer and taxpayers' money.
  - Opens up a new topic for discussion "a new form of socialism for the capitalists", where the burden of the bad investments and business decisions of the borrower is transferred to the taxpayers.
- **Benefits:**
  - Consolidation of debts, single-point decision making in Insolvency and Bankruptcy Code (IBC) 2016.
  - Incentivise quicker action and resolution, and a better value realisation of the bad assets.
  - Market expertise can be engaged for value enhancement.
  - Banks will be able to focus on increasing business and credit growth.
  - The government of India will enhance the liquidity of the Security Receipts (SRs) as it is being backed by them, also the SRs are tradable.

Financial Inclusion: Last Mile Challenge

Context

Over dependency on Digital technology has weakened the financial inclusion in rural India.

Background

- **Financial Inclusion and the Evolving Scenario -** India has developed its financial ecosystem to increase the last-mile connectivity of financial services to its people with only the intent to provide the underprivileged and marginalised access to financial resources to improve their lives.
- **Financial Inclusion in rural India –** Direct benefit transfer synonymous with the Aadhaar Payments Bridge Systems (APBS) is used in rural India for various government programmes such as maternity entitlements, student scholarships, wages for MGNREGA workers
- **Coverage –** According to research, only 16% of rural users access the Internet for financial transactions due to lack of electricity and poor network quality.
- **Last-mile challenges -** Majority of the rural population faces digital problem due to a lack of technical knowledge and nexus of service providers, intermediaries, government officials, and others. Thus facing many hurdles in accessing their money.

Analysis

- **What are the implications?**
  - Lack of Financial literacy-
  - Lack of accountability
  - Absence of grievance redressal
  - Lack of adequate checks and balances
  - Lack of infrastructure-
  - Corruption

- **What were the Outcomes of the survey?**
  - Rural banks are short-staffed and tend to get overcrowded therefore 45 per cent of workers had to make multiple visits to the bank for their last transaction.
  - An estimate 40 per cent of the workers had to make multiple visits to withdraw from CSPs/BCs due to biometric failures which sometimes cause loss of day's wages.
  - More than two-thirds of the time workers were denied the facility to update their passbooks at banks. Some workers get charged for transacting at CSPs/BCs which is meant to be free.
  - However, branch expansion into rural unbanked locations significantly reduced poverty and with technological advances, the costs of running rural banks will also be lower.

- **What are the Government measures?**
  - Service Points (CSP) and Banking Correspondents (BC)
  - Optical Fibre Network (NOF-N)–
  - Unnati –
  - Pradhan Mantri Gramin Digital SakshartaAbhiyan (PMGDISHA)
  - E-pathshala
  - Inclusion of regional language-

- **Way Forward**
  - Returning to basics
  - Transparency
  - Accountability
  - E-Governance
  - Inclusion of digital Literacy

Concessional tax rate regime

Context

The corporate tax rate for all existing companies (manufacturing and non-manufacturing) was cut to 22 per cent (without surcharge and cess) from 30 per cent.

- **Corporate tax in India:**
  - Corporate tax is the tax which is **levied on the income of the domestic and foreign companies that arose in India.**
  - It is levied on both the **public and private companies** registered under the Companies Act of 2013.
  - The rate at which the **tax is imposed as per the provisions of the Income Tax Act**, 1961 is known as the Corporate Tax Rate.
  - The Taxation Laws (Amendment) Bill, 2019 caused a **reduction in the base corporate tax** rate, that is, from **30 percent to 22 per cent** for the existing businesses which led to revenue inference of INR 1.45 Lakh Crores.
  - While, in case of new manufacturing firms that have been established post 1st October, 2019 and prior to 31st March, 2023, the base corporate tax was reduced from 25 per cent to 15 per cent.

- According to reports, the corporate tax rates in India stand the lowest among other nations across the globe and the impact will be visible in the Indian economy in the upcoming years.
- This strategic action could possibly enhance the comparative adversaries of India's corporation tax rates with other Asian nations.
- The **new corporate tax rates in India is much lower** than USA (27%), Japan (30.62%), Brazil (34%), and Germany (30%) and for the new firms the tax rate is similar as of Singapore (17%).

Corporate Sector:

- A corporate is an entity that has a separate and independent legal entity from its shareholders. Domestic as well as foreign companies are liable to pay corporate tax under the Income-tax Act.
- While a domestic company is taxed on its universal income, a foreign company is only taxed on the income earned within India i.e. is being accrued or received in India.
- For the purpose of calculation of taxes under Income tax act, the types of companies can be defined as under:
  - **Domestic Company:** Domestic Company is one which is registered under the Companies Act of India and also includes the company registered in the foreign countries having control and management wholly situated in India. A domestic company includes private as well as public companies.
  - **Foreign Company:** Foreign Company is one which is not registered under the company's act of India and has control & management located outside India.

Benefits of corporate tax rate cut

- The present tax cut can help revive economy, boost tax collections and compensate for the loss of revenue.
- The big boost to shareholder value is unmistakable and the equity market showed its appreciation by surging the most in a single day in over a decade.
- It can make India more competitive on the global stage by making Indian corporate tax rates comparable to that of rates in East Asia.
- Thus India is likely to attract investors from across the globe as lower tax outflow could increase the share of profit making companies in India over time.
- Above factors will generate more employment and will help increase the purchasing power of the people thereby boosting sales which have been hit in major sectors like automobile sector.
- It will give boost to government initiatives like Make in India, Startup India etc. which had taken a hit in the past couple of years.

World Economic Forum & its role

Context

This year, with the world economic forum's 50th anniversary India is also celebrating its 35 years of collaboration with the forum, providing an opportunity for India to showcase its unified presence.

Background

- It was established in 1971 as a not-for-profit foundation and is headquartered in Geneva, Switzerland.
- It is independent, impartial and not tied to any special interests.
- Formerly known as European Management Forum, in 1987 the name was changed to World Economic Forum.

- **World economic forum and its role:**
  - The world economic forum is the international organization for public-private cooperation.
  - The forum engages the foremost political, business, cultural and other leaders of society to shape global, regional and industrial agendas.
  - The forum strives in all its efforts to demonstrate entrepreneurship in the global public interest while upholding the highest standards of governance. Moral and intellectual integrity is the prime objective of its every actions.
  - Activities of the forum are shaped by a unique institutional culture founded on the stakeholder theory, which asserts that an organization is accountable to all parts of society.
  - The institution carefully blends and balances the best of many kinds of organizations, from both public and private sectors, international organizations and academic institutions.
- **India and world economic forum:**
  - World economic forum could provide a potential platform to project India as an important and relevant stakeholder in shaping global initiative.
  - Also as an attractive destination in view of its robust economic growth and stable macroeconomic indicators.
  - To mark 75years of independence, 'AzaadikaAmritMahotsav', DPIIT has taken initiative to have a consolidated presence at WEF, 2022.
- **Reports by world economic forum and India's status:**
  - Energy transition index: India ranked at 87th position out of 110 countries.
  - Global competitiveness report: India is standing at 68th position in global competitiveness report, 2019.
  - Global gender gap report: India ranked at 140th place out 156 countries
  - Global risk report: India has ranked 7th position
  - Global travel and tourism report: India has been placed at 54th

India's wheat export ban, understanding India's agricultural exports & challenges

Context

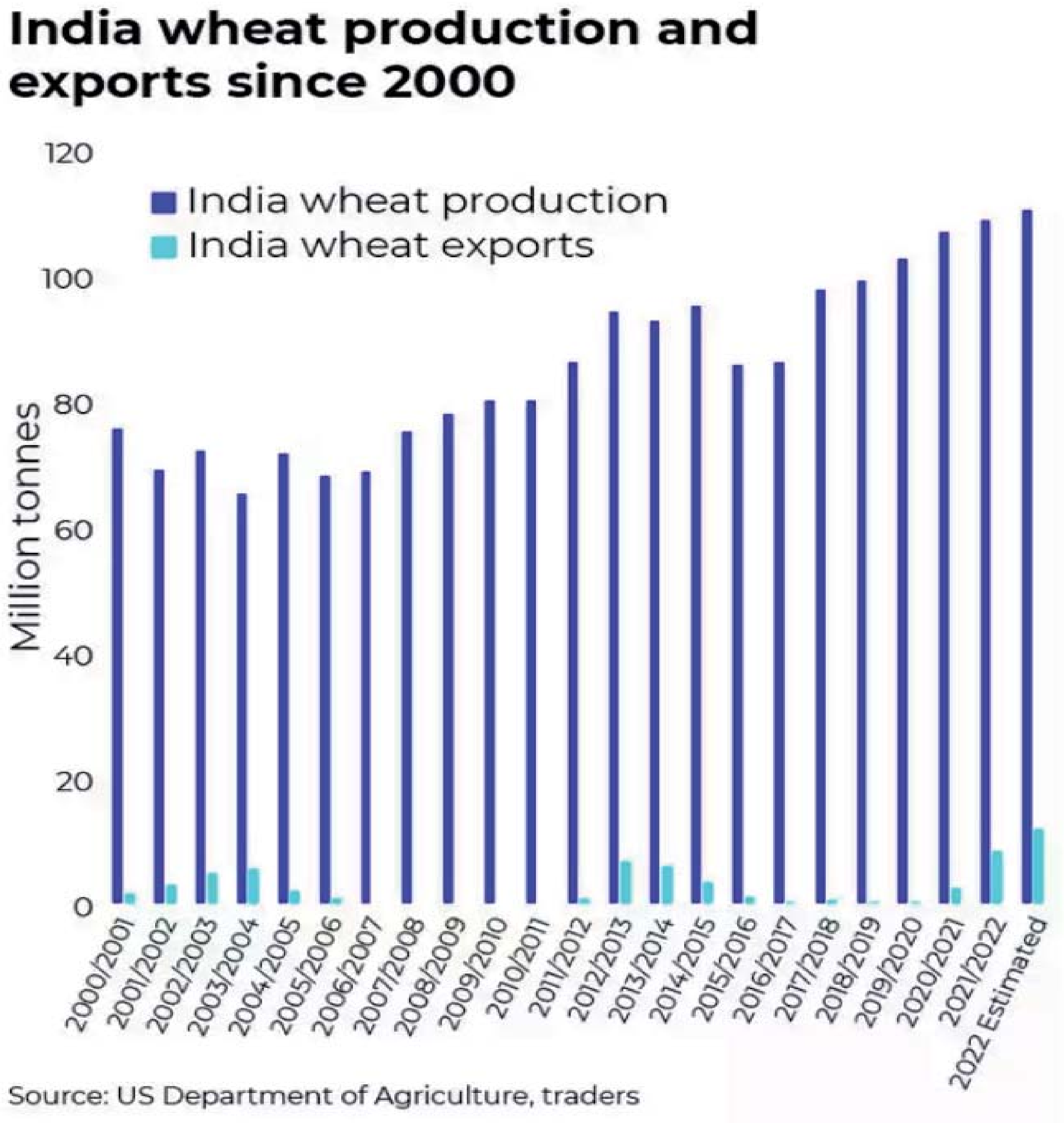
India has banned exports of wheat recently, citing a risk to food security, partly due to the war in Ukraine and as a scorching heatwave curtailed output and domestic prices hit a record high.

- **India's agricultural export**
  - India is one of the largest agricultural products exporters in the world. During 2021-22, the country crossed US$ 50 billion in agriculture exports with a 19.92% increase from US$ 41.87 billion in 2020-21.
  - It exports **rice, meat, grains, wheat, nuts, onions, fruits, pulses, dairy products, alcoholic beverages, cereals, cashews, vegetables, etc.**
  - Rice is the largest exported agricultural product from India and contributed to more than 17% of the total agriculture export during the year 2021-22.
  - Buffalo meat, wheat and maize are among the largest exported products with the contribution of 6%, 4% and 2% to 2021-22 agriculture exports respectively.

- The largest importers of India's agricultural products are the US, China, Bangladesh, UAE, Vietnam, Saudi Arabia, Indonesia, Iran, Nepal and Malaysia.
- The other importing countries are Korea, Japan, Italy and the UK.

Recent Agricultural export statistics:

- **Wheat:** India is world's second biggest producer of wheat after China. Though India is not a major exporter of wheat, but India's share now stands at 5% as against 0.3% in 2019–20.
- **Rice:** India's share in global exports of rice has increased from about 22% in 2018–19 to 40% in 2021–22.
- **Sugar:** India's share in sugar exports, which has increased to over 11% as against 3.4% in 2017–18.



India and WTO:

- India's agricultural exports are under intense scrutiny in the World Trade Organization (WTO).
- In 2019, Australia, Brazil, and Guatemala complained to WTO's dispute settlement body that the Indian government was implementing several subsidy schemes for promoting sugar exports.
- The complainants argued that by implementing these subsidy schemes, the government had violated the rules of **WTO's Agreement on Agriculture (AoA),** which prohibit the use of export subsidies.
- In December 2021, the dispute settlement panel adjudicating the dispute gave its ruling against India.
- Several countries, including **Japan, Russia and the US**, have sought clarifications from India as to whether its exports of food grains are in any way linked to the Open Market Sales Scheme of the Food Corporation of India.

WTO's Agreement on Agriculture:

- It is aimed to remove trade barriers and to promote transparent market access and integration of global markets.
- The WTO's Agriculture Committee oversees implementation of the Agreement and provides a forum for members to address related concerns.

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