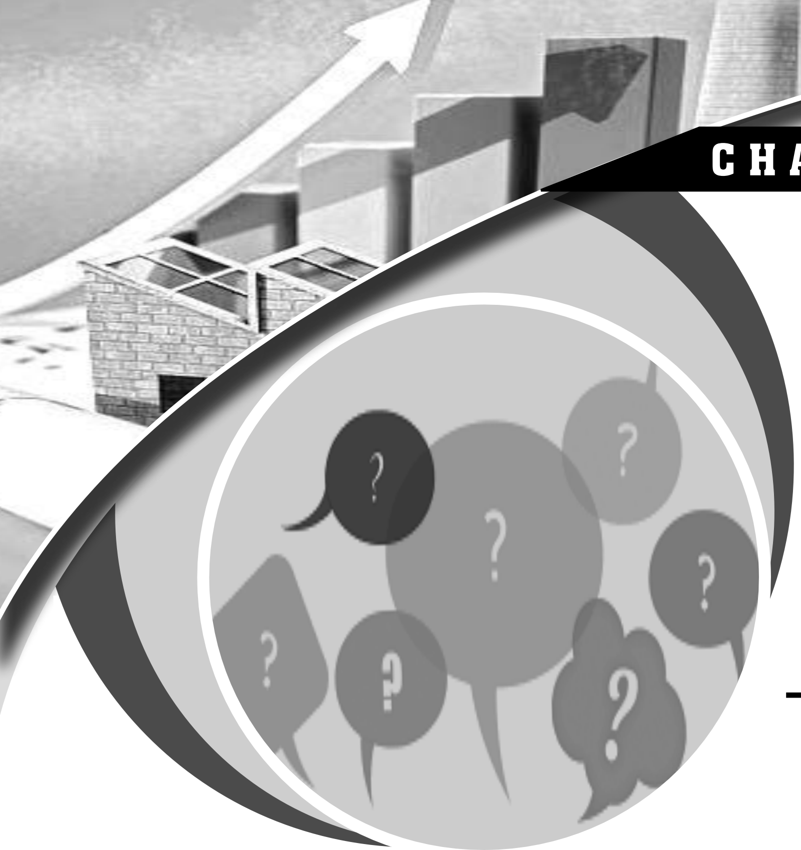

CHAPTER 24

MODEL ANSWERS* TO SELECTED QUESTIONS

*Reading maketh a full man; conference a ready man; and writing an exact man.***

** The answers given to some of the questions may be comprehensive. Readers are suggested to cut it short as per the requirement of the question. Questions in the civil services examination are generally asked in parts, i.e., budgetary measures, monetary measures, administrative measures etc.*

*** Francis Bacon (1561-1626), 'Of Studies' **Essays**, London, UK, 1625.*

Q.1 "A hard and fast control on the government's fiscal freedom may be counterproductive to the economy". In light of this statement, discuss the changing idea about the FRBM Act in the country.

Ans. Aimed at fiscal consolidation, India passed the fiscal responsibility and budget management (FRBM) Act in 2003—soon states also passed their fiscal responsibility acts (FRAs) on the similar line. To the extent 'exact' follow-up to the FRBMA-linked targets are concerned, the performance has been mixed. The targets were exceeded many times due to fiscal escalations (either due to natural calamities or on exceptional ground), while many times they were better than the mandated figures. The implementation of the Act has also been postponed thrice by now. But this act brought the element of higher fiscal discipline among the governments, there is no doubt in it.In the past few years a view has emerged as per which binding the government expenditures to a fixed number may be counterproductive to the economy at large. Due to a hard and fast discipline regarding fiscal targets, some highly desirable expenditures by the government may get blocked, for example—expenditures on infrastructure, welfare, etc.

Accordingly, we saw the Government proposing (in 2016–17) two important changes in the FRBM mandate, namely—

(i) Provision of a 'range' as a target of fiscal deficit in place of a 'number'; and

(ii) Linking 'fiscal expansion or contraction' with the 'credit expansion or contraction'.

In this backdrop, an expert committee was set up by the Government which handed over its report to the Government by late *January 2017*. The report (which is still not in the public domain) will be carefully studied by the Government (as per the *Union Budget 2017–18*) and decisions will be taken later on.

Q.2 Write a short note on the new initiatives taken by the RBI in recent times aimed at streamlining the credit and monetary policy.

Ans. In the past two and half years, several new initiatives have been taken by the RBI aimed at strengthening the current regime of credit and monetary policy—major ones are as given below:

- now RBI announces the policy on *bi-monthly* basis.
- the *glide path for disinflation* policy adopted under which the CPI (C) is used by the RBI as the 'Headline Inflation' for monetary management.
- a *Monetary Policy Framework* has been put in place—under it, the RBI is to *'target inflation'* at 4 per cent with a variations of 2 per cent. It means, the 'range of inflation' is to be between 2 to 6 per cent (of the CPI-C).
- besides the existing repo route, *term repos* have been introduced for three set of tenures—7, 14 and 28 days.
- banks overnight access to liquidity is being progressively *reduced* and in place they are being encouraged to *increase* their dependency on the term repos. By *March 2016*, banks were allowed to borrow only up to 1 per cent of their NDTL from the Call Money Market—0.25 per cent through *repo* and the rest of 0.75 per cent through *term repo*. This aims to improve the transmission of policy impulses across the interest rate spectrum and providing stability to the loan market.
- As per the *Union Budget 2016–17*, individuals will also be allowed by the RBI to participate in the Government Security market (similar to the developed economies like the USA).
- the initiation of the *MCLR* (Marginal Cost of fund based Lending Rate) from

the new financial year *2016–17*. This is aimed at quickening the transition of the interest rate signaling from the RBI to the loan market.

Q.3 Briefly discuss the Marginal Cost of funds based Lending Rate (MCLR) and its objectives, operationalised by the RBI since 2016–17.

Ans. As per the new guideline of the RBI, from financial year 2016–17, banks in the country switched over to a new method of computing their lending rate—called the *MCLR (Marginal Cost of funds based Lending Rate)*. The ***major highlights*** of the guideline are as under:

- The MCLR will be a tenor linked internal benchmark.
- Actual lending rates will be determined by adding the components of spread to the MCLR.
- Banks will review and publish their MCLR of different maturities *every month* on a pre-announced date.
- Existing borrowers will also have the option to move to at mutually acceptable terms.
- Banks will continue to review and publish Base Rate as hitherto.

Banks, by now, have been using either of the following *three methods* to compute their Base Rate:

(a) average cost of funds,
(b) marginal cost of funds, or
(c) blended cost of funds (liabilities).

As per the RBI, 'for monetary transmission to occur, lending rates have to be sensitive to the policy rate'. But this was not occurring by now. The MCLR is supposed to bring in the *following benefits*:

- to improve transmission of policy rates into the lending rates of banks;
- to improve transparency in the methodology followed by banks for determining interest rates;
- to ensure availability of bank loans at interest rates which are fair to the borrowers as well as the banks.
- to help the banks to become more competitive and enhance their long run value.

Q.4 "The idea of the NITI has given a completely new dimension to the process of development planning in the country." Comment.

Ans. The economic 'think tank' set up by the GoI in January 2015 has the potential and imagination to change the very process of development planning in the country. This can be understood by the following *major initiatives* which has been taken under it—

- For the *first* time, a central think tank has tried to integrate the strength and aspirations of the Centre, states and the local bodies towards 'shared national agenda' of development. Through this India will usher into a new era of 'decentralised planning'.

  In place of the old design of one size fits all ('top-down' approach), now India goes for flexible and decentralised model of development (based on 'bottom-up' approach).
- It is for the *first* time that India is trying to evolve a 'development model' which could include which could be integrative in nature, rooted in India's ethos and open to the new ideas of the world.
- Development planning of the Centre has got more 'legitimacy' due to inclusion of the states and UTs in the Governing Council of the NITI—it should be noted that the

decisions of the NITI are to come out after due negotiations in the Council.

- The idea of 'Team India' is a timely innovation in it—a federal political system can neither realise its developmental desires nor utilise its strength of diversities without integrating the central and state governments.
- The idea of 'competitive and co-operative federalism' has already given a new impetus among the states of India to search for a better way and method of development promotion (as the *Economic Survey 2015–16* concluded on the basis of empirical proofs).
- Some of the new ideas, such as—*conflict resolution, sounding board, vision and scenario planning* will make development planning more 'result-oriented' and suited tothe changing times.
- It has high potential to strengthen the cause of socio-political development in the country as the planning has now become a 'socio-economic' process (unlike only economic in the past).

Experts believe that the workings and achievements of the NITI will depend on the federal maturity shown by the governments in the country.

Q.5 "MUDRA Bank is aimed at the twin objectives of financial inclusion and growth promotion." In light of this statement, write a short note on the Bank.

Ans. As per the GoI, large industries provide employment to only 1.25 crore people in the country while the *micro units* employ around 12 crore people. There is a need to focus on these 5.75 crore self-employed people (owners of the micro units) who use funds of Rs. 11 lakh crore, with an average per unit debt of merely Rs. 17,000. Capital is the key to the small entrepreneurs. These entrepreneurs depend heavily on the 'local money lenders' for their fund requirements.

Looking at the importance of these enterprises, GoI launched (April 2015) the *Micro Units Development and Refinance Agency Bank (MUDRA Bank)* with the aim of *funding* these *unfunded* non-corporate enterprises. This was launched as the PMMY (Prime Minister Mudra Yojana). Important features of the MUDRA Bank are as given below:

- Under this banking model, the micro units can avail up to Rs. 10 lakh loan through refinance route (through the Public and private sector banks, NBFCs, MFIs, RRBs, District Banks, etc).
- The products designed under it are categorized into three buckets of finance named *Shishu* (loan up to Rs. 50,000), *Kishor* (Rs. 50,000 to R5 lakh) and *Tarun* (Rs. 5 lakh to Rs. 10 lakh).
- Though the scheme covers the traders of fruits and vegetables, in general, it does not refinance the agriculture sector.
- There is no fixed interest rate in this scheme. As per the GoI, presently, banks are charging the interest rates between Base Rate plus one per cent to 7 per cent per annum. Interest rates on the loans are supposed to vary according the risk involved in the enterprises seeking loans. There is no general subsidy offered on interest rates except if the loan is linked to some other government scheme.

This way, the Mudra is aimed at *twin objectives*—

(i) it will make funds available to a large number of small enterprise (financial inclusion) which by now were not getting any such support from the organised financial system of the country;

(ii) by provided the scarce funds it will enhance the income and growth prospects of such a large number of firms—helping around 12 crore people earning livelihood in them.

Q. 6 Write a critical note on the outcome of the 11th Ministerial Conference of the multi-lateral trade body, the WTO. How did it failed to serve India's food security needs?

Ans. The 11th Ministerial Conference (MC11) of the WTO (Buenos Aires, Argentina, December 2017) ended without a any substantive outcome. In the run-up to MC11, decisions were expected on a permanent solution on food security and other agriculture issues. Unfortunately, the strong position of one of the member (the USA) against agricultural reforms based on current WTO mandates and rules. It led to a deadlock without any outcome on agriculture or even a work programme for the next two years. Though, the existing mandates and decisions ensure that work will go forward and members will continue to work on issues such as the permanent solution on *public stockholding for food security* purposes and agricultural Special Safeguard Mechanism and agricultural domestic support.

Such an outcome of the trade body did really increase the food security concerns for India if it did not totally jeopardise it. Basically, India needs some relaxation in the Blue Box subsidies given to agriculture so that it can cross the ceiling of it which is fixed at 10 per cent of the agricultural GDP. This limits the public stock holding of the foodgrains which India needs to implement its food security programme (the National Food security Act).

India stood firm, during the Conference, on its stand on the fundamental principles of the WTO, including multilateralism, rule-based consensual decision-making, an independent and credible dispute resolution and appellate process, the centrality of development, which underlies the Doha Development Agenda (DDA), and special and differential treatment for all developing countries.

Meanwhile, India has started negotiating with the countries with similar views at mini-Ministerial Conferences to reach a consensus on the issues which derailed the Buenos Aires Conference of the trade body.

Q.7 "For a remunerative farming India needs to first secure a healthy industrial expansion". Give your comments in light of the changed economic contours of India.

Ans. There has been a strong case in the country to make farming a remunerative profession. In past few years, we see increase in the number of farmers' suicide, too. Though, all such suicides can not be linked to the farm sector, but around 43 per cent have been directly or indirectly linked to it (NCRB, 2015). Experts have cited several reasons for the farm distress which may finally lead to suicides by the farmers. But one very important factor for it has been *declining* or *non-remunerative* farm practices in the country. Even for non-remunerative farming there are many reasons responsible but one major reason has been structural—the under-developed industrial sector. In recent years, we see a strong view emerging in favour of speedier industrial expansion for the purpose of making India's farm sector remunerative. We may understand it in the following way:

- Presently, agriculture provides employment to 48.9 per cent of the population while contributes just 17.4 per cent of the GDP *(Economic Survey 2015–16)*. This shows the non-remunerative condition of the farm sector.

- As farmers did not get other employment opportunities, the increasing rural population just remained piling up on the farm sector itself. This has been happening since decades.
- Several farmers keep migrating from the rural to urban sectors in search of jobs. But this makes a negligible dent in the size of population dependent on the sector.
- Had the industrial sector (particularly, the manufacturing sector) expanded in a healthy way together with skill generation among the farm community, the livelihood dependency on the farm sector could have been checked and per capita income of the farmers enhanced like many other countries across the world.
- India has missed several decades in chalking out a time-bound policy framework which can systematically try to make farming a remunerative profession. The suitable steps in this regard are as given below:
- India needs to expand the job-creating (labour-intensive) manufacturing industries as the first step. We see India trying hard on this front with a variety of related policy initiatives—New Manufacturing Policy, Make in India, Start-up India, MUDRA Yojana, etc.
- Promoting agro-based industries will serve a great purpose in this regard. It will not only provide farmers additional income but also check the rural-urban migration which leads to expansion of slums, urban congestion, etc.
- A concerted effort is needed in the direction of making farmers get non-farm sector job. For this a two pronged strategy is needed—firstly, skilling the farm community and creating enough sources of employment. A special care is needed in this regard is that the new jobs should be created as locally as possible (so that the farm community does not need to travel to a typical urban settlement which has its own social hazards—a touch of socio-cultural planning is needed in this regard. The idea of 'smart cities' have potential to serve this purpose.
- Lately, land acquisition has emerged as a major roadblock in industrial expansion. A friendly land acquisition policy is needed which could be effective, non-partisan and speedier. A very timely step is coming from the government in this regard—'land leasing' policy' (NITI Aayog is supposed to come with the policy by *mid-2016*).

This why experts believe that the path to remunerative farming in India goes through industrial expansion.

Q. 8 'In the changed global scenario India needs modify its policy outlook in monitoring its exchange rate". Comment.

Ans. Indian currency has seen frequent exchange rate volatility in recent times—in accordance to the changing external variables. This forces India to closely monitor the exchange rate dynamics of the world, its major trade partners and the emerging competitors in its export market. India needs to *rethink its exchange rate policy outlook* and go for a shift in it—due to the following main reasons—

- A sharp rise in the US dollar is expected with a corresponding decline in the currencies of India's competitors, notably China and Vietnam. Already, the yuan has depreciated about 11.6 per cent (between July 2015–December 2016 period) against the dollar and as a consequence the rupee has appreciated by 6 per cent against the yuan. This put a continuous concern of capital outflows from India.

- High growth rate needs support of exports which is only possible once the rupee's exchange rate competitive. The rise of countries such as Vietnam, Bangladesh, and the Philippines is a new matter of concern which compete with India across a range of manufacturing and services.
- India's present exchange rate management policy gives unusually high weight to UAE (due to high oil imports and a trans-shipment point for India's exports). But this trade has almost nothing to do with India's export competitiveness. The policy currently considers overall trade in place of the sectoral situations and their relations with the exchange rate. Due to this India gives heavy weight to euro, even though it is really Asian countries which are India's main competitors (not Europe).
- Ever since the developed countries came under the grip Great Recession, we have seen 'unconventional monetary policy' being pushed by most of them—with effective interest rates running in negatives, too. While the central banks in the west have been aiming to push up inflation and growth through it, RBI has been balancing them (till *March 2017*). Given the situation, it looks advisable for the RBI (through 'Monetary Policy Committee') to recalibrate its monetary policy outlook.

Q. 9 "India's trade outlook needs a policy shift amidst the global paradigm shift in the aftermath of the Brexit and the US elections". Analyse.

Ans. The environment for global trade policy has probably undergone a *paradigm shift* in the aftermath of Brexit and the US elections *(Economic Survey 2016–17)*. The Brexit was motivated by protectionist sentiments in the UK. Similar sentiments are being signalled by the new US government, too. This may lead to sharp appreciation in the US dollar—it has already appreciated 5.3 per cent during November-December 2016, settling at 3.1 per cent higher by January 2017 (against an index of partner currencies). During the most protectionist phase of the USA (mid to late 1980s) a sharp rise was seen in the dollar—caused by tighter monetary policy and relaxing fiscal policy.

On the other hand, a vacuum is being created in international trade leadership under the possible resurgence of protectionist pressures. In such a scenario India needs to promote open markets and tap domestic growth. Similar moves are needed from the emerging market economies (EMEs), too. In this way, for India two specific opportunities arise—

(i) India could get much benefits by promoting 'labour-intensive exports' and 'negotiating free trade agreements' with the UK and Europe. The potential gains for export and employment are substantial—additional export of US$ 3 billion (specially in the apparel and leather & footwear sectors) and additional employment of 1.5 lakhs.

(ii) The likely retreat of USA from regional initiatives such as the Trans-Pacific Partnership (TPP) in Asia and the Trans-Atlantic Trade and Investment Partnership (TTIP) with the EU, it is possible that the relevance of the WTO might increase. As a major stakeholder and given the geo-political shifts under way, India should proactively pursue to revive WTO and multilateralism.

In this backdrop, India needs to recalibrate its foreign trade policy outlook so that it is able to minimise the negative impact of the global changes and maximise gains in its favour.

Q.10 Briefly discuss the legitimacy of preferential trade agreements (PTAs) and free trade agreements (FTAs). Review the India's experience regarding them. Give your suggestions to make them favourable to India.

Ans. Multilateral trade agreements, in general, are the first best solutions for deepening global trade as they are founded on the core principles of non-discrimination. Meanwhile, RTAs (Regional Trade Agreements) are efforts by nations aimed at deepening economic relations, usually with neighbouring countries, and tend to be *largely political* in nature. With the multilateral trade negotiations process under the WTO being a painfully slow one requiring broad-based consensus, RTAs have progressively assumed greater importance and a growing share in international trade. While RTAs are broadly *compliant* with WTO mandates and remain broadly *supportive* of the WTO process, they remain *second-best* solutions that are discriminatory in nature against non-members and are inefficient as low cost producing non-members lose out to members. While bilateral RTAs have no equity considerations, mega-regional trading groups may not necessarily be equitable if membership is diverse and small countries may lose out either way—if they are part of it they may not have much say and if they are not, they may stand to lose.

India has always stood for an open, equitable, predictable, non-discriminatory and rule-based international trading system and views RTAs as building blocks in the overall objective of trade liberalization as well as complementing the multilateral trading system under the WTO. By *mid-2016*, India had signed 10 FTAs (Free Trade Agreements) and 6 PTAs (Preferential Trade Agreements) and all of these were in force. As per the official sources *(Economic Survey 2015–16),* India's experience with them have not been so clear—

- The *net impact* of the RTAs on export performance and trade outcome is a *mixed bag* and requires detailed analysis.
- The trade increases have been much greater with ASEAN then other FTAs and theyhave been greater in certain industries such as metals on the import side.
- FTAs have led to increased dynamism in apparels, especially in ASEAN markets.
- The governmental analysis suggest that Indian PTAs do increase trade without apparently leading to inefficient trade.

Suggestions:

(i) Today, when global trade is shrinking with extra production capacity, instances of trade violations are high. In such a situation, if India pursues with the FTAs, India must enhance its ability to respond with WTO-consistent measures such as anti-dumping and conventional duties and safeguard measures.

(ii) The big question is whether India should continue negotiating FTAs. With which country to negotiate them is another question. A related and even bigger question is as how India should 'position' itself relative to the new mega-regional agreements (such as the recently agreed upon, the *trans-pacific partnership*).

(iii) The WTO process of promoting multi-lateral trade seems to have been overtaken by preferential trade agreements in the world. In this backdrop, India needs to make a strategic choice—to play the *same*

PTA game as everyone else or be excluded from this process. It is never advisable to be excluded.

Q. 11 Briefly discuss about 'climate smart agriculture' and the steps taken by the Government in this regard with suitable illustrations.

Ans. Climate Smart Agriculture (CSA) is an approach that helps to guide actions needed 'to transform and reorient agricultural systems to effectively support development and ensure food security under changing climate'. It aims to provide stakeholders the means to identify agricultural strategies suitable to their local conditions. The CSA aims to tackle three main objectives—

(i) sustainably increasing agricultural productivity and incomes;
(ii) adapting and building resilience to climate change; and
(iii) reducing and/or removing greenhouse gas emissions wherever possible.

Climate change can impact the farm sector in different ways—increased variability in temperature, rainfall, extreme weather events like drought and flood. These incidences ultimately hit the farm community in a very negative way. To fight out these uncertainties development of a climate resilient agro-system is the need of the hour.

Though, this new concept is at nascent stage in India, the Government has already started taking policy initiatives in this direction. At present, climate resilient technologies are being demonstrated in 153 model villages under KVK (Kisan Vikas Kendra) covering 23 states under National Innovations on Climate Resilient Agriculture (NICRA). In addition, 623 contingency plans have been prepared to manage various weather aberrations such as droughts, floods, cyclones, hailstorms, heat and cold waves.

Q.12. India has tried to give a new impetus to its trade in recent years—briefly highlight the major latest steps taken by the GoI in this regard.

Ans. By mid-2016, the GoI took several new initiatives to facilitate trade, mainly aimed at adopting internationally best practices—

- e-Filing & e-Payment started. Mandatory documents required for export-import has also been cut down to just *three* each (international benchmarks).
- single window and online facility for customs clearance put in place—24x7 facility. (to cut time and cost of doing business).
- aim to move towards 24x7 paperless environment of trade.
- simplification of *'aayat niryat'* forms, bringing in clarity in different provisions, removing ambiguities and enhancing electronic governance—a mobile application also launched by the DGFT (Director General of Foreign Trade) by late 2015.
- for training/outreach, the 'Niryat Bandhu Scheme' launched aimed at Skill India.
- a Council for Trade Development and Promotion (CTDP) launched in July 2015, aimed at ensuring participation of states/ union territories (UTs) to enhance trade-enabling environment and for making them active partners in boosting India's exports.
- the state/UTs to develop their export strategy, appoint export commissioners, address infrastructure constraints restricting movement of goods, facilitate refund of value- added tax (VAT)/octroi/state-level cess, address other issues relating to various clearances and build capacity of new exporters in order to promote exports.

India's economic diplomacy has gathered a new momentum in past few years. World economies together with the international and regional economic agencies are taking India as a major source of global growth. In wake of this India needs to scale up its external sector governance paradigm.

Q.13. "The NBFCs are fast emerging as an important segment of Indian financial system and are complementing the banking sector". Give your comments in light of the regulatory framework for the NBFCs.

Ans. NBFCs (Non-Banking Financial Companies) are fast emerging as an important segment of Indian financial system. It is an *heterogeneous group* of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc. They *can not* have certain activities as their principal business—agricultural, industrial and sale-purchase or construction of immovable property. They advance loans to the various wholesale and retail traders, small-scale industries and self-employed persons. In this way, they have broadened and diversified the range of products and services offered by the Indian financial sector. Gradually, they are being recognised as *complementary* to the banking sector due to their—

- customer-oriented services;
- simplified procedures;
- attractive rates of return on deposits; and
- flexibility and timeliness in meeting the credit needs of specified sectors.

RBI, the regulator of the NBFCs, has given a very wide definition of such companies (a kind of 'umbrella' definition)—"a financial institution formed as a company involved in receiving deposits or lending in any manner." They are classified into two broad categories:

(a) deposit-taking NBFCs (NBFC-D), and
(b) non-deposit taking NBFCs (NBFC-ND).

It is *mandatory* for a NBFC to get itself registered with the RBI as a *deposit taking* company. For registration they need to be a *company* (incorporated under the Companies Act, 1956) and should have a minimum NOF (net owned fund) Rs. 2 crore.

There are certain other category of the NBFCs which are regulated by other financial regulators—venture capital fund, merchant bank, stock broking firms (SEBI registers and regulates them); insurance company (registered and regulated by the IRDA); housing finance company (regulated by the National Housing Bank); nidhi company (regulated by the Ministry of Corporate Affairs under the Companies Act, 1956); and chit fund company (by respective state governments under Chit Funds Act, 1982).

The Government has proposed to facilitate the process of their strengthening as they are seen to be a big fund-provider to the infrastructure sector.

Q. 14 Briefly outline the reasons behind recent upsurge in the NPAs of the public sector banks and briefly highlight the recent initiatives taken by the government in this regard to resolve the crisis.

Ans. During 2017-18, the performance of the banking sector, Public Sector Banks (PSBs) in particular, continued to be subdued. GNPAs of PSBs increased from 12.5 per cent to 13.5 per cent between March and September 2017.

Stressed advances ratio of PSBs rose from 15.6 per cent to 16.2 per cent during the period. Though, various reasons (as reported by the Government documents since 2013-14) have been cited for the recent upsurge in the NPAs of the PSBs, by now the major ones are being considered as given below *(the RBI Governor Raghuram Rajan informed the Parliamentary Accounts Committee deposing before it by September 2016):*

(i) Global and domestic macro-economic instabilities due to which a slowdown was seen in the economy diluting the capability of the borrowers to service the loans.

(ii) Delays in project approvals resulting into high cost over-runs. This dented the loan servicing capability of the borrowers in a big way.

(iii) Aggressive lending by the banks to high corporate leverage.

(iv) High incidences of 'wilful defaults'.

(vi) Cases of loan frauds.

(vii) Instances of corruption in the banking institutions.

Now, the Government has commenced a multi-pronged policy framework to resolve the NPA crisis faced by the public sector banks but results have not very effective.

Other than the ongoing *Indradhanush* scheme which proposes to infuse Rs. 70,000 crore by March 2019 into the public sector banks (PSBs), to recapitalise them the Government announced (February 2018) a hefty sum of Rs. 2.11 lakh crores (to be infused upto October 2019). Of it, Rs. 1.35 lakh crores will be mobilised through 'Recapitalisation Bonds' while rest of it (Rs. 76,000 crores) will be raised by the banks from market (disinvestment process) and budgetary support. The details of these bonds are yet to be announced. This process will help the banks in meeting their capital adequacy targets also.

Q. 15 Write a note on the current policy regarding the use of disinvestment proceeds and also justify the same.

Ans. The current policy regarding the use of the disinvestment proceeds are of January 2013. The proceeds of disinvestment proceeds with effect from the fiscal year 2013–14 are credited to the existing *'Public Account'* under the head NIF and they remain there until withdrawn/invested for the approved purpose—to be decided by the Union Budgets. Currently, the proceeds are used for the following purposes:

(i) Subscribing to the shares being issued by the CPSE including PSBs and Public Sector Insurance Companies, on *rights basis* so as to ensure government ownership in them at 51 per cent.

(ii) *Recapitalization* of public sector banks and public sector insurance companies.

(iii) Investment by Government in RRBs, IIFCL, NABARD, Exim Bank;

(iv) Equity infusion in various Metro projects;

(v) Investment in Bhartiya Nabhikiya Vidyut Nigam Limited and Uranium Corporation of India Ltd.;

(vi) Investment in Indian Railways towards capital expenditure.

Till the ***Union Budget 2017–18*** was presented we find the GoI following the same policy to use the proceeds of disinvestment—using the funds for acquiring new assets (for capital expenditures). The policy looks suitable to the time as capital expenditures have been shrinking due to lower investment coming from the 'debt-stressed' and 'profit-hit' private sector. As the policy is to be decided by the Union Budget, it gives enough flexibility to the government.

Q. 16 Write a note on the official criteria regarding the term 'wilful defaulter' and also discuss the regulatory norms which apply on such individuals/entities.

Ans. There are many individuals/entities who borrow money from lending institutions but fail to repay. However, not all of them are called wilful defaulters. As per the provisions of the RBI, a wilful defaulter is one who does not repay a loan or liability, but apart from this there are other things that define a wilful defaulter—

(i) Who is financially capable to repay and yet does not do so;

(ii) Or one who diverts the funds for purposes other than what the fund was availed for;

(iii) Or with whom funds are not available in the form of assets as funds have been siphoned off;

(iv) Or who has sold or disposed the property that was used as a security to obtain the loan.

Diversion of fund includes activities such as using short-term working capital for long-term purposes, acquiring assets for which the loan was not meant for and transferring funds to other entities. *Siphoning of funds* means that funds were used for purposes that were not related to the borrower and which could affect the financial health of the entity.

If an entity's or individual's name figures in the *list of wilful defaulters*, the following restrictions get in action on them—

(a) Barred from participating in the capital market.

(b) Barred from availing any further banking facilities and to access financial institutions for five years for the purpose of starting a new venture.

(c) The lenders can initiate the process of recovery with full vigour and can even initiate criminal proceedings, if required.

(d) The lending institutions may not allow any person related to the defaulting company to become a board member of any other company as well.

Q. 17 Write a shot note on current situation of the capital adequacy of public sector banks and also discuss the government's attempts to make them compliant to the Basel III norms.

Ans. The capital to risk weighted assets ratio (CRAR) of the scheduled commercial banks of India was 12.5 per cent by March 2015 (Basel-III) falling to 11.3 per cent by September 2015. The regulatory requirement for CRAR is **9** per cent for 2016. The decline in capital positions at aggregate level, however, was on account of deterioration in capital positions of PSBs. While the CRAR of the scheduled commercial banks (SCB) at 11.3 per cent as of September 2015 was satisfactory, going forward the banking sector, particularly PSBs will require substantial capital to meet regulatory requirements with respect to additional capital buffers.

In order to make the PSBs and RRBs compliant to the *Basel III* norms, the government has been following a recapitalisation programme for them since 2011–12. A *High Level Committee* on the issue was also set up by the government which has suggested the idea of 'non-operating holding company' (HoldCo) under a special Act of Parliament (action is yet to come regarding this).

Meanwhile, the GoI has been recapitalising (since 2011–12) the PSBs to make them capital compliant. The recent capital infusions into the PSBs are as given below—

(i) In 2014-15, infused with Rs. 6,990 crore. This capital infusion was based on some new criteria— asset quality, efficiency and strength of the banks.

(ii) During 2015–16, the government released Rs. 19,950 crore to 13 PSBs *(Economic Survey 2015–16)*.

(iii) For the year 2016–17, Rs. 25,000 crore has been purposed for the purpose *(Union Budget 2016–17)*.

(iv) For the fiscal 2017–18, Rs. 10,000 crore has been provisioned *(Union Budget 2017–18)*. The budget has committed additional allocation as may be required.

(v) The Indradhanush scheme was launched (in 2015-16) by the Government under which the PSBs are to be infused with Rs. 70,000 crore by March 2019 to enable them meet the 'global risk norms' (i.e., Basel III norms).

(vi) The ongoing recapitalisation process of the PSBs got a big boost when the Government announced (February 2018) a hefty sum of Rs. 2.11 lakh crores for it. Infused into the PSBs upto October 2019, a part of it (Rs. 1.35 lakh crores) will be mobilised through Recapitalisation Bonds while rest of it (Rs. 76,000 crores) will be raised by the banks from market (disinvestment process) and budgetary support. The details of these bonds are yet to be announced. This process will help the banks in meeting their capital adequacy targets also.

As per the latest *Economic Survey 2017-18*, by September 2017, the capital to risk-weighed asset ratio (CRAR) of the scheduled commercial banks (SCBs) was 13.9 per cent (it was 13.6 per cent by March 2017)—largely due to an improvement among the PVBs (private sector banks).

Q. 18 Briefly discuss the concept 'Divisible Pool' regarding the devolution of resources by the Fianance Commission and also highlight the changes which occured in it in recent times.

Ans. The 'Divisible Pool' is that portion of gross tax revenue which is distributed between the Centre and the States. The divisible pool consists of all taxes, except surcharges and cess levied for specific purpose, net of collection charges.

Before the 80th Constitution Amendment (2000), the sharing of the Union tax revenues with the states was in accordance with the provisions of articles 270 and 272, as they stood then. This amendment altered the pattern of sharing of Union taxes in a fundamental way—dropping the Article 272 and substantially changing the Article 270. The new Article 270 provides for sharing of all the taxes and duties referred to in the Union List putting all in a 'divisible pool'. There are some exceptions to it—the taxes and duties referred in the Articles 268 and 269 of the Constitution, together with surcharges and cesses on taxes and duties (referred in the Article 271) and any cess levied for specific purposes—do not fall under this 'pool'.

The new arrangement of tax devolution came as a follow-up to the recommendations of the 10th FC (1995–2005) which the FC termed as the 'Alternative Method of Tax Devolution' (AMD). A concensus between Union and States was a advised by the FC for such an arragnement to be effected. States were going to get extra 5 per cent share in the Union taxes in the AMD, thus, a serious demand came from them—ultimately, the AMD was accepted by the Centre. To make the AMD irreversible, the GoI went for the 80th Amendment in the Constituion.

Q. 19 Write a short note on the revised liquidity management framework (LMF) put in place recently by the RBI. Also describe the rationale behind this revision.

Ans. In August 2014, the RBI announced a revised Liquidity Management Framework (LMF) Major features of the LMF is as given below:

- RBI started conducting 14-day *term repurchase* auctions four times a fortnight, up to an aggregate amount equal to 0.75% of the system's deposit base or net demand and time liabilities (NDTL).
- Unlike earlier, RBI has announced a fixed schedule for these 14-day *term repo* operations, which are used by banks for their day-to-day liquidity requirements. One-fourth of the total amount of 0.75 per cent of NDTLs would be put up for auction in each of the four auctions, RBI said in a statement.
- No change in the amount that banks can access from the liquidity adjustment facility (LAF) window at fixed repo rate of the time. Banks are currently allowed to borrow up to 0.25 per cent of their deposit base or NDTL from the LAF window.
- Additionally, RBI conducts overnight variable rate repo auctions based on an assessment of liquidity in the system and government cash balances available for auction for the day.

The revised policy framework has been put in place to check volatility in the inter-bank call money markets, where banks lend to each other, and also allow the lenders to manage their liquidity needs better. Better interest signalling and medium-term stability in the loan market are other objectives of it.

Q. 20 What are tax-havens and how are they promoting corruption in India?

Ans. 'Tax havens' are nation-states or dominions imposing low or no taxes on personal and corporate incomes, and as a consequence tend to attract wealthy individuals and corporates seeking to minimise their tax liabilities. Other than saving taxes these havens are also used as a safe hub for parking **'black money'** created in different countries. As per the data of the OECD, there are at present over 70 such destinations in the world—popular ones are British Virgin Islands, Cayman Islands, Cook Islands, Dubai, Isle of Maw, Liechtenstein, Marshall Islands, St. Kitts and Nevis, Switzerland, Marritius, US Virgin Islands etc.

The tax havens are promoting corruption in India in so many ways:

(i) They have emerged safe hubs for parking money earned in India.

(ii) As there are such parking centres, the black money individuals and corporates make in India, are easily hidden with no risk of getting caught.

(iii) Many Indian corporates have their operations in such places which they use for transfer pricing.

(iv) The parked funds get back to India in the form of 'hedge funds' destabilising the economy.

(v) As corruption is supposed to be very high in India, even politicians are believed to park their black money.

(vi) They accelerate hawala, bribery etc., in India.

Recently, we have seen some effective actions being taken by the victim nations to unearth their funds parked in these havens such as the USA, Germany and many of the OECD nations. The Government of India has also started such initiatives recently.

Q. 21 'Economic reforms with a human face'. Examine the rationale behind it and the possible outcomes.

Ans. The UPA Government announced its committment to economic reforms, with this sentence and the proverb got media attention. The political elite looks convinced today that the process of economic reform has not been able to take care of the masses, thus the future of the process will focus on it.

Economic reform with a human face is no empty rhetoric as it is based on stark realities and sound logic. As we know, in the era of reforms, the economy is moving towards a market economy in which demand/supply and price mechanism plays the main role. As vast sections of the population lacks the desired level of purchasing power, the process looks 'anti-poor' and consequeafly 'pro-rich'. Such reform processes might bring higher economic growth, but for equitable development, a conscious attempt for *inclusive growth* is essential.

The masses who lack the real level of purchasing capacity, should be supplied with subsidised goods and services till micro-level growth takes place. This is why the government is emphasising upon the *social sector* and enhancing its expenditure on the delivery of the so-called 'public goods' (education, water, healthcare, shelter etc.).

By 2016–17, we see a changed thinking in the government's fiscal policy. Now, the government stance is 'pro-corporate' as well as 'pro-poor' (quoting the Finance Minister himself). Today, the government believes in subsidising goods and services for welfare of the poor but it also intends to rationalise the subsidies with the Aadhar-seeded technology-based platform the direct benefit transfer (DBT). On the other hand, there is an effort by the government to create the best possible environment for the growth and expansion of business and industry in the country (by improving the 'ease of doing business'). Naturally, the government needs revenue to do welfare for the poor. This fiscal stance looks quite logical and timely.

Q. 22 Write a note on the present situation regarding current and capital account convertibility of rupee.

Ans. In the Union Budget 1992–93, the Liberalised Exchange Rate Mechanism Scheme (LERMS) was announced. Since then, India has always been moving ahead in the direction of greater rupee convertibility, which may be seen as given below:

(i) In August 1994, rupee became **fully convertible** in the current account.

(ii) In August 1994, the rupee became **partially convertible** in the capital account (60:40).

(iii) The current policy regarding the capital account convertibility in India stands as given below:

(a) Rupee got full convertibility on Indian corporate's proposal of foreign investment upto US$ 500 million—put in automatic route approval.

(b) Rupee became fully convertible in case of corporates intending to prepay their external commercial borrowings (ECBs) above US$ 500 million—automatic route.

(c) In May 2015, the government allowed individuals to invest abroad with an upper limit of US$ 2,50,000 per year.

As India is becoming self-dependent in earning foreign exchange, we may hope that in the near future, the government might be announcing rupee's full convertibility in the capital account. India's cautious moves towards full capital account convertibility has been appreciated by the IMF.

Q. 23 What is the term 'balance of payment'? Write a note on recent policies regarding BoP management in India.

Ans. Balance of Payment or BoP is the overall *statement* of a country's economic transactions with the rest of the world over a period, generally a year. The statement shows receivings from the world and the payments to the world basically shown in the current and the capital accounts. This statement is based on the principles of *accounting*—similar to the *balance sheet* of a company. It might turn out to be favourable or unfavourable. If it is unfavourable and the economy is incapable to pay it, this is known as a BoP crisis. In such situations, the IMF remains as the last source of rescue.

- India had to rely on emergency operations from abroad to cope up with periodic BoP crises in 1973, 1979, 1981, and 1991. But after the economic reform process started, the situation started to improve.

As India started 'opening up' after 1991, as the part of the external sector reforms, its BoP has become *favourable* with each succeeding year. *Major policies* in this direction could be summed up as given below:

(i) Steps in the direction of opening the economy for healthy levels of foreign investments (FIs)—FDI as well as the (FIIs).

(ii) Optimum levels of convertibility to rupee in the current and the capital accounts.

(iii) Accelerated disinvestment of the prospective PSUs, including 'strategic sale' to the foreign bidders, too.

(iv) Follow up of LERMS (Liberalised Exchange Rate Mechanism System) in 1992–93.

(v) Modifications in FERA–FEMA

(vi) Prudential management of the financial market with inputs of the required kind of reforms—money market, banking, insurance, stock markets etc.

(vii) Required kind of trade policy, etc.

Q.24 Critically examine the recently announced disinvestment policy for the public sector undertakings.

Ans. A new disinvestment policy was announced by the Government by February 2016—pusing in favour of the 'strategic disinvestment'. It will be better to call it a modification in the existing policy of 2009. As per the government, such policy implies "the sale of substantial portion of Government share holding of the PSUs of upto 50 per cent, or higher along with transfer of management control". Main features of this policy are—

(i) To be undertaken through a consultation process among different Ministries, Departments and the NITI Aayog.

(ii) NITI Aayog to identify PSUs and advice on the mode of sale, percentage of shares to be sold and method for valuation.

(iii) Core Group of Secretaries on Disinvestment (CGD) to consider the recommendations of NITI Aayog to facilitate a decision by the Cabinet Committee on Economic Affairs (CCEA) on strategic disinvestment and to supervise/monitor the process of implementation.

The changed stance of the government regarding disinvestment policy is a borrowing from the past experiences of disinvestment. Strategic mode of disinvestment was started by the GoI in 1999–00 itself which was put on hold by the next Government in 2004. The new government announced a new policy which aimed at GoI owing at least 51 per cent stake in the divested PSUs believing in the 'ideology' that *public has right* to own national assets. The new policy has not changed this ideology but has taken a more dynamic stance.

The new policy of disinvestment should be seen in the *backdrop* of the newly begun process of the "comprehensive management of government investment in the PSUs". Under it, the government has recognised its investment in the PSUs as an important asset and aims to optimise returns from it by its efficient use and attracting investment in the economy.

Q. 25 Briefly discuss the importance of logistics and the challenges faced by the sector in the country. Outline the recent policy initiatives taken by the Government to strengthen the sector.

Ans. Logistics is the backbone of supply chain. It manages the flow of goods from the place of production to the place of consumption. As per the latest *Economic Survey 2017-18*, major statistics which highlight the importance of India's logistics sector are as given below:

- India's logistics industry is around US$ 160 billion worth and has a compound annual growth rate (CAGR) of 7.8 per cent during last five years.
- With the implementation of GST, the Indian logistics market is expected to reach about US$ 215 billion in 2020, growing at a CAGR of 10.5 per cent.
- It provides employment to more than 22 million people.
- With a 10 per cent cut in the cost of logistics exports are estimated to grow by 5-8 per cent.
- Though, in terms of overall performance India jumped to 35th rank (from 54th in 2014) in the latest *Logistics Performance Index-2016 (World Bank)*, the sector faces numerous challenges which need immediate attention from the Government:
  - High cost impacting domestic and global competitiveness,
  - Under-developed material handling infrastructure,
  - Fragmented warehousing, multiple regulatory and policy making bodies,
  - Lack of seamless movement across modes,
  - Lack of integrated IT infrastructure and modern technology.

Government has identified the action points to develop this sector in an integrated way which are—adopting new technology, improved investment, skilling, removing bottlenecks, improving intermodal transportation, automation, single window system for giving clearances, and simplifying processes. Several new initiatives have been taken by the Government to strengthen the sector (as per the *Economic Survey 2017-18*):

- A new Logistics Division (in the Department of Commerce).
- The sector has been given 'infrastructure status' by late 2017 which will enable it have cheaper loans (at lower rates of interest) of longer tenure.
- Simplified process of approval (for construction of multimodal logistics (parks) facilities) put in place which includes both storage and transportation.
- Increased market accountability through regulatory authority and will attract investments from debt and pension funds.

Apart from increasing trade, better performance in logistics will augment the programme like Make in India, and also enable India to become an important part of the global supply chain.

Q.26 "India's income and consumption pattern show a huge anomaly". Analyse with suitable illustrations.

Ans. India's tax to GDP ratio is very low, and the proportion of direct tax to indirect tax is not optimal from the view point of social justice. The recent data released by the Government *(Union Budget 2017–18)* indicate that India's direct tax collection is not commensurate with the income and consumption pattern of the people—

- 'Corporate tax' filing pattern is very weak—out of 5.6 crore informal enterprises, only one third filed tax returns. Similarly, out of total registered company (13.94 lakh) around half filed tax returns—of which around 20 per cent did show zero income and only 7781 companies did show profit above Rs. 10 crores.
- In case of 'individual income tax', the situation is not better—out of 4.2 crore employees of the organised sector (formal sector), around 45 per cent filed income tax returns. Only 3.4 core Indians filed income tax returns out of which—around half had income below exemption limit; only 24 lakh people had income above Rs. 10 lakhs and only 1.72 lakh had income above Rs. 50 lakhs.
- The above-given data can be contrasted with the fact that in the last five years, more than 1.25 crore cars were sold in the country, and number of Indian citizens who flew abroad (either for business or tourism), was 2 crore in the year 2015.

From the figures cited above it can be concluded that India is largely a tax *non-compliant* society. The predominance of *cash* in the economy makes it possible for the people to evade their taxes. When too many people evade taxes, the burden of their share falls on those who are honest and compliant. The demonetisation process has given the government new data related to people's income and it is believed that the data mining will help the Government in increasing the tax net and tax revenue in future.

Q. 27 Discuss the challenges related to providing universal healthcare in India.

Ans. Health indicators of India have been always low due to many reasons and they still remain a matter of great concern for the GoI and UN bodies. Despite higher economic growth, India fares poorly when compared to countries like China and Sri Lanka in term of parameters like per capita expenditure on health, number of physician/hospital beds and IMR. In addition, within the country, the improvement has been quite uneven across regions/states, gender, rural/urban areas etc. The health system in India is a mix of the public and private sectors, with the NGO sector playing a small role. In providing universal healthcare, the country faces the following challenges:

Physical challenges are related to having adequate number of trained personnel, hospitals and other infrastructure. The Centre and state need active participation from the private sector and the NGOs.

Economic challenges are related to the mobilisation of funds to meet the physical challenges at one hand, while on the other, delivering the required medical services to the needy people.

Universal health insurance is under consideration with government supported premium payment.

Recently, the Government announced (Union Budget 2018-19) to launch a flagship National Health Protection Scheme which will cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries). The scheme will provide coverage upto Rs. 5 lakh per family per year for secondary and tertiary care hospitalization. This will be the world's largest government funded health care programme. Adequate funds will be provided for smooth implementation of this programme. The existing Rashtriya Swasthya Bima Yojana (RSBY) used to provide annual coverage of only Rs. 30,000.

Q. 28 Write a short note on India's policy steps regarding harnessing the 'demographic dividend'.

Ans. There has been a marked decline in the dependency ratio (ratio of dependent to working age population) in India. The ratio fell down from 0.8 in 1991 to 0.73 in 2001 and is expected to further decline sharply to 0.59 by 2014. This decline sharply contrasts with the demographic trend in the industrialised countries and also in China, where the ratio is rising. It is projected that the proportion of population in the working age group (i.e., 15–64 years) in India will increase from 62.9 per cent (2006) to 68.4 per cent in 2026.

Low dependency ratio and a high proportion of the working population gives India a comparative cost advantage, and a progressively lower dependency ratio will result in improving India's competitiveness in the global economy. The Government of India seems fully aware of this advantage and that is why the Eleventh Plan (2007–12) is implementing a ***three-pronged strategy*** to tap demographic dividend:

(i) Ensuring proper healthcare to all,
(ii) Emphasis on skill development (knowledge industry), and
(iii) Encouragement of labour intensive industries.

The proportion of economically active population (15–59 years) has increased to 57.7 per cent during 1991 to 2013 (latest National Sample Registration–2013). Projections suggest that the working age group population share will continue rising till about 2035-2040, meaning that India has another 25 years to exploit this dividend ***(Economic Survey 2015–16).*** Demographic dividend is an 'opportunity not destiny'—India needs to plan to reap its benefits.

Q. 29 Write a short note on the relationship between stock market and the economy.

Ans. After the Government of India started initiatives in the direction of an organised stock market by late 1980s, too much water has flown since then in this sector. Indian stock market has been making waves throughout the last decade. Today, it is in the headlines due to two paradoxical reasons. Firstly, the pessimism ensuing from the subdued performance of the major stock indices for the last many weeks and secondly, the international opinions and surveys putting Indian stock market among the fastest growing markets of the world. It is right time to analyse the relationship of the stock market to the economy at large. Though experts lack a complete consensus on the issue, we may point out the broader contours of the relationship in the following way:

(i) The equity prices can affect the household income. By their rise, households feel richer as the value of their equity holdings rises, and this 'wealth effect' then spills over into higher consumption ultimately boosting both demand and investment in the economy. The opposite can induce slowdown and even recession as well as sluggish investment.
(ii) Equity prices have a direct impact on the business confidence in an economy.
(iii) A strong and vibrant stock market increases borrowing capacity by raising the value of assets to put as collateral into the banks and the financial institutions.
(iv) Equity price rises raise the market capitalisation of a listed company relative to the replacement cost of its current assets (a factor known as ***Tobin's q***) which induces entrepreneurs to add capacity.

There are many real life examples from around the world which validate the point that a vibrant and rising stock index has been resulting into higher growth rates for the concerned economies between 1951–2016.

Q. 30 Write a short note on the sub-prime crisis and point out the lessons for India.

Ans. The sub-prime crisis is related to the US mortgage market which first surfaced in July 2007. Simply said, this is a financial crisis generating from the default of the borrowers. It means that it is like the non-performing assets (NPAs) crisis of banks in India. But the analyses of the situation and the mode of financing involved make it highly complex. Let us have a look on the whole matter in the following steps:

Step 1: Borrowers with poor or less than standard (that is why *'sub-prime')* credit records were encouraged (to borrow by some of the world's leading banks and financial institutions).

Step 2: These 'sub-prime loans' were then sold to other investment banks by the original lending banks and institutions.

Step 3: The investment banks (who purchased the sub-prime loans from the original lenders) in turn converted them (the loan papers) into marketable, complex financial instruments to spread risks and manage liquidity (i.e., fund).

Step 4: When the sub-prime borrowers defaulted in their repayment of mortgaged loans, the financial crisis originated—today known as the 'sub-prime crisis' around the world.

Basically, in the name of financial innovation and cut-throat competition in the financial world, there is always a risk that banks start adopting/promoting highly risky, complex and questionable financial practices. Two long-term measures will help to prevent such crises to occur again:

(i) The financial instruments should be made transparent enough and easily communicated to the buyers, and

(ii) The buyers should have at least basic knowledge of how these instruments work and the risk involved.

We find some similar actions among the Indian banking industry, too—for example, the SBI offering the 'teaser loans' (a bit cheaper interest rate on home loans for the first 2 years) to attract customers. During this period, the some substandard borrowers too got loans (as per the *Economic Survey 2008–09*). But soon after the sub-prime crisis in the USA, the RBI got more vigilant to such banking norms. By March 2017, the banking regulatory norms have been tweaked by the RBI several times. Today, India's banking industry being regulated by highly prudential norms and is getting compliant to the *Basel III* norms to in a time-bound way.

Q. 31 What is Double Taxation? Write a current note on the situation of the Double Taxation policy followed by India.

Ans. The situation of double taxation occurs when an individual is required to pay **two** or **more** taxes for the ***same income***, ***asset,*** or ***financial transaction*** in different countries—mainly due to overlapping tax laws and regulations of the countries where an individual operates his business. When an Indian businessman makes a profit or some other type of taxable gain in another country, he may be in a situation where he will be required to pay a tax on that income in India, as well as in the country in which the income was generated. To protect Indian tax payers from this unfair practice, the Indian government has entered into tax treaties, known as **Double Taxation Avoidance Agreement** (DTAA) with 65 countries, including U.S.A, Canada, U.K, Japan, Germany, Australia, Singapore, U.A.E, and Switzerland. DTAA ensures that India's trade and services with other countries, as well as the movement of capital are not adversely affected. Such agreements are known as "Double Tax Avoidance Agreements" (DTAA) also termed as ***"Tax Treaties"*** (TTs). The statutory authority to enter into such agreements is vested in the Central Government by the provisions contained in *Section 90* of the Income Tax Act.

The Income Tax relief against double taxation is provided in two ways:

(i) Unilateral Relief: Under *Section 91*, the Indian government can relieve an individual from double taxation irrespective of whether there is a DTAA between India and the other country concerned. Unilateral relief may be offered to a tax payer if:

a. The person or company has been a resident of India in the previous year.

b. The same income must be accrued to and received by the tax payer outside India in the previous year.

c. The income should have been taxed in India and in another country with which there is no tax treaty.

d. The person or company has paid tax under the laws of the foreign country in question.

(ii) Bilateral Relief: Under *Section 90*, the Indian government offers protection against double taxation by entering into a DTAA with another country, based on mutually acceptable terms. Such relief may be offered under two methods:

(a) ***Exemption method:*** This ensures complete avoidance of tax overlapping.

(b) ***Tax credit method:*** This provides relief by giving the tax payer a deduction from the tax payable in India.

In this regard, India articulated the GAAR (General Anti-Avoidance Rule) in 2010 like several other countries to be enforced from April 2017 (as per the ***Union Budget 2017–18)***.

Q. 32 'India's economic policies are neo-liberal.' Examine.

Ans. The process of economic reforms started by India in 1991 was a follow-up to liberal policies influenced by current world ideas of neo-liberalism via the IMF (as it agreed with Washington Consensus, 1985). This is why critics of the reform process call Indian economic policies neo-liberal (it was also remarked by the *Supreme Court of India*, in one of its judgements in 2012).

Through reform, India started redefining the economic role of state in the economy—a predominant role was assigned to the 'private sector', but the state today has a different and bigger role. We may cite some examples to show why India's policies are still not neo-liberal:

(i) State still manages majority stakes in the PSUs and many 'very big PSUs' have been newly set up.

(ii) Higher degree of regulation gives more economic authority to the government.

(iii) Even after liberalisation, India is ranked very low in being a liberal economy what to ask of a neo-liberal economy.

(iv) Subsidies are still on the higher side.

(v) Government expenditure on education, healthcare, social security has increased hugely post-1991.

(vi) Even liberal policies of the government are under several official checks and controls.

(vii) Had India followed neo-liberal policies, it would also have faced some financial crisis after the US 'sub-prime' crisis.

By 2016–17, we find a new stance in the fiscal policy of the GoI ***(Union Budgets 2015–16 and 2016–17)***—

(i) Now, the government believes in doing all needful welfare works with a more performance-oriented policy framework. Rationalising the subsidy regime is an important part of the policy (with the help of Aadhar-enabled technology platform, the DBT).

(ii) On the other hand, the government is trying to tweak all possible options to enhance the 'ease of doing business' in the economy—so that the business and industry are able to realise their full potential.

This new stance in the fiscal framework has been termed by the government as 'pro-poor and pro-corporate'. Basically, to do welfare, the government needs revenues—in this backdrop the changed stance looks quite suitable.

Q.33 Discuss the transformational reforms initiated by the Government in recent times.

Ans. We have seen a major change in the Government's stance towards the need of reforms—several steps of reforms have been taken which have been termed as transformational. These reforms are 'transformational' in this sense that they are aimed at transforming the very outlook to policy making and are taken in a long-term perspective. We may have a look on the major ones—

(a) Inflation targeting and setting up the Monetary Policy Committee by amending the RBI Act, 1934;

(b) Restarting of the 'strategic disinvestment' of the PSUs;

(c) Demonetisation of the high denomination currency notes (aimed at checking corruption, black money, tax evasion, fake currency and terrorism);

(d) Enactment of the new Benami Law (aimed at checking black money);

(e) Bankruptcy Law (aimed at promoting the 'ease of doing business'); and

(f) Enactment of the Aadhar Act (aimed at rationalising and weeding out corruption in the present subsidy regime); and

(g) Attempts in the direction influencing the 'behavioural pattern' of the citizens to promote the cause of socio-economic well being; etc.

The *Union Budget 2017–18* has clearly termed them transformational reforms. As these reforms are aimed at long-term gains, there might be some political backlash on them. But this is the way, economies grow up and get mature. Remark from the latest *Economic Survey 2016–17* looks quite correct in this case—economic reforms are not, or not just, about overcoming vested interests, they are increasingly about shared narratives and vision on problems and solutions.

Q. 34 Discuss the challenges faced by the public sector banks in the light of the emerging business opportunities in the banking sector.

Ans. Once India started banking sector reforms in the early 1990s, the banking industry saw multi-dimensional growth where new private banks were given licences, foreign banks allowed entry, universal banking became possible etc. The hitherto closed banking sector with almost complete state monopoly (via the public sector banks—PSBs) was faced with multiple challenges. Private sector banks started entering the sector with state-of-the-art technology, making it more difficult for the PSBs to complete. Another challenging task for PSBs in the near future will be related to their human resource management. The market in the financial sector and especially in banking, is seeing growth driven by new products and services that include opportunities in:

(i) credit cards, consumer finance and wealth management on the *retail side,* and

(ii) fee-based income and investment banking on the *wholesale side*.

These require new skills in sales and marketing, credit and operations. Furthermore, given the demographic shifts resulting from changes in the age profile and household income, consumers will increasingly demand enhanced institutional capabilities and levels, of service from banks. The PSBs need to fundamentally strengthen institutional skill levels especially in sales and marketing, service operations, risk management, and overall organisational performance.

The following steps (suggested by the RBI and experts) may help PSBs in handling these challenges:

(i) use of technology to reduce the gap created by shortage of staff and improving overall manpower efficiency.

(ii) a pool of talent for occupying leadership positions may be built up by banks by training and preparing promising officers to assume future leadership roles.

In the coming times the PSBs will have to gear up to face the new challenges, such as—increasing digitalisation; streamlining the payment systems; developing state-of-the-art cyber security system; competing against the new entrant, payment banks and private 'wallet' firms. As the government is pushing consolidation of the PSBs, it is believed that these concerns will be attended in the coming times accordingly. *(Economic Survey 2016–17 and Union Budget 2017–18).*

Q.35 Briefly discuss the factors due to which insurance penetration remains low in India, even after insurance reforms commencing over two and half decades ago.

Ans. India commenced insurance reforms in early 1990s itself. Though, the growth of the industry has been good, its expansion and insurance inclusion in the country has not been appreciable. In 2016 (latest), the insurance penetration of India was 3.49 per cent while the global average was 3.47 per cent. Insurance Penetration in some of the emerging economies in Asia, i.e., Malaysia, Thailand and China during the same year were 4.77 per cent, 5.42 and 4.15 per cent respectively. India's insurance density (in 2016) was US$ 59.7 while the global average was US $ 638.3. The comparative figures for Malaysia, Thailand and China during the same period were US $452.2, US$ 323.4 and US$ 337.1 respectively.

As per the area experts and the insurance regulator, there are several factors responsible for the low insurance penetration in the country—*major ones* of them are as given below:

(i) Complex and delayed claim settlement procedures;

(ii) Vague and incomprehensible rules and regulations of the insurance companies;

(iii) Lack of education and awareness among the masses;

(iv) Lower income levels of the population;

(v) Socio-cultural factors;

(vi) Lack of level playing field in the industry; and

(vii) Less vibrancy in the regulatory framework.

It is believed that there is high potential for the growth of insurance sector in the country, especially, in the rural areas. Recently implemented Insurance Amendment Act, 2015 is supposed to improve the sector.

Q.36. "To build fiscal capacity, it is essential for India to create legitimacy in the state". Comment.

Ans. Tax reform was an integral part of India's economic reform programme which commenced in 1991. The tax base of India is still not adequate. To build fiscal capacity the government needs to put in place a better tax regime which is only possible once the government is able to enhance its 'legitimacy' among the citizens—following steps are advisable in this regard *(Economic Survey 2015–16):*

- The *spending priorities* of the government must include essential services which are consumed by all citizens. For that matter, action needs on public infrastructure, law and order, less pollution and congestion, etc.
- *Reducing corruption* must be a high priority. This is needed not just because of its economic costs but also because it undermines legitimacy of the state. The more citizens believe that public resources are not wasted, the greater they will be willing to pay taxes. Improving transparency through efficient auctioning of public assets will help create legitimacy, and over time strengthen fiscal capacity.
- *Subsidies to the well-off* need to be scaled back. At present, it is estimated to be around Rs. 1 lakh crore. Phasing down these bounties and targeting subsidies for the poor important in strengthening legitimacy.
- *Property taxation* needs to be developed. As property taxes are 'progressive' they are desirable. It makes more sense because evading this tax is difficult as they are imposed on immovable (non-mobile) assets. This could be good source of funds for the local bodies. *Smart cities* require smart public finance and for India's urban future a sound property taxation regime will be vital.

Based on the experience of the developed countries, it has been advised to the Governments to enhance the level of legitimacy in the state/ government to prevent the middle class (the main force behind India's growth story) from 'exiting' the formal economic framework. We see the at least the central government conscious about this concern but India needs to sensitise the state governments also in this regard. *(Economic Survey 2016–17 & 2015–16).*

Q.37. "Hybrid Annuity Model of the PPP recently announced by the GoI for the road sector is a timely modification of the existing model." Give your comments with suitable illustrations.

Ans. Promoting road projects in the country has emerged into a major problem. Since the sector was opened for the private investment, the government has launched several model to attract investment to the sector—these models had run into myriads of difficulties over the time. To promote the cause, the GoI announced a new model by late January 2016—the 'hybrid annuity model' (HAM). It is a timely improvisation of the existing model—major features of it are given below:

- Investment participation to be in the ratio of 40:60 by the GoI and the private sector.
- Private sector to construct and hand over the road projects to the GoI.
- Toll collection will be the responsibility of the GoI.
- GoI will pay a fixed amount of 'annuity' to the private player for the defined period of time as per the contract.
- Private player to be selected through 'competitive bidding'—the player asking for the lowest annuity to get the contract.
- GoI to cover all the risks related to regulatory clearance, land acquisition, compensation, commercial, traffic.

The HAM is a mix of the existing EPC and BOT-Annuity models. The present model was 'engineering, procurement and construction' (EPC) in which the risks related to clearance, land acquisition, commercial and traffic all were borne by the GoI together with the 100 per cent funding. Toll collection was the government responsibility (which the government may decide to not collect). The was given to the lowest bidder. In fact, this model was hardly different from a normal contract. In it, there was no scope of attracting private investment to the fund-scarce road sector, this is why a replacement was needed.

Before the EPC model, India was having the 'build-operate-transfer-annuity' (BOT-Annuity) model till 2010. The PPP model was based on 'annuity' payment to the private player by the GoI with the latter covering no commercial and traffic risks. Toll collection was the responsibility of the government. The contract was given to the player which asked for the lowest annual annuity. Originally developed for the road sector, by January 2018, the Government made this model applicable in case of other infrastructure sectors, too.

Q.38. "There is a perception that vocational education and skill development are meant for people who have failed to join mainstream education." In light of this statement discuss the situation of 'skill gap' in the economy and the recent steps taken by the government in this regard.

Ans. 'Skill' is considered the best tool to improve employability of the population. This can be imparted through vocational education and training. However, there is a perception that vocational education and skill development are meant for people who have failed to join mainstream education. This perception is strengthened by the significantly lower wages paid to employees with vocational training vis-à-vis those with formal education.

There is a severe quality gap and lack of availability of trainers in the vocational education and training sector as per the NSDC (National Skill Development Corporation). By 2017, this skill gap within the vocational training sector including both teachers and non-teachers will reach a figure of 211,000. The workforce requirement is projected to increase to 320,000 by 2022. Some ***recent steps*** taken by the GoI, in this regard, are as given below:

- The NSDC has given a big thrust towards this. The establishment of the *National Skill Qualification Framework (NSQF)* is aimed at bridging skill gap in the higher education.
- The SSCs (Sector Skill Councils) as autonomous industry-led bodies through the NSDC create National Occupational Standards (NOSs) and Qualification Packs (QP) for each job role in the sector, develop competency frameworks, conduct training of trainers, conduct skill gap studies and assess through independent agencies and certify trainees on the curriculum aligned to NOSs developed by them.
- The *PMKVY* (Pradhan Mantri Kaushal Vikas Yojana), which targets offering 24 lakh Indian youth meaningful, industry-relevant, skill-based training and a government certification on successful completion of training along with assessment to help them secure a job for a better future.
- The *DDU-GKY* (Deen Dayal Upadhyaya Grameen Kaushalya Yojana), a placement-linked skill development scheme for rural youth (who are poor), as a skilling component of the NRLM (National rural Livelihood Mission) has also been launched.
- *National Action Plan (NAP)* for skill and training has been launched with a view to increasing the scope of employability among differently-abled persons.

- *National Policy on Skill Development and Entrepreneurship 2015* aims to ensure skilling on a large scale at a speed with high Standards and promote a culture of innovation based entrepreneurship to ensure sustainable livelihoods.

India has one of the youngest populations in the world. Given this, there is immense potential for overseas employment opportunities for skilled persons from India. The process of mapping such opportunities through the NSDC is also in progress.

Q.39. "Improving the performance of social sector will make India achieve three goals in one move—fiscal consolidation, better human capital formation and enhanced welfare". Comment on the statement and also give your advices to improve the situation of the social sector.

Ans. The whole gamut of expenditures the governments do on the social welfare falls under the social sector. It has a significant role in the economic development and welfare of a country. It is empirically proven and widely recognized social sector expenditures impact the growth of an economy. Investing in *human capital* by way of education, skill development, training and provision of health care facilities enhances the productivity of the workforce and welfare of the population. In this regard, contemporary documents ***suggest*** the following actions for the governments in the country:

- Improving the quality of education provided in schools to arrest and reverse the decline in enrolment in government schools. An important contributor to improvement in the quality of education would be an increase in the percentage of *qualified teachers*.
- Overcoming the development challenges through innovative models of *delivery of services*. It has a critical role to play in India's march towards double-digit growth.
- Improving the quality of human capital will be necessary to capitalise and leverage the advantages of the demographic dividend—through better healthcare, education and skill.
- Overhauling of the subsidy regime is needed with faster pace. It will not only rationalise the subsidies but bring in variety of *other benefits* in the service delivery system—inclusion of the needy population; exclusion of the fake accounts; prevention of corruption and leakages; traceability; authentication of delivery; transparency and accountability.

  The idea of technology-enabled Direct Benefits Transfers (DBT), namely the JAM (Jan Dhan-Aadhaar-Mobile) number trinity solution, introduced by the GoI in this regard is believed to be a game-changing move.
- India needs to include the *behavioural dimensions* of the target population in its framework of policy-making to realise desired results in the area of promoting the cause of the social infrastructure.
- There is a need of *integrating* the social sector initiatives of the Centre, states and the local bodies. The new 'think tank' NITI Aayog can play a suitable platform in this regard.
- Strengthening of the *local bodies* (the PRIs) will not only boost the social sector but it will have an effect of externality in the form of an aware, awakened and participative citizenry. Through them, India can garner the support of civil society and the NGO.
- There is need to motivate and orient the *private sector* (corporate world) towards

this cause. Their inclusion in this area will not only bring in additional funds to this fund-scarce sector but enable the country to use their expertise in the promotion of the social infrastructure.

This way, improved performance of the social sector serves three purposes— fiscal consolidation (by rationalising subsidies), better human capital formation (by better education, healthcare, skill, etc.) and enhanced welfare (by being free delivery of services to the poor masses).

Q.40 "Sanitation has a direct link with the women's fundamental right to privacy". Examine.

Ans. Deficiencies in sanitation forces women and girls in India to carry higher burden which compromises with their fundamental right to privacy, too. Hygiene improves health in general but more than that it provides control on body and promotes women's right to privacy. In absence, it may create 'gender-based sanitation insecurity'. Lack of sanitation can take several forms— threat to life and safety while going out for open defecation, reduction in food and water intake practices to minimize the need to exit the home to use toilets, polluted water leading to women and children dying from childbirth-related infections, among others.

The Census 2011 reported a widespread lack of sanitation—more than half of the country's population defecated in the open. Recent data shows that about 60 per cent of rural households *(up from 45 per cent, NSS 2015)* and 89 per cent of urban households *(NSSO 2016)* have access to toilets—an improved situation over the Census. A 'rapid study' specially done for the *Economic Survey 2016–17* presents some worrisome trends among the 'households without toilets'—

- 76 per cent of women had to travel a considerable distance to use these facilities;
- 33 per cent of the women reported facing privacy concerns and assault while going out in the open. Due to these risks, the number of women who reduced consumption of food and water are 33 per cent and 28 per cent, respectively.
- While in short-term it creates problems like illness, disruptions, and deficiencies; in the long-term it compromises with overall health and cognitive development of infants and specially girls.
- Other studies have highlighted the concerns such as exposure to natural elements, snakebites, etc.

Given the scenario it is imperative to address the issue of sanitation on priority. This will not only improve health situations of all but in case of women and girls it will be a major push in the direction of securing them their fundamental right to privacy. Sanitation is a major factor leading to women's privacy.

Q.41. "Enhancing water productivity and irrigation efficiency can do miracle to the agricultural development in India". Comment in light of the idea of 'more crop per drop'.

Ans. India's agriculture lacks irrigation facilities—just around one third of it gets it. Meanwhile, additional irrigation capacity is developed agricultural productivity can be boosted in a miraculous way by enhancing the efficiency of the existing irrigation system. The conventional systems of irrigation, over the time, have become non-viable in many parts of India *(NITI Aayog, Task Force on Agriculture, 2015)* due to three reasons—

(i) increasing shortages of water,
(ii) wastage of water due to over-irrigation, and
(iii) salination of soil.

Economically and technically efficient irrigation technologies like—*drip* and *sprinkler* irrigation (micro irrigation)—can improve water use efficiency, reduce costs of production by reducing labour costs and power consumption *(Economic Survey 2015–16)*—

- *sprinkler irrigation* resulted in 35 to 40 per cent savings of irrigation water in the cultivation of groundnut and cotton in Gujarat, Karnataka and Andhra Pradesh.
- *drip irrigation* resulted in 40 to 65 per cent savings in water for horticulture crops and 30 to 47 per cent for vegetables.

Water productivity in India is very low. The overall irrigation efficiency of the major and medium irrigation projects in India is estimated at around 38 per cent. The efficiency of the *surface irrigation* system can be improved from about 35–40 per cent to around 60 per cent and that of *groundwater* from about 65–70 per cent to 75 per cent *(NITI Aayog, Task Force on Agriculture, 2015)*. Water productivity needs to be enhanced by the following methods –

- tapping, harvesting and recycling water,
- efficient on-farm water management practices,
- micro irrigation,
- use of waste water, and
- resource conservation technologies.

In order to promote judicious use of water ensuring 'more crop per drop' of water in agriculture for drought proofing, the GoI recently launched the PMKSY aiming at providing water to every field of agriculture. In this regard, India needs to go for enhanced irrigation efficiency and water productivity.

Q. 42. "The gradual approach to economic reforms has given its own dividends to India". Comment with suitable illustrations.

Ans. The economic reforms which commenced in the world by mid-1980s reached several other countries in the next decade, more so after the arrival of the WTO. Over the time, experts together with the World Bank and the International Monetary Fund has classified such countries into two categories—one which went for the 'gradualist' approach and the other which followed the 'stop-and-go' approach.

India's reform process has been termed as gradualist (also known as 'incremental'). We see the traits of occasional reversals in the reform policies of India. There has been a lack of consensus among the different coalitions as well as the Centre and the states. It reflects the compulsions of India's highly pluralist and participative democratic policy-making process.

Though such approach helped India avoid socio-political upheavals, it either delayed or did not allow it to realise the desired objectives of reforms. The first generation of reforms could not bring the expected results out of the reforms due to absence of some other kind of reforms which India goes for after almost one decade. This has created a mood of disillusionment among the general public towards the benefits of the reforms—failing governments to muster enough political support in favour of it. But the gradualist nature of reform has given India certain other benefits which are considered bigger than gaining only the economic fruits out of it—

- India being a welfare state, it does not seem nice to follow reforms for only wealth creation which is the essence of reforms.

- With a huge population of poor and marginalised people subsidised or free delivery of essential goods and services becomes necessity on the part of the government.
- In India kind of economy, market forces can not be believed to have remedy for every economic issue. This makes a strong case for the intervention from the government.
- India has been able to avoid several economic crises too by following such an approach—first the impact of South East Financial Crisis (1996–97) and second, the western recession (2007–08) led by the US sub-prime crisis.
- In a sense, the incremental approach to reform made India delay adopting highly 'neo-liberal' policies and turned out to be a blessing in disguise.

Excessive inclination towards gradualist reforms may hamper the growth prospects of the economy. This is why the new government at the centre looks committed to the cause of essential reforms in a speedy manner—at times, even taking high political risks, too.

Q.43 "Farm mechanisation is not only the need of the hour but it has potential of giving high dividends to a largely non-remunerative farm sector of India". Comment.

Ans. India needs to introduce better equipment for each farming operation in order to reduce drudgery, to improve efficiency by saving on time and labour, improve productivity, minimize wastage and reduce labour costs for each operation. *Situation of farm mechanization* in India (as per various documents of the GoI):

- although India is one of the top countries in agricultural production, the current level of farm mechanization, which varies across states, averages below 50 per cent as against more than 90 per cent in developed countries *(Economic Survey 2015–16).*
- the farm mechanization growth rate is less than 5 per cent for the last two decades.
- tractor penetration is very low—38 per cent for large farmers (with more than 20 acres), 18 per cent for medium farmers (5–20 acres) and just around 1 per cent for marginal farmers.
- farm mechanization has resulted in generating employment to rural youth and artisans for the production, operation, and maintenance of machines.
- the economic benefit of adoption of improved implements is about Rs. 83,000 crore per annum, which is only a small fraction of the potential *(NITI Aayog, 2016).*

Agricultural mechanization in case of India is increasingly needed as:

(a) due to shortage of labour for agricultural operations (owing to rural-urban migration), shift from agriculture to services and rise in demand for labour in non-farm activities, there is need to use labour for agricultural operations judiciously.

(b) agriculture sector in India has a high proportion of *female workforce*, therefore, ergonomically designed tools and equipment for reducing drudgery, enhancing safety and comfort and also to suit the needs of women workers.

Two important and contemporary policy *suggestions* may be given in this regard ***(Economic Survey 2015–16):***

(i) Due to increased fragmentation of landholdings and low rates of tractor penetration among small farmers, there is need for a market in *tractor rentals*, akin to cars and road construction equipment, driven by private participation.

(ii) Appropriate farm equipment which are durable, light weight and low cost, region, crop and operation specific using indigenous/adapted technologies need to be made available for small and marginal farmers to improve productivity.

Q.44. "Of late, India has also realised that influencing social norms will bring in multiple socio-economic dividends to the economy." Comment with the help of suitable current illustrations.

Ans. Mankind is basically a social and psychological byproduct. It means, our actions have high influence of socio-psychological factors. This has been validated by the recent studies, too. Lately, even the international agencies have also suggested the world governments to include the behavioural dimensions of their citizens into their policy framework.

Several factors related to our behaviour are directly and indirectly related to the prospects of growth and development. For example, 'social norms' are considered a major factor of maternal health in India—young women are accorded low status in joint households. Within-household nutritional differentials are stark. A recent study *(Economic Survey 2015–16)* shows that children of younger brothers in joint family households are significantly more likely to be born underweight than children of their older brother. This is attached in part to the lower status of younger daughter-in-laws in families.

Like several other countries in the world, India too has recognised the importance of influencing 'social norms' in a wide variety of sectors—

- persuading the rich to give up subsidies they do not need,
- motivating citizens to take care of old people,
- inculcating a tendency to do good to others and philanthropic actions,
- enhancing the level of trust among the citizens. For this the GoI took initiative to first trust its own citizens (self-attestation of documents, etc.),
- reducing social prejudices against girls,
- educating people about the health externalities of keeping public spaces clean, and
- appealing to go against open defecation. India's attempts in this regard has been appreciated by the World Bank, too *(WDR-2015).*

The government has a progressive role to play in changing norms, and indeed governments all over the world have embarked on systematic ways of studying how to promote behavioural change.

Q.45 "Institutional lending does not provide any safeguard to farmers' suicides caused by bankruptcy and indebtedness". Examine with illustration.

Ans. Farmers' suicides have been a major concern for the country. Bankruptcy and indebtedness have been cited as a major causes for it—as per the latest data (NCRB-2015), accounting for around 37 per cent of all suicides by farmers. By surveys and studies, local money-lenders were usually portrayed as the villain.

But as per the latest data, 80 per cent of the farmers who committed suicides in 2015 due to 'bankruptcy or debts' had borrowed money from institutional sources (banks and registered microfinance institutions). Besides, the country has seen a threefold increase in the famers' suicide due to bankruptcy and indebtedness within only one year period (from 1163 of 2014 to 3097 in 2015). In 2015, a total of 8007 farmers committed suicides due to various reasons. It was for the first time that the NCRB categorised farmers' suicides due to debt or bankruptcy based on the source of loans.

It means, the believe that institutional lending is better than local money-lenders and can be more inclusive has proved to be partially wrong—such lending may be more inclusive but it may turn out to be equally bad (or even worse) for the farmers. As institutional lending lacks human touch its nature of hardship could be even higher in comparison to the local money-lenders.

Looking at the current scenario only the size of fund allocated by the government for agriculture credit does not look sufficient. India needs to strengthen other support systems such as—enhancing the farm income together with expanding the agriculture insurance in a speedy manner.

Note: The Model Answers have been prepared by consulting a restricted list of references only to make them relevant and useful for the competitive examinations conducted by the various government bodies. Following main references have been consulted: various volumes of ***Economic Survey;*** various volumes of ***India*** reference manual; last four volumes of the ***India Development Report***. Ministerial sources, websites of ***RBI***, the **Planning Commission** and ***NITI Aayog.***