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, administretive measures etc.*

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

Q. 1 Briefly highlight the major reasons for recent upsurge in the NPAs of the public sector banks and also describe the steps taken by the RBI to check them.

Ans. An upsurge has been seen in the non-performing assets (NPAs) of the public sector banks in the past few years. As per the official sources (Economic Surveys), the main reasons for this unpsurge have been as given below—

(i) Switchover to system-based identification of NPAs;

(ii) Current macroeconomic situation in the country;

(iii) Increased interest rates in the recent past;

(iv) Lower economic growth; and

(v) Aggressive lending by banks in the past, especially during good times.

The RBI came out with a **new guidelines** to resolve the NPA issue by ealry 2014. The steps taken under it are:

(a) Banks have to start acting as soon as a sign of stress is noticed in a borrower's actions and not wait for it to become an NPA. Banks to carve out as special category of assets termed special mention accounts (SMAs) in which *early signs* of stress are visible.

(b) Flexibility brought in project loans to infrastructure and core industry projects, both existing and new.

(c) *Non-cooperative* borrowers in NPAs resolution will have to pay higher interest for any future borrowing. Banks will also be required to make higher provisions for further loans extended to borrowers who are considered to be 'non-cooperative'.

(d) Towards strengthening recovery from *non-cooperative borrowers*, the norms for asset reconstruction companies (ARC) have been tightened, whereby the minimum investment in security receipts should be 15 per cent, as against the earlier norm of 5 per cent.

(e) Independent evaluation of large-value restructuring (above Rs. 500 crore) made mandatory.

(f) If a borrower's interest or principal payments are overdue by more than 60 days, a *Joint Lenders' Forum* to be formed by the bankers for early resolution of stress.

(g) The RBI has set up a central repository of information on large credits to collect, store and disseminate credit data to lenders. For this, banks need to furnish credit information on all their borrowers with an exposure of Rs.5 crore and above.

(h) Incentives to banks to quickly and collectively agree to a resolution plan.

Q. 2 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.

Disinvestment proceeds now getting used for capital expenditures looks quite justified. Disinvestment is actually sale of assets and its proceeds should be used to create again assets.

Q. 3 Write a note on the official criteria regarding the term 'willful 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. 4 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 13.02 per cent by March 2014 (Basel-III) falling to 12.75 per cent by September 2014. The regulatory requirement for CRAR is **9** per cent for 2015. 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 12.75 per cent as of September 2014 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 government has infused ***three tranches*** of capital into the banks (infused funds go to the RRBs, too through the PSBs under whom they fall) upto March 2015:

(i) Rs. 12,000 crore infused during 2011–12 in seven PSBs.

(ii) Rs. 12,517 crore infused in 2012–13 in 8 PSBs.

(iii) Rs.6,990 crore infused in **nine** PSBs by February 2015. But this capital infusion is based on a new criteria—efficiency parameters such as return on assets and return on equity—efficient banks rewarded with extra capital for their equity so that they can further strengthen their position.

In **March 2015**, the GoI specified its intention to bring down its stake in state run banks to 52 per cent to give them more avenues to raise funds, most banks are expected to approach the market to raise capital only next fiscal once the share market get some synergy.

Q. 5 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. 6 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. 7 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. 8 Write a note on the changing dimensions of planning in India.

Ans. In the past one and half decades, we have seen great changes taking place in the process of planning in India. We may analyse the changes according to the below broad classifications:

(i) *Phase-I (1991–2002):* As India moved towards the era of economic reforms, the major change the government announced was the greater participation of the private sector in the developmental process and the nature of planning tilted more towards *indicative* planning—every new year has been a movement in this direction.

(ii) *Phase-II (Post 2002):* As the Tenth Five year plan (2002–07) commenced, we saw many important changes taking place in the nature of planning—major ones are as given below:

(a) *A serious mention* of the role of the states in the process of planning—a complete departure from the past. Statewise growth targets worked in consultation with states, are clear pointers. "Unless states achieve their targets, nation can't achieve its target", says the plan. Planning heading towards real kind of *decentralisation* (73rd & 74th constitutional amendments were forcing it also).

(b) *Governance* has been recognised as a factor of development—the Plan suggests serious attempts in this direction.

(c) The Plan is now implemented with special reference to economic reforms with the help of the steering committee.

(d) Planning Commission now monitors the progress of various central ministries.

(e) Agriculture sector declared as the *prime moving force* of the economy; governmental investment and attention tilting towards this sector after almost fifty years of the industry's dominance as per Amartya sen's suggestions.

(f) The changes in the view of planning are so pronounced that the government has declared the Plan to be a *'reform plan'*. This Plan really intends to reform the way we plan.

Q. 9 '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.).

However, analysts have cautioned the government that such policies are going to hamper growth and to increase fiscal deficit which will ultimately hurt development. But, till the poor are capable of taking on the market forces, the economy has to bear some cost. To sum up, we need growth for all—development and growth must be distributive; the Directive Principles of State Policy in our constitution envisions the same idea.

Q. 10 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 August 2007, the government allowed individuals to invest abroad with an upper limit of US$ 20,000 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. 11 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 positive or negative. If it is negative 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. 12 Write a note on the role played by the stock market in the development of the economy in India.

Ans. Aspirations of higher development could only be possible once higher growth rate is maintained. For higher growth rate, we need higher investment. As India had earlier opted industry as the 'prime moving force' of the economy, the fund was managed by 'project financing' institutions. When banks managed to make their presence felt, they also started providing the investible funds. But the most attractive investible fund, i.e., fund made available by the stock market, was not playing any supportive role, as this was not organised. With the help of the conscious efforts made by the successive governments since 1992, Indian stock market has been able to make its presence felt around the world.

The Indian stock market is one of the fastest growing stock market in Asia. Its representative share index has crossed 20,000 mark (sensex). The booming stock market is helping the economy in many ways:

(i) India is becoming less dependent on institutional project financing for investible funds.

(ii) Stock market is not only able to manage investible funds, but is increasing our forex receipts also. The government is trying to make it more lucrative by further liberalisation in the Portfolio Investment Scheme (PIS).

(iii) People's participation in growth and development is increasing day by day.

(iv) Stock market has emerged as the new route to manage investible funds.

This is how stock market has emerged as the most attractive route to manage investible funds and sustained growth rate. Naturally it has emerged as the 'new *mantra*' of growth and development.

Q. 13 Write a note on the logic behind increasing government emphasis on the social sector.

Ans. India's expenditure on the social sector has been rather poor (at 1.5 per cent of GDP) upto 1991, in comparison to the South East Asian economies (15 per cent of GDP since mid-1960s). This was basically responsible for the wretched state of education, healthcare, nutrition, drinking water etc. Once India started economic reforms, the attitude towards its social sector expenditure went for a re-orientation.

As government's role in the economy started shrinking and the nature of planning started shifting more in favour of the 'indicative' kind – emergence of the market economy—the people having lower purchasing capacity were badly hit. In this milieu, the government since then, has shown serious resolve regarding strong social sector and increasing emphasis on this sector, specially education and health.

The idea of common minimum programme had a direct bearing on the social sector and ultimately got a new target-oriented meaning in the UPA government (National Common Minimum Programme). At present the government is giving top priority and increased emphasis to this sector in the following manner:

(i) Poverty alleviation (nutrition) got a new meaning in the NREGA.

(ii) Health is getting a hefty part of the government expenditure.

(iii) Drinking water programmes being run under the targets of the Planning Commission, which are easy to monitor.

(iv) Education (specially primary one) getting more emphasis.

(v) All programmes targeting quality improvement in the lives of the poor people are being synchronised and are more focused now.

Q. 14 Write a short note on the new ideas promoted by the Twelfth Finance Commission in the area of fiscal management.

Ans. The President has been asking all finance commissions (FCs) to advise on the issue of deteriorating fiscal situation of the economy (Centre's as well as states') since the Tenth FC. Though the Centre has tried to improve its fiscal situation via many tools since then, there has been almost no major step taken to do the same in the case of states—their situation had worsened throughout the 1990s. The recommendations of the Twelfth FC are considered as a watershed example in this regard, which could be considered as the new ideas pointing towards fiscal prudence among states:

(i) *Consolidation of state loans:* The commission recommends that once the states pass their Fiscal Responsiblity Acts (FRAs) (on the lines of the Centre's FRBM Act) their loans raised upto March 31, 2004 would be converted into fresh loans for a further 20 years, that too on a cheaper interest rate of 7.5 per cent p.a. (This would cost the Centre Rs. 30,000 crores).

(ii) *Incentive for cut in the revenue deficit:* The amount by which states cut their revenue deficit would be written off by the Centre from their borrowings.

(iii) *Freedom for market borrowings:* Once states start with FRAs, they would be allowed to manage a part of their planned expenditure via market borrowings. This is supposed to bring in fiscal prudence among the states.

States have started following the new ideas suggested by the FC and enacted by the Centre. In this way the historic FRBM Act is getting a new meaning in the economy. At the same time, the complaint of states that they are dependent on central funds is also on the wane.

Q. 15 Write a note on the benefits of the VAT to the Indian economy.

Ans. Value Added Tax (VAT) is an indirect tax to be collected at all those points where value is added to a product. It has the following positive impacts on the economy:

(i) Due to differentiation among the states regarding the rates of sales tax, India was having differentiated market prices, this tax will bring in 'uniformity' in the market.

(ii) Since this tax is imposed at different points of the value addition chain, it does not impose tax upon tax; that's why there won't be any 'cascading effect' of tax on inflation.

(iii) this will automatically check the evasion of the sales tax.

(iv) This is a pro-poor tax without being anti-rich.

(v) This will enhance production levels as prices go down and cousumption increases.

(vi) Supportive to the economic growth.

(vii) It will increase the tax revenue of the states.

(viii) It will become easier to attain fiscal responsibility for the economy.

Q. 16 Write a note on the prospects and challenges to Indian agriculture in the WTO regime.

Ans. As the provision of the WTO came into effect, experts rightly visualised great prospects and at the same time some serious challenges for the Indian agriculture sector. As far as the extent of the prospects are concerned, immense export potential is visible in the following areas:

(i) Cotton textile, yarn, readymade garments, etc.

(ii) Agricultural products, cereals, fishery products and forest goods.

(iii) Processed foods, beverages, and soft drinks. A joint projection of the OECD and the GATT did put an increase in the world merchandise trade by US $745 billion upto 2005 once the WTO provisions get implemented. As per the projection, 99 per cent of this trade almost falls in the agriculture sector. As India has been an agrarian economy and enough prospects for agricultural expansion are possible, it can encash this opportunity (NCAER survey supported this in 1993–94).

We may see the possible major challenges in the WTO regime:

(i) *Food self-sufficiency:* As cheaper food-grains will have unrestricted flow into India, we might become almost dependent upon import supplies for our food requirement—our self-reliance is badly threatened.

(ii) *Price-stability:* The price stability aspect of agricultural products, specially the sensitive foodgrains, will be in great risk as fluctuations in the imports are natural (agriculture being highly prone to weather and climatic variations) hurting the poor people.

(iii) *Cropping pattern:* Cropping pattern of India might go in for a major shift in favour of profitable crops threatening the fragile ecosystem and the balance of biodiversity.

All the above given challenges could be dealt with the suitable type of timely agricultural and trade policies—but WTO provision does not give such kind of sovereign choices to its member countries. It means we need to go for flexibility in the provisions of the WTO.

(iv) *Weaker sections:* Weaker sections of the society will again miss the train of globalisation for their upliftment as the process of globalisation is not neutral to area, crop and the individual. We will need a more focussed distributive kind of economic policies to do it.

(v) *Commitments towards the WTO:* Our agricultural subsidy cannot cross the 10 per cent mark of the agricultural GDP, any year. Though this is still not alarming, the higher subsidies forwarded by the USA and the EU is diluting the competitiveness of Indian agricultural goods—the 'Blue Box' and the 'Green Box' subsidies need redefinition immediately.

Conclusion: Visualising the emerging challenges to the agriculture sector of the developing countries, like-minded nations came together (G-22) and tried to go for a justified change in the provisions of the WTO—Seattle, Doha, Cancun, and Hong Kong. Agriculture was the most important issue because of which the important ministerial conference at Seattle failed. At the Hongkong conference in December 2005, an agreement on the withdrawal of agricultural subsidies by the Euro-American countries came as a help. The 7th WTO Ministerial meeting held in Geneva from November 30–December 3, 2009 provided for different groups and caucuses to access the direction of the negotiations.

Q. 17 'Hedge funds and black money in India's economy look intertwined'. Comment.

Ans. Hedge Funds are privately owned huge external funds with swift movement tendencies dedicated to minimise the financial risks of external investments. Every economy with high growth rate as well as a vibrant stock market is a possible destination for it. As per a recent IMF report, such funds together amount to over US$1,500 billion. Attractive foreign investment policies of the countries are the main reasons for their inflows, provided there is liberal outflow policies too.

In the case of India, these funds have been blamed to generate black money, by the experts. The government has also taken steps to reign them. The main instrument via which these funds look intertwined with the generation of black money in India has been the 'participatory notes' (PNs) through which an FII may invest into India's share/stock market without disclosing the source of the funds to SEBI. Similarly, Overseas Derivative Instruments (ODIs) are other routes frequently used by the 'Hedge funds' to channelise black money into India, which are kept overseas in major tax-havens. Finally, these funds are not only giving Indian black money a legal re-entry, but also a route to finally exit India.

Q. 18 Write a note on the role of the states in the ongoing process of economic reforms.

Ans. Economic reforms started in 1991–92, but the benefits to the states and the masses looks unbalanced.

Reasons and Solutions

(i) Due to the special federal structure of India, economic reforms though well-started by the Union, could not be complemented by the states.

(ii) A certain degree of working and effective political and financial autonomy are desirable for the states so that they may move towards reaping the fruits of the reform process.

(iii) Lack of political coordination as well as cooperation between the goverments at the Centre and the states.

(iv) Process of reform should have been initiated by the states and facilitated/supported by the Centre (Union Budget 2002–03 already announced it for future reforms).

(v) The design and centralising nature of the Planning Commission need a change in favour of greater participation from the states so that the deteriorating regional disparities in the reform period (over one and half decades) could be checked (such a change was initiated with the Tenth Plan).

(vi) Panchayati Raj Institutions (PRIs) should be given effective powers by the states so that the benefits could reach the masses via mass participation.

(vii) Streamlining of the rules and regulations from the Centre to the states.

(viii) Better governance, check on the menace of corruption, legal reforms, infrastructure support etc.

(ix) The Twelfth Finance Commission has provided the states greater financial leverage by allowing market borrowings for their plan development.

(x) The implementation of VAT has opened better prospects for tax collections by the states—to be boosted once the GST (goods and services tax) gets implemented.

(xi) The Eleventh Plan has made it compulsory for the states to make their PRIs a working entity for fund devolution for the development of local areas.

(xii) Providing gainful employment to the labour force over the plan period.

Q. 19 Write a note on the situation and importance of Private Remittances for India.

Ans. As per the report of UNDP, by end-2010, Indians were the second biggest diaspora, estimated at 25 million and among the largest 'sending' nations in Asia. Not only now, the 'private remittances' (PRs) of India was of crucial importance in the former decades after Independence. Since then, it has gone swelling every year, with a major jolt to it in the early 1990s due to the Gulf War. As the Gulf became less attractive, the rise of the IT industries saw a major acceleration in PRs with Indian expatriates joining this emerging labour force en a big way.

As per the laterst data provided by the IMF/WB in 2013, India received the highest PRs in the world totalling to US$57 billion (China being 2nd at US$53). Its importance for India could be seen as given below:

(i) The value of PRs today stands at one sixth of its total foreign exchange reserves.

(ii) India is able to promote and sustain its huge current account deficit (2.5 per cent of GDP, now) with comfort.

(iii) Indian diaspora not only plays a vital monetary role for India, but they gave a relative edge to Indian diplomacy too.

(iv) They play a major role in India's emerging economic diplomacy. Looking at their importance, the GoI in recent years has become more concerned about the welfare of its diaspora.

Q. 20 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.

Government plans to promote the private sector and NGOs in its preperation for putting the right kind of physical set up while the delivery is to be taken care via the UID based insurance smart cards. Planning Commission has targeted to increase health expenditure to 2–3 per cent of the GDP in the Twelfth Plan (from 1 per cent of GDP in the Eleventh Plan). However, sceptics doubt the efficacy of the smart card-based healthcare delivery due to information divide in the country.

Q. 21 Examine India's food security in light of the record foodgrain production is 2010–11.

Ans. India has achieved a record foodgrain production of 241 million tonnes (MT) in the 2010–11 crop year with record production in wheat, maize and pulses. This has really encouraged the hope of attaining food security for the country. We may analyse it as given below:

(i) India's population growth rate at present is 1.76 per cent (as per the provisional data of Census 2011) while its foodgrain growth rate is just at about one per ent per year (since 1996–97). It put a pressure of 0.76 per cent per year on production of foodgrains.

(ii) As per the latest data released by the Governement of India, by 2020–21 the country will need a total of 281 MT of foodgrains for its consumption—it is only possible once we are able to achieve a 2 per cent annual growth rate in foodgrain production.

(iii) Once the Universal Right to food becomes effective, the real pressure on the physical availability of foodgrain will start showing up.

(iv) Scarcity of foodgrains has been a major reason for their price rise in recent years, as with increasing income, there is increased demand of food grains from the newer population of the country.

In the process of attaininy food security the government is going for a multi-dimensional approach:

(i) Second green revolution with emphasis on plant protection, organic farming, new seeds, use of bio-tech etc.

(ii) Promoting contract and corporate farming.

(iii) Action and policies regarding the effects of climate change on agriculture.

(iv) Marketing and distribution reform.

(v) Targeting agricultural subsidies in a right way.

(vi) Promoting agricultural research through private-public participation.

(vii) Trying to make farming a remunerative profession.

Q. 22 Write a note on the strategy of monitorable development targets initiated by the Eleventh Five-Year Plan.

Ans. The Eleventh Plan (2007–12) has identified 27 targets at the national level related to income and poverty, education, health, women and children infrastructure and environment, whereby 13 of the 27 targets, which are easy to monitor, have been set for the states (after due consultations with them). The strategy of setting such development targets is supposed to serve the following purposes to the economy:

(i) It will prevent the Plan faltering from its desired goals and help the Centre to achieve the objectives contained in the National common Minimum Programme (NCMP);

(ii) It will not only give the government a real time picture of development, but allow enough time to intervene without waiting for the plan completion;

(iii) The move would also address the issue of regional and sub-regional inequalities;

(iv) It will increase governmental efficiency in going for more 'inclusive growth';

(v) The idea will promote the cause of 'performance budgeting' in a more timely and transparent way;

(vi) It will increase the element of 'governance' among the states as their performance on the 13 easy-to-monitor targets will be key to timely release of Centre's budgetary allocations to them (the Centre and the Planning commission have been highly critical about the issue of governance at the state level). As the states control the main services (i.e., health, education, drinking water, nutrition etc.) on which people's standard of living depends directly, it has become essential to make the states more equipped and accountable regarding delivery of these services.

Q. 23 'Leakages are the cause by which food subsidies fail to reach the target population adequately'. Comment.

Ans. As the country headed for the Green Revolution in 1965, a proper method of food distribution also began with the commencement of the Public Distribution System (PDS). The PDS will become the main route to pass food subsidies to the needful population due to the lower level purchasing capacity of a large section of the India population. The expenditure on the heads of food subsidies went on increasing even after restructuring of the this PDS. There was a general criticism that these subsidies leak and do not reach the target population. In recent years, several measures were taken to stop the subsidies from going outside the target population, but things do not seem improving. The situation of leakage in the food subsidies through PDS may be seen via two studies released recently—

(i) In 2001–02, 18.2 per cent of PDS rice and 67 per cent of wheat was diverted from the ration shops to the open market—it means over 40 per cent of all foodgrains with subsidies missed the poor masses (Reetika Khera, 211, as cited in the *Economic Survey 2010–11*).

(ii) In 2004-05, there was an overall diversion of 55 per cent of the grain meant for the poor (Sikha Jha & Bharat Ramaswami, 2010, as cited in *Economy Survey 2010–11*).

No matter where the exact figure of leakage lies between 40–55 per cent, once legal rights to food is given using the PDS delivery system, it will double the offtake and food subsidies—increasing expenditure hugely, with no guarantee of a foolproof delivery. This is why the Unique Identification Number (Aadhar) is proposed to be used by the government so that the food subsidies are not diverted and become leakage-proof. The cash delivery will deburden the country of leakage of subsidies.

Q. 24 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 Eleventh Plan document also suggests a word of caution—'if we get our skill development act right, we will be harnessing a demographic dividend, however, if we fail to create skills, we could be facing a demographic nightmare.'

Q. 25 Write a short note on the recently launched National food Security Mission.

Ans. India's food secruity scenario has been a matter of concern for the important national and international agencies in recent times—so has it been for the Government of India. The issue was discussed in a constructive way at the 53rd meeting of the National Development Council (NDC) early 2007. In pursuance of the resolution of the NDC, the Department of Agriculture & Cooperation, Ministry of Agriculture launched a centrally-sponsored scheme on National food Security Mission (NFSM) starting with the Eleventh Plan. The ***objective*** of the Mission is to increase the production of rice, wheat and pulses by 10, 8 and 2 million tonnes, respectively, over the benchmark levels of production, by the end of the Eleventh Plan. The Mission *aims* to do the same through the following ***measures:***

(i) area expansion and productivity enhancement;
(ii) restoring soil fertility and productivity;
(iii) creating employment opportunities, and
(iv) enhancing farm level economy to restore confidence of farmers of targeted districts.

The implementation of the NFSM relates to *various activities* pointed by the government as given below:

(i) demonstration of improved production technology;
(ii) distribution of quality seeds of high yielding varieties (HYVs) and hybrids;
(iii) popularisation of newly released varieties, support for micro-nutrients; and
(iv) training and mass media compaign including awards for best performing districts.

The mission gives flexibility to the identified districts to adopt any local area specific interventions as are included in the strategic Research and Extension Plan (SREP) prepared for the agriculture development of the district. During the Eleventh Plan period, the total outlay of NFSM is Rs. 4,882.5 crore.

Q. 26 Write a concise note on the recently launched Rashtriya Krishi Vikas Yojana.

Ans. There has been a declining trend in the government's share of investment in the agriculture sector for the past few decades due to various reasons. The issue has been a matter of great concern for the governments in recent times. It was highly contemporary that the National Development Council (NDC) in its 53rd meeting (early 2007) decided to launch a programme to incentivise the states to increase the share of investment in agriculture in their state plans. Accordingly, on August 16, 2007 the government approved the *Rashtriya Krishi Vikas Yojana* (RKVY) with an allocation of Rs. 5,000 crore for the Eleventh Plan period.

The RKVY *aims* at achieving the 4 per cent annual growth rate in the agriculture sector during the Eleventh plan by ensuring a holistic development of agriculture and allied sectors.

This is a State Plan Scheme and the eligibility for assistance under the scheme would depend upon the amount provided in the state budgets for agriculture and allied sectors, over and above the baseline—percentage expenditure incurred on the sectors. The funds under the scheme would be provided to the states as *100 per cent grant* by the Central government. The main objectives of the scheme are as given below:

(i) Incentivising the states to increase public investment in the agriculture and allied sectors;

(ii) Providing flexibility and autonomy to the states in planning and executing the schemes for the sectors;

(iii) Ensuring the preparation of plans for the districts and the states based on agro-climatic conditions, availability of technology and natural resources;

(iv) Ensuring that the local needs, crops and priorities are better reflected in the state plans;

(v) Achieving the goal of reducing the yield gaps in important crops, through focused interventions; and

(vi) Maximising returns to the farmers.

Q. 27 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 1951–2005.

Q. 28 Write the main reason of price rise in recent times and discuss the steps taken by the GoI & the RBI to check it.

Ans.[1] Rising prices continued to remain in news throughout the financial year 2012–13. Price rise was basically led by the food products, chiefly the common protein-suppliers like milk, milk products, meat, egg and fishes. To contain price rise the steps taken by the GoI/RBI were as given below (as per the latest *Economic Survey 2012–13,* p. 93)—

(i) *Fiscal Measures*

(a) Import duties for wheat, onions, pulses, and crude palmolein were reduced to zero and 7.5 per cent for refined vegetable & hydrogenated oils.

(b) Duty-free import of white/raw sugar was extended up to 30 June 2012; presently the import duty has been fixed at 10 per cent.

(ii) *Administrative Measures*

(a) Ban on exports of onions was imposed for short periods of time whenever required. Exports of onions were calibrated through the mechanism of minimum export prices (MEP).

(b) Futures trading in rice, *urad, tur,* guar gum and guar seed was suspended.

(c) Exports of edible oils (except coconut oil and forest-based oil) and edible oils in blended consumer packs up to 5 kg with a capacity of 20,000 tons per annum and pulses (except *Kabuli chana* and organic pulses and lentils up to a maximum of 10,000 tonnes per annum) were banned.

(d) Stock limits were imposed from time to time in the case of select essential commodities such as pulses, edible oil, and edible oilseeds and in respect of paddy and rice up to November 30, 2013.

(iii) *Measures to Insulate the Vulnerable Sections*

(a) The central issue prices (CIP) for rice (at Rs. 5.65 per kg for below poverty line [BPL] and Rs 3 per kg for Antodaya Anna Yojana [AAY] families) and wheat (at Rs. 4.15 per kg for BPL and Rs. 2 per kg for AAY families) have been maintained since 2002.

(b) Under the targeted PDS (TPDS) allocation of foodgrains is being made to 6.52 crore AAY and BPL families at 35 kg per family per month at a highly subsidised CIP.

(c) The government has allocated rice and wheat under the Open Market Sales Scheme (OMSS).

(d) The scheme for imports of pulses which envisaged imports for distribution to BPL households through the PDS with a subsidy of Rs 10 per kg operated from November 2008 to June 2012. The government has decided to implement a varied form with a subsidy element of Rs. 20 per kg per month for BPL cardholders for the residual part of the current year. The targeted BPL cardholders will be as estimated by the Department of Food and Public Distribution.

1. The answer given above looks bigger—here, the complete picture has been presented, and readers are suggested to cut it short as per their requirement—as per the demand of the question. Questions are generally asked in parts, i.e., only the 'budgetary measures', monetary measures, administrative measures, etc.

(e) The Scheme for Distribution of Subsidised Imported Edible Oils has been implemented since 2008–09 through state/union territory (UT) governments for distribution of 1 litre per ration card per month with a central subsidy of Rs. 15 per kg. The scheme has been extended up to 30 September, 2013.

(iv) *Budgetary and other Measures*

(a) A number of measures were announced in Union Budget 2012–13 to augment supply and improve storage and warehousing facilities. The government launched a National Mission for Protein supplements in 2011–12 with an allocation of Rs. 300 crore. To broaden the scope of production of fish to coastal aquaculture, apart from fresh water aquaculture, the outlay in 2012–13 was stepped up to Rs. 500 crore. Recently, the government permitted FDI in multibrand retail trading. This will help consumers and farmers as it will improve the selling and purchasing facilities.

(v) *Monetary Measures*

(a) The RBI had also taken suitable steps to contain inflation with 13 consecutive increases by 375 basis parcentage points (bps) in policy rates from March 2010 to October 2011.

Q. 29 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.

As the banks and financial institutions of the world are today more inter-connected due to financial globalisation, the crisis has spread to other non-US economies. The seriousness of the matter is best illustrated by the fact that no one knows who owns the bad debts. Worse, banks do not seem to know the extent of risks in some of the instruments they have created or for that matter when and where to expect them. The credit rating agencies involved with the debt instruments are themselves badly confused. The US government proposed a radical financial reform programme in late March 2008.

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.

India must take lessons from the crisis and every liberal financial move should be guarded with utmost transparency.

Q. 30 Write a descriptive note on the emerging challenge of inflation targeting in India.

Ans. A stable rate of inflation is among the most important things for the growth of an economy—both from domestic and external point of view. It was in the mid-1970s that the RBI was given the function to stabilise inflation—and 'inflation targeting' commenced in India. A new term was born—'threshold rate of inflation' (considered 5 per cent)—in late 1990s to connote the level beyond which prices hurt all sectors of the economy. Now, once the economy has started globalisation vigorously, the challenge of stabilising as well as targeting inflation has become more complex. The current challenge of inflation targeting in India may be seen in two perspectives:

(i) As Indian economy is more open now, it has become necessary to keep its inflation in tandem with global trends to ward off crises with exchange rate, banking, insurance, investment etc. As most of the developed economies have inflation below 3 per cent, we have an immediate obligation to target this level (as we are competing with these economies in the globalised era).

(ii) At another level, the comfortable range of inflation for India is considered 4–5 per cent (almost 2 per cent higher to the obligation of globalisation). But an economy like India which has great growth potential but wretched human development, a lower level of inflation will hinder its growth (there is trade off between inflation and growth). As inflation crossed the 7 per cent level by the first week of April 2009, the government has taken many measures to cool it down. But in the long-run every attempt to cut it to 3 per cent level will hamper investment and growth.

Indian economy is today faced with the above-given twin and paradoxical challenges regarding inflation targeting.

Q. 31 Write a brief note on the role played by the Micro Management of Agriculture (MMA).

Ans. The MMA is a centrally sponsored programme launched in 2000–01 aimed at complementing/supplementing the states' efforts towards enhancement of agricultural production and productivity. The Revised (2008–09) MMA has the following salient features:

(i) Funds are allocated on gross cropped area basis (unlike on historical basis of past).

(ii) Subsidy structure rationalised and made similar to the other schemes sponsored by the Centre.

(iii) Two new components have been added, namely: (a) Pulses and Oilseeds Crop Programmes (POCPs) for the areas not covered under the Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize (ISOPOM) and (b) Reclamation of Acidic Soil (RAS) launched along with the existing component of Reclamation of Alkali Soil (RAS).

(iv) Ceiling for new initiatives increased to 20 per cent (from 10 per cent).

(v) 33 per cent of the funds earmarked for small, marginal and women farmers.

(vi) Active participation of PRIs in review, monitoring and evaluation.

Funding pattern is in the ratio of 90:10 between Centre and states except the north-eastern states for whom the 100 per cent Central funding is extended as Grant.

Q. 32 What are the causes of the slide of the rupee in recent time?

Ans. Rupee has been showing a serious tendency of depreciation since mid-September 2011 and presently it is at Rs 56, per dollar. The US dollar is at its eight months high today against its major rivals. The reasons for rupee slide and dollar high are driven by the following reasons:

(i) The rupee is sliding on account of strong demand from importers (oil is India's biggest import and domestic oil firms are the largest purchasers of the dollar in the local currency market).

(ii) Banks in India are also creating high demands for dollars.

(iii) The greenback is being seen as a *safe haven*, especially at a time when risk aversion is sweeping through global financial markets. The weakening Euro is the chief concern for the world investors—making them search for a safe heaven.

(iv) Though the downgrading of the US dollar is another concern—as the international investors are still showing hope in the dollar (due to weakening euro) it has not been translated into stronger rupee (as banks and importers are demanding more dollars).

(v) World stocks stumbled from the 1–1/2 month high on October 18, 2011 and government bonds rose as slower-than-expected Chinese growth and a warning on France's AAA sovereign credit rating prompted investors to cut risks.

The depreciating rupee has emerged as a major concern for policymakers/ RBI in India, which puts a threat of spiralling into further price rises. In the given situation, if the central bank intervenes to support the rupee, it will increase its supply into the economy again fueling inflation which has already been the biggest challenge for the government for the past one and half years.

Nevertheless, the decline in the rupee exchange rate has given merchandise and software exporters cause for *cheer*, as they will enjoy better profits from the more competitive export prices. Recently concluded quarter has seen a very high export growth rate in India.

The normalcy in the demand of dollar and cooling down of the rupee is intertwined with the financial health of the crisis-ridden European economies. A strong intervention by the major European economies has every chance of rejuvenating the economy and arresting the slide of the rupee.

Q. 33 Write a contemporary note on the importance and the role played by WIPO.

Ans. The World Intellectual Property Organisation (WIPO) is a specialised agency of the United Nations. It is dedicated to developing a balanced and accessible international intellectual property (IP) system, which rewards creativity, stimulates innovation and contributes to economic development while safeguarding the public interest. WIPO was established by the WIPO Convention in 1967 with a mandate from its member states (today it is 184) to promote the protection of IP throughout the world through cooperation among states and in collaboration with other international organisations. Its headquarters are in Geneva, Switzerland and its present Director General is Francis Gurry.

Strategic Goals

WIPO's revised and expanded strategic goals are part of a comprehensive process of strategic realignment taking place within the organisation. These new goals will enable WIPO to fulfil its mandate more effectively in response to a rapidly evolving external environment, and to the urgent challenges for intellectual property in the 21st Century. The nine Strategic Goals were adopted by Member States in 2008–09 which are:

(i) Balanced Evolution of the International Normative Framework for IP
(ii) Provision of Premier Global IP Services
(iii) Facilitating the Use of IP for Development
(iv) Coordination and Development of Global IP Infrastructure
(v) World Reference Source for IP Information and Analysis
(vi) International Cooperation on Building Respect for IP
(vii) Addressing IP in Relation to Global Policy Issues
(viii) A Responsive Communications Interface between WIPO, its Member States and All Stakeholders
(ix) An Efficient Administrative and Financial Support Structure to Enable WIPO to Deliver its Programs

The Strategic Goals will provide the framework for WIPO's six year Medium Term Strategic Plan (2010–2015).

Q. 34 'India's foreign investment regime has become more liberalized in recent times'. Comment.

Ans. To promote the flow of foreign funds into the economy, the RBI on ***January 24, 2013***, further liberalised the provisions of investment in India's security market—

(i) *FIIs* and ***long-term investors*** [2] investment limit in Government Securities (G-Secs) enhanced by US $5 billion (to US $ 25 b).
(ii) Investment limit in corporate bonds by the above-given entities enhanced by $5 billion (to $50 billion).
(iii) The RBI also relaxed some investment rules by removing the maturity restrictions for first time foreign investors, on dated G-Secs. But such investments will not be allowed in short-term paper like Treasury Bills.
(iv) Foreign investors restricted from investing in the 'money market' instruments—certificates of deposits (CDs) and commercial paper (CPs).
(v) In the total corporate debt limit of US$50 billion, a sub-limit of US$25 billion each for infrastructure and other than infrastructure sector bonds has been fixed.
(vi) Rules requiring FIIs to hold infrastructure debt for at least one year has been abolished.
(vii) The qualified foreign investors (QFIs) would continue to be eligible to invest in *corporate debt securities* (without any lock-in or residual maturity clause) and *mutual fund debt schemes*, subject to a total overall ceiling of US$1 billion (this limit of US$1 billion shall continue to be over and above the revised limit of US$50 billion for investment in corporate debt).
(viii) As a measure of further relaxation, it has been decided to dispense with the

2. Long-term investors' include SEBI-registered 'sovereign wealth funds' (SWFs), multilateral agencies, endowment funds, insurance funds, pension funds and foreign central banks.

condition of one year lock-in period for the limit of US$22 billion (comprising the limits of infrastructure bonds of US$12 billion and US$10 billion for non-resident investment in IDFs) within the overall limit of US$25 billion for foreign investment in infrastructure corporate bond.

(ix) The residual maturity period (at the time of first purchase) requirement for the entire limit of US$22 billion for foreign investment in the infrastructure sector has been uniformly kept at 15 months. The five-year residual maturity requirement for investments by QFIs within the $3 billion limit has been modified to three years original maturity.

Q. 35 What is Double Taxation? Write a current note on the situation of the Double Taxation policy followed by India.

Ans. Due to phenomenal growth in international trade and commerce and increasing interactivity among the nations, residents of one country extend their sphere of business operations to other countries. Cross-country flow of capital, services and technology is the order of the day particularly after our country embarked on the path of globalisation of economy. Presence of double or multiple taxation acts as a major determining factor in decisions relating to location of investment, technology etc. as it affects the bottom-line of a business enterprise. The effort is, therefore, to ensure that heavy tax burden is not cast as a result of double or multiple taxation. The object is achieved by the government entering into agreements with other countries whereby the respective jurisdiction is so identified that a particular income is taxed in one country only or, in case it is taxed in both the countries, suitable relief is provided in one country to mitigate the hardship caused by taxation in another jurisdiction.

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.

Apart from providing ways and means to avoid double taxation of same income, the agreements generally provide for other matters of common interest of the two countries ***such as***: exchange of information; mutual assistance procedure for resolution of disputes; and for mutual assistance in effecting recovery of taxes. Treaties being international agreements, their consequences are determined according to the rules of ***Vienna Convention on the Law of Treaties, 1969***. The Articles 31, 32 and 33 of the convention lay down the rules for interpretation of these treaties. The commentaries by OECD and UN based on respective models also provide material for interpretation of the treaties. The terms and expressions, if not defined in the treaties, take their meaning from respective domestic law in case they are defined there.

Q. 36 Write a short note on the impact of colonialism on the Indian industry in the pre-independence period.

Ans.

(i) The first half of the 19th century saw a sudden and quick collapse of urban handicrafts—railways made it even faster.

(ii) The second half of 19th century saw the entry of modern industries but the pace was very slow—low technology and confined to **cotton** and **jute,** iron/steel, came up in 1907 while sugar, cement and paper industries and a few engineering firms came up in the 1930s—still by 1946, cotton and jute textiles accounted for nearly 30 per cent of all worker employed in factories [CEHI].[3]

(iii) After 1918, modern industry developed quite fast but its growth rate was just 3.8 per cent and had little impact on overall economic situation as its share in the national income was at 7.5 per cent by July 1947 [A. Maddison] in 1913 it was 3.8 per cent [CEHI].

(iv) Modern industries barely compensated for the displacement of traditional handicrafts.

(v) In 1939 only 2 million were employed in industries (population 389 m.)

(vi) A virtual absence of ***capital*** or ***producers goods*** industry—relying almost wholly on imported machinry and tools (89.8 per cent).

(vii) Banking and insurance grossly underdeveloped. Without simultaneous industrialisation, the growth of *railways* further colonised India and they served the British cause.

(viii) Till 1930s, foreign capital dominated after 1918—giant MNCs entered (Unilever, Imperial Chemical Industries, Dunlop and GM).

3. Dharma Kumar (ed.), ***Cambridge Economic History of India***, vol 4, Cambridge, CUP, 1983.

Foreign capital did 'drain' capital from India in place of promoting investment, we may see the *three* chief features:

(i) Contributed to 'the guided underdevelopment of India by concentrating on the production and export of raw materials and food stuffs.

(ii) Focused the sectors which catered to foreign markets and not to India's home market.

(iii) The 'multiplier effects' in terms of income, employment, capital, etc. were largely exported back to the developed countries.

Overall, industries were during encouraged the colonial rule but for the service to the colonial interests, not India—just a tool to drain out wealth, from India.

Q. 37 'Financial development facilitates real economic growth'. In the light of the statement discuss the situation of bond market in India.

Ans. The *Economic Survey 2011–12* raises its concerns for weak 'bond market' in India with this statement of the Australian economist Schumpeter—the issue was raised by the last *Economic Survey*, too. And the latest ***Economic Survey 2012–13*** has also recommended for its strengthening. The Survey highlights the passages from the latest research which prove the idea that to propel economic growth it is necessary to put a strong financial market in place—its depth and diversity in the instruments of raising long-term money support inclusive growth.

Long-term financial needs of Indian firms are mainly met by the banks in India (17.8 per cent, 2011–12) and the bonds play a negligible role. Basically, the vacuum created by the bond market has been compensated by foreign borrowings (costly and secured) by Indian firms which rose sharply in the last decade.

There are some ***reasons*** why the bond market has not developed adequately:

(i) One reason has to do with what economists call 'multiple equilibria'. This is a situation when due to underdeveloped bond market, the instrument lacks liquidity—lesser number of interested buyers and sellers of the bonds.

(ii) Underdeveloped *mechanism of information* about the corporate houses who could issue bonds- information is delayed, inadequate and insufficient.

(iii) A general *erosion of faith* in the corporate world due to recent cases of scams and scandals which involved the politicians, bureaucracy and the corporate houses, too.

Low penetration of the 'unsecured borrowing' (Corporate bonds) provide less incentives to the entrepreneur and discourages investment and growth. Raising funds via bonds are not only easier but faster and safer in comparision to the 'secured loans' provided by the other segments of the organised finacial sector (banks, security market, debentures). Entrepreneurship needs free and quicker means of funds' availability to flourish—India is a typical case of least explored economy on this count. As India decides to garner US$500 billion investment from the private sector in the *12th Plan* period, this is the right time to strengthen the corporate bond market in the country.

Q. 38 Write a current note on the recent steps taken by the government in the area of agricultural extension services.

Ans. Governments have always felt that India lacks a strong extension services in the agriculture sector. In recent years, the GoI has launched many effective programmes/schemes in this regard:

(i) The Support to State Extension Programmes for Extension Reforms Scheme was launched in 2005–06, aiming at making the extension system 'farmer driven' as well as accountable to farmers by providing for new institutional arrangements for technology dissemination. This has been done through setting up of Agricultural Technology Management Agencies (ATMA) at district level to operationalise the extension reforms;

(ii) 'Mass media support' to agriculture focusing on Doordarshan infrastructure and All India Radio (AIR) broadcasting agriculture-related informations;

(iii) Kisan Call Centres (KCC) to provide agricultural information to the farming community through toll free telephone lines;

(iv) *Agri-clinic* and *agribusiness* centres by agriculture graduates to provide extension services to farmers on 'payment basis' through setting up of economically viable self–employment ventures, and information dissemination through *agri fairs*;

(v) *Extension Education Institutes* at *Nilokher* (Haryana), *Rajendra Nagar* (Andhra Pradesh), *Anand* (Gujarat), and *Jorhat* (Assam) are operating at 'regional level' to improve the 'skills and professional' competence of extension field functionaries of agriculture;

(vi) There are ***model training courses*** on thrust areas of agriculture, horticulture, animal husbandry, and fisheries with the objective of improving the professional competence, upgrading the knowledge and developing technical skills; and

(vii) ***MANAGE,*** Hyderabad, an apex Institute at the national level, provides training to middle and senior level officers of agriculture.

Q. 39 Write a contemporary note on the 'changing dynamics' of the global economy in reference to India.

Ans. The global economy has gone for a big change in its dynamics over the 'last two decades'—and has every potential to go for further change in the coming decades. The shares of major economies in global GDP, manufacturing, and trade suggest that there has been a marked change in the configuration of the world economy, visible by the following points:

(i) Sustained growth of a number of emerging economies, especially the BRICS economies, has resulted in an increase in their share in the global GDP.

(ii) The value addition in the world economy has been moving away from advanced countries towards what have been termed emerging economies. The decline in share is particularly marked in the case of the EU.

(iii) The shift towards Asia has been significant and, within Asia, away from Japan to China and India.

(iv) The *fivefold* increase in share of China in the global GDP has placed it as the second largest economy in the world. The increase in share of India, though less dramatic, is nevertheless of an order that places her as the ***fourth*** largest economy in PPP terms.

(v) The reduction in share of advanced economies, particularly from 2005, has been accentuated by the slowdown that followed the 'sub-prime crisis' in the United States, the eurozone crisis in

2010, and the near stagnation in Japan for nearly two decades on the one side and the significantly higher rate of growth in low and middle income countries, particularly the large countries like India and China, on the other.

(vi) From the perspective of whether there has been a 'catch up' in per capita incomes across a larger set of countries, it is seen that the 'per capita income' (at PPP constant 2005 dollars) of 131 countries from 1980 to 2009 continued to increase for most of the period since the mid-1980s, except in the last two-three years.

The major changes in the *dynamics of the Indian economy* have been as given below:

(i) India has achieved faster growth from the 1980s—not only was this growth higher compared to its own past, it was also much faster than that achieved by a large number of countries. Between 1980 and 2010, India achieved a growth of 6.2 per cent, while the world as a whole registered a growth rate of 3.3 per cent.

(ii) India's share in global GDP, (measured in terms of constant 2005 PPP international dollars) more than doubled from 2.5 per cent in 1980 to 5.5 per cent in 2010. Consequently, India's rank in per capita GDP showed an improvement from 117 in 1990 to 101 in 2000 and further to 94 in 2009, out of 131 countries (China improved its rank from 127 to 74 during the same period).

Underlying the relative decrease in share of advanced economies in the global GDP, there has been a marked shift in the *location of manufacturing*. This process was on in the 1990s, but got accelerated in the current decade. Again, the rise in the share of China is particularly significant while other emerging economies, namely Brazil, India, Indonesia have also moved up in terms of their share in world manufacturing. Even with the change in distribution of global GDP and manufacturing across countries, it needs to be noted that the advanced countries still account for a large share of industrial output, apart from being the repositories of technology and value added in services. The changing dynamics of the global economy has provided a good opportunity to India to expand its econimic presence more strongly.

Q. 40 Write a brief note on the recent steps taken by the Indian government regarding financial inclusion and literacy.

Ans. Financial inclusion plays a crucial role in inclusive development and sustainable prosperity as is being increasingly recognised and acknowledged globally. Large segments of population need to be part of formal payment system and financial markets. Financial inclusion would also broaden and deepen financial savings and lead to higher economic development.

Previous initiatives: While financial sector policies in India have long been driven by the objective of increasing penetration and outreach, the goal of inclusion has eluded us. About 41 per cent of adult population remains unbanked and the number of loan accounts covers only 14 per cent of adult population. The previous initiatives included:

(i) The expansion of network of co-operative banks to provide credit to agriculture and saving facilities in rural areas,

(ii) Nationalisation of banks in 1969 and expansion of branches and

(iii) Creation of an elaborate framework of priority sector lending with mandated targets as part of a strategy to meet the savings and credit needs of large sections of the Indian population who had no access to institutional finance.

Given the sheer enormity of the challenge, however, the outcomes of these efforts have so far been mixed.

Recent initiatives include: (i) 'no-frill' account for retail purpose; (ii) simplified KYC (Know Your Customer); (iii) Credit counselling centre (GCC) facilities; (iv) use of NGOs and formation of SHGs; (v) Kisan credit cards services; and (vi) extension of Smart cards.

Every Union Budget since 2007–08 has laid down provisions for funding of financial inclusion goals. The *Rangarajan Committee* also spelt out priorities for meeting financial inclusion objectives. **Two** of the more important approaches in the recent times included the use of technology such as ***smart cards*** and ***mobile telephone banking***. The potential for their spread can be vast especially in combination with 'banking correspondence' approach launched recently.

Financial Literacy:[4] Any policy initiative seeking to afford greater access to financial services to a large segment of the population must necessarily address bridging the existing *knowledge gap* in financial education and literacy. Over the last decade or so, researchers all over the world, especially in the developed countries, have, therefore started to study and explore whether individuals are well-equipped to make financial decisions. Financial education and literacy assumes urgency in any given scenario. No wonder policymakers all over are increasingly taking note of this and directing their efforts to address it.

Q. 41 Write a note on the need and prospects of the proposed 'Infrastructure Debt Funds' (IDFs).

Ans. For setting up IDFs the broad guidelines were issued in September 2011 *aimed* to facilitate flow of funds into infrastructure projects. The IDF will be set up either as a trust or as a company. A trust-based IDF would normally be a mutual fund (MF), while a company-based IDF would normally be an NBFC.

An IDF-NBFC would raise resources through issue of either 'rupee-' or 'dollar-' denominated bonds of minimum *five-year* maturity. The investors would be primarily domestic and off-shore institutional investors, especially insurance and pension funds which would have long-term resources. An IDF-MF would be regulated by the SEBI while an IDF-NBFC would be regulated by the RBI. Such entities would be designated as Infrastructure Debt Fund-Mutual Funds (IDF-MF) and Infrastructure Debt Fund-Non Banking Financial Company (IDF-NBFC). All NBFCs, including Infrastructure Finance Companies (IFCs) registered with the bank may sponsor

4. ***Some extra information on the topic:*** In the **UK**, the Financial Services Authority has launched a big campaign to improve the financial skills of the population and enable a better appreciation of risks and rewards inherent in financial instruments and transactions. The **US Treasury**, which established its Office of Financial Education in 2002, is working to promote access to the financial education tools. The Financial Literacy and Education Commission, established by Congress in 2003 was created to improve financial literacy and education. In Australia, the Government established a National Consumer and Financial Literacy Taskforce in 2002. In **Malaysia**, the Financial Sector Master Plan, launched in 2001, includes a 10-year consumer education programme. The Monetary Authority of **Singapore** has launched a national financial education programme (Money SENSE). A nationwide, coordinated effort was also required in **India** and the Financial Stability and Development Council (FSDC) is a step forward in this direction. It is expected that this new initiative will help adequately address the challenge of financial inclusion and literacy. Idioms and metaphors of development economics keep on changing from time to time. Today, new financial sector initiatives in a country like ours—be it in the form of prompt and innovative policy responses from the Government, central bank, other authorities or be it in the form of implementation efficiency and inventiveness from the varied players—need to explicitly prioritise both financial inclusion and financial education and literacy.

IDFs to be set up as MFs. However, only IFCs can sponsor IDF-NBFCs.

Eligibility parameters for NBFCs as sponsors of IDF-MFs include a minimum NOF (net owned fund) of Rs. 300 crore; CRAR (capital to risk-weighted assests ratio) of 15 per cent; net NPAs (non performing assets) less than 3 per cent; the NBFC to have been in existence for at least five years and earning profits for the last three years in addition to those prescribed by SEBI in the newly inserted *Chapter VI B* to the MF Regulations. Only NBFC-IFCs can sponsor IDF-NBFCs with prior approval of the RBI and subject to the following conditions:

(i) The sponsor IFC would be allowed to contribute a maximum of 49 per cent to the equity of the IDF-NBFC with a minimum equity holding of 30 per cent of the equity of IDF-NBFC, post investment, in the IDF-NBFC;

(ii) The sponsor NBFC-IFC must maintain minimum CRAR and NOF prescribed for IFCs;

(iii) There are no supervisory concerns with respect to the IFC.

(iv) The IDF is granted relaxation in credit concentration norms and in risk weights.

Q. 42 Write a note on the 'Interest Subvention Relief to Farmers' programmes being run by the GoI.

Ans. Farmers in the country have been facing financial hardship due to several reasons—consecutive droughts, indebtness and crop failures—farmers' suicide have always been in news in the recent time. Consequent upon the announcement by the Union Finance Minister in Budget Speech 2006–07, public-sector banks, regional rural banks and rural co-operative credit institutions were advised that with effect from Kharif 2006–07, government would provide interest rate subvention of **2** per cent per annum in respect of short-term production credit up to Rs. 3.0 lakh. This subvention was available to public sector banks, regional rural banks and rural co-operatives on the condition that they made short-term credit available at **7** per cent per annum. In case of RRBs and rural cooperatives, this was applicable only to short-term production credit disbursed out of their own funds and did not include such credit supported by NABARD refinance.

Pursuant to the *Union Budget 2010–11* announcement, it was decided to provide interest subvention of 1.5 per cent per annum for short-term agriculture loans up to Rs. 3.0 lakh disbursed by public-sector banks, cooperatives, and RRBs. The additional subvention for prompt repayment has been enhanced to **2** per cent per annum so that the effective interest rate charged to such farmers is 5 per cent per annum up to Rs. 3.0 lakh. In the *Budget 2011–12*, the government of India proposed to provide interest subvention of 1.5 per cent per annum for short term agriculture loans up to Rs. 3.0 lakh disbursed by public sector banks, co-operatives and RRBs. The additional subvention for prompt paying farmers is proposed to be enhanced to 3 per cent per annum so that the effective interest rate charged to these farmers is 4 per cent per annum upto Rs. 3.0 lakh. The programme has also been continued by the *Union Budget 2013–14*.

Q. 43 Write a note on the advantage to India in the world of 'Wellness Tourism'.

Ans. Several studies have estimated the global market for medical tourism ranging from US$ 100 billion to US$ 150 billion. The Asian medical tourism market is being bolstered by initiatives taken by the national governments, as also rising quality standards.

According to a study by the Organization for Economic Cooperation and Development

(OECD), Thailand, India, Singapore, Malaysia, Hungary, Poland, and Malta are promoting their comparative advantage as medical tourist destinations. Singapore Medicine has been established under government-industry partnership to promote Singapore as a destination for advanced medical care. Malaysia has established the Malaysia Healthcare Travel Council to develop and promote the health-care and travel industry. Philippines has launched the Philippines Medical Tourism Programme and included medical tourism in the Investment Policies Plan. Thailand has been leveraging elements such as spas and alternative therapies in its promotional strategies for several decades, coupled more recently with state-of-the-art hospitals and skilled professionals.

Several features like cost-effective health-care solutions, availability of skilled health-care professionals, reputation for treatment in advanced health-care segments, increasing popularity of India's traditional wellness systems, and strengths in IT have positioned India as an ideal health-care destination. India, while strengthening its capabilities in modern health-care systems is also leveraging its inherent strengths in traditional health-care systems such as Ayurveda, Siddha, Yoga, Naturopathy, and Faith healing/Spiritualism. It also holds an edge over competitor countries with its mastery over techniques of 'concentration and 'mind control'.

Q. 44 During India's Struggle for Independence, 'Indian capitalist class was anti-socialist and bourgeois but it was not pro-imperialist'. Elucidate.

Ans. There has been a general misconception about the 'loyality' and 'stand' of the Indian capitalist class (industrialists, traders) throughout the freedom struggle—for which there were valid reasons:

(i) They never wanted their business to suffer so opposed the Civil Disobedience and Non-coperation Movements—seen going against Gandhi in particular and INC is general.

(ii) They opposed 'socialism' and favoured 'capitalism' that is why they looked in opposition to the socialistic leanings of the INC.

(iii) Due to above-given reasons the stand of the Indian capitalist class has been often seen as supportive to the Imperial Rule.

But **objective analysis** of their stand proves it wrong:

(iv) From mid 19th century, Indian capitalists had their independent capital base and did not remain junior partners of foreign capital—which was antagonistic to the foreign capitalism class.

(v) The Bombay Plan (of a wide cross section of the leaders of Indian capitalist class) vehemently demanded land reform, co-operativisation of production, finance and marketing (like nationallist leaders).

(vi) FICCI (1927) soon got relevance which by 1930s started talking of 'unequal exchanges'—the INC saw it as a favour against the fighting imperialist economic hegemony.

(vii) By 1928, FICCI had clearly indicated of entering politics with 'nationalistic stand'—a general approach of strengthening the hands of those who were for freedom of the country.

(viii) They were opposed to Civil Disobedience, reasons being—a prolonged movement could unleash forces which may become revolutionary in a social sense (threatening capitalists) and a 'disregard for authority' could hamper the future government after getting Swaraj; hampered day-to-day business threating the very existence of the business class; followed constitutional process but not on the terms of the Britishers (participated in councils, conferences, which did show as if they were with the Imperial powers.

(ix) By 1935, FICCI announced that without the INC approval or participation it would not get involved with the Imperial rule at any level—bycotted First Round Table Conference as it was not having Gandhi and the INC.

(x) By 1937, FICCI has started pressurising the British government to come out with a goal of 'self-rule' and informed them that if it was not the outcome, the Congress will go for 'direct action' which meant 'non-violent mass civil-disobedience'.

(xi) The increase in radicalisation of the INC in 1930s (towards Left) made capitalists more active in politics—but it did not push them into the 'lap of imperialism' (as predicted by contemporary radicals) which happened in some other colonial and semi-colonial countries, instead they evolved a subtle, many-sided strategy to contain the Left but no part of it went for imperialisits.

(xii) In 1927 the capitalist class (via FICCI) refused supporting the government on the Public Safety Bill which tried to contain the communists (since they were against the imperial government), but they did not want to destroy capitalism as a force.

(xiii) By 1943 the capitalists also realised the need for socialistic reforms—'Post War Economic Development Committee' was set up by them which drafted the 'Bombay Plan'—with a general aim of incorporating 'whatever was sound and feasible in the socialist movement' without capitalism surrendering any of its essential features (says G.L. Mehta, *FICCI President*).

[Based on the CEHI, op. cit.; Bipan Chandra; Angus Maddison]

Q. 45 '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.

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

Thus, India's economic polices cannot be called neo-liberal—liberal, yes.

Q. 46 What are tax-havens and how they are 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, Mauritius, US Virgin Islands, etc. The tax havens are promoting corruption in India in so many ways which may be understood in the following way:

- They have emerged safe hubs for parking money earned in India.
- As there are such parking centres, the black money individuals and corporates generate in India are easily hidden there with no risk of getting caught.
- Many Indian corporates have their operations in such places which they use for 'transfer pricing'.
- The parked funds get back to India in the form of 'hedge funds' destabilizing the economy.
- As corruption is supposed to be very high in India, even politicians are believed to park their black money there.
- They accelerate hawala, bribery, etc. in India.

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

Q. 47 Write a note on the restructuring of the Centrally Sponsored Schemes into the new Additional Central Assistance implemented from the financial year 2013–14.

Ans. The Planning Commission (PC), with the commencement of 12th Plan, proposed 'rationalisation' and 'restructuring' of the 16 Centrally Sponsored Schemes (CSS) into Additional Central Assistance (ACA) Schemes. The proposal has been accepted by the Cabinet and the ACA will become effective from 2013–14. As per the PC, together with the government this will 'improve the efficiency' of the Schemes. After the restructuring, the situation will be as below.

(i) It will give more flexibility to the states to utilise the funds,

(ii) It will also give the Planning Commission 'absolute control' over the quantity of money to be released.

(iii) The CSS funds till now were routed through the concerned Central ministries,

(iv) Under the new set up the Planning Commission will release the funds *directly* to the states on the recommendation of the Ministry of Finance.

(v) The concerned ministries will now only *monitor* the implementation of the schemes, which would be evaluated by an external agency.

(vi) The schemes to be restructured include *flagship programmes* such as the Integrated Child Development Scheme, the Mid Day Meal Scheme, the Sarva Shiksha

Abhiyan, the Mahatma Gandhi National Rural Employment Guarantee Scheme, the Indira Awas Yojana, the Pradhan Mantri Gram Sadak Yojana, and the yet-to-be launched National Health Mission.

(vii) Some other important schemes to be restructured are: the Rashtriya Krishi Vikas Yojana, the Rajiv Gandhi Drinking Water Mission and Sanitation Mission, the Backward Regions Grant Fund, and the National Rural Livelihood Mission.

Though states would welcome the *flexibility* in using the funds if based on a normative formula, experts point out that the Planning Commission would have total discretion over funding to the states and each could be treated differently. The present funding structure of ACA varies from one scheme to another.

The point to be noted here is that most of the states of India since the last many years are fiscally broke and they have to tow the lines of the PC to get developmental funds from the Centre. All developmental funds accruing to the states are being 'monitored' by the PC on the 'guidelines' of the 'Monitorable Targets' set by the states themselves. In such a situation, for greater efficiency, accountability and outcome, the restructuring looks logical.

Meanwhile, the political parties. Communist Party) have been demanding ICDS and Midday meal to be made *statutory rights* of the people Experts fear the new funding pattern could be used as a 'political tool' by the Centre to discriminate between states on the basis of the party in power.

Q. 48 Write a short note on recent steps taken by the GoI to make the public sector banks compliant to the Basel III norms.

Ans. As capital is a key measure of banks' capacity for generating loan assets, and is essential for balance sheet expansion, the GoI has regularly invested additional capital in the PSBs to support their growth and keep them financially sound so as to ensure that the growing credit needs of the economy are adequately met. A sum of Rs. 12,000 crore was infused in seven PSBs during 2011–12 to enable them to maintain a minimum Tier-I CRAR of 8 per cent and also to increase shareholding of the GoI in them.

In *2012–13* also, the government has infused capital in PSBs to augment their Tier-I capital so that they maintain their Tier-I CRAR at a comfortable level and remain compliant with the stricter capital adequacy norms under Basel III . This will also support internationally active PSBs in their national and international banking operations undertaken through their subsidiaries and associates. An amount of Rs. 12,517 crore was allocated by the GoI for the year 2012–13 on *January 10, 2013*. The ***High Level Committee*** to assess the capitalisation of PSBs in the next 10 years, headed by the Finance Secretary has recommended various options for funding of PSBs. Given the budgetary constraints, it may not be feasible for the government to infuse huge sums into the PSBs. This is why the committee has recommended the formation of a *'non-operating financial holding company' (HoldCo)* under a special *act of Parliament* with the following key objectives—

(i) To act as an investment company for the GoI;

(ii) To hold a major portion of the GoI's holdings in all PSBs;

(iii) To raise long-term debt from domestic and international markets to infuse equity into PSBs; and

(iv) To service the debt from within its sources.

Due to weakening of the RRBs, their sponsor banks have been incurring huge NPAs. RRBs have played a pivotal role in credit delivery in rural areas, particularly to the agriculture sector—to enhance their outreach and provide banking services more effectively to rural masses, RRBs need to undertake a continuous process of technology and capital upgradation. With a view to bringing the CRAR of RRBs up to at least 9 per cent, ***K. C. Chakrabarty Committee*** recommended recapitalisation support to the extent of Rs. 2,200 crore to 40 RRBs in 21 states. Pursuant to the recommendation of the Committee, recapitalization amount is to be shared by the stakeholders in proportion to their shareholding in RRBs, i.e., 50 per cent central government, 15 per cent concerned state government, and 35 per cent the concerned sponsor banks. The re-capitalisation will continue upto March 2014.[5]

Q. 49 Write a brief note on the recently released FSLRC Report.

Ans. The *Justice B. N. Srikrishna* headed Financial Sector Legislative Reforms Commission (FSLRC) handed over its report *end-March 2013*—it was set up March 2011 *for examining* the regulatory structure and the laws governing the financial sector. The 10-member committee had a broad mandate covering all financial services as well as everything currently overseen by any financial regulator. Broadly, the commission has recommended what can be called a changeover from an 'area-based' division of regulators to a 'task-based' division. Major highlights of the recommendations are as follows:

(i) Today, each agency like the Sebi or the IRDA or the FMC looks after one type of financial service or one area—this would be replaced by a horizontal structure whereby the basic regulatory and onitoring functions of all areas would be done by a Unified Financial Agency (UFA).

(ii) All consumer complaints, regardless of the area will be handled by a Financial Redressal Agency (FRA).

(iii) There will be a single tribunal, the Financial Sector Appellate Tribunal (FSAT) which will hear appeals regarding the entire sector.

(iv) There are also three other agencies in the recommendations, along with the Reserve Bank of India which will continue to oversee banking.

The horizontal structure will serve the interests of the consumers of financial services (of individuals and businesses, both) much better. For one, it should *eliminate regulatory arbitrage*—the recent IRDA vs SEBI spat on ULIPs happened because the two agencies' views on the characteristics of investment products were very different. Another advantage of the horizontal structure would be that consumer complaints about a sector would get separated from the regulator. This is important because a certain class of consumer complaints have mistakes or oversights by the regulator at their root. Recognising this root cause means admitting to its own flaw, something that is hard for any organisation.

Q. 50 Analyse the reasons why inflation continues to Persist.

Ans. As per the *Economic Survey 2012–13*, inflation in protein foods, particularly eggs, meat and fish, and in fruits & vegetables has persisted because of *changes in dietary habits* and *supply constraints*:

(i) Long time series data from National Accounts on *PFCE* (private final

5. **Basel III** norms prescribe a minimum regulatory capital of 10.5 per cent for banks by January 1, 2019. This includes a minimum of 6 per cent ***Tier I*** capital, plus a minimum of 2 per cent ***Tier II*** capital, and a 2.5 per cent capital conservation buffer. For this buffer, banks are expected to set aside profits made during good times so that it can be drawn upon during periods of stress.

consumption expenditure) indicate a structural shift in per capita consumption.

The share of food consumption in total consumption has declined over time, from an average of 51.34 per cent during 1950–60 to an average of 27.17 per cent during 2007–12.

(ii) Average annual growth in per capita food consumption at 0.94 per cent during 1950–2012 has been significantly lower than the overall growth in consumption averaging 1.84 per cent. The consumption of protein foods, though increasing more slowly than the increase in PFCE, had a growth of 1.50 per cent during 1950–2012, higher than the growth of overall expenditure on food. Therefore, the share of protein foods within overall food expenditure increased from 26.28 per cent during 1950–60 to 33.71 per cent during 2007–12.

(iii) A similar decline in expenditure on food, relative to that in other commodities and services has been as expected, associated with rising income levels.

(iv) Average annual growth of per capita expenditure during 1950–2011 was 2.40 per cent for non-food group. Within non-food commodities and services, average annual growth was 5.53 per cent, 3.97 per cent, 3.60 per cent and 3.42 per cent for transport and communication; recreation and education; medical and health care; and miscellaneous goods and services, respectively. Growth in expenditure for these sub sectors significantly exceeded the growth in expenditure on food. *Post reform* period (1992–93 to 2010–11) has shown a faster shift in consumption expenditure.

(v) An *increase in income* made this desirable shift in consumption feasible. At national level, per capita income, adjusted for inflation continued to rise.

(vi) There was also a significant increase in rural wages. Rural wages in nominal terms went up by an average of over 18 per cent from 2008–09. Inflation-adjusted rural wages also went up by 7.5 per cent during this period.

(vii) The ***input costs*** for producers in both the food and non-food segments, as reflected in the prices of feed, fodder and other inputs also increased. An increase in Minimum Support Price (MSP), while necessary to ensure remunerative returns to farmers, raised the floor prices and also contributed to the rise in input prices.

Q. 51 Briefly describe the recent steps taken by the GoI in the area of sugar sector reforms.

Ans. India is the largest consumer and second largest producer of sugar after Brazil. Sugar and Sugarcane are notified as essential commodities under the Essential Commodities Act 1955. The production of sugarcane during 2012–13 is estimated at 334.54 million tonnes. However, the Indian sugar sector suffers from policy inconsistency and unpredictability. The Sugar industry in India is over-regulated and prone to *cyclicality* due to price interventions. Deregulation of the sugar industry has been widely debated for a long time. From a purely economic point of view, greater play of market forces would provide better prices and serve the interests of all stakeholders. The government should come into the picture only in situations where absolutely necessary. Export bans and controls could be replaced with small variable external tariffs to stabilise prices.

A report on *'Regulation of the Sugar Sector in India: The Way Forward'* has been submitted by the Committee under the chairmanship of Dr. C.

Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister—the measures suggested are as follows :

(i) phasing out cane reservation area;

(ii) dispensing with minimum distance criteria;

(iii) dispensing with the levy sugar system;

(iv) states that want to provide sugar under the PDS may procure it from the market according to their requirement, fix the issue price and subsidize from their own budgets (till April 4, 2013, when the GoI 'decontrolled' the sugar industry from the burden of 'levy' to the tune of 10 per cent of their total production, there was an implicit cross-subsidy on account of the levy as sugar mills were under a transition). The Report suggested some level of central support to help states meet the cost to be incurred on this account may be provided for a transitory period (which has been announced on April 4, 2013);

(v) dispensing with the regulated release mechanism (of non-levy) sugar;

(vi) stable trade policy;

(vii) no quantitative or movement restrictions on byproduct like molasses and ethanol and dispensing with compulsory jute packing.

(viii) a stable, predictable, and consistent policy reforms to be brought about in a fiscally neutral manner and issues considered for implementation in a phased manner.

In the meanwhile, following on the path of ongoing *'factor market reforms'* the GoI decontrolled the sugar industry in *April 2013*—effective for the 'sugar year' September 2012–August 2013. It abolished the decades-old practice of regulating 'how much sugar a mill can sell in the open market' and the 'levy' system in which a company is forced to sell 10 per cent of the output at a loss to the FCI for supplies through the PDS (Public Distribution System)—they will be no more under the levy obligation. The *next move* of reform may be 'linking sugar and sugarcane prices'.

To continue subsidised supply to the poor, states will now have to buy sugar at market rates and maintain the existing PDS sale price of Rs 13.50 per kg, which has not been revised for a decade and is substantially lower than the average market price of Rs. 35 per kg.

Q. 52 Describe the role of 'energy pricing' and the recent steps taken by the government in reforming the sector.

Ans. The economic role of rational energy pricing can hardly be under-estimated. Rational energy prices provide the right signals to both the producers and consumers and lead to a demand-supply match, providing incentives for reducing consumption on the one hand, and stimulating production on the other. Aligning domestic energy prices with the global prices, especially when large imports are involved, may be ideal option as misalignment could pose both micro- and macroeconomic problems. At microeconomic level, underpricing of energy to the consumer not only reduces the incentive for being energyefficient, it also creates fiscal imbalances. Leakages and inappropriate use may be the other implications. Underpricing to the producer reduces both his incentive and ability to invest in the sector and increases reliance on imports. Over the years, India's energy prices have become misaligned and are now much lower than global prices for many products. The extent of misalignment is substantial, leading to *large untargeted subsidies*. Several initiatives have been taken by the GoI for rationalising the energy prices in different sectors—

- The Integrated Energy Policy has outlined the broad contours of the pricing system for coal. The *pricing of coal* is done now on gross calorific value (GCV) basis with effect from January 31, 2012, replacing the earlier system of pricing on the basis of useful heat value (UHV) which takes into account the heat trapped in ash content also, besides the heat value of carbon content. The revision in the GCV is likely to increase the prices of domestic coal to some extent, but this is a desirable adjustment because domestic thermal coal, adjusted for quality differences, continues to be underpriced.
- In case of petroleum products pricing, the government dismantled the Administered Pricing Mechanism in 2002. This decision, however, was not fully implemented and domestic pass through of global price increases remained low for petrol, diesel, kerosene, and LPG—in June 2010, the government announced that the *price of petrol was fully deregulated* and the oil companies were free to fix it periodically.
- In *January 2013*, the government announced the new roadmap providing for a gradual price increase for reducing *diesel under-recoveries*.
- Admissibility of subsidised number of liquefied petroleum gas (LPG) cylinders and prices of LPG have also recently been revised. Pricing of gas is presently done under the New Exploration Licensing Policy (NELP). The government provides the operator freedom to sell the gas produced from the NELP blocks at a market-determined price , subject to the approval of pricing formula. The government is reviewing pricing under the PSC (price sharing contract) to clarify the extent to which producers will have the freedom to market the gas.

Q. 53 What is Marginal Standing Facility and what are its objectives? Describe in brief.

Ans. The MSF (Marginal Standing Facility) is a new scheme announced by the RBI in its *Monetary Policy, 2011–12*. Under this scheme, banks can borrow overnight upto 1 per cent of their net demand and time liabilities (NDTL) from the RBI, at the interest rate 1 per cent (100 basis points) higher than the current repo rate.

The MSF would be the last resort for banks *once they exhaust* all borrowing options, including the liquidity adjustment facility by pledging through government securities, which has lower rate (i.e., repo rate) of interest in comparison with the MSF. The MSF would be a **penal rate** for banks and the banks can borrow funds by pledging government securities within the limits of the statutory liquidity ratio. The scheme has been introduced by RBI with the main aim of reducing volatility in the overnight lending rates in the inter-bank market and to enable smooth monetary transmission in the financial system.

Banks can borrow through MSF on all working days except Saturdays, between 3.30 and 4.30 p.m. in Mumbai where RBI has its headquarters. The minimum amount which can be accessed through MSF is Rs.1 crore and in multiples of Rs.1 crore.

MSF represents the upper band of the interest corridor and reverse repo (7.25 per cent) as the lower band and the repo rate in the middle. To balance the liquidity, RBI would use the sole independent policy rate which is the repo rate and the MSF rate automatically adjusts to 1 per cent above the repo rate.

Similar to India's MSF the ECB (European Central Bank) also offers standing facilities called *marginal lending facilities* (MLF) and the Federal Reserve (the US Central Bank) has *discount window systems* (DWS). Like the MSF, the secondary credit facility made available by the Federal Reserve to the depository institutions in USA is typically overnight credit on a very short term basis at rates above the primary credit rate.

The effectiveness of standing facilities in reducing volatility have been examined by many scholars and certain studies have pointed out that in the Federal Reserve System in the United States, the design of the facility decreases a bank's incentive to participate actively in *interbank market* (i.e., India's Call Money Market) due to the perceived stigma from using such facility. This in turn reduces the effectiveness of standing facility in reducing interest rate volatility.[6]

Q. 54 What are Nidhis and how are they regulated in India?

Ans. Nidhi in the Indian context means 'treasure'. However, in the Indian financial sector, it refers to any *mutual benefit society* notified by the Central / Union government as a Nidhi Company. They are created mainly for cultivating the habit of *thrift* and *savings* amongst its members. The companies doing Nidhi business, viz., borrowing from members and lending to members only, are known under different names such as *Nidhi, Permanent Fund, Benefit Funds, Mutual Benefit Funds* and *Mutual Benefit Company.*

Nidhis are more popular in ***South India*** and are highly localised single office institutions. They are mutual benefit societies, because their dealings are restricted only to the members; and membership is limited to individuals. The principal source of funds is the contribution from the members. The loans are given to the members at relatively reasonable rates for purposes such as house construction or repairs and are generally secured. The deposits mobilised by Nidhis are not much when compared to the organised banking sector.

Nidhis are companies registered under the Companies Act, 1956 and are regulated by Ministry of Corporate Affairs (MCA). Even though Nidhis are regulated by the provisions of the Companies Act, 1956, they are exempted from certain provisions of the Act, as applicable to other companies, due to limiting their operations within members.

Nidhis are also included in the definition of Non- Banking Financial companies or ***(NBFCs)*** which operate mainly in the *unorganised money market.* However, since 1997, NBFCs have been brought increasingly under the regulatory ambit of the RBI. Non-banking financial entities partially or wholly regulated by the RBI include:

(i) NBFCs comprising equipment leasing (EL), hire purchase finance (HP), loan (LC), investment (IC) [including primary dealers (PDs) and residuary non-banking (RNBC) companies;

(ii) Mutual benefit financial company (MBFC), i.e. *nidhi company*;

(iii) Mutual benefit company (MBC), i.e., potential nidhi company; i.e., a company which is working on the lines of a Nidhi company but has not yet been so declared by the Central Government; has minimum net owned fund (NOF) of Rs. 10 lakh, has applied to the RBI for certificate of registration and also to Department of Company Affairs (DCA)

6. The write-up is based on—the *RBI's Credit & Monetary Policy, 2011–12* (in which the Scheme was introduced); and the *European Central Bank*, Frankfurt, Germany and *Federal Reserve System* (also known as the *Federal Reserve*, and informally as the *Fed*) Washington, DC, USA.

for being notified as Nidhi company and has not contravened directions / regulations of RBI/DCA.

(iv) Miscellaneous non-banking company (MNBC), i.e., *chit fund company*.

Since Nidhis come under one class of NBFCs, RBI is *empowered* to issue directions to them in matters relating to their deposit acceptance activities. However, in recognition of the fact that these Nidhis deal with their shareholder-members only, RBI has exempted the notified Nidhis from the core provisions of the RBI Act and other directions applicable to NBFCs. As on date (*February 2013*), RBI does not have any specified regulatory framework for Nidhis.

Q. 55 What are Chit Funds and how are they regulated in India?

Ans. Recently, chit funds was in news after the Kolkata-based *Saradha Chit Fund* scam came to light. Chit funds (also known by their other names such as, *Chitty, Kuri, Miscellaneous Non-Banking Company*) are essentially 'saving institutions'. They are of various forms and lack any standardised form. Chit funds have regular members who make periodical subscriptions to the fund. The periodic collection is given to some member of the chit funds selected on the basis of previously agreed criterion. The beneficiary is selected usually on the basis of bids or by draw of lots or in some cases by auction or by tender. In any case, each member of the chit fund is assured of his turn before the second round starts and any member becomes entitled to get periodic collection again. Chit funds are the Indian versions of 'Rotating Savings and Credit Associations' found across the globe.

Chit fund business is regulated under the Central Act of *Chit Funds Act, 1982* and the Rules framed under this Act by the various State Governments for this purpose. Central Government has not framed any Rules of operation for them. Thus, Registration and Regulation of Chit funds are carried out by *State Governments* under the Rules framed by them. Functionally, Chit funds are included in the definition of Non-Banking Financial Companies by RBI under the sub-head *miscellaneous non-banking company* (MNBC). But RBI has not laid out any separate regulatory framework for them.

Official Definition: As per the Chit Funds Act 1982, chit means 'a transaction whether called *chit, chit fund, chitty, kuri* or by *any other name* by or under which a person enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or a certain quantity of *grain* instead) by way of periodical installments over a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be specified in the chit agreement, be entitled to the prize amount'. A transaction is not a chit, if in such transaction—

(i) Some alone, but not all, of the subscribers get the prize amount without any liability to pay future subscriptions; or

(ii) All the subscribers get the chit amount by turns, with a liability to pay future subscriptions.

Q. 56 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.

The challenges are going to be even tougher as the RBI has recently announced releasing some fresh licences for setting up new banks in the country.

Q. 57 Cite the reasons fer the state of under-developed corporate bond markets in India and suggest measures for its development.

Ans. Measures taken towards different segments of the finncial sector reforms since early 1990s have given visible results—in terms of market features and depth the Indian equity market today ranks among the best in the world; the government securities market has also evolved over the years and expanded. In contrast, the corporate bond market has not shown such a synergy and has remained a laggard, both in terms of market participation and structure. Emerging economies like Mexico, Russia, Poland, Brazil and Indonesia have more vibrant corporate bond markets in comparision to India.

Experts, together with the *Economic Survey 2010–11,* have cited several reasons for the under-development of the corporate bond market in India:

(i) Banks loans being the popular and predominant mode of raising long-term capital;

(ii) Participation of FIIs is limited ;

(iii) Due of lack of investor confidence, pensions and insurance companies as well as household are limited participants; and

(iv) Crowding out of fund/investible capital by government bonds.

Non-bank finance companies are the main issuers and very small amounts of finance are raised by companies/corporates directly. The corporate bond market as a result, is only about 14 per cent of the total bond market, while on the other hand, liquidity in the market and investment in the infrastructure sector remain constrained. With the intervention of the *Patil Committee* recommendations, the corporate bond market is slowly evolving. With bank finance drying up for long-term infrastructure projects in view of asset liability problems (faced by the banking system), further development of a deep and vibrant corporate bond market is the need of the hour (also suggested by the *World Bank*, recently).

Following steps may be taken for the promotion and development of corporate bond market in India:

(i) Clearing/settlement on DvP (Delivery versus Payment) basis; market making with primary dealers; enabling Credit Default Swap; guaranteeing of corporate bonds by banks; and relaxing norms on short selling of government bonds (all fall under RBI's preview).

(ii) Relaxing norms for use of shelf prospectus (requires amendment to Section 60 of Companies Act by the MCA).

(iii) Putting corporate bonds under SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act (so that recovery becomes fullproof and investor's confidence comes in).

(iv) Arrangement for a comprehensive bond data base.

(v) Lowering the stamp duties on the bond and making them uniform across states (Stamp Act needs to be amended by the Department of Revenue).

Q. 58 'Finance Commission (FC) and Planning Commission (PC) were working together for better development.' Elucidate.

Ans. The Constitution provides for a Finance Commission (FC) to promote fiscal federalism and ensure decentralised ways of development. But the Parliament gave it only the power to suggest the distribution of the Union's tax revenue. Meanwhile, the extra-constitutional body, the Planning commission (PC) started playing a more proactive role in the area of developmental issues and allocation of funds. It was the fourth Finance commission (headed by P.V. Rajamannar) which, for the first time, suggested a cooperative approach between PC and FC. in the last few years, academicians and the experts have been suggesting the same thing.

It was in 2002 that the government, for the first time, announced such an idea. (The then Finance Minister Mr. Jaswant Singh suggested this while announcing the setting up of the 12th FC)—*the PC will be playing more or less a role of callaborator to the FC.* Mr. Som Pal was made a common member to both the bodies (after the UPA came to power, he resigned from the FC).

Experts appreciated the above governmental step as in the process of development; the FC has been left on the margins of the development process and the PC was playing a more important role. It is better they work in tandem since both are committed to economic development. The recent view of decentralised planning, coalition government and requirement of greater fiscal federalism together demand a collaborative approach between these two bodies. By doing so, there is no doubt that a greater developmental purpose will be served.

Q. 59 Briefly describe the National Mission for Sustainable Agriculture.

Ans. Climate change has enormous implications for the natural resources and livelihood of the people. Various studies indicate that the key sectors in India such as the agriculture, water, natural ecosystem, biodiversity and health are vulnerable to climate change. This is happening precisely at a time when it is confronted with huge development imperatives. The Indian Network for Climate Change Assessment (INCCA) released a report in November 2010 on assessment of the impact of climate change on key sectors and regions of India in the 2030s—agriculture being one among the four key sectors. The report warns of impacts such as sea-level rise, increase in cyclonic intensity, *reduced crop yield in rainfed crops, stress on livestock,* *reduction in milk productivity, increased flooding,* and spread of malaria. This called for urgency of action in reducing vulnerability to adverse impacts of climate change. India announced a National Action Plan on Climate Change (NAPCC) in June 2008 to realise it, which includes eight National Missions.

The National Mission for Sustainable Agriculture (NMSA) is among the eight national missions which seeks to address issues regarding 'sustainable agriculture' in the context of risks associated with climate change. Major functions of the mission have been defined as given below:

(i) devising appropriate adaptation and mitigation strategies for ensuring food security,
(ii) enhancing livelihood opportunities, and contributing to economic stability,
(iii) mainstreaming the adaptation and mitigation measures in R&D activities,
(iv) absorption of improved technology and best practices,
(v) creation of physical and financial infrastructure and institutional framework,
(vi) facilitating access to information and promoting capacity building,
(vii) promoting dryland agriculture by developing drought- and pest-resistant crop varieties, and
(viii) expanding its coverage to rainfed areas for integrating farming systems with livestock and fisheries.

Under the aegis of the central government, the state governments are also preparing their State Action Plans aimed at creating institutional and programme-oriented capacities to address climate change. These, together with the National Missions, will enhance climate change-related actions in the public and private domains.

Q. 60 Write a note on the recent steps taken by the government in the direction of fiscal consolidation.

Ans. After the IMF cautioned about the economy's fiscal parameters and the condition put by it concerning the immediate fiscal consolidation, the Union government in mid 1990s looked concerned about the matter. After a longer time of deliberations, ultimately an Act was passed by the Parliament in 2003—the Fiscal Responsibility and Budget Management (FRBM) Act. All political parties voted in favour of this Act. This should be considered the most important legislation in India in the direction of fiscal consolidation which envisages:

(i) Revenue deficit to be cut by 0.5 per cent of GDP per year.
(ii) Fiscal deficit to be cut by 0.3 per cent of GDP per year.
(iii) Fiscal deficit must be brought down to less than 3 per cent of the GDP by 2007–08 and revenue deficit to zero by that time (UPA government did it in 2008–09).

Further, the government did set stiffer targets; the revenue deficit down from 3.6 per cent to 2.5 per cent of the GDP by March 2005. other than the FRBM Act, the government is also committed on the following fronts:

(i) Increasing *tax revenue*—imposing new taxes (service tax, transaction tax, etc.) besides broadening the tax base (income tax) as well as trying for better tax compliance and evasionless tax regime.
(ii) Cutting down *revenue expenditure*—controlling interest burden by lesser borrowings, rationalising subsidies, right-sizing the government etc.
(iii) Encouraging states to adopt a uniform VAT so that the state government's revenue could be increased and cascading effect of tax could be restricted.

(iv) Saving state governments from bankruptcy by proposing for them a share in the service tax and the custom duties.

A committee (task force) headed by Mr. Kelkar handed over its report to the government concerning the feasibility of the FRBM Act. Meanwhile, some populist tendencies have been seen among the states as many have gone for promising free electicity to the farmers; such sops are surely detrimental to the attempts of fiscal consolidation, as states are the real culprit in fiscal deficit at present.

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 three volumes of the ***India Development Report.*** Ministerial sources, websites of ***RBI*** and the **Planning Commission.**