INDIAN ECONOMY

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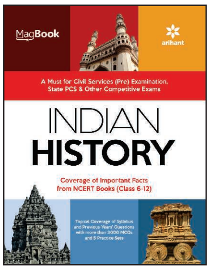

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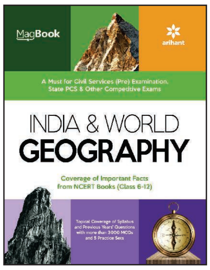

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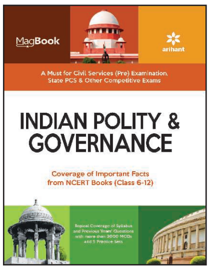

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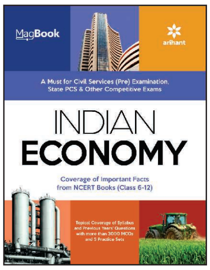

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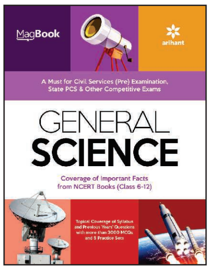

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TOPICS FOCUS & TREND OF QUESTIONS

INTRODUCTION AND NATIONAL INCOME

This chapter provides an overview of various important sectors of Indian economy and its specific features. Important ceoncepts of this chapter are GDP, GNP, GDP deflator and other such statistical tools as a measure of economic growth. The changed pattern of UPSC demands a deeper understanding of their meaning and importance as well as how they are calculated and their trends in recent years, which has also been asked in previous exams.

INFLATION

Important topics from examination point of view are causes of supply side and demand side inflation, role of Monetary Policy and Fiscal Policy in inflation management, its ill effects on economy and other related concepts such as deflation, hyper-inflation and stagflation. Questions asked in previous year exams include causes of inflation, effect of liquidity on inflation, impact of inflation on bond yield and debtors etc.

ECONOMIC GROWTH AND DEVELOPMENT

This chapter covers the important and relevant concepts and issues of growth and development. Other important topics dealt here are difference between growth and development, various measures of development, human development and HDI, sustainable development, MDGs etc. Most of the questions asked in previous exams from this section are regarding factors contributing to economic growth, constituents of HDI etc. Trends in savings and investment, capital-output ratio, etc.

ECONOMIC PLANNING IN INDIA

This chapter discusses meaning, evolution and strategies of planning. From examination perspective, the important focus areas are role of Planning Commission and NDC, objectives and achievements of various Five Year Plans and planning in liberalised economy. Previous years' questions asked in examination includes topics such as mobilisation of resources, approach of planning in India, structure and functions of NDC and Planning Commission.

DEMOGRAPHIC PROFILE

This chapter assumes greater significance in the background of demographic dividend in India. Key concepts such as demographic transition theory, birth and death rates, age structure, population density, sex ratio and literacy are pertinent from examination point of view. Further questions can also be asked from census data, Population Policy and family welfare programmes. Earlier questions asked in competitive exams include how demographic dividend can be reaped, age structure-composition of India etc.

MONEY AND BANKING

This is the most important chapter in economy section. The revised pattern of examination has asked analytical type of questions from topics such as money and capital market and reforms measure therein, banking in India, Monetary Policy and RBI, interest rates and money supply, insurance and pension sector. Most questions asked in the exams are about RBI's regulatory role, repo and reverse repo rate, money supply and corrosponding order of liquidity, priority sector lending, lead bank schemes and measures of financial inclusion.

INDIAN PUBLIC FINANCE

Most essential topics of this chapter are Fiscal Policy, public revenue and expenditure and trends therein, taxation system, GST, fiscal consolidation, FRBM Act, Finance Commission and various types of budgets like gender budgeting outcome and performance budgeting etc. Questions asked in examination test the conceptual understanding of the above topics such as what is the impact of deficit financing, what are various ways to achieve fiscal consolidation constituents of GST, VAT, CENVAT and related concepts, fiscal federalism etc.

INDIA'S BOP

This chapter deals with India's external sector and important topics here are meaning and constituents of BoP, current and capital account convertibility, FDI and FII, value of rupee in forex market,

INTERNATIONAL FINANCIAL ORGANISATION

This chapter offers an in-depth understanding of structures, functions, and way of lending of important international financial organisations such as IMF, World Bank group, WTO, ADB etc. Questions have been asked about lending programme of IMF, Agreement on Agriculture and NAMA of WTO , TRIPS, TRIMS and DOHA sound of WTO, agencies of World Bank and terms of lending, SDRs and Quota reforms etc.

AGRICULTURE

It is the most important sector of Indian economy. Essential topics to be read in this chapter are crops and cropping pattern, Second Green Revolution, Agricultural Price Policy , finance and marketing, extension services, farm credit, problems in productivity and land reforms, food processing and related schemes. Questions asked in previous years' exams include production trends and patterns, various agricultural institutions and their functions, government schemes related to agriculture, issues and trends in agricultral credit, objectives of Mega food Parks and related food processing schemes etc.

INDUSTRIAL SECTOR

From an examination perspective, important topics are New Industrial Policy, MSMEs, PSEs, industrial sickness, Disinvestment Policy, role of CCI, National Manufacturing Policy, NIMZs, and recent trends in industrial growth. Questions have been asked in previous exams regarding skill development, labour laws and reforms, measures to promote MSMEs, Index of Industrial Production, core sectors of manufacturing etc.

SERVICES SECTOR

Significant topics in this chapter are performance and trends of various services sectors such as IT and ITeS, real estate, communications, construction, tourism sectors etc, issue of FDI and liberalisation of services sector and services employment in India. East years examination have focused on Contitution and performance of services sector in economic growth.

INFRASTRUCTURE

Important topics in this chapter are classification and significance of infrastructure, problems in infrastructure development, issue of investment and financing, PPPs and their advantages, performance of energy sector and reforms therein, urban infrastructure and transport, critical infrastructure.

NATURAL RESOURCES

This chapter deals with minerals, water, land and forest resources. Essential topics in this chapter are concerned with mineral resource's distribution, use, conservation and management. Pertinent to this is issue of environment management and climate change. Trends of previous Years exams suggests questions about watershed management, land use policy, national mining policy, social and agro forestry, application of S and T in conservation and management climate change negotiations etc.

POVERTY AND UNEMPLOYMENT

Important topics in this chapter are concepts of absolute and relative poverty, methodology of poverty calculation, various committees and their recommendations, poverty alleviation schemes, types of unemployment and methodology of calculating unemployment, MNREGA and other employment generation schemes.

INCLUSIVE DEVELOPMENT

This chapter is a recent addition in economy section and significant weightage has been given in the examination. The important topics are related to concept, need and strategies of inclusive growth. Important government policies and schemes relating to health and sanitation, education, skill development, rural development, women and child development etc are important from examination point of view.

Chapter one
Introduction to Economics

"Economics is a social science, which tries to study how to achieve the maximum benefits using limited resources. Understanding economics is important to provide for the maximum welfare of society using the resources available."

Meaning of Economics

- The term 'economics' comes from the Greek term *Oikonomos*, which is composed of *oikos* (house) and *nomos* (custom or law), meaning Rules of the Household. Economics is the social science that studies economic activities to gain an understanding of the processes that govern the production, distribution and consumption of goods and services in an economy.
- Initially, the study of economics concentrated mainly on wealth by concentrating on factors of production and consumption. This emphasis on wealth excluded from its study, those who were not directly connected with the formal economic system. Thus, the needs of poor, senior citizens, children etc. were neglected. It was corrected with the emergence of welfare economics, which focused on welfare needs of the whole society instead of just the production of wealth.

Branches of Economics

Traditionally, economics has been divided into the two main branches :

Micro Economics

- It examines the economic behaviour of individual actor at the level of the individual economic entity — the individual firm, the individual consumer and the individual worker.
- It is concerned with how supply and demand interact in individual market and how these interactions determine the price level of goods and services.

Macro Economics

- It studies the economy as a whole and its features like national income, employment, poverty, balance of payments and inflation.
- It is concerned with how the overall economy works. It studies such things as employment, Gross Domestic Product (GDP) and inflation.

Some Other Branches of Economics

Development Economics

- It is a branch of economics, which deals with the economic aspects of the development process in low income countries.
- The goal of development economics is to determine how poor countries can be transformed into prosperous ones.

Behavioral Economics

- This branch studies the effects of social, cognitive and emotional factors on the economic decisions of individuals and their consequences for market prices, returns and resource allocation.

- It is mainly exploring why people sometimes make irrational decisions and why and how their behaviour does not follow the predictions of economic models.

Environmental Economics

- This branch studies the economic impact of environmental policies. Its goal is to balance the economic activity and the environmental impacts, by taking into account all the costs and benefits.

International Economics

- It is a branch of economics, which studies economic interactions among different countries, including foreign trade, foreign exchange, balance of payments and balance of trade.
- The guiding principle in the study of international economics is comparative advantage, which indicates that every country, no matter what their level of development, can find something that it can produce cheaper than others.

Information Economics

- It is a branch, which studies how information and information technology influence the economy.
  Information economics has certain characteristics, like:
  (i) It is easy to create, but hard to trust.
  (ii) It is easy to spread, but hard to control.

Demographic Economics

- Demographic economics or **Population economics** is the application of economics to demography; the study of human population, including size, growth, density, distribution and vital statistics.

Types of Economies

- Typically, economies are divided into different types based on the extent of government involvement in economic decision-making.
  Based on the above criteria, the following are the major types of economies:

Traditional Economy

- In this type of economy, there is very little government involvement. Allocation of resources here is based on rituals, habits or customs.
- Economic roles are defined by the family and people work together for the common good. There is also very little individual choice in this system. Examples of this type exist in tribes in Amazon, Aborigines in Australia etc.

Free Market Economy

- This type of economy also has very little governmental interference or control. Economic decisions here are made based on market principles. There is a lot of competition between firms, which provides many choices to consumers.
- Resources for production are under private ownership and they make their decisions with the desire to maximise profits. Although, there are no pure free market economies. United States and Australia come close to this type.

Command Economy

- Here, the resources of production are completely under government control. The functioning of these economies is based on control planning. Due to lack of competition, resource allocation is inefficient and consumers have very little choices. Examples of this type are the former Soviet Union, Cuba, North Korea etc.

Mixed Economy

- This type of economy consists of a combination of public sector and private sector units. Here, the government is the decision-maker for the public sector and individuals, and businessmen make decisions for the private sector.
- It basically incorporates governmental involvement in a market based economy. Examples of this type are India, Russia and UK etc.

Open Economy

- An economy is said to be open, if it has trade with other economies. In this economy, market is mostly free from trade barriers and where exports and imports form a large percentage of the GDP.
- The degrees of the openness of an economy determines government's freedom to pursue economic policies of its choice and the susceptibility of the country to international economic cycles.

Closed Economy

- An economy is said to be closed, if it has no trade or trade area with other economies. In this economy, the consumer get everything within the economic borders and government act as the arbitrator, articulator and facilitator.

Capitalist Economy

- Capitalism is the economic system based on private or corporate ownership, production and distribution of goods. Capitalists favour a system of free enterprise which means the government does not interfere in the economy that the laws of supply and demand will make sure that the economy runs most efficiently in meeting people's needs. Capitalism is characterised by competition in which there is rivalry in supplying or getting an economic service or goods.

Socialist Economy

- Socialism is an economic system in which the means of production are socially owned and used to meet human needs instead of to create profits.
- Socialism tends to favour cooperation whereas capitalism is characterised by competitions. A form of socialism called **communism** sprang up based on the writings of Karl Marx and Friedrich Engels.
- Communism advocates class struggle and revolution to establish a society of cooperation with strong government control. Communism predominated in the former Soviet Union and much of Eastern Europe at one time. Today, it predominates in China and Cuba, but its influence has lessened.

Sectors of an Economy

- A nation's economy can be broadly divided into various sectors to define the proportion of people engaged in a particular sector. This categorisation is generally seen as a continuum of the distance from the natural environment.
- *Traditionally, economies are divided into the following three sectors* :

(i) Primary Sector

- This sector is involved in the extraction or harvesting of products from the Earth. It includes the production of raw materials and basic foods. Some of the activities included in this sector are agriculture, mining, forestry, fishing, quarrying etc.
- The packaging and processing of raw materials is also considered as a part of this sector. As an economy develops the share of primary sector in total production and employment goes down.

(ii) Secondary Sector

- The secondary sector of the economy is involved in the production of finished goods. All manufacturing, processing and construction activities lie in this sector (in India, construction sometimes considered as part of the services or tertiary sector).
- Some of the activities in this sector are metal working, automobile manufacturing, textile, production, shipbuilding etc. Most economies in their process of development go through the middle phase, where the secondary sector becomes the largest sector of the economy in terms of production and employment with the reduction in importance of the primary sector.
- India is an exception, where we have directly moved to services sector development, without first improving the manufacturing capabilities.

(iii) Tertiary Sector

- The tertiary sector of the economy is also called as the **services sector**. This sector provides services to the general population and to business. Some of the activities which are part of this sector are retail, transportation, entertainment, tourism and banking etc. In the advanced developed economies, the tertiary sector is the largest in terms of production and employment.
- Sometimes, two more sectors, i.e. quaternary and quinary are defined separately, even though these can also be considered as part of the services sector itself.

Other Sectors of Economy

Quaternary Sector

- This sector consists of the intellectual and knowledge based activities. Examples of activities associated with this sector are research and development, culture, information technology, consulting, financial planning, education etc.

Quinary Sector

- This sector consists of the highest levels of decision-making in a country. This includes the top officials of government, media, universities etc.

Classification of Countries by the World Bank

The World Bank prepares the World Development Report (WDR). The WDR as on 1st July, 2021, classified the different countries on the basis of their per capita income.

Categories Based on Per Capita Income

- High income countries — $ 12,695 and above
- Upper middle income countries — Above $ 4,096 to $ 12,695
- Lower middle income countries — Above $ 1,046 to $ 4,096
- Low income countries — $ 1,046 and less.

Source *World Bank Report, 2021*

Classification of Countries Based on Economical Activities

Developed Country

- It refers to a country with a relatively high level of economic growth and security. A country's degree of development is evaluated on the basis of per capita income or GDP, level of industrialisation, general standard of living and the amount of widespread infrastructure.

Developing Country

- It is also called a **less developed country** with lower living standard, underdeveloped industrial base and low Human Development Index (HDI).

Least Developed Country

- According to the United Nations, countries having lowest indicator of socio-economic development with the lowest HDI ratings are called as least developed countries.

Self Check

Build Your Confidence

1. A 'closed economy' is an economy, in which **[UPSC 2011]**
(a) the money supply is fully controlled
(b) deficit financing takes place
(c) only export takes place
(d) neither export nor import take place

2. Mixed economy means an economy where **[UPSC 2009]**
(a) both agriculture and industry are equally promoted by the state
(b) there is co-existence of private sector alongwith the public sector
(c) there is importance of small scale industries alongwith heavy industries
(d) economy is controlled by military as well as civilian rules

3. Consider the following statements regarding secondary sector
1. Most economies in their process of development go through the middle phase, where the secondary sector becomes the largest sector of the economy.
2. India is an exception, where we have directly moved to service sector development without first improving the manufacturing capabilities.

Which of the statement(s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

4. Consider the following statements regarding tertiary sector
1. In the advanced developed economies, the tertiary sector is the largest in terms of production and employment.
2. Quaternary and quinary are not a parts of service sector.

Which of the statement(s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

5. Which one of the following statements regarding capitalist economy is not true?
(a) Capitalism is the economic system based on private or corporate ownership
(b) Capitalists favour the government interference in the economy
(c) Capitalism is characterised by competition in the market
(d) In capitalist economy, market is free

6. Which one of the following statements regarding socialist economy is not correct?
(a) In this system, means of production is socially owned
(b) Socialist economy favours cooperative society
(c) It predominates in USA and Cuba
(d) It emphasised on meeting human needs instead of to create profits

7. Consider the following statements regarding macro economics
1. It is concerned with the overall economy works.
2. It studies employments, gross domestic product and inflation.

Which of the statement(s) given above is/are correct?
(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

8. In which of the following types of economy, the resources of production are completely under control?
(a) Mixed economy
(b) Open economy
(c) Closed economy
(d) Command economy

9. In which type of economy, resources for production are under private ownership and they make their decisions with the desire to maximise profits?
(a) Command economy *(b)* Capitalist economy
(c) Free Market economy *(d)* Mixed economy

10. In which type of economy, the consumers get everything within the economic borders and government acts as the arbitrator?
(a) Closed economy *(b)* Open economy
(c) Capitalist economy *(d)* Mixed economy

11. An economy is said to be open economy if
(a) it has trade with other economies.
(b) it has no trade area with other economies.
(c) it has basically incorporates governmental involvement.
(d) None of these

1. (d) **2.** (b) **3.** (c) **4.** (a) **5.** (b) **6.** (c) **7.** (c) **8.** (d) **9.** (c) **10.** (a) **11.** (a)

Chapter two
National Income

National Income is an uncertain term which is used interchangeably with national dividend, national output and national expenditure. On this basis, national income accounting records the level of activity in accounts such as total revenues earned by domestic corporation, wages paid to foreign works and amount spend on sales and income taxes by corporations and individuals outsiding in the country.

National Income

- National Income is defined as the total net earnings from the production of goods and services in a country over a period of time, usually one year and consisting essentially of wages, salaries, rent, profits and interest.
  National Income = C + I + G + (X – M)

National income is considered as NNP at factor cost.

Where,

C = Total Consumption Expenditure
I = Total Investment Expenditure
G = Total Government Expenditure
X = Export
M = Import

- It can be measured by Gross National Product (GNP), Gross Domestic Product (GDP), Gross National Income (GNI), Net National Product (NNP), Net National Income (NNI) and Per-Capita Income (PCI).

National Income and its Related Aggregates

- Various National Income aggregates are estimated either at factor cost or at market price.

Factor Cost

- Factor cost refers to cost of factors of production *viz.*, rent of land, interest of land, interest of capital wages for compensation of employees for labour and profit for entrepreneurship
  FC = MP – Indirect taxes + Subsidies

Market Price

- Market price is the price that customers actually pay. It includes the component of indirect taxes and of subsidies. Accordingly, when indirect taxes are deducted and subside added to the market price, we get values of National Income at factor cost

MP = FC + Indirect taxes – Subsidies

Or MP = FC + Net indirect taxes

GDP (Gross Domestic Product)

- It is the monetary value of all final goods and services produced with a country's border in a specific time.
- GDP = C + I + G + NX

Where C = Consumption
I = Investment
G = Government expenditure
NX = Net Export

GDP at FC and MP

$GDP_{MP} = GNP_{MP} - (X - M)$

$GDP_{FC} = GNP_{FC} - (X - M)$

Where, X is the export and M is import of a country.

Nominal GDP

- It is the market value (money-value) of all final goods and services produced within the country.

Real GDP

- The adjustment transforms the nominal GDP into an index for quantity of total output. It is a measurement of the value of output economy, adjusted for price changes.

India Changes Base Year for GDP Calculation

- Choosing a base year is the first step while counting the real GDP.
- For the revised GDP calculations the Indian statisticians have changed the base year from 2004-05 to 2011-12.
- The change in base year is not an unusual phenomena as base year is regularly updated after every five year.
- The government has proposed the new base year for GDP and IIP (Index of Industrial Production) as 2017-18 while for CPI it will be 2018.

GNP (Gross National Product)

- It is the market value of all products and services produced in one year of a country (i.e. by labour and property).

$$GNP = GDP + X - M.$$

Difference Between GDP and GNP

In GDP, goods and services produced in a country is added, whether it is produced by residents of the country or foreigners. In GNP, the production of foreigners in the country is not included, while the production of nationals outside the country is included.

Net National Product (NNP)

- It is the value of GNP after deducting depreciation of plant and machinery.

NNP = GNP – Depreciation

National Income (NI) = NNP – Indirect taxes + Subsidies

Real National Income (RNI)

- It is the value of National Income adjusted for inflation and calculated from some reference point (base year).

Real National Income = NNP at current prices × 100/Price index

Per-Capita Income (PCI)

- It is the measure of the amount of money that is being earned per person in a certain area.
- Per-Capita Income of a Country

$$= \frac{\text{National Income}}{\text{Population of the Country}}$$

Personal Income (PI)

- It is the income of the residents (individuals) of a country. To calculate personal income, transfer payments to individuals are added to National Income, while social security contributions, corporate tax and undistributed profits are subtracted.

Personal Income = National Income
+ Transfer payments
– Social security contributions
– Corporate tax
– Undistributed profits

Disposable Income (DI)

- It is the income of individuals at their disposal after paying direct tax liabilities.

Disposable income = Personal income
– Direct taxes (e.g. Income tax)

Green Economy

- In this economy, which deals with the environmental risks and ecological scarcity and also an economy that aims for sustainable development without degrading the environment.

Green GDP

- It is the calculation of net natural consumption (i.e. resource depletion, environmental degradation, protective and restorative environmental initiatives).

Green GNP

- GNP means that there has to be an adjustment for the depletion of the country's physical assets.

Calculating National Income

According to Simon Kuznets, National Income can be calculated by three method are as follows:

(i) **Product Method** In this method, net value of final goods and services produced in a country, during a year is obtained, which is called Total Final Product.

(ii) **Income Method** In this method, a total of net income earned by working people in different sector and commercial enterprises is obtained. By this method, NI is obtained by adding receipts as total rent, total wages, total interest and total profit.

(iii) **Consumption Method** It is also called Expenditure Method. Income is either spent on consumption or saved. Hence, NI is the additional of total consumption and total saving.

Problems in Calculating of National Income

- **Black Money** Illegal activities like smuggling and unreported income due to tax evasion and corruption are keeping outside the GDP estimates. Thus, parallel economy poses a serious hurdle to accurate GDP estimates. It also causes loss of revenues to the state exchequer due to tax evasion.
- **Non-Monetisation** In most of rural economy considerable portion of transaction occurs informally and, they are called as **Non-Monetised Economy**. This keeps the GDP estimates at lower level than the actual.
- **Growing Service Sector** Many services like BPO, value addition in legal consultancy, health services, financial and business services and service sector

as a whole is not based on accurate reporting and hence, national income is underestimated.

- **Double Counting** It is also a hurdle to accurate GDP estimates. Though, there are some corrective measures, but it is difficult to eliminate it.

Estimation of National Income in India

- The first attempt to calculate National Income of India was made by **Dadabhai Naoroji** in 1867-68, who estimated Per-Capita Income to be ₹ 20.
- The first scientific method was made by Professor VKRV Rao in 1931-32, but was not very satisfactory.
- The first official attempt was made by National Income Committee headed by Professor PC Mahalanobis in 1949.
- According to the National Income Committee Report (1954), National Income of India was ₹ 8710 crore and Per-Capita Income was ₹ 225 in 1948-49.
- In India, the National Statistical Office (NSO) under Ministry of Statistics and Programme Implementation is responsible for estimation and publication of National Income.

Limitations in the Measurement of National Incomes

- *Whilst measuring National Income, we need to be aware of some of the following limitations, challenges, problems which are discussed below*
  - — National Income measures domestic economic performance, not social welfare, but there should be a strong positive correlation.
  - — National Income understates social welfare, non-market transactions like home-makers service and do-it-yourself projects are not counted.
  - — National Income does not measure an increase in leisure or work satisfaction changes in product quality.
  - — National Income does not accurately reflect changes in environment like oil spills clean-up is measured as positive output, but increased in pollution is not measured as negative.
  - — Per-Capital Income is a more meaningful measure of living standards than total National Income.
  - — Problem of double counting, however, problem of double counting could be avoided by utilising the value added approach.
  - — Problems of depreciation estimation.
  - — Different methods of calculating or estimating depreciation.
  - — Arbitrary definition.
  - — Inclusion or exclusion of certain items in National Income accounting can cause confusion.
  - — Challenges like difficulties in getting information, especially those related to underground economy.

Gross Fixed Capital Formation (GFCF)

- It refers to net additions of capital stock such as equipment, buildings and other intermediate goods.
- The term fixed signifies that only fixed capital is counted and financial assets, stocks of inventories etc are excluded. GFCF also excludes land sales and purchases.

Incremental Capital Output Ratio (ICOR)

- ICOR is used to assess a country's level of production efficiency. ICOR equals Annual Investment or Annual Increase in GDP. Higher levels of ICOR means that capital is not being used efficiently to increase production. Generally, for most countries ICOR is at around 3.

Indian Organisations Related to National Income Accounts

Ministry of Statistics and Programme Implementation

The Ministry of Statistics and Programme Implementation (MOSPI) is a ministry of Government of India concerned with coverage and quality aspects of statistics released. The surveys conducted by the Ministry are based on scientific sampling methods. The Ministry of Statistics and Programme Implementation (MOSPI) came into existence as an Independent Ministry on 15th October, 1999 after the merger of the Department of Statistics and the Department of Programme Implementation.

National Statistical Office

The government has merged the Central Statistical Office (CSO) and National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation (MOSPI) into a single entity on 23rd May, 2019. The new merged entity has been named the National Statistical Office (NSO) and will continue to be headed by the secretary of MOSPI.

The National Statistical Office (NSO) headed by a Director General is responsible for conduct of large scale sample surveys in diverse fields on All India basis.

The NSO has four divisions :

- **Survey Design and Research Division (SDRD) :** This division, located at Kolkata is responsible for technical planning of surveys, formulation of concepts and definitions, sampling design, designing in inquiry schedules, drawing up of tabulation plan, analysis and presentation of survey results.

- **Field Operations Division (FOD) :** The division, with its headquarters of Delhi/Faridabad and a network of six Zonal Offices, 52 Regional Offices and 117 Sub-Regional Offices spread throughout the country, is responsible for the collection of primary data for the surveys undertaken by NSO.
- **Data Processing Division (DPD) :** The division, with its headquarters at Kolkata and 5 other Data Processing Centers at various places, is responsible for sample selection, software development, processing, validation and tabulation of the data collected through surveys. Price and Wages in Rural India collected through schedule 3.01 (R) is being processed at DPC Giridih. In addition, DPD is also processing the data of Periodic Labour Force Survey (PLFS). Industrial Statistics Wing (IS Wing), DPD, NSO, Kolkata is responsible for sample selection, data processing, validation and tabulation of the Annual Survey of Industries (ASI) data collected through a dedicated web portal.
- **Survey Coordination Division (SCD) :** The division, located at New Delhi, coordinates all the activities of different divisions of NSO. It also brings out the bi-annual journal of NSO, titled "Sarvekshana", and organises National Seminars on the results of various Socio-economic surveys undertaken by NSO.

National Statistical Commission

The Government of India through a resolution dated 1st June, 2005 set up the National Statistical Commission (NSC). The setting up of the NSC followed the decision of the Cabinet to accept the recommendations of the Rangarajan Commission, which reviewed the Indian Statistical System in 2001. The NSC was constituted with effect from 12th July, 2006 with a mandate to evolve policies, priorities and standards in statistical matters. The NSC has four members besides a Chairperson, each having specialisation and experience in specified statistical fields.

Central Statistical Office (CSO)

- Central Statistical Office (CSO), was set-up on 2nd May, 1951. It is one of the two wings of the **National Statistical Organisation** (NSO), along with **National Sample Survey Office** (NSSO), responsible for coordination of statistical activities in the country and for evolving and maintaining statistical standards.
- Its activities include compilation of national accounts; conduct of annual survey of industries and economic censuses, compilation of index of industrial production, as well as consumer price indices.
- It also deals with various social statistics, training, international cooperation, industrial classification etc.

National Sample Survey Office (NSSO)

- The NSSO was set-up in 1950, for conducting large scale sample surveys to meet the data needs of the country, for the estimation of National Income and other aggregates.
- It was recognised in 1970, by bringing together all aspects of survey work under a single agency known as **NSSO**.
- The NSSO undertakes the fieldwork of Annual Survey of Industries in the whole country except Jammu and Kashmir.
- All India household consumer expenditure survey, which is the main source of data on the level of living of the Indian population is also carried out by NSSO.
- NSSO data on socio-economic surveys are regularly released through the quarterly publication 'Sarvekshana' issued by the Department of Statistics.

National Income's Trend in Growth and Structure

- Real GDP (Gross Domestic Product) at constant (2011-12) prices in the year 2021-22 is now estimated to attain a level of ₹ 135.13 lakh crore. The National Statistics Office (NSO), Ministry of Statistics and Programme Implementation has released the revised GDP numbers on 29th May, 2021. As per new series of base year (2011-12), the GDP of India, at constant price, for the year of 2020-21 was –7.2%.
- The per capita income in real terms (at 2011-12 prices) during 2020-21 is estimated to attain a level of ₹ 85,929 as compared to ₹ 94,556 for the year 2019-20.
  The per capita income at current prices during 2020-21 is estimated to be ₹ 127,768, showing a decline of 4.8 per cent, as compared to ₹ 134,186 during 2019-20.
- As industrialisation spreads, there is an improvement in the share of industry and services. However, the evident change in Indian economy is slow, because of the slow rate of growth of manufacturing.

Growth (in GVA) 2020-21 in Major Sectors (in percentage) (at 2011-12 prices)

Sector	2019-20	2020-21
Agriculture, forestry and fishing	4.3	3.6
Mining and quarrying	–2.5	– 8.5
Manufacturing	2.4	-7.2
Electricity, gas, water supply, etc.	2.1	1.9
Construction	1.0	-8.6
Trade, hotels, transport and communication and service related to broadcasting	6.4	-18.2
Financing, real estate, professional services, etc	7.3	-1.5
Public administration, defence and other services	8.3	-4.6
GVA at constant basic prices	4.1	-6.2

(Based on the data from the NSO)

Self Check

Build Your Confidence

1. The term National Income represents **[IAS 2001]**

(a) Gross National Product (GNP) at market prices minus depreciation

(b) Gross National Product (GNP) at market prices minus depreciation plus net factor income from abroad

(c) Gross National Product (GNP) at market prices minus depreciation and indirect taxes plus subsidies

(d) Gross National Product (GNP) at market prices minus net factor income from abroad

2. Consider the following statements

1. GDP is a better measure of national income than GNP.
2. GNP is always higher than GDP.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

3. Which of the following is not included in the estimates of National Income?

(a) Sale of collector's item

(b) Addition to inventory, but not sale of the company's products

(c) Market rent of self owned house

(d) Cost of government services

4. Consider the following statements with reference to Indian economy. **[IAS 2010]**

1. The GDP has increased by four times in the last 10 years.
2. The percentage share of public sector in GDP has declined in last 10 years.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

5. Consider the following statements

1. National Income is same as Net National Product at factor price.
2. The National Income of India is estimated mainly through production and income methods.

Which of the statement (s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

6. Which one of the following institution prepares the National Income estimates in India? **[UPPCS 2006]**

(a) Planning Commission

(b) Reserve Bank of India

(c) Central Statistical Organisation

(d) India Statistics Institute

7. Which one of the following sectors is the major contribution towards the Gross Domestic Saving in India in recent time?

(a) Public Sector *(b)* Private Sector
(c) Corporate Sector *(d)* Household Sector

8. Which one of the following the most appropriate method to measure the economic growth of a country?

(a) National Income

(b) Net National Product

(c) Gross Capital Formation

(d) Gross Domestic Product

9. Consider the following statements with reference to Indian economy. **[UPSC 2015]**

1. The rate of growth of Real Gross Domestic Product has steadily increased in the last decade.
2. The Gross Domestic Product at Market Price (in rupees) has steadily increased in the last decade.

Which of the statement(s) given above is/are correct?

(a) Only 1

(b) Both 1 and 2

(c) Only 2

(d) Neither 1 nor 2

10. The National Income of a country for a given period is equal to the **[UPSC 2013]**

(a) total value of goods and services produced by the nationals

(b) sum of the total consumption and investment expenditure

(c) sum of personal income of all individuals

(d) money value of final goods and services produced

11. In which of the following sectors, growth in GDP continuously decreasing from 2013-14?

(a) Agriculture, forestry and fishing

(b) Industry

(c) Manufacturing

(d) Financing, real estate, professional services etc.

12. The government has merged the CSO and NSSO under the MOSPI into a single entity from May, 2019. The new merged entity has been named

(a) National Statistical Office

(b) Survey Design Office

(c) National Sample Office

(d) National Statistical Office.

1. (c) **2.** (d) **3.** (a) **4.** (b) **5.** (c) **6.** (c) **7.** (d) **8.** (d) **9.** (b) **10.** (d)
11. (a) **12.** (a)

Chapter three
Economic Growth and Development

Economic growth is an indicator of wealth, reflecting the quantity of resources available to a society. But it provides no information about the allocation of these resources. Economic development is a normative concept. It applies in the context of people's sense of morality.

Economic Growth

- Economic growth is an increased economic capacity to produce goods and services, compared from one period of time to another which is conventionally measured by increased in a country's GDP (Gross Domestic Product) or GNP (Gross National Product) or per capita Net Domestic Product (NDP). **Per capita NDP** is the most appropriate measure of economic growth.
- *Economic growth comes in two forms:*

(i) An economy can either grow extensively by using more resources (i.e. physical, human or natural capital).

(ii) Intensively by using the same amount of resources more efficiently (productively).

Economic Development

- According to Michael Todaro *"Economic development is an increase in living standards improvement in self-esteem needs and freedom from oppression as well as a greater choice."*
- It is referred to as the quantitative and qualitative changes in economy such as development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy etc.
- Human Development Index (HDI) is the most appropriate measure of economic development.

Economic development in all societies must have atleast the following objectives:

— To increase the availability and widen the distribution of basic life sustaining goods.
— To raise levels of living by ensuring higher incomes, more jobs and greater attention to culture.
— To expand the range of economic and social choices available to both individuals and nations.

Difference Between Economic Growth and Economic Development

Economic Growth	Economic Development
Economic growth refers to an increase over time in a country's real output of goods and services (GNP).	Economic development implies an upward movement of the entire social system in terms of income, savings and investment alongwith progressive changes in socio-economic structure of country.
Growth relates to a gradual increase in one of the components of GDP : consumption, government spending investment, net exports.	Development relates to growth of human capital index, a decrease in inequality figures and structural changes that improve the general population's quality of life.
It is qualitative in nature and measured through increase in real GDP.	It is qualitative and measured through HDI, GDI, HPI etc.
It is concerned with increase in the economy's output.	It is concerned with structural changes in the economy.

Measurement of Economic Development

- To measure economic development is a complex process. Economists have used various yardsticks for measuring economic development.

National Income and Per Capita Income

- This is the traditional approach to measure economic development. World Bank uses the concept of **per capita Gross National Income** (GNI) as a measure for comparing and classifying countries based on their stage of economic development.
- World Development Report (WDR), 2015 (sub-titled **Gender Equality and Development)** classifies countries category wise based on per capita GNI.
- Since official exchange rate is used in the international comparison of GNI, therefore, they do not give a correct picture for two reasons *They are* :
  (i) Purchasing power capacity of a country ignored.
  (ii) Official exchange rate does not reflect the value of non-traded goods.
- In order to overcome this problem, following the work of IB Kravis and others "*International comparisons of real product and purchasing power*" (1978), the UN International Comparison Programme gave the Purchasing Power Parity (PPP) method.

Purchasing Power Parity (PPP)

PPP approach was given by economist **Gustav Casell** in 1918. The concept is based on the law of one price, wherein the absence of trade and non-trade barriers, identical goods will have same price in different countries, when the prices are expressed in the same currency. PPP exchange rates are calculated by comparing the prices of the same basket of goods are services indifferent countries.

PPP was first used by International Monetary fund (IMF) in 1988 for measuring standard of living in different countries. Indian Economy is the third largest economy in term of PPP.

The PPP is defined as the number of units of a country's currency required to buy the same amount of goods and services in the domestic market as $ 1 would buy in the United States. e.g. if we have to spend ₹ 30 for purchasing the same amount of goods and services as are purchased in spending $ 1 in USA, then the exchange rate in PPP approach is $1= ₹ 30.

Physical Quality of Life Index (PQLI)

- PQLI was the first attempt towards providing comprehensive measure of economic development. It was developed by **Morris David Morris** in the mid-1970s.
- PQLI is the average of three values, *viz*, life expectancy, basic literacy rate and infant mortality rate. Each value was scaled on 1 to 100, where 1 represents the worst and 100 represents the best.

Human Development Index (HDI)

- The United Nations Development Programme (UNDP) introduced the HDI in its first Human Development Report (HDR) prepared under the stewardship of Mahbub-ul-Haq in 1990.
- **Life Expectancy Index** (LEI) Educational Attainment Index (EAI) and Standard of Living Index (SLI) are the indicators of HDI.
- Life expectancy refers to life expectancy at birth, not at age 1.
- **Educational Attainment Index** (EAI) is a combination of adult literacy rate and combined enrolment ratio.
- **Standard of Living Index** (SLI) is represented here by the concept of Purchasing Power Parity (PPP). Per capita income is converted into PPP in terms of US dollar.

Human Development Report (HDR), 2020

- The United Nation's Human Development Report, was released in December 2020 with the theme 'Human Development and the Anthropocene'.
- In the 2020 report, India with a score of 0.645 has been ranked 131 out of 189 countries in terms of HDI. In 2019 report, India was ranked 129 out of 189 countries.
- HDR report is a composite indices covering five sub-indexes including Human Development, Inequality Adjusted Human Development, Gender Development, Gender Inequality and Multidimensional Poverty Index.

Human Development Group

Group	Index Value
Very high human development	0.800 and above
High human development	0.700 and 0.799
Medium human development	0.550 and 0.699
Low human development	0.352 and 0.549

Inequality-Adjusted Human Development Index (IHDI)

- IHDI adjusts the Human Development Index (HDI) for inequality in distribution of each dimension across the population. The IHDI accounts for inequalities in HDI dimensions by 'discounting' each dimension's average value according to its level of inequality.

- The IHDI equals the HDI, when there is no inequality across people, but is less than the HDI as inequality rises. In this sense, the IHDI is the actual level of human development (accounting for this inequality), while the HDI can be viewed as an index of potential human development (or the maximum level of HDI) that could be achieved, if there was no inequality.
- The loss in potential human development due to inequality is given by the difference between the HDI and the IHDI and can be expressed as a percentage. India's HDI value after discounting the IHDI is 0.477.

Gender Inequality Index (GII)

- GII reflects women's disadvantage in three dimensions: reproductive health, empowerment and the labour market for as many countries as data of reasonable quality allow.
- The index shows the loss in human development due to inequality between female and male achievements in these dimensions. It ranges from 0, which indicates that women and men fare equal to 1, which indicates that women fare as poorly as possible in all measured dimensions.

Gender Development Index (GDI)

- The new GDI measures gender gap in human development achievements in three basic dimensions of human development health, measured by male and female life expectancy at birth, education and command over economic resources.

Multidimensional Poverty Index (MPI)

- MPI was developed in 2010, by Oxford Poverty and Human Development Initiative and UNDP and different factors to determine poverty beyond income based list were used.
- The MPI is an index of acute multidimensional poverty. It shows the number of the people, who are multidimensionally poor (suffering deprivation in 33% of weighted indicators) and the number of deprivation with which poor households typically contend. It reflects deprivation in very rudimentary services and core human functioning for people across 104 countries. The index uses same three dimensions as the Human Development Index such as health, education and standard of living.
- *These are measured using 10 indicators:*

Dimensions and their 10 Indicators

Dimensions	Indicators
Health	1. Child mortality
	2. Nutrition
Education	3. Years of schooling
	4. Children enrolled
Living Standards	5. Cooking fuel
	6. Toilet
	7. Water
	8. Electricity
	9. Floor
	10. Assets

- Each dimension and each indicator within a dimension is equally weighted.
- The lower and the index value of lesser the multidimensional poverty.

Gross National Happiness (GNH)

- The term 'Gross National Happiness' was coined in 1972, by Bhutan's then King **Jigme Singye Wangchuck**.
- GNH was designed in on attempt to define an indicator that measures quality of life or social progress in more holistic and psychological terms than the economic indicator of GDP. It is not measured directly, but only by the factors, which are believed to lead to it.
- A second-generation GNH concept, treating happiness as a socio- economic development metric was proposed in 2006, by **Med Jones.**

GNH value is proposed to be an index function of the total average per capita of the following measures:

— Economic wellness
— Environmental Wellness
— Physical wellness
— Mental wellness
— Workplace wellness
— Social wellness
— Political wellness

Genuine Progress Indicator (GPI)

- The GPI is a concept in green economics and welfare economics. A GPI attempts to measure whether or not a country's increased production of goods and expanding services have actually resulted in the improvement of welfare of the people of the country. Genuine Progress Indicator refers to the concept of a quantitative measurement of well-being and happiness.
- The two measures of GPI and GNH are both motivated by the notion that subjective measures like well-being, are more relevant and important than more objective measures like consumption.

Global Hunger Index (GHI)

- GHI is designed to measure and track hunger globally and by country and region. It is calculated each year by the International Food Policy Research Institute (IFPRI).
- The Global Hunger Index (GHI) was first released by IFPRI in 2006.

GHI Index, 2021

GHI 2020 was published in October 2021. It comprehensively measures and track hunger at the global, regional and country level. It was prepared jointly by global NGOs namely, Concern Worldwide (Ireland) and Welt Hunger Hilfe (Germany).

In order to reflect the multi-dimensional nature of the hunger, the GHI 2021 combines the following four components/indicators into one index.

1. Undernourishment (Insufficient calorie intake)
2. Child wasting (Low weight for their height)
3. Child stunting (Low height for their age)
4. Child mortality (Under the age of five)

India with a score of 27.5 in this index ranked 101 out of 107 countries. Hunger level in India has been characterised as serious'.

Green Gross Domestic Product (Green GDP)

- Green GDP is an index of economic growth with the environmental consequences of that growth factored in.
- Green GDP monetises the loss of biodiversity and accounts for costs caused by climate change. Some environmental experts prefer physical indicators (such as waste per capita or carbon dioxide emissions per year), which may be aggregated to indices such as the Sustainable Development Index.

Sustainable Development Index (SDI)

- The sustainable development is defined as the **development to achieve the needs** of present generation without compromising future generations need.
- Sustainable development ensures the well-being of individual by integrating social development, economic development and environmental conservation and protection.
- The challenges of sustainable development are population, poverty, inequality, the shortage of drinking water, human health, consumption of energy, deforestation and petrol consumption.

Human Sustainable Development Index (HSDI)

- HSDI was developed in 2010, by independent economists. HSDI attempts to measure the overall quality of life by factoring in a fourth parameter-**per capita carbon emission** to the existing HDI. According to HSDI, the top five countries are Norway, followed by New Zealand, Sweden, Switzerland and France.

National Prosperity Index (NPI)

NPI is a standard measure of social and economic development. Its three components are as follows

(i) GDP growth rate
(ii) Improvement in the quality of life.
(iii) Use of cultural heritage based on a value system in each area of life.

Former President APJ Abdul Kalam said that the country's economic growth should always be guided by 'National Prosperity Index' that includes components like improvement of quality of life and adoption of a value system derived from our ancient civilisation besides GDP. **SAARC prosperity Index** idea is given by Abdul Kalam on the basis of NPI.

Human Capital Index Report 2020

World Bank released the report titled "The Human Capital Index 2020 Update: Human Capital in the Time of COVID-19" in September, 2020. The Human Capital Index (HCI) 2020 is a collaboration between the Human Development Practice Group and the Development Economics Group of the World Bank. India has been ranked at the 116th position among 174 countries in the Human Capital Index 2020. Last year India was ranked 115 out of 157 countries. The country of Singapore topped the score with 0.88 followed by Hong Kong and Japan in this index of 2020.

Millennium Development Goals (MDGs)

MDGs were eventuated at the UNs Millennium Summit, 2000, where the world leaders of 189 UN Member States (193 currently) agreed on a set of quantifiable and monitorable goals for development and poverty eradication to be achieved by 2015.

MDGs Report, 2015

UN released the Global Report on MDGs. NITI Aayog released the Asia-Pacific MDGs Report, 2015. India has managed to reduce its extreme poverty incidence to a half from 49.4% in 1994 to 24.7% in 2011. The report set the limit for extreme poverty as those living on $ 1.25 or less a day.

New Global Goals

The United Nations General Assembly (UNGA) formally adopted the 2030 Agenda for sustainable development on 26th September, 2015, along with a set of bold new Global Goals. The 193 members GA adopted the new framework, "Transforming Our World: the 2030 Agenda for Sustainable Development," composed of 17Goals and 169 targets to wipe out poverty, fight inequality and tackle climate change over the next 15 years. Ambitious 17 goals are–no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, reduced inequality.

Sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice and strong institution and partnership for the goals.

Different Levels of Economic Development

Developing Country

- A developing country is a country, that has not reached the Western style standard of democratic government, free market economy, industrialisation, social programmes' and human rights guarantees for their citizens.

Newly Industrialised Countries (NIC)

- The word NIC is used for those countries, which have more advanced economy than other developing nations, but which have not yet fully demonstrated the signs of a developed country.

Emerging Markets

- These are countries with social or business activity in the process of rapid growth and industrialisation. Many of the countries like India and China, earlier considered to be emerging are now said to have emerged and the term is considered to be outdated by many.

Economy and Environment

- Natural and environmental resources have three economic roles: waste disposal services related to the environment's assimilative capacity, natural resource inputs into production and directly consumed life support services and aesthetic amenities.
- The natural and environmental resource input function is central to understanding the relationship between economic growth and environment.

Sustainable Development

- Economic development without environmental considerations can cause serious environmental damage, in turn, impairing the quality of life of present and future generations. Sustainable development attempts to strike a balance between the demands of the economic development and the need for protection of the environment.
- It seeks to combine the elements of economic efficiency, intergenerational equity, social concerns and environmental protection. Although, the term 'sustainable development' has many interpretations, it generally refers to non-declining human wellbeing over time.
- Sustainable development was defined by the Brundtland Commission (1987) as the meeting of the needs of the present without compromising the ability of future generations to meet their own needs.'

Need of Sustainable Development

- The concept of sustainable development aims at maximising the net benefits of economic activities, subject to maintaining the stock of productive assets (physical, human and environmental) over time and providing a social safety net to meet the basic needs of the poor.
- Sustainable development, therefore, attempts to accelerate development in an environmentally responsible manner keeping in mind the intergenerational equity requirements.
- The spirit of the conference was captured by the expression **Harmony with Nature**, brought into the fore with the first principle of the Rio Declaration: 'Human beings are at the centre of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature.'
- In 1993, UNCED instituted the **Commission on Sustainable Development** (CSD) to follow-up on the implementation of Agenda 21.
- In 2002, 10 years after the Rio Declaration, a follow-up conference, the **World Summit on Sustainable Development** (WSSD) was convened in Johannesburg, to renew the global commitment to sustainable development. The conference agreed on the **Johannesburg Plan of Implementation** (JPoI) and further tasked the CSD to follow-up on the implementation of sustainable development.
- In December, 2009, the UN General Assembly adopted a resolution agreeing to hold the United Nations Conference on Sustainable Development (UNCSD), also referred to as '**Rio+20 or Rio 20**'.
- In 2012, the member States have agreed on the following two themes for the conference : Green economy within the context of sustainable development and poverty eradication and Institutional framework for sustainable development.

- ***Strong Sustainability Rule** is a rule, which requires a separate preservation of each category of critical asset, assuming these to be complements rather than substitutes.*
- ***Weak Sustainability Rule** is a rule, which seeks to maintain the aggregate monetary value of the total stock of assets, assuming a high degree of substitutability among the various asset types.*

Measuring India's Environmental Performance

- In a ranking of Environmental Performance Index EPI 2020 was placed 168th out of 180 countries.
- The EPI exercise is nevertheless, useful in flagging some areas of concern. India should do better on public health and environmentally preventable child mortality, as has Bangladesh.
- India was at second position after Pakistan on climate change among South-Asia countries. India's performance in air quality is disappointing. Delhi is always in the news for its poor air quality. India's total forest cover has registered a 0.2% increase between 2015 and 2017.

Environmental Taxes

- As against the command and control approach to management of the environment, the economic or Market Based Instruments (MBIs) approach sends economic signals to the polluters to modify their behaviour.
- The approach normally involves financial transfers between polluters and the community and affects relative prices. But the polluters have freedom to respond and adjust, in the manner they want. They can, thus, choose the least cost option to meet the requirements.
- Hence, it is considered to be an efficient approach compared to the approach based on standards and regulations. The MBIs, therefore, have the benefit of being flexible and cost effective providing incentives for dynamic efficiency and resource transfer 12th Five Year Plan and sustainability.

Carbon Tax

- India has cut subsidies and increased taxes on fossil fuels (Petrol and Diesel) turning a carbon subsidy regime into one of carbon taxation. This has significantly increased petrol and diesel price while reducing annual CO_2 emissions. Excise duties on petrol or diesel also act as an implicit carbon tax by putting an effecting price on emissions. The Government of India revised its coal cess from ₹ 50 per ton to ₹ 100 per ton.

12th Five Year Plan and Sustainability

- The 12th Five Year Plan was the first time Five Year Plan has sustainability as a prominent focus and appreciates its emphasis on low carbon growth strategies.

Monitorable Targets for the 12th Plan

- To increase forest and free cover by 5% points.
- To improve forest production and maintain biodiversity.
- To clean all critically polluted rivers by 2020.
- To reduce 20-25% energy use per unit of GDP by 2020.
- To reclaim wetlands/island lakes/ponds by 2017.

Green Accounting

Green accounting is focused on addressing deficiencies in conventional accounts with respect to the environment. Integrated environment and economic (green) accounting, therefore, attempts at accounting for both socio-economic performance and its environmental effects and integrating environmental concerns into mainstream economic planning and policies.

Such integrated accounts can be useful in assessing the sustainability of economic growth and also the structural distortion of the economy by environmentally unsound production and consumption patterns.

Self Check

Build Your Confidence

1. Consider the following statements
1. Economic development is a broader and normative concept. It concerns with structural change in economy.
2. Economic growth is a narrow concept. It concerns with increase in the economy's output.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

2. Consider the following statements about Human Development Index
1. World Bank introduced the Human Development Index.
2. India is a medium human development country.
3. Among the BRICS countries, Russia stands first in the HDI rank.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) 1 and 2
(c) 2 and 3 (d) All of these

3. Which of the following could to have prevented the 'trickle down' effects in Indian economy?
1. Increased dependence of agriculture on purchased inputs and privately managed irrigation.
2. More employment of labour by larger landholding farmers.
3. Lowered participation women in agricultural workforce due to new technology.
4. The failure of the Green Revolution.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) 2 and 4

4. Consider the following statements
1. Gender Inequality Index contains three dimensions reproductive health, empowerment and labour market.
2. It reflects women's disadvantage in health, empowerment and labour market.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

5. Consider the following statements
1. Global Peace Index is a brain child of Steve Kilelea.
2. Gross National Happiness is a brain child of Jigme Singye Wangchuck.

Which of the statement(s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) None of the above

6. Consider the following statements
1. The term 'Trickle Down Effect' was coined by Ronald Regan.
2. Kyznets Curve shows relations between inequality and capita income.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

7. Consider the following statements
1. More than one-third of world population lives in low income countries.
2. More than three quarters of the Gross National Income of the world is accounted for by the high income economy countries.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

8. Human Poverty Index (HPI) developed by UNDP is based on which of the following deprivations?
1. Income deprivation 2. Literacy deprivation
3. Social services deprivation 4. Employment deprivation

Select the correct answer using the codes given below
(a) 2 and 3 (b) 1, 3 and 4
(c) 1, 2 and 4 (d) All of these

9. Consider the following statements
1. The term 'Gross National Happiness' (GNH) was coined in 1972, by Bhutan's then King Jigme Singye Wangchuck.
2. A second-generation GNH concept, treating happiness as a socio-economic development metric was proposed in 2006, by Med Jones.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) 1 and 2 (d) None of these

10. Which one of the following indicators is not used in the determination of Gender Development Index (GDI) in the Human Development Report (HDR)? **[UPPCS 2008]**
(a) Life expectancy of female
(b) Female adult literacy and gross enrollment
(c) Female political empowerment
(d) Female per capita income

11. Economic growth in country X will necessarily have to occur if **[UPSC 2013]**
(a) there is technical progress in the world economy
(b) there is population growth in X
(c) there is capital formation in X
(d) the volume of trade grows in the world economy

1. (c) **2.** (c) **3.** (c) **4.** (c) **5.** (c) **6.** (c) **7.** (c) **8.** (b) **9.** (c) **10.** (c) **11.** (c)

Chapter four
Economic Planning in India

Planning involves acceptance of a clearly defined set of objectives in terms of which to frame overall policies, formulation of a strategy for promoting the realisation of the ends defined and working out a rational solution to problems—an attempt to coordinate means and ends.

Meaning of Economic Planning

- Economic planning refers to the path of actions in terms of policy measures to be followed in future, in pursuance of pre-determined objectives.
- Planning Commission (now NITI Aayog) defines economic planning as the utilisation of country's resources for developmental activities in accordance with national priorities. It is a consciously and judiciously carried out process for optimum utilisation of existing resources in order to fulfil some well defined objectives.

Objectives of Planning

The broad objectives of Five Year Plans in India are as follows:

- **A high rate of growth** with a view to improvement in standard of living.
- **Modernisation** of economy in terms of adoption of new technologies and social outlook.
- **Economic self-reliance** meaning avoiding import which can be produced in India.
- **Equity** implying equitable distribution of wealth with social justice.
- **Economic stability,** which means controlling inflation and unemployment.

Strategies of Planning

Harrod Domar Strategy

- The first Five Year Plan (1951-56) was based on this strategy. This strategy emphasised the role of capital accumulation's dual character, which on the one hand, increases the national income (demand side role) and on the other hand, increases the production capacity (supply side role).
- According to this growth model, the rate of economic growth in an economy is dependent on the level of savings and capital output ratio.

Nehru-Mahalanobis Strategy

- This strategy was a two sector model, that is, consumer good sector and capital good sector. The strategy emphasised investment in heavy industry to achieve industrialisation for rapid economic development. It was based on the Russian experience.
- The objective was to become self-reliant and overcome capital constraint. This strategy was adopted in the Second Five Year Plan (1956-61) and with minor modifications, up to the Fifth Plan. It was a long-term strategy.
- It is also referred as planning by inducement as against imperative planning.

Gandhian Strategy

- It was enunciated by **Acharya Shriman Narayan Agarwal** in his 'Gandhian Plan' in 1944. The basic objective of the Gandhian Model is to raise the material as well as cultural level of the masses so as to provide a basic standard of life.
- It laid emphasis on scientific development of agriculture and rapid growth of cottage and village industries. Moreover, Gandhian strategy emphasised on employment oriented planning rather than production oriented planning of Nehru.

LPG Strategy

- Liberalisation, Privatisation and Globalisation (LPG) strategy of planning was introduced by the Finance Minister, Dr Manmohan Singh under Narasimha Rao government in 1991.
- The strategy ended the 'license-permit-raj' and opened the hitherto areas reserved for the public sector to private sector. It allowed for foreign direct investment and followed an export promotion policy to boost economic growth. In all, it changed the nature of planning from centralised to 'indicative', wherein planning was to play a facilitating role.
- It is also referred to as planning by inducement as against imperative planning.

History of Planning in India

- First attempt to initiate economic planning in India was made by M Visvesvaraya, a noted engineer and politician, in 1934, through his book, *Planned Economy for India.*
- In 1938, National Planning commission was set-up under the Chairmanship of Jawaharlal Nehru by the Indian National Congress.
- Its recommendations could not be implemented because of the beginning of the World War II and changes in the Indian political situation.
- It stated that the objective of planning was to ensure an adequate standard of living for the masses. It emphasised heavy industry and land reforms.
- In 1944, Bombay plan was presented by 8 leading industrialists of Bombay including JRD Tata, GD Birla and others.
- It saw future progress based on textile and consumer industries and saw an important role for the state in post independent India.
- In 1945, People's Plan was given by MN Roy.
- In 1950, Sarvodaya plan was given by Jai Prakash Narayan. A few recommendations of this plan were accepted by the government.

National Institution for Transforming India (NITI) Aayog

- National Institution for Transforming India (NITI) Aayog is a policy 'think-tank' of government that replaces Planning commission and aims to involve states in economic policy-making. It will be providing strategic and technical advice to the Central and the State Governments. Prime Minister heads the Aayog as its Chairman.
- It was formed via a resolution of the Union Cabinet on 1st January 2015 for providing directional and policy inputs, designing strategic and long term policies, programmes, advising Centre, States and Union Territories on technical aspect. It acts as the quintessential platform of the Government of India to bring the states to act together in national interests and thereby fosters cooperative federalism.

NITI Aayog-Composition

- NITI Aayog is headed by the Prime Minister and it consists of a governing council, comprising Chief Ministers of states and Heads of all Union Territories. The Governing council replaces the earlier National Development council.
- In addition, there will also be a regional council comprising of Chief Ministers and Lieutenant Governors of Union Territories, which will be mandated to develop plans that are region specific.
- The Aayog have 7-8 full time members and two well-known and accomplished part-time members, drawn from leading research organisations and major universities. Four Union Ministers, nominated by the Prime Minister, are also be included in ex-officio capacity.
- On the PM's invitation, specialists across domains, will be invited to share knowledge and add value to the planning process, making extensive use of technology in developing sustainable plans and programme implementation. The Prime Minister shall appoint a full time Chief Executive Officer with a fixed tenure and may sanction a dedicated secretariat, if deemed necessary.

Planning Commission

- After independence in 1950, the Planning commission was set-up under the Chairmanship of Pt Jawaharlal Nehru. It was to formulate plans for the economic development of the country on the basis of the available physical, capital and human resources.
- The Planning commission was essentially a non-political and non-constitutional advisory body, which makes recommendations to the government. It was set-up through an executive order of the Union Government on 15th March, 1950.

Differences between NITI Aayog and Planning Commission

Parameter	NITI Aayog	Planning Commission
Financial Clout	To be an advisory body or a think-tank. The powers to allocate funds might be vested in the Finance ministry.	Enjoyed the powers to allocate funds to ministries and State Governments.
Full-time Members	The number of full-time members could be fewer than Planning commission.	The last commission had eight full-time members.
States Role	State Government are expected to play a more significant role than they did in the Planning commission.	States role was limited to the National Development council and annual interaction during plan meetings.
Member Secretary	To be known at the CEO and to be appointed by the Prime Minister.	Secretaries or Member Secretaries were appointed through the usual process.
Part-time Members	To have a number of part-time members, depending on the need from time- to- time.	Full Planning commission had no provision for part-time members.

15 Years Vision Document in Place of Five Year Plan

- The newly elected NDA government in 2014 decided to discontinue the Five Year Plan and replace it with 15 Year Vision Document. The first 15 Year Vision Document will come into effect from 2017-18 after the end of the 12th Five Year Plan. It will be formulated with central objective of eradication of poverty. It will come alongwith a 7 year National Development Agenda which will lay down the programmes, schemes and strategies to achieve a long term vision. The long vision document (Perspective plan) will comprise three year mass economic framework.
- **2017-18 to 2032-33** Vision Document
- **2017-18 to 2024-25** National Development Agenda
- **2017-18 to 2019-20** Three Year Action Agenda (to be repeated after every three year)

National Development Council (NDC)

- The National Development Council (NDC) is neither a constitutional body nor a statutory body. Union Cabinet set-up NDC in 1952, through an executive order.
- National Development Council (NDC) is mainly concerned with approval of Five Year Plans. The NDC is headed by the Prime Minister and consists of the Central Ministers, Chief Ministers of the State and Lt Governors, Administrators of Union Territories and Members of the Planning commission.
- The Secretary of the Planning commission acts as the Secretary of the Council. From a strictly legal point of view, NDC is essentially an advisory body.

Five Year Plans in India

- After independence, India launched a programme of Five Year Plans to make the optimum use of country's available resources and to achieve rapid economic development.
- In India, development plans were formulated and carried out within the framework of the mixed economy.
- In India, Economic planning was adopted in the form of Five Year Plans and was seen as a development tool on account of various reasons.

  These are:

  —Limitations of market mechanism in view of the existing economic backwardness of India at the time of independence.

  —The need for social justice as experience of the past five and-a-half decades suggests that in a free enterprise economy, economic gains do not necessarily trickle down.

  —**Judicious mobilisation** and allocation of resources in the context of overall development programme in the light of the resource constraint in India.
- So far, Twelfth Five Year plans have been formulated since, the year 1951. Twelfth Five Year Plan (2012-2017), came into force once it was approved by the NDC on 27th December, 2012.

Formulation of Five Year Plan

- The preparation of a Five Year Plan starts with the formulation of an Approach Paper, outlining the macroeconomic dimensions, strategies and objectives of the plan.
- The Approach Paper is prepared by the Planning Commission (NITI Aayog) after intensive consultations with individuals.
- The Approach paper then presented to the National Development Council (NDC).
- Thus, based on the parameters postulated in the NDC approved Approach Paper, the Central Ministries and the states prepare their respective plans, with the help of a large number of Steering committees or Working groups.
- Based on the reports of these Steering committees and Working groups, the States and the Central Ministries were come with their proposals of detailed plans and programmes.

Implementation of Five Year Plan

- The Five Year Plan is implemented through Annual plans, which is a detailed description of the allocation of resources between centre and states and for different sectoral activities in the government.
- In particular, it involves allocation of budgetary resources and detailed consideration of public sector projects, programmes or schemes.
- The sanction of government expenditure is affected through Annual Budget, which is passed by the Parliament every year.

Brief Description of Five Year Plan

Plans	Objectives Facts	Assessments
First Plan (1951-56) (Harrod Domar Model)	• Highest priority accorded to agriculture in view of large-import of foodgrain and inflation. • Increasing the rate of investment from 5% to 7%. • 31% of total plan outlay on agriculture followed by transport and communication, social services, power and industry. • Economist KN Raj was the architect.	• Agriculture production increased dramatically. • National income went up by 18% and Per- Capita income by 11%. • Targeted growth rate was 2.1% and First Plan achieved 3.6%. • Price level was stable.
Second Plan (1956-61)	• Rapid industrialisation with particular emphasis on the development of basic and heavy industry, also called **Nehru Mahalanobis plan.** • To promote a socialistic pattern of society as envisaged at Avadi Summit of Indian National Congress in 1955. • To increase National income by 25%, expansion of employment and reduction of inequality. • To increase the rate of investment from 7% to 11% of GDP. • There was a thrust towards substitution of basic and capital good industries in this plan.	• Moderately successful, targeted growth rate was 4.5% but achieved 4.1%. • Durgapur (UK), Bhillai (USSR) and Rourkela. (W Germany) Steel plants set-up with foreign help. • Atomic Energy commission came into being and TIFR was set–up. • Inflation and low agricultural production and Suez crisis.
Third Plan (1961-66) (Gadgil Yojana)	• Indian economy entered take off stage (WW Rostow). • Self-reliant and self-generating economy was the goal. • Priority to agriculture and development of basic industries. Tried to balance industry and agriculture. • To increase the National Income by 30% and Per Capita Income by 17%.	• A failure because of worst famine (1965-66), in 100 years. • Indo-China (1962) and Indo-Pakistan (1965), conflict diverted the resources from development to defence. • Postponement of fourth Plan by 3 years. • Targeted growth 5.6% achieved growth 2.8%. • The situation created by Indo-Pakistan Conflict (1965), two successive years of severe drought, devaluation of currency by 57% general rise in prices and erosion of resources for plan delayed. • Fourth Plan delayed because between 1966 to 1969 three Annual Plans were formulated.

Plans	Objectives Facts	Assessments
Annual Plan (1966-69)	• Due to the unfortunate failure of the Third Plan, the production in various sectors of the economy became stagnant. In 1966, the Government of India declared the devaluation of rupee, with a view to increase the exports of the country. So, the Fourth Plan was postponed and 3 Annual Plans were implemented. Some of the economists called this period, i.e. from 1966 to 1969, Plan Holiday.	
Fourth Plan (1969-74)	• Objective was growth with stability and progressive achievement of self-reliance. • Laid special emphasis on improving the condition of under privileged and weaker sections. • Food security in gold was also one of its main goal. • The objective is of correcting the earlier trend of increased concentration of wealth and economic power.	• First 2 years of the plan were successful with record foodgrain production on account of Green Revolution. • Adoption of import-substitution policy and export-promotion policy widened the industrial base. • Targeted growth 5.7% however, achieved growth 3.3%. • The plan was failure on account of runaway inflation (due to 1972 oil crisis or supply shock); huge influx of refugees from Bangladesh post 1972 Indo-Pak War.
Fifth Plan (1974-79)	• Original approach to plan prepared by C Subramaniam, who proposed economic growth alongwith direct attack on poverty. • However, final draft prepared by DP Dhar with objectives of removal of poverty (Garibi Hatao) and attainment of self-reliance. • To step-up domestic rate of saving. • Introduction of minimum needs programme.	• Targeted growth 4.4% and achieved growth 4.8%. • Fifth Plan cost calculations based on 1971-72, prices proved to be wrong. • Fifth Plan terminated 1 year before the plan period in March, 1978. • Brought to the fore problem associated with coalition government making a mockery of formulation of Five Year Plan.
Rolling Plan (1978-80)	Rolling plan (Gunnar Myrdal) was brought out by Janata Party Government under Morarji Desai in 1978. The focus of the plan was enlargement of the employment potential in agriculture and allied activities to raise the income of the lowest income classes through minimum needs programme. Annual Plan period was 1979-80.	
Sixth Plan (1980-85)	• Removal of poverty through strengthening of infrastructure for both agriculture and industry. • The emphasis was laid on greater management, efficiency and monitoring of various schemes. • Involvement of people in formulating schemes of development at local level.	• Indian economy made an all round progress and most of the targets fixed by the plan was achieved. • Targeted growth 5.2%. • Achieved growth 5.4%.
Seventh Plan (1985-90)	• To accelerate foodgrains production. • To increase employment opportunities. • To raise productivity. • Outward looking strategy with gradual liberalisation over of economy.	• Foodgrain production grew by 3.23% as compared to a long-term growth rate of 2.68% between 1967-68 and 1988-89. • The Indian economy finally crossed the barrier of the Hindu rate of growth of 3% given by Professor Raj Krishna. • Average annual growth rate was 6.0% as against the targeted 5.0% and average of 3.5 % in the previous plans. • It saw the beginning of liberalisation of Indian economy.
Annual Plan (1990-92)	The Eighth Plan could not take off due to fast changing political situations at the centre. Therefore, from 1990-92, Annual plans were formulated.	
Eighth Plan (1992-97)	• Process of fiscal reforms and economic reforms initiated by Narasimha Rao Government to prevent another major economic crisis. • To increase the average industrial growth rate to 7.5%. • To provide a new dynamism of the economy and improve the quality of life of the common man. • Also called as **Rao-Manmohan Singh** model. • First indicative plan.	• Higher economic growth rate of 6.8% achieved as against the targeted 5.6%. • Improvement in trade and current account deficit. • Significant reduction in fiscal deficit. • Agriculture growth and industrial growth increased. • Unshackled private sector and foreign investment control was the prime reason for high growth. • Overall socio-economic development indicators low. • The growth became jobless and fruitless.

Plans	Objectives Facts	Assessments
Ninth Plan (1997-02)	• Growth with social justice and equality. • Emphasis on Seven Basic Minimum Services (BMSs), which included safe drinking water universalisation of primary education, streamlining PDS among others. • Pursued the policy of fiscal consolidation. • Decentralisation of planning with greater reliance on states. • Ensuring food and nutritional security to all. • Empowerment of women, SC/STs/OBCs.	• Global economic slowdown and other factors led to revision of targeted growth rate from 7% to 6.5%, which too was not achieved. • The economy grew at 5.4% only. • Agriculture grew by 2.1% as against the target of 4.2% per annum.
Tenth Plan (2002-07)	• The Tenth Plan aimed at achieving 8.1% GDP growth assuming that ICOR (Incremental Capital Output Ratio) will decline from 4.53% to 3.58%. • It aimed at increasing domestic saving rate from 23.52% to 29.4% of GDP and gross capital formation to 32.2% from 24.4% of GDP. • To improve the overall framework of governance. • Agriculture was the core element.	• Increase in GDP growth to 7.6% compared to 5.5% compared to 5.5% in the Ninth Plan. The lower than targeted growth rate of 8% was due to low growth of 3% in the first year of Tenth Plan. • Increase in gross domestic saving and investment. • Reduction in ICOR to 4.2% though higher than targeted, but less than Ninth Plan's ICOR of 4.53%. • Increase in foreign exchange reserves to US $ 287 billion. • However, Tenth Plan fared worst on socio-economic indicators and the agricultural growth rate was meagre 2.1%.
Eleventh Plan (2007-12)	• Average GDP growth of 8.1% per year. • Agricultural GDP growth of 4% per year. Generation of 58 million employment opportunities. • Sex ratio for age group 0-6 years to be raised to 935 by 2011-12 and to 950 by 2016-17.	• The growth rate during the Eleventh Plan period was about 7.9%, which is higher than the 7.8% growth rate achieved in the Tenth Plan. • As against the target of 4% growth in the agriculture sector, the plan could register a growth of only 3% during 2007-12 period. • The services sector continued to register a growth rate of more than 10%. However, the industrial growth rate showed at 7.9%.

Twelfth Five Year Plan (2012-17)

- 12th Five year plan of the Government of India was India's last five year plan. It is prepared and launched by D. P. Dhar.
- The Finance Ministry has extended the time period for 12th plan schemes ending on 31st March by six months (i.e., September, 2017)
- The Approach Paper of the Twelfth Five Year Plan is concerned with the faster, sustainable and more inclusive growth. In it, the challenge of urbanisation has been identified as one of the key focus area.
- The total plan size of Twelfth Plan is ₹ 47.7 lakh crore, 13.5% more than the Eleventh Plan.

Twelfth Five Year Plan's Goals

12th five year plan main goals are as follows

- It aims at average GDP growth rate of 8%.
- It seeks to achieve 4% growth in agricultural sector.
- It aims at reducing head-count poverty by 10%.
- Reducing Infant Mortality Rate (IMR) to 25, Maternal Mortality Rate (MMR) to 100 and Total Fertility Rate (TFR) to 2.1.
- Increasing infrastructure investment to 9% of GDP.
- Improving child sex ratio (0-6) to 950.
- Provide access to banking services to 90% Indian households by the end of twelfth five year plan.

Achievement of 12th Five Year Plan

- GDP growth rate achieved of financial year (FY) of 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 are 5.6, 6.6, 7.5, 8.0 and 6.6 percent respectively.
- Base line of IMR was 44. Achievement was 37 (in 2015) as per appraisal document of 12th plan of NITI Aayog.
- Base line of TFR was 2.4 and achievement was 2.3 (in 2015) as per appraisal document of 12th five year plan of NITI Aayog.

- Base line of child sex ratio in the 0-6 year age group was 914 and achievement was 919 (2015-16) as per NITI Aayog.

Annual Growth Rate of GVA by Economic Activity at constant (2011-12) Basic Prices of FY 2012-13 to 2016-17

Sl. No.	Item	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Agriculture, forestry and fishing	1.5	4.2	-0.2	0.8	6.3
2.	Mining and quarrying	-0.5	3.0	10.8	12.3	13.0
3.	Manufacturing	6.0	5.6	5.5	10.6	7.9
4.	Electricity, gas & water supply, & other utility services	2.8	4.7	8.0	5.1	9.2
5.	Construction	0.6	4.6	4.4	2.8	1.3
6.	Trade, hotels, transports, communication and services related to broadcasting	9.7	7.8	9.8	10.7	7.2
7.	Financial services, real estate, ownership of dwellings and professional services	9.5	10.1	10.6	10.8	6.0
8.	Public administration and defence and other services	4.1	4.5	10.7	6.9	10.7
	Total GVA at Basic Prices	5.4	6.1	7.2	8.1	7.1
	Industry (2-5)	3.6	5.0	5.9	7.4	7.5
	Services (6-8)	8.1	7.8	10.3	8.9	8.4

Sector Wise Growth and Share in 12th Five Year Plan

- Annual GVA growth data in all sectors of 12th five year plan i.e. 2012-13 to 2016-17 were based upon 2011-12 prices at constant prices.
- Annual GVA growth during Financial Year (FY) 2012-13 to 2016-17 in Primary Sector were 1.4% (2012-13), 4.8% (2013-14), 1.2% (2014-15), 2.6% (2015-16) and 7.4% (2016-17) respectively.
- In secondary sector; Annual GVA growth during FY 2012-13 to 2016-17 were 3.6% (2011-12), 4.2% (2013-14), 6.7% (2014-15), 9.4% (2015-16) and 7.5% (2016-17) respectively.
- Annual GVA growth in tertiary sector of FY 2012-13 to 2016-17 were 8.3% (2012-13), 7.7% (2013-14), 9.8% (2014-15), 9.4% (2015-16) and 8.5% (2016-17).
- Share of primary sector in GVA at current prices from FY 2012-13 to FY 2016-17 were 21.3%, 21.4%, 20.9% 20.1% and 20.4% respectively.
- Share of secondary sector in GVA at current prices from FY 2013-13 to FY 2016-17 were 28.7%, 27.9%, 27.3%, 27.6% and 27% respectively.
- Share of Tertiary sector in GVA at current prices from FY 2012-13 to FY 2016-17 were 50%, 50.6%, 51.8%, 52.3% and 52.6% respectively.

Three Year Action Agenda (2017-18 to 2019-20)

- The first Three Year Action Agenda, a NITI Aayog document, is based on extensive discussions with and inputs from the Central ministries and State governments on 23rd April 2017.
- The Agenda is a part of a longer-term 15-year Vision and 7-year Strategy outlined in a separate document. The Action Agenda proposes a path to achieve all-round development of India and its people. The objective of eliminating poverty in all its dimensions such that every citizen has access to a minimum standard of food, education, health, clothing, shelter, transportation and energy has been at the heart of India's development efforts since Independence.
- Farmers make up nearly half of India' workforce. Therefore, for India to flourish, its farmers and the farm economy must prosper. It is against this background that the Prime Minister has called for doubling farmer's income by 2022.
- Water demand for irrigation, drinking and industrial use has been increasing with growth in incomes and population under this agenda.
- Digital connectively has become an important driver of economic growth. The Action Agenda discusses the Digital India campaign and the actions related to enhancing digital connectivity.
- Important aim of the Action Agenda is education, skill development, health and reducing issues facing specific groups such as Scheduled Castes, Scheduled Tribes, women, children, differently abled and senior citizens.

Forecasting under Three year Agenda

GDP at market price for 2017-18, 2018-19 and 2019-20 forecast in this agenda is ₹ 170.2 lakh crore, ₹ 191.11 lakh crore and ₹ 215.9 lakh crore respectively.

The fiscal deficit targets are set on the basis of the fiscal consolidation roadmap announced in Budget 2017-18, which commits the Union Government to reduce its fiscal deficit to 3.2% of GDP in 2017-18 and 3% of GDP thereafter.

The Expenditure targets are set for 2017-18, 2018-19 and 2019-20 in this agenda is ₹ 2,182,240 crore, ₹ 2,435,256 crore and ₹ 2,793,593 crore respectively.

Hindu Growth Rate

The concept of Hindu Growth rate was given by Professor Raj Krishna to refer to the stagnant growth rate of India till 1970s. The word 'Hindu' in the term was used by some early economists to imply that the Hindu outlook of fatalism and contentedness was responsible for the slow growth. The argument was shattered in the 1990s, when India achieved a growth rate of 6%+, in the context of the economic reforms brought by Dr Manmohan Singh (then Finance Minister). Thus, this new growth trajectory was termed as the Sardar Growth rate.

Self Check

Build Your Confidence

1. Consider the following statements
1. NITI Aayog is structured to promote cooperative federalism.
2. NITI Aayog is to centralise the planning process in response to scarcity of resources.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

2. The main objective of the Twelfth Five Year Plan is **[UPSC 2014]**
(a) inclusive growth and poverty reduction
(b) inclusive and sustainable growth
(c) sustainable and inclusive growth to reduce unemployment
(d) faster, sustainable and more inclusive growth

3. Consider the following statements
1. First Five Year Plan was based on Harrod Domar strategy.
2. Second Five Year Plan was based on Nehru-Mahalanobis strategy.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

4. In recent plans, certain words/phrases were used in the title of the plan along with 'Growth'. They are
1. Inclusive, 2. Faster,
3. More Inclusive, 4. Sustainable,
5. More sustainable.

Which combination is true of the Twelfth Five Year plan?
(a) 1, 2 and 3 (b) 1, 4 and 5
(c) 2, 3 and 4 (d) 1, 2 and 4

5. Inclusive growth as enunciated in the Eleventh Five Year Plan does not include which one of the following?
(a) Reduction of poverty
(b) Extension of employment opportunities
(c) Reduction of gender inequality
(d) Strengthening of capital market

6. Consider the following statements
1. In the Eleventh Five Year Plan, the agriculture sector contributed more than 25% in the overall GDP of the India.
2. In the Twelfth Five Year Plan the growth rate of the agriculture sector was above 4%.

Which of the statement(s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

7. Consider the following statements
1. NITI Aayog or National Institution for transforming India Aayog is policy think-tank of government, that replaces Planning commission.
2. NITI Aayog will provide strategic and technical advice to the State Government.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

8. The term 'Hindu rate of growth' refers to the 3.70% per annum growth rate achieved by the Indian economy over the First Six Five Year Plans'. The term was coined by
(a) JN Bhagwati (b) KN Raj
(c) Raj Krishna (d) Sukhamoy Chakravarty

9. Which one among the following Five Year Plan of India economy diversified the planning shifting focus from heary and basic industries to new sunrise industries like telecommunication, computers, electronic?
(a) Second Five Year Plan (b) Fourth Five Year Plan
(c) Seventh Five Year Plan (d) Ninth Five Year Plan

10. Match the following

List I (Plan Model)	List II (Proposer)
A. Bombay plan	1. Jai Prakash Narayan
B. Gandhian plan	2. MN Roy
C. People's plan	3. Sriman Narayana
D. Sarvodaya plan	4. Birla and Tata Group

Codes

	A	B	C	D		A	B	C	D
(a)	4	3	2	1	(b)	1	2	3	4
(c)	3	2	4	1	(d)	1	4	2	3

11. The Rolling Plan concept in Nation planning was introduced by **[BPSC 2008]**
(a) Indira Gandhi government
(b) The National government
(c) The Janata Party government
(d) Rajiv Gandhi government

12. The Government of India has established NITI Aayog to replace the **[UPSC 2015]**
(a) Human Rights Commission
(b) Finance Commission
(c) Law Commission
(d) Planning Commission

1. (a) **2.** (d) **3.** (c) **4.** (c) **5.** (a) **6.** (d) **7.** (a) **8.** (c) **9.** (c) **10.** (a)
11. (c) **12.** (d)

Chapter five
Money and Banking

Financial market provides channels for allocation of saving to investment. The financial market thus, contribute to economic development to the extent that latter depends on the rates of saving investment.

Money

- Fiat money, derives its value by being declared by a government to be **legal tender**; i.e. it must be accepted as a form of payment within the boundaries of the country, for all debts, public and private.
- The money supply of a country consists currency (bank notes and coins) and bank money (the balance hold in checking accounts and savings accounts).
- Bank money, which consists only of records (mostly computerised in modern banking), forms by far the largest part of the money supply in developed nations.

Measures of Money Supply in India

- Money supply is the stock of **liquid assets** held by the public which can be freely exchanged for goods and services.
- RBI calculates four concepts of money supply. These are known as **measures of monetary aggregates** or **money stock measures.**
- The working group under the Chairmanship of Dr YB Reddy, then Deputy Governor of RBI (now Former Governor of RBI) has suggested four new monetary measures. (M_0, M_1, M_2, M_3) and three liquidity measures (L, L_2, L_3). Besides, the group also recommended the publishing of Financial Sector Survey 'A Monetary Aggregates', every 3 months.
- M_0 = Currency in circulation + Banker's deposit with RBI + Other deposit with RBI.
- M_1 = Currency with the public + Demand deposits with the Banking System + Other deposits with the RBI.
- $M_2 = M_1$ + Saving deposits of Post Office Savings Banks.
- $M_3 = M_1$ + Time deposits with the Banking System.
- $M_4 = M_3$ + Office Savings of Banks.
- The decreasing order of liquidity of these monetary aggregates is $M_0 > M_1 > M_2 > M_3$. The decline in liquidity indicates the shifting of 'medium of exchange 'to' store of value'.
- Demand deposits are those deposits payable by the bank on demand by a customer like current and savings account.

Indian Currency Symbol (₹)

- The symbol of Indian rupee ₹ came into use on 15th July, 2010. India is the fifth economy (after America, Britain, Japan and European Union to accept a unique **currency symbol.**
- The new symbol designed by **D Udaya Kumar,** a post graduate of IIT Mumbai was finally selected by the Union Cabinet on 15th July, 2010.
- The new symbol, is an amalgamation of **Devanagari** 'Ra' and the **Roman** 'R' without the stem.

Liquidity Aggregates

- $L_1 = M_3$ + All Deposits with the Post Office Savings Banks (excluding National Savings Certificates).
- $L_2 = L_1$ + Term Deposits with Term Lending Institutions and Refinancing Institutions (FIs) + Term Borrowing by FIs + Certificates of Deposit issued by FIs; and
- $L_3 = L_2$ + Public Deposits of Non-Banking Financial Companies.

Financial Sector

- **Financial Sector** of a country is one of the important determining factors of the level of economic development. Sound financial system induces the level of savings and investment, thus, working as a **stimulant** for the development variables.
- Weak financial structure certainly hinders the tempo of development process by discouraging the developmental variables. Thus, rapid economic development requires a sound financial system with adequate availability of finance and a strong system of associated financial and investment institutions.

Financial sector in India comprises of Financial Intermediaries or Financial Institutions are as follows:

—**Financial Institutions** are the institutions, which are primarily engaged in the collection and mobilisation of savings and convert into investment. Financial institutions include all **banks** and **non-banking** financial institutions.

—**Financial Markets** are the markets, which are engaged in the collection of savings from the surplus units of the economy and lending to the deficit units of the economy for the investment and other purposes. Financial market consists of **money market** and **capital market**.

—**Financial Assets** include unit shares, debentures, certificate of deposits, life insurance policies etc. These are the instruments traded in the financial markets through **financial intermediaries**.

Financial Markets

- Financial market is an important part of financial sector. Financial market is that market, where **financial transactions** take place. On the basis of short-term and long-term transactions, such markets are classified as into money market and capital market.

Money Market

- The cluster of financial institutions that deal in short-term securities and loans, gold and foreign exchange are termed as money market. Money has a time value and therefore, the use of it, is bought and sold against payment of interest. Short-term money is bought and sold on the money market and long-term money on the capital market.
- Neither the money market nor the capital market exists in one physical location. The money market is a key component of the financial system, as it is the function of monetary operations conducted by the **Central Bank** in its pursuit of monetary policy objectives.
- It is a market for short-term funds with maturity ranging from overnight to 1 year and includes financial instruments that are deemed to be close substitutes of money.

Functions of Money Market

The money market performs three broad functions are as follows

(i) It provides an equilibrating mechanism for demand and supply of short-term funds.

(ii) It enables borrowers and lenders of short-term funds to fulfil their borrowing and investment requirements at an efficient market clearing price.

(iii) It provides an avenue for Central Bank intervention in influencing both quantum and cost of liquidity in the financial system, thereby transmitting monetary policy impulses to the real economy.

- Efficient functioning of the money market is important for the effectiveness of monetary policy.

Regulation of Indian Money Market

- Indian money market is broadly divided into two parts-**organised** and **unorganised**.
- The RBI is the Apex Organisation in the Indian Money Market. It carries out **regulation** and **development** of the Indian money market through instruments such as call , notice or term money market, repo market, certificate of deposit, commercial paper and Collateralised Borrowing and Lending Obligation (CBLO).

Organised Money Market

Call Money Market

- The call or notice money market forms an important segment of the Indian money market.
- Call or notice money is an amount borrowed or lent on demand for a very short period. If the period is greater than 1 day and up to 14 days, it is called the **notice money**; otherwise the amount is known as **call money**. No collateral security is needed to cover these transactions.

—The call market enables the banks and institutions to even out their day-to-day deficits and surpluses of money. Cooperative Banks, Commercial Banks and primary dealers are allowed to borrow and lend in this market for adjusting their cash reserve requirements.

—This is a completely inter-bank market. Interest rates are market determined. In view of the short tenure of these transactions, both borrowers and lenders are required to have current accounts with Reserve Bank of India.

Banker's Acceptance Market

- A Banker's Acceptance (BA) is a short-term credit investment created by a non-financial firm and guaranteed by a bank to make a payment. Acceptances are traded at discounts from face value in the secondary market.

- One advantage of a banker's acceptance is that it does not need to be held until maturity and can be sold off in the secondary markets, where investors and institutions constantly trade BAs.

Collateral Loan Market

- In this market, loan is often secured against collateral security. Security may be in any form *viz* pledge, mortgages etc. Thus, the market for loans secured by **collateral security** is called the **collateral loan market**.

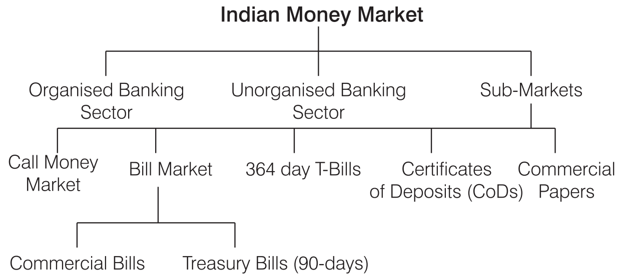
Treasury Bill Market

- Treasury bills are money market instruments to finance the short-term requirements of the Government of India. These are **discounted securities** and thus, are issued at a discount to face value. The return of the investor is the difference between the maturity value and issue price.
- The market that deals with treasury bills is called **treasury bill market**. These are the lowest risk category instruments for the short-term. RBI issues treasury bills [T-bills] at a prefixed day and for a fixed amount.
- *There are four types of Treasury Bills:*
  - *(i)* **14 Days T-Bill** It was introduced in 1997, by the **RBI**. Maturity is in **14 days**, it is auctioned on every Friday of every week and the notified amount for auction is ₹ 100 crore.
  - *(ii)* **91Days T-Bill** Maturity is in **91 days,** it is auctioned on every Friday of every week and the notified amount for auction is ₹ 100 crore.
  - *(iii)* **182 Days T-Bill** Maturity is in **182 days**, it is auctioned on every alternate Wednesday, which is not a reporting week and the notified amount for auction is ₹ 100 crore. It was introduced on the recommendations by Vaghul Working Group.
  - *(iv)* **364 Days T-Bill** Maturity is **364 days**, it is auctioned on every alternate Wednesday, which is a reporting week and the notified amount for the auction is ₹ 500 crore. It was also recommended by Vaghul Working Group.
- These are bought by the Reserve Bank, Commercial Banks, non-banking financial intermediaries, LIC, UTI and GIC. Treasury bills are most liquid, because Reserve Bank is always ready to buy and discount them.

Commercial Bill Market

- It is the market that deals in commercial bills. Commercial bills of exchange are negotiable instruments drawn by the seller or drawer of the goods on the buyer or drawer of the good for the value of the goods delivered.
- These bills are called **trade bills**. These trade bills are called **commercial bills**, when they are accepted by Commercial Banks. If the bill is payable at a future date and the seller needs money during the currency of the bill, the seller may approach the bank for discounting the bill.
- The banks discount this bill by keeping a certain margin and credits the proceeds. Banks, when in need of money, can also get such bills rediscounted by financial institutions such as LIC, UTI, GIC, ICICI and IRBI.

  The maturity period of the bills varies from 30 days, 60 days or 90 days, depending on the credit extended in the industry.



Organisation of Indian Money Market

Certificates of Deposits Market

- After treasury bills, the next lowest risk category investment option is Certificate of Deposit (CD) issued by banks and Financial Institution (FI).
- Allowed in 1989, CDs were one of RBI's measures to deregulate the cost of funds for banks and FIs.

  A (CD) is a negotiable promissory note, secure and short-term, of upto a year, in nature.

Repo Market

- Repo is a money market instrument which helps in collateralised short-term borrowing and lending through sale or purchase operations in debt instruments.
- Initially repos were allowed in Central Government treasury bills and dated securities created by converting some of the treasury bills, RBI gradually allowed repo transactions in all government securities and T-bills of all maturities and now State Government Securities, PSU's bonds, private corporate securities have also been made eligible for repos to broaden the repo market.

Money Market Mutual Funds (MMMFs)

- The scheme was introduced by RBI in April, 1992 with the objective of providing an additional **short-term avenue** to the individual investors. They have now been brought under the purview of SEBI since March, 2000.

Commercial Paper Market

- Commercial Papers (CPs) are negotiable short-term unsecured promissory notes with fixed maturities, issued by well-rated organisations. These are generally sold on discount basis.
- Organisations can issue CPs either directly or through banks or merchant banks (called as dealers).

Unorganised Money Market

- The sector consists of unregulated non-bank financial intermediaries such as money lenders Chit funds, Nidhis etc.
- **Chit funds** are savings institutions. They are of various types and don't have any standardised form. **Chit funds** have regular members, who make **periodic contributions**.
- At periodic intervals funds are given to a member based on a pre determined criterion, usually on the basis of bids or draw of lots. All members are assured of their turn before the round ends.
- Chit funds are prevalent in almost all states, but **Kerala** and **Tamil Nadu** account for the major part. They exist in both organised and unorganised form.
- Organised Chit funds are regulated by **registrar** of Chit funds and the relevant legislation in this regard is the Chit Funds Act, 1982. There is however, regulatory confusion since Collective Investment Schemes (CIS) are to be registered and regulated by SEBI. Many Chit funds take advantage of the regulatory loopholes.
- **Nidhis** are a kind of **mutual benefit** funds. Their dealings are restricted to members only and they operate in the unregulated credit market.
- **Deposits** mobilised by them are not much. Their principal source of funds is from the members and they provide loans to members at relatively **reasonable rates** and are **secured**.
- **Money** lenders and loan companies are present all across the country. They generally give loans to wholesale traders, artisans and other self-employed persons. They charge high rates of interest from 26% to 48% and 50 people who approach them are generally unable to get loans from Commercial Banks.

Promissory Note

- It is a legal document between a lender and a borrower, whereby the latter agrees to certain conditions for the repayment of the sum of money borrowed.
- Promissory note is signed when one borrows from a Commercial Bank.
- Particular forms of promissory notes, known as **commercial paper**, can be bought and sold.

Dated Government Securities

- These are securities issued by the Government of India and State Governments. The date of maturity is specified in the securities, therefore, they are known as **dated securities**.

Masala Bond

- Masala bonds are rupee denominated overseas bonds. Masala bonds will help to internationalise the Indian rupee and also deepen the Indian financial system(Public and Private Sector). By issuing bonds in rupees, an Indian company is shielded against the risk of currency fluctuation, typically associated with borrowing in foreign currency. Besides helping diversify funding sources, the cost of borrowing could also turn out to be lower than domestic markets. In 2013, the first masala bonds were issued by the International Finance Corporation (IFC), an arm of the World Bank. IFC then named them Masala bonds to give a local flavour by calling to mind Indian culture and cuisine.
- Masala bond will help the Indian corporates to reduce its interest cost burden on the debt amount on its balance sheet. The more of foreign funds can be used for infrastructural development in the country. Overall, the development of a Masala bond market would be positive for Indian firms, opening up potentially significant new sources of funding over External Commercial Borrowings (ECBs).

Capital Market

- It is one of the most important segments of the Indian financial system. It is the market available to the companies for meeting their requirements of the **long-term funds**. These are markets for buying and selling equity and debt instruments.
- The market consists of a number of individuals and institutions (including the government) that **channelise** the supply and demand for long -term capital and claims on it.
- The demand for long-term capital comes predominantly from private sector manufacturing industries, agriculture sector, trade and the government agencies, while the supply of funds for the capital market comes largely from individual and corporate savings, banks, insurance companies, specialised financing agencies and the surplus of governments. The Indian capital market is broadly divided into the Industrial Securities Market and Gilt-edged Market.

(i) Industrial Securities Market

- The industrial securities market refers to the market, which deals in equities and debentures of the corporates. It is further divided into primary market and secondary market.

Primary Market

- Primary market (new issue market) deals with new securities, i.e. securities, which were not previously available and are offered to the investing public for the first time. It is the market for raising **fresh capital** in the form of **shares** and **debentures**.
- It provides the issuing company with additional funds for starting a new enterprise or for either expansion or diversification of an existing one and thus, its contribution to company financing is direct. The new offerings by the companies are made either as an Initial Public Offering (IPO) or rights issue.

Secondary Market/Stock Market

- Secondary Market or Stock Market (old issues market or stock exchange) is the market for buying and selling securities of the existing companies. Under this, securities are traded after being initially offered to the public in the primary market and listed on the stock exchange.
- The stock exchanges are the exclusive centres for trading of securities. It is a sensitive **barometer** and reflects the trends in the economy through fluctuations in the prices of various securities.

(ii) Gilt-Edged Market

- The gilt-edged market refers to the market for government and semi-government securities, backed by the Reserve Bank of India (RBI). Government securities are tradeable debt instruments issued by the government for meeting its **financial requirements**.
- The term gilt-edged means 'of the best quality'. This is because the government securities do not suffer from risk of default and are highly liquid (as they can be easily sold in the market at their current price). The open market operations of the RBI are also conducted in such securities.

Other Instruments of Capital Market

- **Derivatives** the term derivative indicate that it has no independent value i.e. its value is entirely derived from an underlying asset. The underlying asset can be securities, commodities, currency etc. **Derivative** is a forward future option or any other hybrid contract of fixed duration, linked for the purpose of contact fulfillment to the value of an asset.
- **Futures Contract** means a legally binding agreement to buy or sell the underlying security on a future date.
- **Options Contract** is a type of derivatives contract which gives the buyer or holder of the contract the right (but not the obligation) to buy or sell the underlying asset at a pre-determined price within or at the end of a specified period 'call' and 'put' are the two types of options contract.
- **Forwards Contract** is also an agreement to buy or sell an asset on a future date. However, unlike a futures contract it is between two private parties and there is no guarantee of fulfillment of the contract.

Regulatory Framework

- In India, the capital market is regulated by the Capital Markets Division of the Department of Economic Affairs, Ministry of Finance.
- The division is responsible for formulating the policies related to the orderly growth and development of the securities markets (i.e. share, debts and derivatives) as well as protecting the interests of the investors.
- *In particular, it is responsible for*
  —institutional reforms in the securities markets.
  —building regulatory and market institutions.
  —strengthening investor protection mechanism and
  —providing efficient legislative framework for securities markets, such as Securities and Exchange Board of India Act, 1992 (SEBI Act, 1992); Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996.

Securities and Exchange Board of India (SEBI)

- It is the regulatory authority established under the SEBI Act, 1992, in order to protect the interests of the investors in securities as well as promote the development of the capital market.
- It involves regulating the business in stock exchanges supervising the working of stock brokers, share transfer agents, merchant bankers, underwriters etc as well as prohibiting unfair trade practices in the securities market.
- *The main functions of SEBI are as follows:*
  —To regulate the business of the stock market and other securities market.
  —To promote and regulate the self-regulatory organisations.
  —To prohibit fraudulent and unfair trade practices in securities market.
  —To promote awareness among investors and training of intermediaries about safety of market.
  —To prohibit insider trading in securities market.
  —To regulate huge acquisition of shares and takeover of companies.

Reforms in Capital Market of India

- The capital market has witnessed major reforms in the 1990s and thereafter. It is on the average of growth. Thus, the Government of India and SEBI have taken a number of measures in order to improve the working of the Indian Stock Exchanges and to make it more progressive and vibrant.

The major reforms undertaken include are as follows:

—**Credit Rating Agencies** Three credit rating agencies *viz* the Credit Rating Information Services of India Limited (CRISIL-1988), the Investment Information and Credit Rating Agency of India Limited (ICRA - 1991) and Credit Analysis and Research Limited (CARL) were set-up in order to assess the financial health of different financial institutions and agencies related to the stock market activities.

—**Merchant Banking Activities** Many Indian and foreign Commercial Banks have set-up their merchant banking divisions in the last few years. It has proved as a helping hand for the factors related to the capital market.

—**Growth of Electronic Transactions** Due to technological development in the last few years, the physical transaction with more paper work is reduced. It saves money, time and energy of investors.

—**Growing Mutual Fund Industry** The growing of mutual funds in India has certainly helped the capital market to grow. A big diversification in terms of schemes, maturity etc has taken place in mutual funds in India. It has given a wide choice for the common investors to enter the capital market.

—**Growing Stock Exchanges** Initially, the BSE was the main exchange, but now after the setting up of the NSE and the OTCEI, stock exchanges have spread across the country. Recently, a new Inter-connected Stock Exchange of India has joined the existing stock exchanges.

—**Investor's Protection** Under the purview of the SEBI, the Central Government of India has set-up the **Investors Education** and **Protection Fund** (IEPF) in 2001. It works in educating and guiding investors and to protect the interest of the small investors from frauds and also malpractices in the capital market.

—**Growth of Derivative Transactions** Since, June 2000, the NSE has introduced the derivatives trading in the equities. These innovative products have given various options for investment leading to the expansion of the capital market.

New Law of SEBI

- In August 2014, the Securities Laws (Amendment) Act, 2014, gave SEBI additional powers, including to order the arrest of violators and seek call data records of individuals under investigation.
- The new law gave SEBI the powers to search and obtain information, including call records, about any suspected entity from within or outside the firm.

Merger of Forward Markets Commission with SEBI

- The government notified on 1st September, 2015 the merger of commodities market regulator Forward Markets Commission (FMC) with SEBI with effect 28th September, 2015.
- As a result, of this notification Foreign Contribution Regulation Act, 1952 will get repealed and regulation of commodity derivatives market will shift to the Securities and Exchange Board of India (SEBI) under Securities Contracts Regulation Act (SCRA) 1956 with effect from 28th September, 2015.
- The commission allows commodity trading in 22 exchange in India, of which 6 are national. Currently, there are three national and six regional bourses for commodity futures in the country.

New Policy Initiatives

- In the overall context of the evolving macro-economic situation in the country and global financial developments, the government in close collaboration with the RBI and SEBI has recently taken a number of initiatives to meet the growing capital needs of the Indian economy.

Some of the initiatives are as follows:

Primary Market

- **SEBI** (Alternative Investment Funds) **Regulations, 2012** With a view to extending the reach of regulation to unregulated funds, ensuring systemic stability, increasing market efficiency, encouraging new capital formation and providing investor protection, SEBI has notified new regulations covering Alternate Investment Funds (AIFs).

Secondary Market

- **Rajiv Gandhi Equity Savings Scheme** On 23rd November, 2012, the government notified a new tax saving scheme called the Rajiv Gandhi Equity Savings Scheme (RGESS) exclusively for first-time retail investors in the securities market.
- The scheme provides a 50% deduction of amount invested during the year, upto a maximum investment of ₹ 50,000 per financial year, from his/her taxable income for that year, for three consecutive assesment years.

Qualified Foreign Investor (QFI)

- *QFIs shall mean a person who fulfills the following criteria are as follows:*
  Resident in a country that is a member of the Financial Action Task Force (FATF) or a country that is a member of a group which is a member of FATF.
- Resident in a country that is a signatory to IOSCOs MoU (Appendix a Signatories) or a signatory of a bilateral MoU with Securities and Exchange Board of India (SEBI). A QFI should neither be a person resident in India nor should be registered with the SEBI as a Foreign Institutional Investor sub-account or Foreign Venture Capital Investor. A QFI should be set-up with a SEBI registered Qualified Depository Participant (QDP) to commence activities. The QDP shall provide inter alia custody services.

Recent Initiatives for Further Development of Corporate Bond Markets

- To permit banks to take limited membership in SEBI-approved stock exchanges for the purpose of undertaking proprietary transactions in the corporate bond markets.
- To enhance liquidity in the corporate bond markets the Insurance Regulatory and Development Authority of India (IRDAI) has permitted insurance companies to participate in the repo market. The IRDAI has also permitted insurance companies to become users of Credit Default Swap (CDS).
- Mutual funds have been permitted to participate in CDS in corporate debt securities, as users.
- Revised guidelines on CDS for corporate bonds by the RBI provide that in addition to listed corporate bonds, CDS shall also be permitted on unlisted, but rated corporate bonds even for issues other than infrastructure companies.

- CDS shall be permitted on securities with original maturity up to one year like CPs, certificates of deposit and non-convertible debentures with original maturity less than 1 year as reference or deliverable obligations.

Stock Exchanges in India

- Bombay Stock Exchange (BSE), the oldest stock exchange in Asia, was established in 1875. It is synonymous with **Dalal Street.**
- BSE was corporatised and renamed BSE Limited in 2005. In 1894, the Ahmedabad Stock Exchange was started to facilitate dealing in the shares of textile mills.
- In 1908, Calcutta Stock Exchange was started to facilitate market for shares of plantations and jute mills. At present, there are 22 stock exchanges in the country. Two types of transaction take place in stock exchanges. *These are as follows* :
  - —**Investment Transaction** Sale or purchase of securities undertaken with the long-term prospect relating to their yield and price.
  - —**Speculative Transaction** Sale or purchase of securities undertaken with short-term gain from differences in yield and price. In this, delivery of securities or the payment of full price is rare.
- *Speculative transaction of different types are as follows:*
  - —**Spot Transaction** involves delivery of and payment for securities on the same day.
  - —**Cash Transaction** are ready delivery transaction, wherein delivery of and payment for securities is completed within a period of one to 7 days.
  - —**Forward Transaction** involves delivery of and payment for securities will be made on certain fixed settlement days, coming once in 15 or 30 days.
  - —On the recommendation of the **Narasimham Committee**, SEBI was given the power to control and regulate the new issues market as well as stock exchange through Amendment of the **Capital Issues Control Act, 1947.**

Approved Stock Exchanges in India

- UP Stock Exchange, Kanpur
- Vadodara Stock Exchange, Vadodara
- Coimbatore Stock Exchange, Coimbatore
- Bombay Stock Exchange, Mumbai*
- Over the Counter Exchange of India, Mumbai
- National Stock Exchange, Mumbai*
- Ahmedabad Stock Exchange, Ahmedabad
- Bangalore Stock Exchange, Bengaluru
- Bhubaneswar Stock Exchange, Bhubaneswar
- Calcutta Stock Exchange, Kolkata*
- Cochin Stock Exchange, Cochin
- Delhi Stock Exchange, Delhi
- NSE IFSC Ltd, Gandhi Nagar*
- Metropolitan Stock Exchange of India Ltd, Mumbai*
- India INX, Gandhi Nagar*
- Saurashtra Kutch Stock Exchange, Gujarat
- Mangalore Stock Exchange, Mangalore
- Guwahati Stock Exchange, Guwahati
- Hyderabad Stock Exchange, Hyderabad
- Jaipur Stock Exchange, Jaipur
- Ludhiana Stock Exchange, Ludhiana
- Madras Stock Exchange, Chennai
- MP Stock Exchange, Indore
- Pune Stock Exchange, Pune
- Interconnected State Exchange of India Limited, Mumbai

** Active Exchange*

Commodity Exchanges

- Multi Commodity Exchange of India Limited (MCX)
- National Commodity and Derivatives Exchange Limited (NCDEX)
- Indian National Multi-Commodity Exchange (NMCE)
- Indian Commodity Exchange Limited (ICEX)

National Stock Exchange (NSE)

- NSE was promoted by leading financial institutions at the behest of the Government of India and was incorporated in November, 1992, as a tax-paying company unlike other stock exchanges in the country.
- On the basis of the recommendations of high powered Pherwani Committee, the National Stock Exchange was incorporated in November, 1992. In April 1993, it was recognised as a stock exchange and commenced operations in 1994. In October 1995, NSE became largest stock exchange in the country.
- *Trading at NSE can be classified under two broad categories:*
  - *(i)* Wholesale debt categories
  - *(ii)* Capital market
- Wholesale debt market operations are similar to money market operations, where institutions and corporate bodies enter into high value transactions in financial instruments such as government securities, treasury bills, public sector unit bonds, commercial paper, certificate of deposit etc.
- NSE has several advantages over the traditional trading exchanges.

They are as follows:

- —NSE brings an integrated stock market trading network across the nation.
- —Investors can trade at the same price from anywhere in the country since inter-market operations are streamlined coupled with the countrywide access to the securities.

—Delays in communication, late payments and the malpractices prevailing in the traditional trading mechanism can be done away with greater operational efficiency and informational transparency in the stock market operations with the support of total computerised network.

Bombay Stock Exchange (BSE)

- Established in 1875, BSE Limited (formerly known as **Bombay Stock Exchange Limited**), is Asia's first stock exchange and one of India's leading exchange groups. Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it an efficient capital raising platform.
- *Some indices of BSE are given below:*

—SENSEX	—MIDCAP
—SMLCAP	—BSE-100
—BSE-200	—BSE-500

- Around 5000 companies are listed on BSE making it world's number one exchange in terms of listed members. BSE limited is world's 5th most active exchange in terms of number of transactions handled through its electronic trading system. It is also one of the world's leading exchange (5th largest in May, 2012) for Index options trading (Source-World Federation of Exchanges).
- BSE is the first exchange in India and second in the world to obtain an ISO 9001:2000 certification.
- BSE's popular equity index the SENSEX is India's most widely tracked stock market benchmark index. It is traded internationally on the EUREX as well as leading exchanges of the BRCS nations (Brazil, Russia, China and South Africa).
- The Bombay Stock Exchange launched BSE Carbonex, the first carbon based thematic index in the country. Which takes a strategic view of organisational commitment to climate change mitigation. This index has been launched with the aim of creating a benchmark and increasing awareness about the risks posed by climate change.
- It will enable investors to track performance of the constituent companies of BSE-100 index regarding their commitment to greenhouse gases emission reduction.

MCX-SX
(MCX Stock Exchange Limited)

- It is a private stock exchange headquartered in Mumbai, which was founded in 2008. It offers currency futures contracts for US Dollar-Rupee, Euro-Rupee, British Pound-Rupee, Japanese Yen-Rupee.
- It offers electronic trading platform in currency futures contracts. The exchange received permissions to deal in interest rate derivatives, equity, futures and options on equity and wholesale debt segment, video SEBI's letter dated 10th July, 2012.

Stock Market Indices

A Stock Market Index is created by selecting a group of stock that are representative of the whole market of a specified sector or segment of the market. An index is calculated with reference to a base period and a base index value. An index is used to give information about the price movements of products in the financial commodities or any other markets. Financial indexes are constructed to measure price movements of stocks, bonds, T-bills and other forms of investments. Stock market indexes are meant to capture the overall behaviour of equity markets. Stock market indices are useful for a variety of reasons. Some of them are

They provide a historical comparison of returns on money invested in the stock market against other forms of investments such as gold or debt.

- They can be used as a standard, against which to compare the performance of an equity fund.
- It is a lead indicator to the performance of the overall economy or a sector of the economy.
- Stock indexes reflect highly up to date information.
- Modern financial applications such as Index funds, index futures, index options play an important role in financial investment and risk management.

SENSEX
(The Barometer of Indian Capital Market)

- BSE sensitive index also referred to as BSE-30 is a free float market capitalisation-weighted stock market index of 30 well established and financially sound companies listed in Bombay Stock Exchange.
- The free float market capitalisation of a company is determined by multiplying, the price of its stocks by the number of shares issued by a company, which is readily available for trading on the stock exchange.
- The base year or period of SENSEX was 1978 – 79 = 100. The calculation of SENSEX involves dividing the free float market capitalisation of 30 companies in the index by a number called the **index divisor**.

Over The Counter Exchange of India (OTCEI)

- Traditionally, trading in stock exchanges in India followed a conventional style, where people used to gather at the exchange offices and bids and offers were made by open outcry. This old-age trading mechanism in the Indian Stock Markets used to create many functional inefficiencies.
- Lack of liquidity and transparency, long settlement periods and benami transactions are a few examples that adversely affected investors. In order to overcome these inefficiencies, OTCEI was incorporated in 1990, under the Companies Act, 1956. OTCEI is the first screen based Nationwide Stock Exchange in India. It is no longer a functional exchange from March 2015.

Reference Rates-MIID, MIBOR

- A reference rate is an accurate measure of the market price. In the fixed income market, it is an interest rate that the market respects and closely watches. It plays a useful role in a variety of situations.
- NSE had developed MIBID (Mumbai Inter Bank Bid Rate) and MIBOR (Mumbai Inter Bank Offer Rate) for the overnight market. It was launched in 1998. They are the reference rates. Then, NSE launched the 14 days MIBID or MIBOR and then the 1 month and the 3 months MIBOR and MIBID. Thus, all the four categories of MIBOR and MIBID are now available.
- It is the simple average of the quotes by the various participants in the market-banks, PDs, institutions polled on a daily basis.
- **LIBOR** (London Inter-Bank Offered Rate) It is the average of interest rates provided by leading banks in London that they would be charged if borrowing from other banks. It is used as a global benchmark interest rate by many banks around the world.

Commodity Futures Market

- Commodities traded on the commodity futures market during 2009, included a variety of agricultural commodities, bullion, crude oil, energy and metal products. Agricultural commodities, bullion and energy products accounted for a large share of the commodities traded in the commodities future market.
- The Central Government has announced a decision to merge the commodities market regulator, Forward Markets Commission (FMC), with the capital markets regulator, Securities and Exchange Board of India (SEBI).

National Multi-Commodity Exchange

National Multi Commodity Exchange (NMCE) will merge with Indian Commodity Exchange (ICEX) creating the country's third biggest commodity exchange. The ICEX will hold a 62.8% stake in the merged entity, while NMCE shareholders will own the rest (37.2%).

The merger has been approved by the boards of both exchanges and is expected to be completed by December, subject to regulatory approvals. This is the first merger deal in the commodity exchange space in India.

The NMCE was launched on November 26, 2002 as India's first online, demutualised commodity exchange by a group of Indian commodity-based corporations and public agencies. The NMCE is India's third-largest commodity exchange offering contracts on oils and oil seeds, coffee, rubber and spices.

The exchange is ranked behind the Multi-Commodity Exchange (MCX) and the National Commodity & Derivative Exchange (NCDEX). ICEX Limited is a screen based on-line derivatives exchange for commodities and has been established on August 28, 2015.

Other Investment Agents

- **Venture Capital Fund** Its a type of fund, which provides early stage, high risk, high potential growth start-up companies, their funding requirements. The funding is based on the hope that a successful venture will provide super-normal returns. The funding is usually made after the 'seed funding' round and in the 'growth funding round', that is at the stage, in which companies just starts to grow, but after it has created a certain base.
- **Angel Investor** It is an individual with large financial resources, who provides capital to a business start-up in exchange of equity or convertible debt. They provide the initial seed money or ongoing support to the company to carry it through difficult times. They are more interested in helping the business succeed than making super-profits and in this sense, they are different from venture capital. Usually, Angel Investors belong to the entrepreneur family or friends.
- **Hedge Fund** It is an aggressively managed portfolio of investments that uses advanced investment strategies such as long, short, leveraged and derivative positions in both domestic and international markets to generate high returns. Hedge funds are typically not open for investment to the general public and only accept investments from a small group of people, who can provide very large initial minimum investment.
- **Bank Sathi** It enables the beneficiaries in rural areas to make deposits and withdrawals. This facility is available in branchless areas of Bank.
- **Participatory Notes** are financial instruments used by wealthy investo to diversify their investments. These are not regulated and usually forms part of Hedge Funds.
- **Sovereign Wealth Fund** (SWF) is a pool of money derived from a country's financial resources. For the purpose of investing in areas, which will benefit the country's economy and people in the future. e.g. India could start a SWF to invest in energy resources abroad, so as to safeguard our energy security for the future.
- **Mutual Funds** It is an investment, vehicle, which is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. Mutual funds are managed by professional fund managers.

Portfolio Investment

In investment terminology, portfolio refers to a collection of financial assets such as stocks, bonds, cash etc with any individual investor, hedge fund, bank etc. Portfolios are designed to serve the objectives of investors such as relating to risk, rate of return on investment etc. Based on these objectives, the portfolio can have different ratios of cash, stock, bond etc.

Banking in India

- History of Indian banking goes back to 19th century it failed. First successful bank in India was Bank of Bengal set-up in 1806. First Commercial Bank in country was **Awadh Commercial Bank** established in 1881.
- In 1921, Imperial Bank, of limited liability of India was set-up. There were two important steps in the banking sector after independence in 1949. Nationalisation of Reserve Bank of India and the Banking Regulation Act, which empowered RBI to regulate banking sector in country.
- The Punjab National Bank, established in Lahore in 1895, has survived to the present and is now one of the largest banks in India.
- The largest bank-Imperial Bank of India was nationalised in 1955 and renamed as State Bank of India followed by formation of its 7 associates in 1959.
- The step toward social banking was taken with the nationalisation of 14 Commercial Banks on 19th July, 1969. Six more Commercial Banks were nationalised on 15th August, 1980.
- Banking crisis during 1913-1917 and failure of 588 banks in various parts of the country during the decade ended 1949 underlined the need for regulating and controlling Commercial Banks. The Banking Companies Act was passed in February, 1949, which was subsequently amended to read as Banking Regulation Act, 1949. This Act provided the legal framework for regulation of the banking system in India.
- Now, the Indian Banks have overseas presence in the form of physical branches, representative offices, joint ventures and subsidiaries.

Reserve Bank of India (RBI)

- The RBI was set-up on the basis of Hilton Young Commission recommendation in April, 1935, with the enactment of RBI Act, 1934.
- The RBI continued to serve as the Central Bank to Burma (Myanmar), until Japanese occupation of Myanmar in April, 1947.
- The RBI also continued to serve as Central Bank to Pakistan, until June, 1948.
- The RBI was nationalised in 1949 and its First Indian Governor was **CD Deshmukh**.
- *Main functions of RBI are as follows:*
  - —Maintaining monetary stability so that business and economic life can deliver welfare gains of a properly functioning mixed economy.
  - —Maintaining financial stability and ensuring sound financial institutions so that monetary policy can be safely pursued and economic units can conduct their business with confidence.
  - —Maintaining a stable payments system so that financial transaction can be safely and efficiently executed.
  - —Promoting the development of financial infrastructure in terms of markets and systems and to enable it to operate efficiently, i.e. playing a leading role in developing a sound financial system so that it can discharge its regulatory function efficiently.
  - —Ensuring that credit allocation by the financial system broadly reflect the national economic priorities and societal concerns.
  - —Regulating the overall volume of money and credit in the economy with a view to ensuring a reasonable degree of price stability.

Role of the RBI

RBI plays the following roles in the Indian banking and financial system are as follows:

Note Issuing Authority

- RBI has had the sole authoring to issue currency notes other than ₹ 1 notes or coins and coins of smaller denominations since, its inception. ₹ 1 notes or coins and coins of smaller denomination are issued by the Central Government, but are put into circulation through the RBI.
- RBI can issue notes against the securing of coins or bullion, foreign securities, rupee coins, Government of India securities as such bills of exchange (promissory notes as are eligible for purchase by it. The Reserve Bank has adopted Minimum Reserve System for the note issue. Since 1957, it maintains gold and foreign exchange reserves of ₹ 200 crore of which atleast ₹ 115 crore should by in gold.

Printing of Securities and Minting in India

Security Press	Station	Related by
Currency Notes Press (1928)	Nasik	Bank notes from ₹ 1 to 100
Security Paper (Established 1967-68)	Hoshangabad	Banks and currency notes paper
Bank Notes Press (1974)	Dewas	Bank notes of ₹ 20, 50, 200, 100, 500 and 2000
Security Notes Printing Press (Established 1982)	Hyderabad	Union excise duty stamps
India Security Press(1992)	Nasik	Postal material postal stamps etc
Modernised Currency Notes Press (1995)	Mysore (Karnataka) Sarbani (West Bengal)	
Coins are minted at four places viz, Mumbai, Kolkata, Hyderabad and Noida.		

₹ 1 note released after 20 years

- In November 1994, printing of ₹ 1 note was stopped mainly due to highest cost and for freeing capacity to print currency notes of higher denomination.
- Printing of ₹ 2 and 5 notes were discontinued in 1995.
- Notes of ₹ 1 to be issued would be legal tender as provided in the Coinage Act, 2011.

Banker to the Government

- RBI has the obligation to transact the banking business of the Union and State Governments. In this capacity, it accepts , money on account of these governments makes payments on their behalf and carries out their exchange and remittance operations. Banker to Banks
- RBI has a special relationship with the banks. It controls the amount of their reserves (SLR and CRR) and holds all or part of their reserves. Banks borrow from the RBI in times of need and RBI is in effect the lender of last resort. RBI is the ultimate source of money and credit in India.

Regulator and Supervisor

- In this role, RBI provides the broad parameters within which the banking and financial system of India functions. Its regulatory powers are provided by the RBI Act and the Banking Regulation Act. RBI also regulates many types of Non-Banking Financial Companies (NBFCs). *Some of the regulatory powers of RBI are as follow finance:*
  - —Issuing licenses for new banks.
  - —Prescribing minimum requirements related to paid-up capital, reserves etc.
  - —Inspecting the working of banks with regard to organisational set-up, branch expansion etc.
  - —Conducting investigations into complaints of fraud, irregularities etc in respect of banks.
  - —Approving or forcing amalgamations, reconstruction or liquidation of banks.
  - —Controlling appointments or termination of Chairman and Chief Executive Officers of private sector banks.

Custodian of Foreign Reserves

- As the custodian of foreign reserves, RBI is responsible for managing the investment and utilisation of the country's foreign reserves in the best possible manner. With the introduction of floating exchange rate system and convertibility of the rupee, RBI also has act to stabilise the foreign exchange market.
- RBI's function in this role is to develop and regulate the foreign exchange market and to facilitate external trade and payment.

Credit Control

- It is an important tool used by RBI, a major weapon of the monetary policy used to control the demand and supply of money (liquidity) in the economy. Central Bank administers control over the credit that the Commercial Banks grant. Such a method is used by RBI to bring economic development with stability.

Need for Credit Control

- To encourage the overall growth of the priority sector.
- To keep a check over the channelisation of credit.
- To achieve the objective of controlling inflation as well as deflation.
- To boost the economy by facilitating the flow of adequate volume of bank credit to different sectors.
- Stability in exchange rate and money market of the country.

Monetary Policy Committee

Government recently approves a six member Monetary Policy Committee, that will set policy interest rates. Out of the six members, three members are from RBI including the governors, who would have a casting vote.

The other three external members in the committee would be appointed by the government. Besides, the six members, a finance ministry nominee would also take part in the deliberations of the committee to convey the government's view on policy, but he won't have a voting right.

Methods of Credit Control

There are two types of methods of credit control are as follows:

Quantitative/Credit Control

- Quantitative or credit control is used to control the volume of credit and indirectly to control the inflationary and deflationary pressures caused by expansion and contraction of credit.
- *The quantitative or credit control consists of:*
  - —**Bank Rate** It is also called the rediscount rate. It is the rate, at which the RBI allows finance to Commercial Banks. It is currently at 9%.
  - —**Cash Reserve Requirement** (CRR) Since, 1962, the RBI has been empowered to vary the CRR requirement between 3% and 15% of the total demand and time deposits. The RBI (Amendment) Bill, 2006, empowers RBI to prescribe CRR cash that banks deposit with the RBI without any floor rate or ceiling rate.
  - —**Statutory Liquidity Ratio** (SLR) It is the ratio of liquid asset, which all commercial banks have to keep in the form of cash, gold and unencumbered approved securities equal to not more than 40% of their total demand and time deposits liabilities.
  - —**Open Market Operations** (OMOs) It role as a credit control instrument emerged after economic reforms of 1991, when Indian economy was flushed with excessive inflow of foreign funds. Under OMOs, when the RBI sells G-secs in the market, it withdraws money or liquidity from the market and thus, reduces volume of credit leading to control of inflation.
  - —**Repo Rate** It was introduced in December, 1992, by RBI. It is the rate, at which RBI lends short-term money to the banks against securities. When the repo rate increases (Dearer Money Policy) borrowing from the RBI becomes more expensive and when the repo rate decreases, (Cheaper Money Policy) borrowing becomes cheaper. Repo rate injects liquidity in the market.
  - —**Reverse Repo Rate** It was introduced in November, 1996. It is the rate, at which banks park short-term excess liquidity with the RBI. An increase in the reverse repo rate means that the RBI is ready to borrow money from the banks at higher rate of interest . As a result, banks would prefer to keep more and more surplus funds with the RBI. Reverse repo rate **withdraws** liquidity from the market.

—Other banking operation activities are Marginal Standing Facility Rate (MSFR), Net Demand and Time Liabilities etc.

Marginal Standing Facility (MSF)

- MSF scheme came into effect in 2011. It is a very short-term borrowing scheme for Scheduled Commercial Banks. MSF rate is the rate at which these banks can borrow funds overnight from RBI against government securities.
- Banks can use MSF during severe cash shortage or acute shortage of liquidity. MSF reduces volatility in the overnight lending rates in the inter-bank market and enables smooth transmission of monetary policy. Under MSF, Banks can borrow upto 2% of the Net Demand and Time Liabilities (NDTL).

MCLR

- The Reserve Bank of India has brought a new methodology of setting lending rate by commercial banks under the name Marginal Cost of Funds based Lending Rate (MCLR). It has modified the existing base rate system from April 2016 onwards.
- As per the new guidelines by the RBI, banks have to prepare Marginal Cost of Funds based Lending Rate (MCLR) which will be the internal benchmark lending rates.
- Based upon this MCLR, interest rate for different types of customers should be fixed in accordance with their riskiness. The base rate will be now determined on the basis of the MCLR calculation. The MCLR should be revised monthly by considering some new factors including the repo rate and other borrowing rates.
- Specifically the repo rate and other borrowing rates that were not explicitly considered under the base rate system.

Quantitative Easing

- It refers to an extreme form of monetary easing through which the Central Bank floods the financial system with liquidity.
- It is done to induce bank lending to productive sectors of the economy and thus, promote growth during times when banks are overcautious to lend the money due to prevailing situation of recession or depression.

Liquidity Adjustment Facility (LAF)

- Repo rate and reverse Repo rate are the parts of Liquidity Adjustment Facility (LAF) of RBI.
- LAF allows the RBI to manage market liquiding on a daily basis and to send interest rate signals to the market.
- LAF operates through repo and reverse repo auctions. It has now becomes the principal operating instrument of monetary policy.

Market Stabilisation Scheme

- It is used by the RBI in times of volatility in exchange rate.
- Here, RBI right release or buy foreign exchange in the market to stabilise the exchange rate.
- Under MSS, RBI issues bonds on behalf of the government.

Qualitative Credit Control

- *Qualitative credit control is used by RBI for the selective purposes, some of which are as follows:*
  —**Margin Requirements** This refers to difference between the securities offered and amount borrowed by the banks.
  —**Consumer Credit Regulations** This refers to issuing rules regarding down payments and maximum maturities of instalment credit for purchase of goods.
  —**RBI Guidelines** RBI issues oral or written statements, appeals, guidelines, warnings etc to the banks.
  —**Rationing of Credit** The RBI controls the credit granted or allocated by Commercial Banks.
- Moral suasion an application of pressure, but not force to get members to adhere to a policy RBI gives advices and suggestions to the bankers to follow the instructions given by it.

RBI Controls, Inflation and Growth

- RBI can influence inflation and growth in the economy to a large extent through its instruments of control. If RBI squeeses out liquidity from the economy by selling securities, increasing repo rates, increasing CRR etc, then the demand in the economy is reduced and inflation is brought under control.
- However, in case inflation is due to supply side shortages, RBI controls have less influence. Similarly, increasing liquidity in economy means that households have more money to consume, industries have more money to invest in plant and machinery etc, all of which lead to increase in economic activity. Thus, it can be seen that measures taken by RBI, which control inflation can hurt growth and measures which boost growth, can cause inflation.

RBI Guideline for Small Banking

- The RBI issued draft guidelines for those sealing a license to set-up a payments banks or small banks, as a part of its efforts to expand banking services to more businesses and poor household.
- The minimum paid capital required for both categories of bank licenses would have to contributes atleast 40% initially.

Scheduled Commercial Banks

- All banks which are mentioned in the Second Schedule of RBI Act, 1934 are known as **Scheduled Banks**.
- These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks. Advances, deposits, money at call, short notice etc. are included in the assets of commercial Bank of India. Scheduled Commercial Banks

in India are categorised into five different groups according to their ownership or nature of operation.

- *These bank groups are as follows:*
  —State Bank of India and its associates —Nationalised Banks
  —Private Sector Banks —Foreign Banks and
  —Regional Rural Banks

Public Sector Banks

- After 1969 Commercial Banks are broadly classified into Nationalised or Public Sector Banks and Private Sector Banks. The State Bank of India and its five Associate Banks alongwith Nationalised Banks are the Public Sector Banks.

Nationalised Banks of India

- From 1st February, 1969, the government imposed social control on banks by introducing certain provisions in the Banking Regulation Act, 1949. It imposed severe restrictions on the composition of the Board of Directors and internal management and administration of banking companies.
- It also introduced restrictions on advances by banking companies. These were intended to ensure that the bank advances were not confined to large-scale industries and big business houses, but were also directed, in due proportion to other important sectors like agriculture, small-scale industries and exports.
- On 15th April, 1980, six more banks having demand and time liabilities of not less than ₹ 200 crores were nationalised. The undertakings of these banks are taken over and vest in six corresponding new banks under the banking companies (Acquisition and Transfer of Undertakings) Act, 1980.
- Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between Nationalised Banks and resulted in the reduction of the number of Nationalised Banks from 20 to 19.
- In the group wise classification, since 31st December, 2007 IDBI Bank Limited has been included in Nationalised Banks. RBI again clarified dated 14th March, 2019 that IDBI Bank stands re-categorised as a Private Sector Bank.

State Bank of India

- State Bank of India (SBI) was previously called Imperial Bank of India in 1921, which was created by amalgamation of 3 Presidency Banks viz, Bank of Bengal, Bank of Bombay and Bank of Madras. It was nationalised in 1955.

Bharatiya Mahila Bank

- Former Prime Minister Dr Manmohan Singh and UPA Chairperson, Sonia Gandhi jointly inaugurated India's first all women bank, Bharatiya Mahila Bank in Mumbai on 19th November, 2013, on the birth anniversary of former Prime Minister Indira Gandhi.

Merging of SBI and Mahila Bank

- SBI, merged its associate bank and BMB with itself on 1 April, 2017. With this merger, SBI becomes one of top 50 global banks.
- The Union Cabinet, on 15th June, 2016, approved the merger of 5 associate banks as well as BMB with State Bank of India.

Merging of Nationalised Bank (2019 and 2020)

- Vijaya Bank and Dena Bank merged with Bank of Baroda (BoB) on 1st April, 2019. This merge has created BoB as the 3rd largest public sector in India.
- Government has merged Indian Bank with Allahabad Bank, Oriental Bank of Commerce (OBC) and United Bank of India with Punjab National Bank, Syndicate Bank with Canara Bank and Andhra Bank with Union Bank of India on 1st April, 2020. After merger, there will be 12 Public Sector Banks of India.

Private Banks

- All those banks where creator parts of stake or equity are held by the private shareholders are called as **private sector banks**. In India, private sector banks are known with two names; old private sector banks and new private sector banks.

Old Private Sector Bank

- The banks which were not nationalised at the time of nationalisation of banks that took place during 1969 and 1980 are known as **the old private sector** banks. These were not nationalised, because of their small size and regional focus.

New Private Sector Bank

- The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are known as **new private sector banks**. Banking Regulation Act was then amended in 1993, which permitted the entry of new private sector banks in the Indian banking sector.

Licence to New Private Banks

IDFC First Bank

- Prime Minister Narendra Modi on October 19, 2015 inaugurated the IDFC Bank in New Delhi. IDFC Bank Limited, which started its operations on October 1, 2015, is an Indian Banking company with headquarters in Mumbai that forms a part of IDFC, an integrated infrastructure finance company.

- IDFC Bank was granted a universal banking license in July, 2015 by the Reserve Bank of India (RBI). It was selected along with micro-lender Bandhan in the last round of award of licenses.

Bandhan Bank

- Bandhan Bank Limited appointed its Chairman and Board of Directors on July 9, 2015. The bank started its operations in India from August 23, 2015. It is the first bank established in Eastern India post Independence.
- Former Chief Economic Adviser to the Indian government **Ashok Kumar Lahiri** has been appointed as the Chairman. **Chandra Shekhar Ghosh,** founder of Bandhan Financial Services Limited, was appointed as the Managing Director and Chief Executive Officer (MD & CEO) of the bank. They both will be in the board of directors as well.

Foreign Banks

- Foreign Banks are allowed to operate in India through branches and representative offices. A new Foreign Bank desirous of opening a branch in India is required to apply Reserve Bank of India giving relevant information about its shareholders, financial position and the dealings with Indian parties.
- The request is examined keeping in view the financial soundness of the bank, international and home country ranking, international presence, economic and trade relations between the two countries and supervisory standards in the home country etc.

Regional Rural Banks

- In 1976, the Parliament enacted the Regional Rural Banks Act, 1976 to provide for the incorporation, regulation and winding up of Regional Rural Banks. The Act has been made effective from the 26th September, 1975.
- The equity of the RRBs is contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35. There are 43 RRBs in India (March, 2020).
- The objective of the RRBs is to develop the rural economy by providing; for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected there with and incidental there to.
- Besides, the Reserve Bank which is the regulatory authority for the RRBs in accordance with the provisions of the **Banking Regulations Act, 1949**, the Banking Regulations Act empowers NABARD (National Bank for Agriculture and Rural Development) to undertake the inspection of RRBs.
- A **Regional Rural Bank** seeking permission of the Reserve Bank for opening branches has to obtain the recommendation of NABARD.
- **RRB** (Amendment) **Bill, 2014** this amendment to raise the authorised capital of the RRBs from ₹ 5 crore to ₹ 2000 crore. The bill also provides that the authorised capital of any RRB shall not be reduced below ₹ 1 crore.

Lead Bank Scheme

- Lead Bank Scheme based on area approach was launched in 1969, on the recommendation of **Dr Gadgil Committee** and **Narasimham Committee**. Under the LBS, all the 12 Nationalised Banks and a few Private Sector Banks were allotted specific districts and were asked to play the lead role in coordinating credit deployment. The services area approach was implemented under the purview of lead Bank scheme.

Scheduled Co-operative Banks

- Co-operative Banks have also played a limited, but important role in the banking system of the country. Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Co-operative Banks.

State Co-operative Banks (SCBs)

- State Co-operative Bank means the Principal co-operative society in a state, the primary object of which is the financing of other co-operative societies in the state.
- The Banking Ombudsman Scheme, 1995 notified by RBI on 14th June, 1995 was in terms of powers conferred on the bank by Section 35A of the Banking Regulation Act, 1949 (10 of 1949) to provide for a system of redressal of grievances against banks.

Urban Co-operative Banks (UCBs)

- The UCBs are registered under the Co-operative Societies Acts of the respective State Governments. UCBs having a multi-state presence are registered under the Multi-state Co-operative Societies Act and regulated by the Central Government.
- Besides, the Reserve Bank also has regulatory and supervisory authority for bank related operations under certain provisions of the Banking Regulation Act, 1949 (as applicable to Co-operative Societies).

Banking Regulation (Amendment) Bill, 2020

The bill proposes amendments to the Banking Regulation Act, 1949 and will replace the Banking Regulation (Amendment) Ordinance, 2020. The bill aims to bring co-operative banks under the supervision of the Reserve Bank of India (RBI). The bill will also permit the RBI to initiate a scheme for reconstruction or amalgamation of a stressed lender without imposing a moratorium.

Payment Banks

- The Reserve Bank of India (RBI) granted 'in-principle' approval to 11 entities, including Reliance Industries, Aditya Birla Nuvo, Vodafone and Airtel, to set-up payments banks and proposed such licenses 'on tap' in future on August 18, 2015.
- The other entities which have been given 'in-principle' approval are—Department of Posts, Cholamandalam Distribution Services, Tech Mahindra, National Securities Depository Limited (NSDL), Fino PayTech, Sun Pharma's Dilip Shantilal Sanghvi and PayTM's Vijay Shekhar Sharma.
- The 'in-principle' approval granted will be valid for a period of 18 months, during which time the applicants have to comply with the requirements under the guidelines and fulfil the other conditions as may be stipulated by the RBI.

Small Finance Banks

- The Reserve Bank of India (RBI) has granted 'in-principle' approval to set-up small finance banks under the "Guidelines for Licensing of Small Finance Banks in the Private Sector" (Guidelines) on September 16, 2015.
- The 'in-principle' approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the Guidelines and fulfil other conditions as may be stipulated by the RBI.
- On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of 'in-principle' approval, the RBI would consider granting them a licence for commencement of banking business under Section-22(1) of the Banking Regulation Act, 1949. Until a regular licence is issued, the applicants cannot undertake any banking business.
- *Names of selected applicants*
  —Au Financiers (India) Limited (Jaipur)
  —Capital Local Area Bank Limited (Jalandhar)
  —Disha Microfin Private Limited (Ahmedabad)
  —Equitas Holdings Private Limited (Chennai)
  —ESAF Microfinance and Investments Private Limited (Chennai)
  —Janalakshmi Financial Services Private Limited (Bengaluru)
  —RGVN (North-East) Microfinance Limited (Guwahati)
  —Suryoday Micro Finance Private Limited (Navi Mumbai)
  —Ujjivan Financial Services Private Limited (Bengaluru)
  —Utkarsh Micro Finance Private Limited (Varanasi)

Bimal Jalan Committee/ New Bank Licenses, 2014

- A committee, under the Chairmanship of former RBI Governor Bimal Jalan, was constituted to *scrutinise* the application for new banks in India. The committee submitted its report in February 2014. Recommending for the 'in-principal approval' of banking licenses to Bandhan Microfinance and IDFC (Infrastructure Development and Finance Corporation).
- The RBI had issued guidelines for new banks in February, 2013 and invited applications from the various stakeholders. The Bimal Jalan Committee recommended the name of the two entities, from among the list of several entities, like Indian post, Anil Ambani Group, Aditya Birla Group, Bajaj Finance, Muthoot Finance, Religare Enterprise etc.
- However, the committee has put forth certain conditions before the entities, in order to get the banking license. Within a period of 18 months these two entities are required to
  —get a net worth of ₹ 1000 crore or more;
  —open at least 25% branches in unbanked rural areas.

Types of Banking System

There are three types of banking are as follows:

Core Banking

- Core banking is often associated with retail banking and many banks treat the retail customers as their core banking customers. Business is usually managed *via* the Corporate banking division of the institution. Core banking covers basic depositing and lending of money.
- Normal core banking functions will include transaction accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs.
- It is also known as **Core Banking solution**.

Retail Banking

- When a bank executes transactions directly with consumers, rather than corporations or other banks, then it is called **Retail Banking**.

Narrow Banking

- It restricts banks to hold liquid and safe government bonds.
- It is also called as **safe bank**.

Inter-Bank Transfer

- It is a special service that allows you to transfer funds electronically to accounts in other banks in India through.
- NEFT The acronym 'NEFT' stands for National Electronic Funds Transfer. Funds are transferred to the credit account with the other participating bank using RBI's NEFT service. RBI Acts as the service provider and transfers the credit to the other bank's account.
- RTGS The acronym 'RTGS' stands for Real Time Gross Settlement. The RTGS system facilitates transfer of funds from accounts in one bank to another on a 'real time' and on 'gross settlement' basis. The RTGS system is the fastest possible inter bank money transfer facility available through secure banking channels in India.

- Minimum or Maximum account for RTGS or NEFT. Transactions under Retail and Corporate Internet Banking.

Types	Retails		Corporate	
	Minimum	Maximum	Minimum	Maximum
RTGS	₹ 2 Lakhs	₹ 10 Lakhs	Saral ₹ 10 Lakhs	Saral ₹ 10 Lakhs
			Vyapaar ₹ 50 Lakhs	Vyaapar – No limit
			Vistaar ₹ 2000 Crore	Vistaar – No limit
NEFT	No Minimum	₹ 10 Lakhs	Saral ₹ 10 Lakhs	Saral ₹ 10 Lakhs
			Vyaapar ₹ 50 Lakhs	Vyaapar – No limit
			Vistaar ₹ 2000 Crore	Vistaar – No limit

Banking Sector Reforms

Narasimham Committee Recommendation

- Deregulation of interest rate.
- Reduction in reserve requirement.
- Prudential norms.
- Supervision of Commercial Banks.
- Measures to improve the competitive efficiency in banking sector.

Narasimham-I

- The purpose of the Narasimham-I Committee was to study all aspects relating to the structure, organisation, functions and procedures of the financial systems and to recommend improvements in their efficiency and productivity.
- The committee submitted its report to the Finance Minister in November, 1991.

Narasimham-II

- The Narasimham-II Committee was tasked with the progress review of the implementation of the banking reforms since, 1992 with the aim of further strengthening the financial institutions of India.
- It focussed on issues like size of banks and **capital adequacy ratio** among other things. M Narasimham, Chairman, submitted the report of the committee in April, 1998.

Damodaran Committee

- The committee, headed by former SEBI Chairman M Damodaran, was set-up by the Central Bank to look into the issues of customer services and evaluate the existing system of grievance redressal mechanism prevalent in banks, its structure and efficacy and recommend measures for expeditious resolution of complaints.

Recommendations

- Bank should offer no-frill savings accounts with certain basic facilities such as cheque book and ATM card without prescribing any minimum balance.

Bimal Jalan Committee

The Bimal Jalan Committee constituted in 2019 to review the Economic Capital Framework (ECF) for the Reserve Bank of India (RBI) after the Finance Ministry wanted the Central Bank to follow global best practices and transfer more surplus to the government. In the past, the issue of the ideal size of the Reserve Bank of India reserves was examined by the three committees- V Subrahmanyam in 1997, Usha Thorat in 2004 and Y H Malegam in 2013.

VG Kannan Committee

The RBI has set up a six-member committee in 2019, headed by VG Kannan, Chief Executive, Indian Banks' Association, to review the ATM interchange fee structure. It aims for giving a fillip to ATM deployment in unbanked areas.

Swabhiman

- A major financial inclusion initiative was formally launched as 'Swabhiman' on 10th February, 2011, which aims at providing branchless banking through the use of technology. Banks will provide basic services like deposits, withdrawal and remittances using the services of Business Correspondents.
- The initiative enables government subsidies and social security benefits to be directly credited to the accounts of the beneficiaries, enabling them to draw the money from the business correspondents in their village itself.

Khandelwal Committee Report

- Government constituted a Committee on Human Resources issues of Public Sector Banks (PSBs) under the Chairmanship of Dr AK Khandelwal, who has submitted its report.
- The committee made 105 recommendations on matters related to Manpower and Recruitment Planning, Training, Career Planning, Performance Management, Reward Management, Succession Planning and Leadership Development, Motivation, Professionalisation of HR, Wages, Service Conditions and Welfare etc.
- As 49 recommendations required further deliberations, the remaining 56 recommendations were forwarded to PSBs with the request that an HR Plan for each bank be prepared and got approved by the respective Board of Directors.

Nachiket Mor Committee

- The RBI appointed committee on comprehensive financial services for small business and low income under the Chairmanship of Sri Nachiket Mor.

Recommendation of committee are as follows:

—Every adult (above 18 years) of over country should have a bank account by 1st January, 2016. This account will be known as **Universal Electronic Bank Account** (UEBA).

—Every resident should be issued an account at a time of receiving Aadhaar number (UIDAI) by a bank itself.

—It recommends abolition of interest subsidies and loan waivers.

—It recommends raising priority sector lending cap for bank to 50% from the current 40%.

—It also proposed for creation of a payment bank to provide payment services including credit, insurance and risk management products.

Payment Bank

On 23rd September, 2013, Committee on Comprehensive Financial Services for Small Business and Low Income Households headed by Nachiket Mor, was formed by the RBI. On 7th January, 2014, the Nachiket Mor Committee submitted its final report. Among its various recommendations, it recommended the formation of a new category of bank called Payment Bank. On 17th July, 2014, the RBI released the draft guidelines for Payment Banks, seeking comments for interested entities and the general public. On 27th November, RBI released the final guidelines for Payment Banks.

The key aspirants to payment banking business include telecom firms, prepaid payment instruments / payment solution providers retail chains, large business correspondents and business conglomerates. Out of them, telecom firms have an advantage over others mainly because they already have a distribution network in rural areas. Most of the prepaid payment instruments / payment solution providers are tech sauuy and already working in the field of mobile payments.

Scope of activities of Payment Banks

- Payment Banks can accept demand deposits. This implies that customers can open savings accounts as well as current accounts; but NO time deposits (such as FDs).
- An account balance cannot exceed ₹ 1 lakh for an individual customer. Payment Banks can issue ATM/ debit cards but not credit cards.
- Payment Banks can not give loans. Payments and remittance services through various channels.
- A Payment Bank can become Banking Correspondent (BC) of another bank and offer all products / services which a BC can offer.
- Payment Banks can distribute non-risk sharing financial products like mutual fund units and insurance products, etc.
- The revenue of these banks would come mainly from the transaction fees.

Banks Board Bureau

- Prime Minister Narendra Modi has approved the guidelines of Banks Board Bureau (BBB) on 28th February, 2016. BBB starts its work from 1st April, 2016.
- BBB will work as Search Committe or appointments board, appointment of Chairman of PSBs (Public Sector Banks) and will consist of professionals with two government representative *viz* Secretary of Financial Services and Public Enterprises.
- Vinod Rai appointed as the First Chairman of the Banks Board Bureau. He was the former Comptroller and Auditor General (CAG) of India.
- The government has maintained the BBB as a holding company for state run banks, an idea first mooted at the maiden banking conclave *Gyan Sangam* in January, 2015.

Indradhanush to Revamp PSU Banks

- To revive the fortunes of public sector banks, the government unveiled a seven-point plan 'Indradhanush' encompassing ₹ 20000 crore immediate fund infusion, creation of a single holding company and minimising political interference on August 14, 2015. The seven Key reforms of Indradhanush mission include appointments, de-stressing capitalisation, empowerment, frame work of accountability and governance reforms.

Basel Norms

- It was in 1988 that the central banking bodies of the developed economies agreed upon the provision of Capital Adequacy Ratio (CAR), also known as the **Basel Accord**. The accord was agreed upon at Basel, Switzerland, at a meeting of the Bank of International Settlements (BIS). This accord provides recommendations on banking, regulations with regard to capital risk, market risk and operational risk. It's objective was to ensure that financial institutions have enough capital to meet obligations and absorb unexpected losses.

Basel I

- The Basel Committee on Bank Supervision (BCBS) published a set of minimal capital requirements for banks, to maintain a certain amount of free capital (ratio) to their assets, as a cushion against probable losses in investment and loans. Basel I primarily, focus on credit risk. In 1988, this ratio capital was decided to be 8%. The CAR is the percentage of the total capital to the total weighted assets.
- CAR = (Total of Tier-I and Tier-II capital)/ Risk weighted assets.
- Thus, CAR is also known as **Capital to Risk-Weighted Assets Ratio** (CRAR). It is used to protect the depositors and promote the stability and efficiency of the financial system.

Basel II

- It attempts to integrate Basel I capital standards with national regulations, by setting the minimum capital requirement of financial institutions with the goal of ensuring institution liquidity. It aims securing at international convergence on regulations governing the CAR.

—Minimum capital requirements

—Supervisory review

—Market discipline

Basel III

- It seek to strengthen the existing capital requirements and introduce a global liquidity standard to enable the banks to weather financial storms. It mandates the banks to increase the loss absorbing capital from 2% to 4.5% by January, 2015. Also, banks will be required to hold a capital conservation buffer of 2.5% of withstand future period of stress.

Basel III Guidelines, 2015

- The Reserve Bank of India (RBI) released on 28th May, 2015, the draft guidelines on the Net Stable Funding Ratio (NSFR) under Basel III framework on liquidity standards of banks.
- The NFSR is defined as the amount of available stable funding relative to the amount of required stable funding.
- In draft guidelines released, the Central Bank said that banks will have to maintain Net Stable Funding Ratio (NSFR) from March 2019, but in the view of the corona virus, the implementation of Basel-III norms for banking services has been deferred by 1 January, 2023.
- Basel III norms define the capital of the banks in different ways. It consider common equity and retained earnings as the predominant component of capital, but restrict the inclusion of items such as-deferred tax assets, mortgage service rights and investments in financial institutions to no more than 15% of the common equity component.

Banking Ombudsman

- Banking Ombudsman Scheme was introduced by the RBI in 1995 under the Banking Regulation Act, 1949. It is a senior official appointed by the RBI to redress customer complaints against deficiency in certain banking services.
- Decision of Banking Ombudsman can be appealed against to the appellate authority (vested in a Deputy Governor of RBI).
- Banking Ombudsman can award compensation to the complainant. In this, it takes into account the loss of the complainant's time, expenses incurred and the harassment and mental anguish suffered.
- It has jurisdiction over all Commercial Banks, RRBs, Scheduled primary co-operative banks, NBFCs etc. It deals with matters less than or equal to ₹ 10 lakh.

Development Financial Institutions (DFI)

- Financial institutions are an important part of the Indian financial system as they provide medium to long-term finance to different sectors of the economy.
- The institutions have been set-up to meet the growing demands of particular segments, such as export, rural housing and small industries.
- These institutions have been playing a crucial role in channelising credit to the needy sectors and addressing the challenges or issues faced by them.
- The four financial institutions - EXIM Bank, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) are under full-fledged regulation and supervision of the Reserve Bank.
- As in the case of Commercial Banks, prudential norms relating to income recognition, asset classification and provisioning and capital adequacy ratio are applicable to these financial institutions as well. These institutions also are subject to on-site inspection as well as off-site surveillance.
- Since, all the banks are directly or indirectly contributing to the development works in the country, thus, all are development financial institutions.
- National Investment and Infrastructure Fund (NIIF), established in 2015 is the first Sovereign Wealth Fund of India. It manages three separate funds, namely Master Fund, Fund of Funds and strategic Fund. They primarily aimed for investing in infra-related projects of the country through formation of capital from both domestic and international investors.
- The Union Government through the Budget 2021 announced creation of Development Financial Institution with an initial capital infusion of ₹ 20,000 crores. The government expects to rope in marquee pension funds, sovereign funds to come in through DFI to fund infrastructure projects in the country.

Financial Stability and Development Council (FSDC)

- Financial Stability and Development Council is an apex-level body constituted by the Government of India. The idea to create such a super regulatory body was first mooted by the Raghuram Rajan Committee in 2008. Finally in 2010, the then Finance Minister of India, Pranab Mukherjee, decided to set-up such an autonomous body dealing with macroprudential and financial regularities in the entire financial sector of India. The council is headed by the Finance Minister and has the Reserve Bank of India (RBI) Governor and chairpersons of the Securities and Exchange Board of India, Insurance Regulatory and Development Authority and Pension Fund Regulatory and Development Authority as other members alongwith finance ministry officials.

FSDC will perform following roles

- To engage in macroprudential supervision of the economy, including the functioning of large financial conglomerates and address inter-regulatory coordination issues.

- To focus on financial literacy and financial inclusion.
- To periodically look into issue relating to financial development.

National Housing Bank (NHB)

- National Housing Bank was set-up on 9th, July, 1988 under the National Housing Bank Act, 1987 as a wholly-owned subsidiary of the Reserve Bank to act as an apex level institution for housing.
- The Finance Act, 2019 has amended National Housing Bank Act, 1987. The amendment confers the powers of regulation of housing finance companies to RBI.
- The Union Government in April 2019 purchased complete stake of NHB for ₹ 1,450 crore from RBI. The decision has been taken to end the cross-holding in the regulatory institutions. It also follows Narasimham-II recommendations of prohibiting Central bank holding in the entities that are regulated by it.
- *NHB has been established to achieve, among other things, the following objectives:*
  - —To provide a sound, healthy, viable and cost effective housing finance system to all segments of the population and to integrate the housing finance system with the overall financial system.
  - —To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
  - —To augment resources for the sector and channelise them for housing.
  - —To make housing credit more affordable.
  - —To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the act.
  - —To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
  - —To encourage public agencies to emerge as facilitators and suppliers of serviced land for housing.

National Bank for Agriculture and Rural Development (NABARD)

- National Bank of Agriculture and Rural Development (NABARD) is one of the subsidiaries where the majority stake is held by the Reserve Bank. NABARD is an Apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts.
- It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. After disinvestment of entire stake of NABARD by RBI to Government of India in April 2015, it has become fully own subsidiary to government.

Industrial Finance Corporation of India Limited (IFCI)

- It was the first development finance institution set-up in 1948 under the IFCI Act in order to provide long-term institutional credit to medium and large industries. It aims to provide financial assistance to industry by way of rupee and foreign currency loans, underwrites or subscribes the issue of stocks, shares, bonds and debentures of industrial concerns etc.
- It has also diversified its activities in the field of merchant banking, syndication of loans, formulation of rehabilitation programmes, assignments relating to amalgamations and mergers etc.

Industrial Development Bank of India (IDBI)

- It was established in July, 1964, as an apex financial institution for industrial development in the country. It caters to the diversified needs of medium and large-scale industries in the form of financial assistance, both direct and indirect. Direct assistance is provided by way of project loans, underwriting of and direct subscription to industrial securities, soft loans, technical refund loans, etc. While, indirect assistance is in the form of refinance facilities to industrial concerns.

Small Industries Development Bank of India (SIDBI)

- It was set-up by the Government of India in April, 1990, as a wholly owned subsidiary of IDBI. It is the principal financial institution for promotion, financing and development of small-scale industries in the economy. It aims to empower the Micro, Small and Medium Enterprises (MSME) sector with a view to contributing to the process of economic growth, employment generation and balanced regional development.

MUDRA Bank

- Micro Units Development and Refinance Agency Bank (or MUDRA Bank) was launched by Prime Minister Narendra Modi on 8th April, 2015 with a corpus of ₹ 20,000 crore and a credit guarantee corpus of ₹ 3,000 crore.
- It is a public sector financial institution in India. It provides loans at low rates to small entrepreneurs. MUDRA Bank will be set-up through a statutory enactment.
- It will be responsible for developing and refinancing all Micro-Finance Institutions (MFIs) which are in the business of lending to micro and small business entities engaged in manufacturing, trading and service activities. The formation of the agency was initially announced in the 2015 Union Budget of India in February 2015.

Formation of MUDRA Bank

- The MUDRA banks will be set-up under the Pradhan Mantri MUDRA Yojana Scheme. The bank will intially function as a non-banking financial company and a subsidiary of the Small Industries Development Bank of India. Later, it will be made into a separate company.
- It will also serve as a regulator for other Micro-Finance Institutions (MFIs) and provide them refinancing servies. It will provide guidelines for MFIs and give them ratings.
- The bank would partner with state level/regional level co-ordinators to provide finance to Last Mile Financer of small/micro business enterprises.

Objectives of MUDRA Bank

The objectives of the MUDRA Bank are as follows:

- Regulate the lender and the borrower of microfinance and brings stability to the microfinance system through regulation and inclusive participation.
- Extend finance and credit support to Microfinance Institutions (MFI) and agencies that lend money to small businesses, retailers, self-help groups and individuals.
- Register all MFIs and introduce a system of performance rating and accreditation for the first time.
- This will help last mile borrowers of finance to evaluate and approach the MFI that meets their requirement best and whose past record is most satisfactory. This will also introduce an element of competitiveness among the MFIs. The ultimate beneficiary will be the borrower.

Differences Between SIDBI and MUDRA Bank

It is very important to understand certain things/context/facts and differences between SIDBI and MUDRA.

Difference between SIDBI and MUDRA bank are as follows:

- SIDBI is an apex small units development bank where MUDRA will initially be started as a department of SIDBI.
- The role of SIDBI remains to promote and finance the small scale sector, implement government plans and co-ordinate with other organisations while the role of MUDRA has been conceived more in the context of present state of microfinance sector.
- Over a period of time, MUDRA, replacing RBI, may emerge as a regulatory body for Microfinance sector housed by emerging NBFC-MFIs. (This is vehemently protested by MFIs who wish to function under regulatory powers of RBI.)
- MUDRA may refinance other MFIs to finance SHGs (Self Helf Groups) to promote micro entrepreneurship.
- So, MUDRA can be seen as an initiative to reach the last mile for underfinanced small scale units that could not benefit from insitutional sources of finance.

Industrial Investment Bank of India Limited (IIBI)

- It was set-up in 1985 under the Industrial Reconstruction Bank of India Act, 1984, as the principal credit and reconstruction agency for sick industrial units. It was converted into IIBI on 17th March, 1997, as a full-fledged development financial institution. It assists industry mainly in medium and large sector through wide ranging products and services. Besides project finance, IIBI also provides short duration non-project asset-backed financing in the form of underwriting or direct subscription, deferred payment guarantees and working capital or other short-term loans to companies to meet their fund requirements.

Export-Import (EXIM) Bank

- Recognising the important role of exports in maintaining the viability of external sector and in generating employment, the Reserve Bank had sought to ensure adequate availability of Concessional Bank credit to exporters. It took the lead role in setting up the Export Import Bank of India (EXIM Bank) in January, 1982.
- In recent years, with the liberalisation of real and financial sectors of the economy, interest rates on export credit have been rationalised within the overall monetary and credit policy framework.
- In order to provide adequate credit to exporters on a priority basis, the Reserve Bank has also prescribed a minimum proportion of banks' adjusted net bank credit to be lent to exporters by Foreign Banks.

New Gold Investment Schemes

The Government had launched Sovereign Gold Bonds and Gold Monetisation Schemes on 5th November, 2015. The main objective of the schemes is to reduce the demand for physical gold and shift a part of the gold imported every year for investment purposes into financial savings.

Sovereign Gold Bonds

- These are issued by the RBI on behalf of the Government of India in rupees and denominated in grams of gold and restricted for sale to the resident Indian entities only both in demat and paper form.
- The minimum investment in this scheme is one gram with a maximum limit of subscription of 4 kg for individual, 4 kg for HUFS and 20 kg for trusts and similar entities notified by the government from time to time per fiscal year from April to March. The rate of interest for the year 2020-21 is 2.50% per annum, payable on a half yearly basis.

- The tenure of the Bond is for a period of 8 years with exit option from fifth year onwards. KYC norms are the same as that for gold. Exemption from capital gains tax is also available.
- Redemption is made in the rupee value equivalent to the price of gold at the time of maturity. In the first two tranches of SGB, total subscription of 3788 kg of gold amounting to ₹ 993 crore were received from about 3.90 lakh applications.

Gold Monetisation Scheme

- Bureau of Indian Standards (BIS) certified Collection, Purity Testing Centres (CPTC) to collect the gold from the customer on behalf of the banks.
- The minimum quantity of gold (bullion or jewellery) which can be deposited is 30 grams and there is no limit for maximum deposit.
- Gold Saving Account can be opened with any of the designated bank and denomination in grams of gold for short-term period of 1-3 years, a medium-term period of 5-7 years and a long-term period of 12-15 years .
- The CPTCs transfer the gold to the refiners. The banks will have a tripartite / bipartite Legal Agreement with refiners and CPTCs.
- For the year 2020-21, interest rates has been fixed as 2.25% and 2.5% for the medium and long term respectively. Redemption is made in cash/gold for short-term and in cash for medium and long-term deposits. As of January, 2021 Government has been successful in mobilising gold worth ₹ 31,290 crore since 2015-16.

Non-Banking Financial Companies (NBFCs)

- NBFCs are essentially banks, since, they perform the basic twin functions of attracting deposit from the public and making loans. However, unlike Commercial Banks, they are not incorporated as a bank and are not governed by the provision of the Banking Regulation Act, 1949.
  - —With the Enactment of RBI (Amendment) Act, 1997, the RBI now control the functioning of NBFCs.
  - —NBFCs as a whole account for 11.2% of assets of the total financial system.
  - —*Two broad categories of NBFCs are as follows :*
    (i) Deposit taking NBFCs (NBFCs-D).
    (ii) Non-deposit taking NBFCs (NBFCs -ND).
  - —Capital to Risk-weighted Assets Ratio (CRAR) norms were made applicable to NBFCs-D in 1998. The CRAR norm for NBFC-D is 12% (15% in case of unrated NBFCs-D).

Insurance Regulatory and Development Authority of India (IRDAI)

- The Insurance Regulatory and Development Authority of India was established in the year 1999 by the Government of India.
- The reason for the establishment was to safeguard the interest of the policy holders and for the upgradation of the entire insurance sector.
- The Insurance Regulatory and Development Authority of India has been authorised to register the new insurance companies in India.

Insurance Companies

- Insurance industry includes two sectors; Life Insurance and General Insurance. Life Insurance in India was introduced by Britishers. A British firm in 1818 established the Oriental Life Insurance Company at Calcutta (now Kolkata).
- Since, the opening up, the number of participants in the insurance industry has gone up from 7 insurers (including LIC, four public sector general insurers, one specialised insurer and the GIC as the national re-insurer) in 2000 to 49 insurers as on 30th September, 2011.
- **Insurance Companies in India** The insurance companies offer protection against losses. They deal in life insurance, marine insurance, vehicle insurance and so on.
- The insurance companies collect the little savings of the investors and then reinvest those savings in the market. The indigenous insurance companies are collaborating with different foreign insurance companies after the liberalisation process. This step has been incorporated to expand the Indian insurance market and make it competitive.

Types of Non-Banking Financial Institutions

Institution	Principle Business
NBFCs	Receiving deposits under any scheme and lending.
Equipment Leasing Company	Equipment leasing and financing.
Hire Purchase Finance Company	Hire purchase transaction.
Invest Company	Buying or selling of securities.
Loan Company	Making loan or advances for an activity other than its own.
Residuary Non-Banking Companies (RNBCs)	Business same as NBFCs, but does not belong to any of the categories under NBFCs.
Mutual Benefit Financial Company (MBFC)	Any company notified by the Central Government as a Nidhi Company under Companies Act, 1956.
Miscellaneous Non-Banking Companies (MNBCs)	Called Asset Finance Companies, which manages, conducts and supervises Chit Funds.

Self Check

Build Your Confidence

1. Consider the following statements

1. Indian depository receipt is an instrument denominated in Indian Rupees in the form of a depository receipt created by the custodian of securities registered with the Securities and Exchange Board of India against the underlying equity of issuing company.
2. Standard Chartered PLC became the first global company to file for an issue of Indian depository receipts in India.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

2. 'Basel III Accord' after seen in the news, seeks to **[UPSC 2015]**

(a) Develop national strategies for the conservation of biological diversity
(b) Improve banking Sector's ability to deal with financial risk management
(c) reduce the green house gas emisssions
(d) Transfer technology from developed countries to poor countries

3. With reference to Indian Capital market, consider the following statements

1. CRISIL was set-up in the 8th Five Year Plan.
2. CRISIL rates the debt instruments of the public sectors.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

4. Which one of the following Companies is eligible for the financial assistance and loans from the Industrial Finance Corporation of India (IFCI)?

(a) Limited Public Companies (b) Public Co-operatives
(c) Private Limited Companies (d) All of these

5. Consider the following statements

1. A committee, under the chairmanship of former RBI Governor Bimal Jalan, was constituted to scrutinise the application for new Banks in India.
2. The committee recommended to give banking licenses to Bandhan Micro Finance and Infrastructure Development and Finance Corporation (IDFC).

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

6. Consider the following statements about the Indian Capital Market

1. The Security Exchange Board of India (SEBI) was set-up in the 7th Five Year Plan.
2. The Capital Issue (Control) Act, 1947 was repealed and replaced by the SEBI.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

7. What is 'NIKKEI'? **[BPSC 2000]**

(a) Share Price Index of Tokyo Share Market
(b) Name of Japanese Central Bank
(c) Japanese Name of Country's Planning Commission
(d) Foreign Exchange Market of Japan

8. The minimum and maximum investment limits under sovereign gold bonds are — gm and — gm of gold per person per fiscal year respectively.

(a) 5 and 200 (b) 2 and 500
(c) 15 and 700 (d) 50 and 800

9. Consider the following statements **[IAS 2004]**

1. The National Housing Bank (NHB), the apex institution of housing finance in India, was set-up as a wholly-owned subsidiary of the RBI.
2. The Small Industrial Development Bank of India (SIDBI) was established as a wholly-owned subsidiary of the Industrial Development Bank of India (IDBI).

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

10. A rise in SENSEX means **[IAS 2000]**

(a) a rise in prices of shares of all companies registered with Bombay Stock Exchange
(b) a rise in prices of shares of all companies registered with National Stock Exchange
(c) a rise in prices of shares of all companies belonging to group of companies registered with Bombay Stock Exchange
(d) None of the above

11. Consider the following with policy reference to Indian Economy **[UPSC 2015]**

1. Policy rate
2. Open market operations
3. Public debt
4. Public reverse

Which of the policies given above is/are components of monetary policy are correct?

(a) Only 1 (b) 2, 3 and 4
(c) 1 and 2 (d) 1, 3 and 4

1. (c) **2.** (b) **3.** (b) **4.** (d) **5.** (c) **6.** (c) **7.** (a) **8.** (b) **9.** (c) **10.** (c)
11. (c)

Chapter six
Inflation

Inflation

- Inflation refers to the persistent rise in general price level in the country over a period of time. Inflation could be monetary or price inflation. During periods of inflation, there is an increase of the money supply.
- When you have inflation more money is being circulated, which causes the currency to lose its purchasing power, which leads to an increase in the price of goods and services. Over the course of many years, economic cycles go through periods of inflation, deflation and stagflation.
- Each one of these, has a specific effect on the overall economy as a whole and sometimes can lead to long periods of recessions or depressions in the economy.

India has restored macroeconomic and financial stability, but structural impediments to growth and persistently high inflation remain key concerns policies meant to reduce inflation often lead to lower growth and thus, reduction in employment while policies meant to increase growth and employment are accompanied by high inflation.

Types of Inflation

Low Inflation/Creeping Inflation

- It is an inflation that is slow and on predictable lines.
- This inflation takes place in a longer run and the range is generally in a single digit.

Galloping Inflation

- It is a very high inflation running in the range of double digits or triple digits.
- It is also known as **hoping inflation**, **jumping inflation** or **running inflation**.

Hyper Inflation

- It is an inflation, which is large and accelerating, which might have annual rates in millions.
- Germany after World War I experienced such inflation; while Bolivia experienced it in mid-1985.

Bottleneck Inflation

- It takes place when the supply falls drastically and the demand remains at the same level.

Causes of Inflation

- Inflation is caused due to a mismatch between demand and supply, i.e. when demand exceeds supply. Thus, inflation can occur due to changes in the demand side or the supply side or both.

Demand Side Inflation

- It is also known as **demand pull** inflation. *Increase in demand can occur due to many reasons, such as*:
  - —Increase in public expenditure, especially by the government operating large fiscal deficits.
  - —Loose Monetary Policy of the Central Bank, which leads to low interest rates and thus, higher consumption.
  - —Rapid GDP growth, which leads to more employment, higher wages.
  - —Increase in population.
  - —Depreciation of exchange rate, which reduces imports, increases exports and thus, pulls up demand.
  - —Reduction in direct taxes, which puts more money in the hands of households.
  - —Speculation in commodities market etc.

Supply Side Inflation

- It is also known as **cost push** inflation. *Factors influencing inflation from the supply side can also be many, such as*:
  - —Backward agricultural sector, which is not able to produce enough food.
  - —Inefficient storage, transportation and marketing infrastructure, which leads to wastage and reduction in supplies.
  - —Hoarding by traders of essential items, artificially reduces supply and causes inflation.

—Rise in the prices of crude oil, fertilizers etc.
—Rise in labour costs.
—Higher costs of imported materials.
—Higher costs of capital due to squeezing of credit by the Central Bank.
—Cartelisation by a few big suppliers to fix prices arbitrarily to make undue profits.
—Monopoly of a single supplier in the market, enabling him to set arbitrary prices.
—Pushing up of profits by the management of a company by increasing the prices also leads to inflation.
—It has to be understood that it is not always easy to differentiate between demand and supply side inflation and an example from the demand side can also be explained from the supply side and *vice-versa*.

Effects of Inflation

- The effect of inflation is different on different communities. When price rises or the value of money falls, some groups of the society gain, some lose and some stand in between. *Let us discuss the effects of inflation on distribution of income and wealth, production on the society as a whole*

On Business Community

- Inflation is welcomed by entrepreneurs and businessmen because they stand to profit by rising prices.
- They find that the value of their inventories and stock of goods is rising in money terms. They also find that prices are rising faster than the costs of production, so that their profit is greatly enhanced.

On Fixed Income Groups

- Inflation hits wage-earners and salaried people very hard. Although wage-earners, by the grace of trade unions, can chase galloping prices, they seldom win the race.
- Since, wages do not rise at the same rate and at the same time as the general price level, the cost of living index rises and the real income of the wage earner decreases.

On Farmers

- Farmers usually gain during inflation, because they can get better prices for their harvest during inflation.

On Investors

- Those, who invest in debentures and fixed-interest bearing securities, bonds etc lose during inflation. However, investors in equities benefit because more dividend is yielded on account of high profit made by joint-stock companies during inflation.
- Inflation will lead to deterioration of gross domestic savings and less capital formation in the economy and less long-term economic growth rate of the economy.

Other Inflation Related Concepts

Deflation A general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be also caused by a decrease in government, personal or investment spending. The opposite of inflation, deflation has the side effect of increased unemployment since, there is a lower level of demand in the economy, which can lead to an economic depression.

Stagflation When you have a slow economy with high inflation rates and unemployment, stagflation is usually the result. When the economy does not grow and prices continue to rise you have a stagflation cycle in the economy.

Disinflation This is a reduction in the rate of inflation over time, even though inflation itself may be positive.

Reflation It is an attempt to bring back inflation in an economy, which is in deflation so as to induce growth.

Measures of Inflation

- Inflation refers to the changes in general price level in the country over a period of time. *There are three standard measures of inflation, viz*
  (i) Wholesale Price Index (WPI)
  (ii) Consumer Price Index (CPI)
  (iii) GDP deflator.
- In India, to measure the price level, the Wholesale Price Index (WPI) and the Consumer Price Index (CPI) are used.

Wholesale Price Index (WPI)

- It measures the change in wholesale prices on weekly basis. On the basis of weekly indices, average annual WPI is worked out. Average annual wholesale prices of the current year are related to average annual wholesale prices of the base year (assumed as 100).

New Series WPI

The new series of the WPI has 697 items as compared to 676 items in old series. New vegetables and fruits such as radish, carrot, cucumber, bitter gourd, mosambi (sweet lime), pomegranate, jackfruit and pear have been added to the list of primary articles. In the mineral group, items like copper concentrate, lead concentrate and garnet have been added and other items like copper concentrate, lead, dolomite and magnesite have been removed.

Natural gas has been added as a new item. In the manufacturing items list, around 173 new items including conveyer belt, rubber tread, steel cables, tissues paper and wooden splint have been added, while 135 items like khandsari (unrefind raw white sugar), poppadom and video CD players have been removed. 2011-12 is chosen as the base year for WPI.

Producer Price Index

The PPI covers price changes faced by the producers on primary, intermediate and finished goods and services ready for the market.

The primary difference between the WPI and the PPI is, in addition to the coverage, that the WPI reflects changes in the average cost of production including mark-ups and taxes, while the PPI measures price changes of transacted goods at the gate excluding taxes.

The purpose of the PPI is to provide a measure of prices received by producers of commodities. The PPI usually covers the industrial (manufacturing) sector as well as public utilities (electricity, gas and communications). Some countries also include agriculture, mining, transportation and business services.

Reflation It is an attempt to bring back inflation in an economy, which is in deflation so as to induce growth.

Consumer Price Index (CPI)

- It measures the change in retail prices on monthly basis. On the basis of monthly indices, average annual CPI is worked out. Average annual retail prices for the current year are related to the average annual retail prices of the base year (assumed as 100). Like Wholesale Price Index, different goods are accorded weights depending on their relative significance.
- It needs to be emphasised that while WPI includes goods only, CPI includes both goods as well as services. Another important feature of CPI is that it focuses on a homogeneous group of consumers.
- CPI reflects cost of living of the concerned category of consumers. CPI for the industrial workers is a widely used index in India. It is also used to determine the dearness allowances of government employees.
- Besides, CPI of agricultural labourers, CPI for urban non-manual employees are also calculated by the economists for some specific purposes.

New Consumer Price Indices

- At the retail level, CPI is meant to reflect the cost of living conditions and is computed on the basis of the changes in the level of retail prices of selected goods and services, on which consumers spend the major part of their income.
- Therefore, a broad-based CPI for the country as a whole, including both services and manufacturing products, has greater relevance for Monetary Policy formulation.
- In India, however, data on CPI relates to different segments of the population rather than the entire population. With a view to addressing this issue, the Reserve Bank has taken the initiative and prepared an approach paper on CPI (Urban) and CPI (Rural).
- Subsequently, the Central Statistical Organisation (CSO) has taken up the work for generating data on CPI (Urban) and CPI (Rural). The new CPIs once compiled will go a long way in filling a major data gap in price statistics.
- The Central Statisticals Office (CSO), Ministry of Statistics and Programme Implementation, has revised the base year of the CPI from 2010 to 2012.

Introduction of CPI (Urban) and CPI (Rural)

- The Central Statistical Organisation (CSO) has taken up a new initiative of compilation of CPI (Urban) and CPI (Rural) and CPI (rural+urban) for all States or UTs and all India by considering all sections of the urban and rural population.
- In urban areas, all cities or towns having population (2001 Population Census) more than 9 lakh and all State or Union Territory capitals not covered therein were selected purposively. In all 310 towns have been selected either on purposive or random basis, from which 1114 quotations (price scheduled) are canvassed every month.
- In rural areas, with a view to having a manageable workload and considering that the CPI (Rural) would provide the price changes for the entire rural population of the country, a total of 1183 villages have been selected at all India level.
- The CSO has also decided to bring out a national CPI by merging CPI (Urban) and CPI (Rural) with appropriate weights, as derived from NSSO 61st round of Consumer Expenditure Survey (2004-05) data.
- Besides these two (CPI-Rural-Urban Combined and CPI-IW), two separate indexes i.e. CPI for Agricultural labourer and CPI for Rural labourer is also calculated. With the base year of 2012, these two are compiled by National Stastical Office (NSO) in the Ministry of Statistics and Programme Implementation.

CPI Industrial Worker CPI (IW)

This index is used for determining Dearness Allowance (DA) to government employees and workers in Industrial sector besides measuring inflation in retail prices and in revision of minimum wages in Scheduled employment. The government in October, 2020 has decided to revise its base year to 2016. It is compiled and maintained by the Labour Bureau, an attached office of the Ministry of Labour and Employment.

GDP Deflator

- It refers to the ratio between GDP at current prices and GDP at constant prices. If GDP at Current Prices = GDP at Constant Prices, GDP deflator = 1, implying no change in price level. If GDP deflator is found to be 2, it implies rise in price level by a factor of 2 and if GDP deflator is found to be 4 , it implies a rise in price level by a factor of 4.
- GDP deflator is acclaimed as a better measure of price behaviour because it covers all goods and services produced in the country.

Core Inflation

- Another way to analyse inflation data is by looking at core inflation, which is generally a chosen measure of inflation that excludes the more volatile categories like food and energy prices. The main argument, here is that the Central Bank should effectively be responding to the movements in permanent component of the price level rather than temporary deviations. It is, therefore, a preferred tool for framing long-term policy.

Difference between WPI and CPI

Parameters for comparison	WPI	CPI
Targeted group	Whole sellers and Businesses	Retail users and general public
Publishing agency	Office of Economic Advisor (Ministry of Commerce and Industry)	National Statistics Office (Ministry of Statistics and Programme Implementation and Labour Bureau)
Weightage of food	18.8%	50%
Number of indices	One	Four separate categories
Measures prices of	Goods only	Goods and services both
Base year	2011-12	2012 and 2016 (CPI-IW)
Utility	For producers	CPI (Combined) is used as measure for inflation by RBI since 2014

Change in Reporting of Inflation

- At present, the WPI for all commodities including manufactured products is released only on a monthly basis. However, until recently WPI for primary articles and the fuel group was also being released on a weekly basis. But, it was observed over a period of time that, there was a tendency for upward revisions in the indices reported once the final numbers were later released.
- The higher frequency weekly reporting was thus, prone to more statistical noise and sometimes provided a misleading picture, so the trade-off was between the more frequent and less reliable data and less frequent, but more reliable data. International practice for reporting CPI inflation is also on a monthly basis.
- In view of this, the Cabinet Committee on Economic Affairs (CCEA) in its meeting held on 24th January, 2011, agreed to discontinue the weekly release of WPI for the commodities. Items under the groups primary articles and fuel and power with immediate effect. WPI shall, henceforth, be released on a monthly basis only.

Measures to Check Inflation

- The handling of India's inflation challenge consists of a careful combination of effort on the part of the RBI and government, including the Ministry of Finance and several other ministries, alongwith advisory support by the Inter-Ministerial Group (IMG) on inflation.
- The IMG on inflation recommended several steps for improving supply chains from the farmer to the consumer. It recommended amending the Agricultural Produce Marketing Committee (APMC) Acts in order to cut down on the large middleman price margin. It also recommended that one way to improve the supply chain and benefit farmers is to allow FDI in multi-brand retail.
- The IMG argued that if this was permitted within a carefully crafted regulatory framework, there could be large gains for farmers and also for ordinary consumers.
- The fiscal measure, the administrative measure and the monetary measure are the three different ways to contain inflation.
- Keeping these issues in mind, government in 2020 brought three Legislations empowering farmers to sell agricultural produce directly in the market and establish contract farming agreements with the private players. The essential Commodities Act, 1955 was amended to increase the private sector participation in food processing sector.

Fiscal Measures

- Fiscal policy can be effectively employed to check inflation. Manipulation of public expenditure, taxation and public debt can be used for this purpose.
- Government can spend more money in the developmental sphere to increase supply by improving productivity. Tax incentives can also be used to improve the supply situation.

Administrative Measures

- The authority to take decisions on this front is with the executive branch of the government. *Under this measure, they*:
  - —remove levy obligations in respect of imported materials.
  - —ban export of constrained materials.
  - —maintain the central issue price, particularly for rice and wheat.
  - —suspend future trading.
  - —allot rice and wheat under Open Market Sale Scheme (OMSS) and many more.

Monetary Measures

- Monetary measures come under the purview of Reserve Bank of India (RBI). Through, the Monetary Policy review, RBI tries to control price rise and maintain economic growth and financial stability.

Self Check

Build Your Confidence

1. Consider the following statements
1. Headline inflation is a measure of the total inflation within an economy.
2. Headline inflation is affected by areas of the market which may experience sudden inflationary spikes such as food, vegetables or energy.

Which of the statement (s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

2. Economic growth is usually coupled with **[IAS 2011]**
(a) deflation
(b) inflation
(c) stagflation
(d) hyper inflation

3. The rate of inflation in India is measured in respect
(a) Consumer Price index
(b) Wholesale Price index
(c) money supply
(d) cost of living index for industrial worker

4. Which of the following is likely to be the most inflationary in its effect? **(IAS 2021)**
(a) Repayment of public debt
(b) Borrowing from the public to finance a budget deficit
(c) Borrowing from banks to finance a budget deficit
(d) Creating new money to finance a budget deficit

5. A rise in general level of prices may be caused by
1. an increase in the money supply.
2. a decrease in the aggregate level of output.
3. an increase in the effective demand.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) 1 and 2
(c) 2 and 3 (d) All of these

6. Consider the following statements
1. Inflation benefits the debtors.
2. Inflation benefits the bond holders.

Which of the statement (s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

7. In India, inflation measured by the **[RPSC 2013]**
(a) Wholesale Price index number
(b) Consumer Price index for urban non-manual worker
(c) Consumer Price index for agriculture labours
(d) national income defaultor

8. Which one of the following is likely to be the most inflationary, in its effect? **[IAS 2013]**
(a) Repayment of public debt
(b) Borrowing from the public to finance a budget deficit
(c) Borrowing from banks to finance a budget deficit
(d) Creating new money to finance a budget deficit

9. Which one of the following measures is generally used by the government to contain the recession of the economy? **[UPPCS 2009]**
(a) Increasing money supply
(b) Increasing government spending
(c) Decreasing taxation
(d) All of the above

10. Consider the following statements regarding the determination of inflation in India.
1. Food Price index consists of two sub-components, namely primary food articles and manufactured food products.
2. The weight of the primary food articles is less than the manufactured food products.

Which of the statement (s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

11. Consider the following statements
1. CPI measures price change in both goods and services.
2. WPI does not measure price change in services.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

12. With reference to inflation in India, which of the following statements is correct? **[UPSC 2015]**
(a) Controlling the inflation in India is the responsibility of the Government of India only
(b) The Reserve Bank of India has no role in controlling the inflation
(c) Decreased money circulation helps in controlling the inflation
(d) Increased money circulation helps in controlling the inflation

1. (c) **2.** (b) **3.** (a) **4.** (d) **5.** (a) **6.** (a) **7.** (a) **8.** (d) **9.** (d) **10.** (a)
11. (c) **12.** (c)

Chapter seven
Public Finance

Public finance is the study of the financial health of State Government and local bodies in India. Public finance assesses the government revenue and government expenditure of the public authorities and one or the other to achieve desirable effects and avoid undesirable ones.

Public Finance

- The study of government's revenue and expenditure is called as **public finance**. The boundary of public finance in modern time is not limited to ways and means of government income and expenditure only, but it also studies public debt, financial administration and Fiscal policy of the economy. So, we can say that public finance studies revenue and expenditure of government of an economy and all the activities related to it. *Public finance can be divided into five sections which are as follows* :
  (i) Public revenue
  (ii) Public expenditure
  (iii) Public debt
  (iv) Fiscal policy and
  (v) Financial administration

Public Revenue

- Public revenue, an indispensable organ of public finance operation, includes all income and receipts of the government through various sources. Different means of revenue to the government are called **sources of public revenue**. *Sources of public revenue can be broadly divided into two categories such as :*
  (i) **Earned Revenue** is the kind of revenue, which is received from certain assured sources kept under the complete disposal of governmental ownership. It includes public domain like rent, royalties, sales of forest products etc and commercial revenues like profits of public sector enterprises, public utility services etc.
  (ii) **Unearned Revenue** is that revenue, which is mobilised by the government without any contractual obligations to the payee. It includes taxes, fines and forfeitures, special assessment levies, escheats, gifts and grants etc.

  Sources of public revenue can also be classified into Tax and Non-Tax revenue.

Tax Revenue

- Tax is a compulsory payment by the citizens to the government to meet the public expenditure. It is legally imposed by the government on the taxpayer and in no case taxpayer can deny to pay taxes to the government.

Types of Tax

- Tax can be direct or indirect : income tax, wealth tax, gift tax etc are the examples of direct taxes and sales taxes, excise duty, customs duty etc are the examples of indirect taxes.

Direct Tax

- A direct tax is that, which is borne by the person on whom it is levied. A direct tax cannot be shifted to other person.
- Direct as well as indirect money burden of the direct tax is on the person on whom the tax is imposed. Impact of the tax as well as incidence of the tax is on the same person.
- As a proportion of gross tax revenue, direct taxes have been accounting for over a half of total tax revenue since 2007-08.

Some of the direct taxes are as follows :

- **Personal Income Tax** It is the tax levied directly on the income of individuals by the Central Government. Income sources is added for taxation.
- **Corporate Tax** It is levied on the profit of the companies or corporations. Now, the

As of June, 2021 corporate tax for the companies with turnover upto ₹ 250 crore is 25%. While it is 30% for the companies with the turnover above 250 crore. To prevent companies from avoiding taxes a Minimum Alternate Tax (MAT) at 15% of book profit is levied. It is one of the largest source of revenue of the Central Government, covering about 18% of the total revenue.

- **Wealth Tax** This tax was levied on the net wealth of the individuals, Hindu undivided family and joint stock companies. To assess net wealth, net obligations are deducted from its market value. It is a minor source of revenue of the government, primarily imposed to reduce concentration of wealth in the society.
- **Gift Tax** This tax is imposed by the Central Government on all donations and gifts over and above the prescribed limits to the family members. However, donation given by the charitable institutions and companies is not covered under gift tax. This tax is basically imposed to check the evasion of estate duty and wealth tax.
- **Interest Tax** This tax is imposed on the interest income of the commercial banks on their gross loans and advances. Now, it is not in force in India.
- **Recent Initiatives for Direct Taxes** Alternate Minimum Tax (AMT) has been extended to non-company assets. This move has been taken to widen the tax base. In order to bring about greater certainty and to reduce litigation in matters related to transfer, pricing and international taxation, the Advance Pricing Agreement (APA) scheme has been notified.

Indirect Tax

- Indirect taxes are those taxes, which have their primary burden or impact on one person, but that person succeeds in shifting his burden on to others.
- Consequently, the final or the real burden of the taxes or the incidence has to be borne by a third person. In India, sales tax, excise duty, custom duty etc are the examples of indirect taxes.

Some of the indirect taxes are as follows :

Central Excise Duties

- Central excise duties are imposed by the Central Government on the goods produced within the country except certain goods on which State Governments are empowered to impose tax. These goods include liquor, drugs etc.

Value Added Tax (VAT)

- VAT is a multi point sales tax with set-off for tax paid on purchases of inputs. There is no cascading (tax on tax) effect as there is credit mechanism for tax paid on inputs. The tax is levied on the value of the product and consumption only. Total burden of the tax is borne by the consumer only.
- VAT is simply a new name for the sales tax of states, in which a number of other indirect taxes have been merged. Haryana was the first state to introduce VAT from 1st April, 2003. Now, most states have introduced VAT.
- Value added = Total sales – Cost of intermediate consumption.

Central Value Added Tax (CENVAT)

- The basic purpose of CENVAT is to eliminate the cascading effects of the taxes by Tax Credit system.
- Under the CENVAT scheme, a manufactures of final product or provider of taxable service shall be allowed to take credit of duty of excise as well as service tax paid on input received.

Custom Duties

- These duties are imposed on commodities, which are to be imported or exported from India. In other words, when a goods cross the political boundary of a country or come from other countries, custom duties are imposed. Like excise duties, customs duties also contribute largely to the government revenue.

Service Tax

- Comparatively a new concept in India, service tax is a tax imposed on the person, who avails any specified service. Its importance as a source of revenue has been increasing in recent years.
- The government is receiving more and more revenue from service tax. Because of this after year, more and more services are being covered under the service tax net.
- This tax was introduced in India in 1994-95. With economic growth and expansion of service sector in the economy, revenue from service tax has been increasing over the years. From Budget 2014-15, the negative list concept in service tax has been reformed and a number of services have been brought under the ambit of the service tax. However, some of the components under the negative list have been kept intact.
- Surplus budget is the revenue of the financial year are greater than anticipated expenditures.

Ways and Means Advances (WMA)

- Ways and means advances are provided by the RBI to the states, banking with it, to help them to tide over temporary mismatches in the cash flow of their receipts and payments.
- Such advances are under the RBI Act, 1934, repayable in each case not later than 3 months from the date of making that advance.
- These are two types of WMA is normal and special.

Goods and Services Tax (GST)

- Government of India implemented GST from 1st July, 2017. It converts the country into unified market, replacing most indirect taxes with one tax. It is levied both on goods (manufacturing) and services.

- It is an integrated scheme of taxation that does not discriminate between goods and services and is a part of the proposed tax reforms that centre on evolving an efficient and harmonised consumption tax system in the country. *Key features of the GST are as follows* :
  (i) Two components one levied by the centre (referred to as Central GST) and the other levied by the states (referred to as State GST), rates for which would be prescribed appropriately.
  (ii) The Central GST and the State GST would be applicable to all transactions of goods and services except the exempted goods and services.
  (iii) The Empowered committee has decided to adopt a two-rate structure a lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
  (iv) The GST will be levied on import of goods and services into the country.
  (v) The administration of the Central GST to the Centre and for State GST to the states would be given.
  (vi) **Central Taxes replaced by GST** Central Excise Duty, Additional Duties of Excise and Customs, Special Additional Duty of Customs (SAD), Service Tax and Cesses and Surcharges on supply of goods and services.
  (vii) **State Taxes Subsumed in the GST** VAT, Central Sales Tax, Purchase Tax, Luxury Tax, Entry Tax, Entertainment Tax, Taxes on advertisements, lotteries, betting, gambling and State Cesses and Surcharges.

Types of GST

Under the GST form, four types of GST are

- **Central GST** (CGST) Under the CGST, there is a provision to impose tax on the supply of goods and services by the Central government. Earlier, Central Excise, Excise (Drugs and Toilet construction), Excise duties on the taxes imposed by the Central Government, (Goods of special importance), additional duty of custom duty (known under CVD), Special Duty of Custom Duty (SAD), Service tax and gratuity surcharge related to the supply of goods or services were separate taxes. All these included in CGST.
- **State GST** (SGST) Taxes imposed and collected by the State government on goods and services are levied under State GST system. Earlier, State governments pay VAT under State taxes, purchase tax, entry tax, entertainment tax, advertisement tax including State excise and surcharge related to State sub-tax and imposition, lottery taxes, tax on speculation and gambling. All these taxes now included in SGST.
- **Integrated GST** (IGST, State Indemnification) The proposed Goods and Services tax provides an integrated GST, (IGST) levied on international commodities and services. It is imposed and recovered by the Central Government.
  The amount of taxes received under this tax is distributed to the state for the loss of revenue generated to the States.
- **Union Territory GST** (UTGST) Arrangement or provision under the UTGST and Tax system is for the Union Territory where they do not have their own Legislative Assemblies, such as Andaman and Nicobar Islands, Dadra and Nagar Haveli and Daman and Diu (DNHDD) and Ladakh etc. These Union Territories have the provision to and collect taxes by the Central Government.

Taxes Out of GST

- Taxes that are not included in any of the provision of the GST, they contain alcohol, real estate, crude oil, petrol, natural gas and the fuel for turbine. All these items will be out of GST provision and the current taxation system will be applicable on them.

Direct Tax Code (DTC)

- DTC was proposed by the United Progressive Alliance (UPA) Government to consolidate the law relating to the direct taxes. The bill seek to replace the Income Tax Act, 1961 and Wealth Tax Act, 1957. The bill, in its original form, widened the tax slabs and lowers corporate tax rates. It also removed a number of exemptions and grant for some other. *DTC provision introduced in the Budget 2012-13 are as follows* :
  —General Anti- Avoidance Rule (GAAR).
  —Advance Pricing Agreement (APA).
  —Income tax exemption limit rose to ₹ 2 lakh.
  —Upper limit of 20% tax slab rose to ₹ 10 lakh.
  —20% cut in Securities Transaction Tax (STT).

GAAR

- The General Anti-Avoidance Rule (GAAR) was proposed in mid-March as a hart of budget for fiscal year 2013.
- GAAR was scheduled to come into effect from 1st April, 2013. In the Budget 2013-14, it was announced that a modified version of GAAR provisions will come into effect from April, 2016.
- GAAR aims to target tax evaders partly by stopping Indian companies and investors from routing investment to Mauritius or other tax heavens for sole purpose of avoiding tax.
- GAAR was scheduled to come into effect from 1st April, 2013. In the Budget 2013-14, it was announced that a modified version of General Anti-Avoidance Rule (GAAR) provisions will come into effect from April, 2016. A number of representation were received against GAAR provisions introduced in the last budget.

Non-Tax Revenue

- Non-tax revenue are those receipts, which are received from sources other than taxes like fees, fines etc. *Some of the non-tax revenue are as follows* :
  - —**Fee, License and Permit** One of the main sources of non-tax revenue of the government are fee, license and permit.
  - —**Fee** A fee is a payment to the government for the services that it renders to the people. Examples of fees are: land registration fee, birth and death registration fee, passport fee, court fee etc.
  - —**License and Permit** The amount that the government charges for allowing the people to perform a given job, is called **license** or **permit fee**. "License fees are charged to give permission for something by the government." e.g. driving license, import license. There is a difference between fees and license fees. License fees are paid, when a person is permitted to do some specific job by the government. No service is provided to the license holder.
  - —**Escheat** Escheat refers to that income of the state, which arises out of the property that comes to it for want to a legal heir. Such a property has no claimant. State alone has the legal right over it.
  - —**Special Assessment** It is yet another source of non-tax revenue of the government. Special assessment is that payment, which is made by the owners of those properties, whose value has appreciated due to developmental activities of the government.
- **Fines and Penalties** Fines and penalties are those payments, which are made by the law breakers to the government by way of economic punishment. The aim is not to earn revenue. Its actual aim is to force the people to be law abiding (follow the rules and regulations).
- It is determined by the government in an arbitrary manner and not on the basis of administrative cost.
- **Income from Public Enterprises** Several public enterprises are owned by the government. For instance, Indian Railways, Nangal Fertilizer Factory, Indian Oil, Bhilai Steel Plant etc.
- Profit from sale proceeds of the products of these enterprises constitutes the income of the government.

Sources of Revenue

- *The following list will show the respective sources of revenue for the Union and the States.*

Union Sources

- Corporation tax.
- Currency, coinage and legal tender, foreign exchange.
- Duties of excise on tobacco and certain goods manufactured or produced in India.
- Estate duty in respect of property other than agricultural land.
- Fees in respect of any matters in the Union list, but not including any fees taken in any court.
- Foreign loans.
- Lotteries organised by the Government of India or the Government's State.
- Post office savings bank.
- Post and telegraphs, telephones, wireless, broadcasting and other like forms of communication.
- Property of the union.
- Public debt of the union.
- Railways.
- Rates of stamps duty in respect of bills to exchanges, cheques, promissory notes etc.
- Reserve Bank of India.
- Taxes on income other than agricultural income.
- Taxes on the capital value of the assets, exclusive of agricultural land of individuals and companies.
- Taxes other than stamp duties on transactions in stock exchanges and future markets.
- Taxes on the sale or purchase of newspapers and on advertisements published therein.
- Terminal taxes on goods or passengers, carried by railways, sea or air.

State Sources

- Capitation tax.
- Duties in respect of succession to agricultural land.
- Duties of excise on certain goods produced or manufactured in the state, such as alcoholic liquids opium etc.
- Estate duty in respect of agricultural land.
- Fees in respect of any matters in the State list, but not including fees taken in any court.
- Land revenue.
- Rates of stamps duty in respect of documents other than those specified in the Union List.
- Taxes on agricultural income.
- Taxes on land and buildings.
- Taxes on mineral rights, subject to limitations imposed by Parliament relating to mineral development.
- Taxes on the consumption or sale of electricity.
- Taxes on the entry of goods into a local area for consumption, use or sale therein.
- Taxes on the sale and purchase of goods other than newspapers.
- Taxes on advertisements other than those published in newspapers.
- Taxes on goods and passengers carried by road or on inland waterways.
- Taxes on vehicles.
- Taxes on animals and boats.
- Taxes on professions, trades callings and employments.
- Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling.
- Tolls.

Duties Levied by the Union, but Collected and Appropriated by the States (Article 268)

- **Stamp duties** and duties of excise on medicinal and toilet preparations (those mentioned in the Union list) shall be levied by the Government of India but shall be collected.
  - —In the case, where such duties are leviable within any Union Territory, by the Government of India.
  - —In other cases, by the States within which such duties are respectively leviable.

Taxes Levied and Collected by the Union, but Assigned to the States (Article 269)

- Duties in respect of succession to property other than agricultural land.
- Estate duty in respect of property other than agricultural land.
- Taxes on railway fares and freights.
- Taxes other than stamps duties on transactions in stock exchanges and future markets.
- Taxes on the sale or purchase of newspapers and on advertisements published therein.
- Terminal taxes on goods or passengers carried by railways, sea or air.
- Taxes on the sale or purchase of goods other than newspapers where such sale or purchase takes place in the course of inter-state trade or commerce.

Taxes which are Levied and Collected by the Union, but which may be distributed between the Union and the States (Articles 270 and 272)

- —Taxes on income other than agricultural income.
- —Union duties of excise other than duties and taxes referred to in Articles 268, 268A and 269.

- Taxes on income does not include corporation tax. The distribution of income tax proceeds between the union and the states is made on the basis of the recommendations of the Finance commission.

Important Terms Related to Taxation

- **Tax Haven** It is a country or territory where certain taxes are levied at a low rate or not at all. Tax haven lead to loss of revenue for governments, money laundering etc. Cayman islands, Gibraltar, Liechtenstein etc are some of the tax havens.
- **Pigouvian Tax** It is a tax, which is imposed on bodies having negative externalities. An example of pigouvian tax is the carbon tax levied in some countries for causing pollution.
- **Tobin Tax** It is a tax levied on foreign exchange transactions both when foreign capital enters a country and when it leaves. It is meant to check speculative flows.
- **Transfer Pricing** It is the price at which divisions of a company transact with each other. Transactions may include trade of supplies or labour. It is used when individual entities of a larger firm are treated as separately run entities.
- **Specific Duty** Tax is levied based on weight or quantity.
- **Ad Valorem** Tax is levied based on value and not an weight or quantity.
- **Withholding Tax** It means withholding tax of certain payments such as salary to employees, payments to contractors, interest etc. It is the same as Tax Deducted at Source (TDS).
- **Capital Gains Tax** It is the tax on gains made from buying and selling assets such as land, shares etc. Gain made on assets held for over three years (one year for shares) is called **long-term capital gain**.
- **Base Erosion and Profit Shifting** (BEPS) It is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises. BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity.

Tax Related Primary Concepts

- **Tax Evasion** It is the illegal evasion of taxes by individuals, corporations and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned or overstating deductions.
- **Tax Shifting** Transferring some or all of a tax burden of an entity (such as a subsidiary) to another (such as the parent firm) is tax shifting. Tax shift or tax swap is a change in taxation that eliminates or reduces one or several taxes and establishes or increases others while keeping the overall revenue unchange.
- **Tax Avoidance** It is the legal usage of tax regime to one's own advantage to reduce the amount of tax that is payable by means that are within the law. Tax shattering is very similar term and tax havens are jurisdictions which facilitate reduced taxes. The term tax mitigation is sometimes used, its original use was by tax advisers as an alternative to the pejorative term tax avoidance.
- **Fiscal Space** It is a relatively new term that refers to the flexibility of a government in its spending choices and more generally, to the financial well-being of a government. **Peter Haller** (2005) defined it "as room in a government's budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy."

- *Higher fiscal deficits usually lead to rising public debt. India's Central Government liabilities GDP ratio has infact come down since 2002-03.*
- *The government appointed a committee headed by Dr Vijay Kelkar to check out a roadmap for fiscal consolidation.*

Public Expenditure

- Before independence, the activities of the Government in India were influenced by classical thinking. Classical economists opposed the idea of entrusting too many functions to the government and thus, public expenditure remained limited.
- After independence, the government decided to interference directly in the economy of the country. It was realised that economic growth and welfare of the people cannot be increased without government playing a major role.
- Centralised planning and the public sector were to play a major role in this. Thus, the scope of public expenditure increased rapidly after independence.

Sources of Government Expenditure

There are some sources of Government expenditure given belows :

- Subsidies.
- Purchase and provision of goods and services.
- Investments and money transfer.
- Creation and maintenance of the military police emergency and five fighting organisation.

Debt Management Strategy

- In a more aimed at a focused targeting of subsidies for the country's debt management. The Nilekani Task force was set-up to come up with a mechanism improve intro strategy for kerosene. *The main recommendations are as follows* :
  - —Set-up a strong, robust IT infrastructure backbone to reform the functioning of PDS, which would be an incentive based system for all stakeholders.
  - —End to end computerisation of PDS across the country.
  - —PDS Network (PDSN), as the National Information Utility (NIU) to be the common software platform for all states, to implement and operate the IT infrastructure for PDS.
  - —Aadhar (UIN) to be used in PDS to simplify ration card registration, cleaning up the beneficiary database.
  - —Set-up a Core Subsidy Management System (CSMS) for direct transfer of subsidies on kerosene, LPG and fertilizer through Aadhar Enabled Bank Account (AEBA) to facilitate robust identification of the beneficiary.
  - —Fertilizers movement and sale at market price with reimbursement of subsidy directly to the beneficiary.

Public Debt

- Public debt in the Indian context refers to the borrowings of the Central and State Governments. Public debt of Central Government consists of internal and external debt and other liabilities.

Internal Debt

- Includes market borrowings, money raised by issuing bonds treasury bills, special securities issued to the RBI etc.

External Debt

- Includes borrowings from foreign countries and international financial institutions.
- Non-government external debt includes NRI deposits, trade credit, external commercial borrowings etc.
- India's external debt is held in multiple currencies, the largest of which is the United States dollar (48.2%).

Necessity of Public Debt

- *Public debt is considered necessary for the following reasons* :
  - —Smoothening out tax rates. Borrowing means that tax rates need not be increased or decreased sharply.
  - —In times of recession economy can be pump-primed by spending money through borrowing.
  - —Financing war or other emergency expenditure.
  - —To finance expenditure on social sector for human capital formation.
  - —Towards capital formation to boost economic activities in the country.
- Despite these benefits public debt is also criticised when it reaches a high level. *Reasons for its criticism are as follows* :
  - —It creates a burden of interest which has to be paid out of the current revenue.
  - —It often does not lead to direct or indirect returns which makes its repayment difficult.
  - —It reduces availability of funds to the private sector.
  - —It can increase inflationary tendencies in the economy by increasing the money supply.

Debt to GDP Ratio

- It is the ratio of a country's national debt to its Gross Domestic Product (GDP). By comparing what a country owes to what it produces the debt-to-GDP ratio indicates the country's ability to pay back it's debt.
  - *In Fiscal year 2020-21, India's debt to GDP ratio was 60.5%. The external debt to GDP ratio increased to 21.1 per cent in March 2021 from 20.6% in March 2020.*
  - *The higher the debt to GDP ratio, the less likely country will be to pay its debt back and higher the risk of its default.*

Finance Commission

- According to **Article 280** of Constitution, the President appoints a Finance commission after every 5 years. This provision is also a Fundamental feature of Indian Constitution, which is not found in any other Constitution. The Finance commission was appointed 2 years after the implementation of the Constitution and every 5 years thereafter.
- The President has the power to appoint a new Finance commission even before the expiry of 5 years, if he deems it necessary. In other words, the appointment of the Finance commission is a continuous process according to our Constitution.
- Finance commission, generally, presents its recommendations regarding the allocation of revenue between the centre and the state, so that, there is no discord between the centre and the states.
- Main objective of the Finance commission is to assess the financial requirements of the states to determine amount of grants- in-aid to be given to various states and to strengthen the federal financial system.

Objectives of Finance Commission

- To determine the basis for the allocation of funds collected from the taxes, which are divisible between the centre and the states.
- To formulate the principles regarding the grants to the states from the centre.
- To continue the agreements made between the Government of India and the states or to recommend changes in them.
- To consider any other financial matter in the interest of the country, on being notified by the President to do so.
- *On the basis of this arrangement, 15th Finance Commissions have been set-up so far* :

Finance Commission	Chairman	Finance Commission	Chairman
1st (1951)	Mr KC Neogy	9th (1987)	Mr NKP Salve
2nd (1956)	Mr K Santhanam	10th (1992)	Shri KC Pant
3rd (1960)	Mr AK Chanda	11th (1998)	Prof AM Khusro
4th (1964)	Mr R V Rajamannar	12th (2002)	Dr C Rangarajan
5th (1968)	Mr Mahaveer Tyagi	13th (2007)	Dr Vijay L Kelkar
6th (1972)	Mr Brahmananda Reddy	14th (2013)	YV Reddy
7th (1977)	Mr JM Shelat	15th (2017)	N K Singh
8th (1983)	Mr YB Chavan		

15th Finance Commission

- Former Planning Commission member N K Singh was appointed as the chairman of the 15th Finance Commission, which has been asked to look into the impact of the Goods and Services Tax (GST) on finances of both the centre and the states.
- The other members of the commission, which is required to submit its report by October 2019, are former economic affairs secretary Shaktikanta Das and former chief economic adviser Ashok Lahiri, NITI Aayog member Ramesh Chand and Georgetown University professor Anoop Singh.
- The commission will review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the union and the states.
- Union Government extended the term of proposal of 15th Finance Commission by 11 months to 30th October, 2020.
- The duration of the 15th finance commission was supposed to be from 1st April, 2020 to 31st March, 2025 but it is 2021-26 for the full set of recommendation.

Recommendations of 15th Finance Commission

- The commission has reduced the vertical devolution- the share of tax revenues that the central shares with the states from 42% to 41%.
- The 1% decrease is to provide for the newly formed union territories of Jammu and Kashmir and Ladakh from the resources of the central government.
- The previous FC used both the 1971 and the 2011 populations to calculate the state's shares, giving greater weight to the 1971 population (17.5%) as compared to the 2011 population (10%).
- Tax effort has been used to reward states with higher tax collection efficiency. It has been computed as the ratio of the average per capita own tax revenue and the average per capital state GDP during the three-year period between 2014-15 and 2016-17.
- The commission highlighted some challenges with the implementation of the Goods and Services Tax (GST).

14th Finance Commission

- The 14th Finance commission, headed by former RBI Governor YV Reddy, has endorsed the compensation road map for the goods and services tax finalised by the Centre, but has called for an autonomous and independent GST compensation fund.
- **Members of the 14th Finance Commission** YV Reddy, Abhijit Sen, M Govinda Rao, Sushama Nath and Sudipto Mundle. The Government of India on 24th February, 2015 accepted recommendations of the 14th Finance commission for increasing share of states in central taxes to 42%.
- The commission recommended increase in the share of states in the centre's tax revenue from the current 32% to 42%, the single largest increase ever recommended.

Recommendations of 14th Finance Commissions

- The 14th Finance commission is of the view that tax devolution should be the primary route for transfer of resources to the states. In understanding the states needs, it has ignored the plan and non-plan distinctions.
- In recommending an horizontal distribution, it has used broad parameters population (1971), changes in population since then, income distance, forest cover and area, among others.
- It has recommended distribution of grants to states for local bodies using 2011 population data with weight of 90% and area with weight of 10%.
- Grants to states are divided into two. One, grant to duly constituted Gram Panchayats. Two grant to duly constituted municipal bodies.
- It has divided grants into two parts. A basic grant and a performance one for Gram panchayats and Municipal, bodies.
- The ratio of basic to performance grant is 90 : 10 for panchayats and 80 : 20 for municipalities.

7th Pay Commission

- The 900-page report of the 7th Pay Commission headed by Justice AK Mathur was presented to former Finance Minister Arun Jaitley on November 19, 2015 with a recommendation that the new scales be implemented from January 1, 2016.
- The panel recommended a 14.27% increase in basic pay, the lowest in 70 years. The previous 6th Pay Commission had recommended a 20% hike which the government doubled while implementing it in 2008.

Fiscal Policy

- Fiscal policy is that part of government policy, which is concerned with raising revenue through taxation and with deciding on the amount and purpose of government spending. The idea of using fiscal policy to combat recessions was introduced by John Maynard Keynes in the 1930s.

Objectives of Fiscal Policy

- *Fiscal policy in India has two major objectives* :
  (i) Improving the growth performance of the economy.
  (ii) Ensuring social justice to the people.
- *Fiscal policy influences the growth performance in the following manner* :
  —**Influencing Resource Mobilisation** India has done well in this area as reflected in the tax GDP ratio which increased from 6.3% in 1950-51 to 16.2% in 2011-12.
  —**Influencing Efficiency of Resource Allocation** This is done by an efficient and rational allocation of resources to maximise the rate of growth.
- *Fiscal policy also tries to achieve social justice through various measures* :
  —Relying more on direct taxes than indirect taxes.
  —Increasing taxes on the rich and expenditure on luxury goods while lowering them on the poor and goods of common use.
  —Spending on welfare and development projects.

Fiscal Imbalance and Deficit Financing

- Fiscal imbalance is a situation, in which there is a gap between revenue and expenditure. Deficit financing is a method of filling this gap which in India means borrowing from the RBI against the issue of Treasury Bills and running down of accumulated cash balances. This amounts to creation of money.
- The need for deficit financing arises when the government fails to mobilise enough resources to fund its plans. Since, cutting down plan expenditure would hurt growth, the government instead resorts to deficit financing.

Consequences of Deficit Financing

- During a recession deficit financing can have positive effects. It leads to an increase in Aggregate demand, which puts the hitherto idle machinery and capital equipment into operation thus, leading to an increase in production and the general economic activity.
- There is a time lag between the increase in demand due to deficit financing and the increase in supply of goods and services. This leads to high inflation during this period.
- The level of inflation depends on how much of the resources are spent on producing consumer goods and how much on capital equipment. Production of consumer goods leads to increased supply and thus, lower inflation.

Kelkar Committee Report on Fiscal Consolidation

The Vijay Kelkar committee, which was given the task of preparing a fiscal consolidation plan has suggested number of steps, *which are given below*.

- Immediate increase in the price of diesel by ₹ 4 litre that of kerosene by
  ₹ 2 litre and cooking gas by ₹ 50 per cylinder.
- Instead of subsidies provision for diesel, kerosene, gas move to system of market based price by March, 2014.
- Implement of goods and service tax.
- Reduce excise and ST rates to 8%.
- A 360° profile of all tax paying individual and institution should be created to help decrease tax evasion and tax fraud.
- The proposed Food Security Bill should be appropriately phased taking into account the present difficult fiscal challenge.

Fiscal Responsibility and Budget Management Act, (FRBM) 2003

- FRBM Act, 2003 was passed by the Union Government to provide a legislative control over the fiscal situation of the country, which had deteriorated earlier. It was meant to bring fiscal discipline, increase plan expenditure, leave the RBI with autonomy as far as money creation was concerned, meet the consumption expenditure of the government from its own resources etc.
- The Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) has been amended as part of the Finance Bill, 2012. It has introduced two concepts to reform the expenditure aspect of the fiscal policy.

  These are :

  —**Effective Revenue Deficit** It excludes from the conventional revenue deficit, grants for the creation of capital assets. This is an important development for the reason that while the revenue deficit of the consolidated general government fully reflects total capital expenditure incurred, in the accounts of the centre, these transfers are shown as reserve expenditure. Therefore, the mandate of eliminating the conventional revenue deficit of the centre becomes problematic. With this amendment, the endeavour of the government under the FRBM Act, 2003 would be to eliminate the effective revenue deficit.

  —**Medium-term Expenditure Framework Statement** It will set forth a three-year rolling target for expenditure indicators. It would help in undertaking a de-novo exercise for allocating resources for prioritised schemes and weeding out others that have outlived their utility.

NK Singh Committee

- The FRBM Review Committee headed by former Revenue Secretary, NK Singh was appointed by the government to review the implementation of FRBM. In its report submitted in January 2017, titled, 'The Committee suggested that a rule based fiscal policy by limiting government debt, fiscal deficit and revenue deficits to certain targets is good for fiscal consolidation in India.
- Its members included RBI Governor Urjit Patel, Chief Economic Advisor Arvind Subramanian, former Finance Secretary Sumit Bose, and National Institute of Public Finance and Policy Director Rathin Roy.
- Review Committee Report has recommended a debt to GDP ratio of 60% for the general (combined) government by 2023, comprising 40% for the Central Government and 20% for the State Governments. As per the Constitution of India, it is mandatory for a State to take the Central Government's consent for raising any loan if the former owes any outstanding liabilities to the latter.

Financial Administration

- All financial activities involving issues of financial administration including public budget, its passing, auditing and similar other matters. Without a extensive study of relevant dimensions of financial administration the subject of public finance remains incomplete.

Union Budget

- The budget is an extensive account of the government's finances, in which revenues from all sources and expenses of all activities undertaken are aggregated.
- Union budget is an expression of the Fiscal Policy of the Government.
- The Finance Minister presents the Union budget every year in the Parliament that contains the Government of India's revenue and expenditure for 1 fiscal year, which runs from 1st April to 31st March.

Historical Preview

- The term budget is actually derived from a French word Bougette, which means a sack or pouch. It was first used in France in 1803. In the Constitution of India, the term budget is nowhere used.
- It is rather mentioned as Annual Financial statement under Article 112 comprising the Revenue budget, Capital budget and also the estimates for the next fiscal year called **budgeted estimates**.
- As per the British legacy, the Union Budget of India used to be presented on the evening of last working day of the month of February to follow the British budget.
- During the NDA regime, then Finance Minister **Yashwant Sinha** was the first to present the budget on 28th February, 2001 at 11 am. (The budget has to be passed by the Lok Sabha before it can come into effect on 1st April.)

Preparation of Budget

- The budget is prepared by the budget division of Department of Economic affairs in the Ministry of Finance (MoF), after consulting with other ministries and the Planning Commission.
- The process majorly includes following steps which may be sequential or overlapping too.

Overall Budget

- Overall budget are available for more than 1 fiscal year but are not distributed to individual fiscal year. It is a hierarchical and structure containing budget structure elements (budget hierarchy).

Passing of Finance Bill

(Under Rule 219 of the Lok Sabha)

Classification of the Budget

- Budget of the Union Government is classified into revenue account and capital account.

Revenue Account

- Consists of all those receipts or expenditure or that do not entail sale or creation of assets or increase or decrease of liabilities.
- Capital account consists of receipts or expenditure from liquidation or creation of assets or increase or decrease of liabilities. *Expenditure is also divided into two expenditure*:
  (i) **Plan Expenditure** Consists of money going to annual plans of the Union and State Governments.
  (ii) **Non-Plan Expenditure** It is the expenditure not falling under the annual plans. It has a small capital component whose largest chunk is on defense. Both plan and non-plan expenditure are divided into revenue and capital account as usual.

Stages in Budget Enactment

The budget goes through the following six stages in the Parliament :

(i) Presentation of the budget on the floor of the House before the Lok Sabha.
(ii) General discussion on the budget.
(iii) Vote of account.
(iv) Scrutiny by departmentally related Standing committees.
(v) Voting on demands for grants.
(vi) Passing of Appropriation Bill (Article 114 of the Constitution of India).

Types of Budgeting

Zero-Based Budgeting

- It is a method of budgeting, in which all budgetary allocations are set to nil at the beginning of a financial year.

Gender Budgeting

- It came into being in 2004-05. To contribute towards the women empowerment and removal of inequality based on gender, role of budgeting has been accepted through this step.

Capital Budgeting

- Capital budgeting or investment appraisal is the planning process used to determine whether an organisation's long-term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are worth the funding of cash through the firm's capitalisation structure (debt, equity or retained earnings).
- Capital budget includes capital receipts and payments of the government. Loans from public, foreign governments and RBI form a major part of the government's capital receipts. Capital expenditure is the expenditure on development of machinery, equipment, building, health facilities, education, etc.

Outcome Budget

- An Outcome budget measures the development outcomes of all government programmes. For instance, it will tell a citizen if money has been allocated for building a primary health centre has it indeed come up. In other words, it is a mean to develop a linkage between the money spent by a government and the results which follow.
- Outcome budgeting in India was introduced by the Finance Minister P Chidambaram from Budget 2005-06. It is based on the idea that financial outlays in the budget do not necessarily lead to outcomes, while the people of the country are concerned with the outcomes.

- *The first such mini-budget was presented by TT Krishnamachari on 30th November, 1956, in form of fresh taxation proposals through Finance Bills, demanded by the prevailing domestic and International Economic Situation.*
- *John Mathai proposed the first Budget of Republic of India in 1950 and also the creation of Planning commission.*
- *Finance Minister Morarji Desai has given Budget for the maximum number of times (10), followed by P Chidambaram, who has given 9 Budgets.*
- *CD Deshmukh was the first Indian Governor of RBI to have presented the Interim budget for the year 1951-52.*
- *Ms Indira Gandhi is the first woman to hold the post of the Finance Minister and to have presented the budget in her capacity as the Prime Minister of India in 1978.*
- *Plan expenditure was for the first time presented separately in the budget for 1959-60.*

Deficit

A deficit is the amount by which a sum falls short of some reference amount. The meaning of deficit differs from that of debt which is an accumulation of yearly deficits.

Types of Deficits

- **Revenue Deficit** It is the difference between the revenue receipt on tax and non-tax side and the revenue expenditure. Revenue expenditure is synonymous with consumption and non-development.

- **Fiscal Deficit** It is the difference between what the government earns and its total expenditure.
  - Fiscal Deficit = Difference between country's expenditures and earnings.
  - Fiscal Deficit = Revenue Receipts (Net tax revenue + Non-tax revenue) + Capital Receipts (only recoveries of loans and other receipts) – Total expenditure (Plan and Non-plan)
- **Budget Deficit** It considers only the difference between the total budgeted receipt and the expenditure. It was abolished in 1997.
- **Monetised Deficit** It is the borrowing made from the RBI, through printing fresh currency. It is resorted to, when government cannot borrow from market.
- **Gross Fiscal Deficit** The Gross Fiscal Deficit (GFD) of government is the excess of its total expenditure, current and capital, including loans net of recovery, over revenue receipts (including external grants) and non-debt capital receipts.

  —Gross Fiscal Deficit = Total Expenditure – (Revenue Receipts + Non-debt Creating Capital Receipts).
- **Net Fiscal Deficit** The Net Fiscal Deficit (NFD) is the gross fiscal deficit reduced by net lending by government.
- **Primary Deficit** Amount by which a Government's total expenditure exceeds, its total revenue, excluding interest payments on its debt.

  —Primary deficit = Fiscal deficit – Interest payments.
- **Gross Primary Deficit** The Gross Primary (GFD) Deficit (GPD) is the Gross Fiscal Deficit less interest payment while the primary revenue deficit is the revenue deficit less interest payments.

Action of the Government to Reduce the Deficit

A deficit is the amount by which a sum falls short of some reference amount. In economics, a deficit is an excess of expenditures over revenue in a given time period. In more specific cases, it may refer to

- Balance of Payments (BOP) deficit, when the Balance of Payments is negative.
- Government budget deficit that is deficit spending.
- Primary deficit, the pure deficit derived after deducting the interest payments and structural and cyclical deficit part of the public sector deficit.
- Income deficit (the difference between family income and the poverty threshold).
- Trade deficit (when the value of imports exceed the value of exports).
- Introduction of new schemes would entail more spending and it goes just opposite to what we are trying to do, i.e. reduce deficit. Import duty is a tax collected on imports and some exports by the customs authorities of a country. It is usually based on the value of the goods that are imported. There are two distinct goals to import duties : to raise income for Local Government, and to give a market advantage to locally grown or produced goods that are not subject to import duties.

Financial Stability and Development Council

It is an apex-level body constituted by Government of India, which was first mooted by Raghuram Rajan committee in 2008. It envisages to strengthen and institutionalise the mechanism of maintaining financial stability, financial sector development, inter-regulatory coordination alongwith monitoring macro-prudential regulation of economy.

Financial Sector Legislative Reform Commission

It is a body set-up of Ministry of Finance by Government of India to review and rewrite the legal-institutional architecture of the Indian financial sector, which is chaired by a former judge of the Supreme Court of India and have an electric mixer of expert members drawn from the fields of finance, economics, public administration, law etc.

Self Check

Build Your Confidence

1. Consider the following taxes
1. Sales Tax 2. VAT 3. Property Tax

Which of the tax given above are Ad-valorem taxes?
(a) 1 and 2 (b) 2 and 3 (c) 1 and 3 (d) All of these

2. Consider the following statements
1. Gift tax for the first time was imposed in 1958.
2. Gift tax was imposed as a complement of the estate duty.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

3. Consider the following statements
1. Personal income tax 2. Import duty 3. Service tax

Which of the taxes given above is/are indirect tax?
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

4. Consider the following statements **[UPPCS 2009]**
1. Service tax was introduced in 1994-95.
2. There are 119 services in 2013-14 on which service tax is imposed.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

5. Value added tax is **[UPPCS 2009]**
(a) an ad-valorem tax on domestic final consumption collected at all stages between production and point of final sale
(b) an ad-valorem tax on final consumption collected at the manufacturing level
(c) tax on final consumption collected at the consumption rate
(d) special tax levied by the states on products from other states

6. Fiscal deficit implies
(a) total expenditure-(revenue receipt+recovery of loan + receipts from disinvestment)
(b) total expenditure-total receipt
(c) total expenditure-(Revenue receipt+receipt from disinvestment)
(d) total expenditure-Disinvestment receipt

7. Fiscal deficit in the Union budget means **[IAS 1994]**
(a) difference between current expenditure and current revenue
(b) net increase in Union Government's borrowings from the Reserve Bank of India
(c) the sum of budgetary deficit and net increase in internal and external borrowing
(d) the sum of monetised deficit and budgetary deficit

8. Consider the following statements
1. 14th Finance commission has recommended to increase in the shave of states in the centre's tax revenue from the current 32% to 42%, the single largest increase even recommended.
2. The 14th Finance commission, headed by former RBI Governor YV Reddy did not endorse the compensation road map for the goods and services tax finalised by the centre and also denied for an autonomous and independent GST Compensation Fund.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

9. The Union government extended the term of 15th Finance Commission that is headed by N.K. Singh to provide for the presentation of the final report covering .... by 30th October, 2020.
(a) 2019-20 to 2024-25
(b) 2020-21 to 2025-26
(c) 2021-22 to 2025-26
(d) 2021-22 to 2026-27

10. Consider the following taxes **[IAS 2001]**
1. Corporation tax 2. Customs duty
3. Wealth tax 4. Excise duty

Which of the statement(s) given above is/are indirect taxes?
(a) Only 1 (b) 2 and 4 (c) 1 and 3 (d) 2 and 3

11. These has been a persistent deficit budget after year. Which of the following actions can be taken by the government to reduce the deficit? **[UPSC 2015]**
1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalising subsidies
4. Expanding industries

Select the correct answer using the codes given below
(a) 1 and 3 (b) Only 1
(c) 2 and 3 (d) All of these

12. A decrease in tax to GDP ratio of a country indicates, which of the following statements?
1. Slowing economic growth rate income.
2. Less equitable distribution of National income.

Select the correct answer using the codes given below
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

1. (d) **2.** (c) **3.** (b) **4.** (a) **5.** (a) **6.** (a) **7.** (c) **8.** (a) **9.** (c) **10.** (b)
11. (a) **12.** (b)

Chapter eight
India's Balance of Payments

India's balance of payments has been under increasing stress recently. Exports have declined while imports have not fallen significantly, resulting in increasing trade and current account deficits. India's growing external exposures can also be attributed to the increasing integration of India's economy with the rest of the world.

Balance of Payments (BoP)

- When the difference in the value of imports and exports of all the three items i.e. visible, invisible and capital transfers, is taken into account, it is called **Balance of** Payments (BoP).
- Thus, an overall record of all economic transactions of a country in a given period, with rest of the world.
- Balance of Payments (BoP) account broadly comprises of the following components:
- **Current Account** of Balance of Payments consist of all transactions relating to goods, services and income. It is functionally classified into merchandise or visible and invisibles. Current account deficit is the situation where payments on the current account out of the country are more than the payments into the country. In current account surplus, there is a net inward payment into the country on the current account.
- **Capital account** is that account which records all such transactions between residents of a country and rest of the world, which causes a change in the asset or liability status of the residents of a country or its government. Investments (FDI and FII) and Borrowings External Commercial Borrowing (ECB) are part of the capital account.

Components of Capital Account

There are the principle forms of capital account transactions :

—**Foreign Investment** *It has two sub-components which are as follows:*

(i) **Foreign Direct Investment** (FDI) referring to the purchase of assets in the rest of the world, which allows control over that assets. e.g. purchase of a firm by TATA in the rest of the world.

(ii) **Portfolio Investment** referring to purchase of an asset in the rest of the world, without any control over that asset. Portfolio investment into India also consists of Foreign Institutional Investment (FII).
e.g. purchase of the some shares of a company by TATA in the rest of the world.

—**Loans** *It has two sub-components which are as follows:*

(i) **Commercial Borrowings** referring to borrowing by a country (including government and the private sector) from the international money market. This involves market rate of interest without considerations of any concession.

(ii) Borrowings as External Assistance referring to borrowing by a country with considerations of assistance. It involves lower rate of interest compared to that prevailing in the open market.

—**Banking Capital Transactions** referring to transactions of external financial assets and liabilities of Commercial Banks and Cooperative Banks operating as authorised dealers in foreign exchange. These transactions include NRI deposits.

—**Reserve Account** The official reserve account records the change in stock of reserve assets (also known as **foreign exchange reserves**) at the country's monetary authority.

—**Net Errors and Omissions** This is the last component of the Balance of Payments and principally exists to correct any possible errors made in accounting for the three other accounts. They are often referred to as **balancing items**.

BoP Trends

India had faced pressure on Balance of Payments (BoP), since, planning period due to either internal or external factors.

Period I (1956-57 to 1975-76)

The period comprising the **2nd**, **3rd** and **4th Plans** and first 2 years of 5th Plan saw heavy deficit in Balance of Payments (BoP) and extremely tight payment position. This period witnessed three wars, several droughts and the first oil shock in 1973, though the government resorted to serve import controls and foreign exchange regulation etc.

Period II (1976-77 to 1979-80)

It was relatively short period and was a golden period as far as BoP is concerned. In this period, India had a small current account surplus of 0.6% of the GDP and also possessed foreign exchange reserves equivalent to about seven months imports.

Period III (1980-81 to 1990-91)

This period broadly corresponds to the period of 6th and 7th Plans and was marked by severe BoP difficulties. The reasons for severe difficulties are as follows: Widening trade deficits, Gradual decline in net receipts from invisibles, Reductions inflows of concessional assistance to India principally from World Bank group, The third oil shock during 1990-91, During 1990s, domestic political developments affected confidence abroad in Indian economy etc, International rating agencies downgraded India, Substantial outflow of deposits held by Non-Resident Indians (NRIs), Reserves declined to a low of $ 0.9 billion in January 1991.

Period IV (1991-92 Onwards)

The reforms of 1990's have facilitated India to move away from closed economy framework towards a more open and liberal economy. Foreign exchange reserves were built to very comfortable positions and the difficulties of BoP came under control and the *reasons for the same are as follows:*

—Trade balance has always been in deficit since, imports have always exceeded exports.

—When current account deficits are larger than capital account surpluses, foreign exchange reserves are also used to cover these deficits.

The important reasons for deficit in India's BoP position can be cited as follows:

- **Irreversible Trade Deficit** Our imperative imports of oil and coal and India's passion for gold.
- **Rise in Imports** The reasons for rapid rise in imports are building industrial base (in the early stages), increase in export related imports (gems, jewellery, capital goods) increase in imports of industrial raw materials, rise in the price and imports of Petroleum, Oil and Lubricants (POL) products etc.
- **Devaluation and Depreciation of the Rupee** The devaluation and depreciation of the rupee have led to an increase in the price of imports. Exports have become cheaper, the low price and income elasticities of demand for exports have resulted in slow increase in exports.
- **Slow Rise in Export Earnings** Export earnings rose, however, they were not sufficient enough to meet the rising imports. Thus, rise in exports has neither been substantial nor continuous. The growth in exports has not been sufficient enough to finance the rising imports.
- **Debt Service** The Balance of Payments (BoP) problem has also aggravated due to the rising obligation of amortising payments in 2011-12, debt service ratio was 6% with the ever increasing imports and slow pace of exports, the most effective solution for India's Balance of Payments (BoP) problem is cost reduction and competitiveness in global market.
- **Appreciation** The recent appreciation of the rupee has made exports costlier and imports cheaper. It may also add to the Balance of Payments (BoP) problem.

Foreign Capital

- Foreign capital inflow to the country can be either in the form of concessional assistance or non-concessional flow.
- Non-concessional flows include mainly **External Commercial Borrowings** (ECBs), loans on market terms, NRI deposits and foreign investment.
- Foreign investment can be categorised into Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII).

Foreign Direct Investment (FDI)

- It refers to direct investment in the productive capacities of a country by someone from outside the country. Such an investment can be in the form of setting up a new plant or through purchase of shares of a company, where the shareholding gives the foreign entity control over the business of the company.
- A foreign company can set-up its business in India from two ways, by setting up a company under the Companies Act or by setting-up an unincorporated entity like Liaison office, project office or branch office.
- The government of India has amended FDI inflow in 2021, the government increased foreign investment limit from 49% to 74% in insurance sector. It also launched Make in India intiative in September 2014 under which FDI policy for 25 sectors was liberalised further.
- FDI into India reached $ 81.7 billion in 2020-21. It was $74.4 billion in 2019-20. Singapore followed by United States. Meanwhile, the World Investment Report 2021, released on June 21 by UNCTAD, states that India was the fifth largest recipient of FDI in the world.

Sectors which are Open to FDI

- Most sectors are at least partially open to FDI, subject to a cap and specific conditions. There are two entry routes for FDI in India. In sectors where FDI is allowed up to 100%, FDI enters under the automatic route, subject to sectoral regulations and other conditions.
- In this instance, no approval is required from the Reserve Bank of India (RBI) or the government however, the investment must be notified to the RBI's regional office within 30 days.
- In sectors, where FDI is allowed under the government route, prior approval from the Foreign Investment Promotion Board (FIPB) was required.

Key Changes in FDI Limits

Sector/Activity	% of FDI/Equity	Entry Route
Defense Sector	100%	(Automatic route increased from 49% to 74%)
Telecom Services	100%	Automatic upto 49% government route beyond 49%
Tea Plantation	100%	Automatic upto 49% government route beyond 49%
Asset Reconstruction Company	100%	Automatic upto 49% government route beyond 49%
Petroleum and Natural Gas (Exploration)	100%	Automatic route
Petroleum and Natural Gas (PSUs)	49%	Automatic
Commodity Exchange	49%	Automatic route
Power Exchanges	49%	Automatic route
Pension sector	49%	Automatic route
Stock Exchanges/Clearing Corporations	49%	Automatic route
Credit Information Companies	100%	Automatic route
Courier Services	100%	Automatic route
Single Brand Product Retail Trading	100%	Automatic upto 49% government route beyond 49%
Insurance Sector	74%	Automatic route
Pharmaceuticals	100%	Automatic route
Animal Husbandry	100%	Automatic route
Food item	100%	Automatic route
e-Commerce	100%	Automatic route

Sectors where FDI is prohibited

- Atomic energy generation
- Investments in Chit Funds
- Cigars, cigarettes, or any related tobacco Industry
- Gambling or Betting businesses
- Housing and Real estate (except townships, commercial projects etc.)
- Lotteries (online, private, government, etc)
- Trading in Transferable Development Rights (TDRs)
- Railway operations (other than permitted activities)

FIPB is Abolished

The Union Cabinet has approved the abolition of 25 year old FIPB. Henceforth, concerned ministries will be responsible for direct approval of foreign investment proposals. The decision falls in line with Finance Minister Arun Jaitley's proposal to scrap FIPB 2016-2017 Union Budget. FIPB was constituted in the mid-nineties under the Prime Minister's office following economic liberalisation. Rationale behind this move is that over 90% of the FDI inflows in value terms enters through automatic route. The government expects that scrapping of FIPB would help in ease of doing business.

Foreign Institutional Investment (FII)

- A foreign institutional investor is one which is registered in a country outside of the one, in which it is investing. In India, it is used to refer to companies which invest in the country's financial markets.
- In 2013, India accepted the internationally, laid down definition of FII to remove the ambiguity between FII and FDI. Now, when an investor has a stake of less than 10% in a company, it will be treated as FII and where and investor has a stake of more than 10%, it will be treated as FDI.
- FIIs may invest in securities in both the primary and secondary market in shares, debentures and warrants of listed or unlisted companies.
- Some of the entities eligible to be treated as FII in India are pension funds, mutual funds, banks, investment trusts, sovereign wealth funds, Foreign Central Banks etc.
- FIIs can invest in securities in the primary and secondary markets dated government securities, commercial paper, derivatives, units of schemes floated by domestic mutual funds (including UTI), Indian depository receipts and security receipts.

Means of FII Investment

- FIIs can invest through a registered broker on recognised Indian stock exchanges. They can purchase shares or convertible debentures either through private placement or through offer for sale.
- FIIs can also invest through a sub-account (a person outside India on whose behalf investments are proposed to be made).
- FIIs can also issue **Offshore Derivative Instruments** (ODIs) to persons who are regulated by an appropriate foreign regulatory authority and after compliance with KYC norms.

- Large amount of FII investment into India comes through participatory notes.

FDI vs FII

FDI inflows are preferred over FII inflows for the following reasons:

- FDI is considered to be long-term and stable investment whereas FII is considered as hot money i.e. it can move out quickly during adverse circumstances leading to instability and volatility in the exchange rate and the stock market.
- Since, FDI represents ownership, it leads to the inflow of better technology management practices etc while FII is generally only interested in short-term gains.
- While the above arguments are true to a certain extent, FII's have also been influencing the incorporation of better technology and management in the companies where they hold shares.

Participatory Notes (P-Notes)

- These are financial instruments used by investors or hedge funds, that are not registered with the Securities and Exchange Board of India to invest in Indian securities.
- Indian based *brokerages* buy India-based securities and then issue participatory notes to foreign investors. Any dividends or capital gains collected from the underlying securities go back to the investors.
- P. Notes are overseas Derivative Instruments that have Indian stocks as their underlying assets. They allow foreign investors to buy stocks listed on Indian exchanges through FIIs without being registered.

Qualified Foreign Investor (QFI)

- *QFI is a person, who fulfills the following criteria:*
  —Resident in a country or group which is a member of Financial Action Task Force (FATF).
  —Resident in a country that is signatory to 1OSCO's MoU or a signatory of a bilateral MoU with SEBI.
  —Such person should not be resident in India or registered with SEBI as an FII or a sub-account of FII.
  —QFIs are distinct from FIIs and non-resident Indians. They are allowed to invest directly into mutual funds and stocks of Indian companies. It was felt that foreign investors had been kept at bay owing to concerns relating to money laundering and due diligence by the government and regulators.
  —For this reason, the new scheme of QFI was started to ensure more foreign capital inflows, reduce market volatility and deepen the markets.
- **Global Depository Receipts (GDRs)** These are equity instruments issued in international markets like London, Luxemburg etc. Indian companies use GDRs to raise capital from abroad. GDRs are designated in dollars, euros etc.
- **American Depository Receipts (ADRs)** These are the equity instruments issued to American retail and institutional investors. They are listed in New York, either on Nasdaq or New York Stock Exchange.
- **Indian Depository Receipts (IDRs)** These are similar to ADR or GDR. They are used by non-Indian companies in the Indian stock markets for issuing equity to Indian investors.
- Spot exchange rates, at which different currencies are trades for immediate exchange.
- The rise in the value of one currency relative to another currency is called **appreciation**.

Foreign Exchange

- Foreign exchange reserves are an important component of the BoP and an essential element in the analysis of an economy's external position.
- India's foreign exchange reserves comprise Foreign Currency Assets (FCAs), gold, Special Drawing Rights (SDRs) and Reserve Tranche Position (RTP) in the International Monetary Fund (IMF).

Exchange Rate

- Exchange rate is the rate, at which Indian rupee will be exchanged *vis-a-vis* other international currencies, say US dollar, in the foreign exchange market.
- The rupee was historically linked to the British pound sterling till 1946. After independence, India had to fix and maintain the external value of the rupee in terms of gold or the US dollar as required under IMF rules. Therefore, India fixed the value of rupee at ₹ 3.30 per US dollar. This was the official rate of exchange and RBI would buy and sell foreign currencies at this rate.
- The 1994-95, budget announced full convertibility of the rupee on current account i.e. freedom to buy or sell foreign exchange in connection with the current account transactions under Article VIII of the IMF.

NEER and REER

- The **Nominal Effective Exchange Rate** (NEER) and **Real Effective Exchange Rate** (REER) indices are used as indicators of external competitiveness of the country over a period of time.
- NEER is the weighted average of bilateral nominal exchange rates of the home currency in terms of foreign currencies, while REER is defined as a weighted average of nominal exchange rates, adjusted for home and foreign country relative price differentials.
- Nominal rupee depreciation, while having some adverse effects such as greater imported inflation, is also useful over time in offsetting higher domestic inflation and ensuring Indian exports remain competitive.
- REER captures movements in cross currency exchange rates as well as inflation differentials between India and its major trading partner and reflects the degree of external competitiveness of Indian products.
- The RBI has been constructing 6 currency (US dollar, euro for euro zone, pound sterling, Japanese Yen, Chinese renminbi and Hong Kong dollar) and 36 currency indices of NEER and REER.

Present Exchange Rate Policy

- India has transited from fixed exchange rate policy to a market determined exchange rate. It is broadly a floating rate regime with the central intervening only for reducing excess volatility, preventing the emergence of destabilising speculative activities, maintaining adequate reserves and developing on orderly foreign exchange market.
- At present, the exchange rate policy is guided by the broad principles of careful monitoring and management of exchange rates with flexibility, while allowing the underlying demand and supply conditions to determine exchange rate movements over a period in an orderly manner.

Policy Options with RBI to Manage Exchange Rate

- **Using Policy Rates** RBI can use policy rates (repo, CRR, SLR etc) to manage the exchange rate. By lowering interest rates, supply of rupee's increased in the market leading to depreciation of the currency. Increasing interest rates on the other hand, takes out rupee from the system leading to shortage of rupee supply and thus, appreciation of the rupee.
- **Using Forex Reserves** RBI can sell forex reserves and buy Indian rupees leading to demand for rupee. Based on weekly forex reserves data, RBI seems to be selling forex reserves selectively to support rupee. Its intervention has been limited as liquidity in money markets has remained tight and further intervention only tightens liquidity further.
- **Easing Capital Controls** Capital controls could be eased to allow more capital inflows. *"Resisting currency depreciation is best done by increasing the supply of foreign currency by expanding market participation."* This in essence, has been RBI's response to depreciating rupee.

FERA and FEMA

- FERA, (Foreign Exchange Regulation Act) in place since, 1974 did not succeed in restricting activities such as the expansion of Trans National Corporations (TNCs). After the Amendment of FERA in 1993, it was decided that the act would become the FEMA (Foreign Exchange Management Act).
- This was done in order to relax the controls on foreign exchange in India, as a result of economic liberalisation. FEMA served to make transactions for external trade (exports and imports) easier. Involving current account for external trade no longer required RBI's permission.
- The deals in foreign exchange were to be 'managed' instead of 'regulated'. The switch to FEMA shows the change on the part of the government in terms of foreign capital.
- The foreign Exchange Regulation Act (FERA) was legislation passed by the Indian Parliament in 1973 and come into force on 1st January, 1974.
- FERA imposed stringent regulation on certain kinds of payments. It deals with foreign exchange and securities and the transactions which had an impact on the foreign exchange and import and export of currency.
- The Foreign Exchange Management Act (FEMA) was an act passed in the winter session of parliament in 1999 which replaced foreign exchange Regulation Act.
- FEMA has brought a new management regime of foreign exchange consistent with the emerging frame work of the World Trade Organisation (WTO).

Main Features of FEMA

- Activities such as payments made to any person outside India or receipts from them, alongwith the deals in foreign security is restricted. It is FEMA that gives the **Central Government** the power to impose the restrictions.
- Restrictions are imposed on people living in India, who carry out transactions in foreign exchange, foreign security or who own or hold immovable properties abroad.
- Without general or specific permission of the **Reserve Bank of India**, FEMA restricts the transactions involving foreign exchange or foreign security and payments from outside the country to India the transactions should be by an authorised person.
- Deals in foreign exchange under the current account by an authorised person can be restricted by the Central Government, based on public interest. Although, selling or drawing of foreign exchange is done through an authorised person, the RBI is empowered by this act to subject the capital transactions to a number of restrictions.
- People living in India will be permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad, if the currency, security or property was owned or acquired, when he or she was living outside India or when it was inherited to him or her by someone living outside India.
- Exporters are needed to furnish their export details to RBI. To ensure that the transactions are carried out properly, RBI may ask the exporters to comply to its necessary requirements.

Capital Account Convertibility in India

- Capital Account Convertibility (CAC) for Indian Economy refers to the abolition of all limitations with respect to the movement of capital from India to different countries across the globe. According to the **Tarapore Committee**, Capital Account Convertibility refers to the freedom to convert local financial assets into foreign financial assets and *vice-versa* at market determined rates of exchange.

- It is associated with changes of ownership in foreign or domestic financial assets and liabilities and embodies the creation and liquidation of claims on or by the rest of the world.
- RBI appointed the Second Tarapore Committee to set out the framework for fuller capital account convertibility.

India's External Debt

- India's external debt has increased over time and India is one of the highest indebted country of the world in terms of total debt outstanding.
- **Gross external debt** is defined, at a point of time, as "*The outstanding amount of those actual current and not contingent liabilities that require payments of principal and interest by the debtor at same points in the future and that are owed to non-residents by residents of an economy.*"
- At end-March 2021, India's external debt was placed at $ 570 billion recording an increase of $ 11.5 billion over its level at end-March 2020. The external debt to GDP ratio was 21.1%. Commercial borrowing comprised the largest component of external debt, with a share of 37.4 per cent, followed by non-resident deposits at 24.9 per cent and short term trade credit at 17.1 per cent.
- The maturity profile of India's external debt indicates the dominance of long-term borrowings. Long-term external debt accounted for 82.26% of the total external debt, while the remaining 17.74% was short-term debt.

Concepts of External Debt

Sovereign (Government) and Non-Sovereign (Non-Government) Debt

- *Sovereign debt includes:*
  - —External debt outstanding on account of loans received by Government of India, under the external assistance programme and civilian component of rupee debt.
  - —Other government debt comprising borrowings from IMF, defence debt component of rupee debt as well as foreign currency defence debt.
  - —FII in Government Securities. Non-sovereign includes the remaining components of external debt. All other debt is non-sovereign debt.

External Commercial Borrowings (ECBs)

- The definition of commercial borrowing includes loans from Commercial Banks, other commercial financial institutions, money raised through issue of securitised instruments like bonds including **India Development Bonds** (IDBs) and **Resurgent India Bonds** (RIBs), **Floating Rate Notes** (FRN) etc.
- It also includes borrowings through buyers' credit and supplier credit mechanism of the concerned countries International Finance Corporation, Washington [IFC(W)], Nordic Investment Bank and private sector borrowings from Asian Development Bank (ADB).
- *During good economic and fiscal position, domestic borrowers could enjoy triple benefits of*
  - —Lower interest rates,
  - —Longer maturity and
  - —Capital gains due to domestic currency appreciation. This would happen, when the local currency is appreciating due to surge in capital flows and the debt service liability is falling in domestic currency terms. The opposite would happen, when the domestic currency is depreciating due to reversal of capital flows during crisis situations, as happened during the 2008, global crisis.
- A sharp depreciation in local currency would mean corresponding increase in debt service liability, as more domestic currency would be required to buy the same amount of foreign exchange for debt service payments.
- This would lead to erosion in profit margin and have market-to-market implications for the corporate. There would also be **debt overhang** problem, as the volume of debt would rise in local currency terms.
- Together, these could create corporate distress, especially because the rupee tends to depreciate precisely, when the Indian economy is also under stress and corporate revenues and margins are under pressure.

NRI Deposits

- *Non-Resident Indian (NRI), deposits are of three types:*

  (i) **Non-Resident** (External) **Rupee Account** (NRE Account) Deposits were introduced in 1970. Any NRI can open an NRE account with funds remitted to India through a bank abroad. The amount held in these deposits together with the interest *accrued* can be *repatriated*.

  (ii) **Foreign Currency Non-Resident** (Banks) [Deposits (FCNR-B)] were introduced with effect from 15th May, 1993. These are term deposits maintained only in pound sterling, US dollar, Japanese yen, euro, Canadian dollar and Australian dollar. The minimum maturity period of these deposits was raised from 6 months to 1 year effective October, 1999. From 26th July, 2005, banks have been allowed to accept FCNR (B) deposits up to a maximum maturity period of 5 years against the earlier maximum limit of 3 years.

  (iii) **Non-Resident Ordinary Rupee** (NRO) **Accounts** Any person, resident outside India may open and maintain NRO account with an authorised dealer or in authorised bank for the purpose of putting through *bonafide* transactions denominated in Indian rupee. NRO Accounts may be opened or maintained in the form of current, saving, recurring or fixed deposits. NRI or Persons of Indian Origin (PIO), may remit an amount not exceeding USD 1 million per financial year, out of the balances held in NRO accounts.

Self Check

Build Your Confidence

1. BOP (Balance of Payment) refers to
(a) transactions in the flow of capital.
(b) transactions relating to receipts and payment of invisible.
(c) transactions relating only to exports and imports.
(d) systematic record of all its economic transaction with the rest of the world.

2. Which of the following does not form part of current account of Balance of Payments?
(a) Export and import of goods
(b) Export and import of services
(c) Income receipts and payments
(d) Capital receipts and payments

3. Which one of the following is the investment in securities that is intended for financial gain only and does not create a lasting interest in or effective management control over an enterprise?
(a) Foreign Direct Investment
(b) Portfolio Investment
(c) Equity Direct Investment
(d) Both 'a' and 'c'

4. In which of the following years was the trade balance favourable to India? **[BPSC 2015]**
(a) 1970-71 and 1974-75
(b) 1972-73 and 1976-77
(c) 1972-73 and 1975-76
(d) 1971-72 and 1976-77

5. Which of the following is not the recommendation of the Arvind Mayaram Committee on rationalising the FDI/FPI definition (June, 2014)?
(a) Foreign investment of 10% or more in a listed company will be treated as Foreign Direct Investment.
(b) In a particular company, an investor can hold the investments either under the FPI route or under the FDI route, but not both.
(c) Any investment by way of equity shares, compulsorily convertible preference shares/debentures which is less than 10% of the post issue paid up equity capital of a company shall be treated as FPI.
(d) On NRI investors, the committee recommended treating non-repartriable investment as FDI.

6. Which one of the following countries is the largest source of the Foreign Direct Investment in the Indian Economy?
(a) United States (b) Switzerland
(c) Singapore (d) Mauritius

7. Which of the following is/are not FDI policy changes after 2010? **[NDA 2016]**
1. Permission of 100% FDI in automotive sector.
2. Permitting foreign airlines to make FDI upto 49%.
3. Permission of upto 51% FDI under the government approval route in multi-brand retailing, subject to specified conditions.
4. Amendment of policy on FDI in single-brand product retail trading for aligning with global practices.

Select the correct answer using the code given below
(a) Only 1 (b) 2 and 4
(c) 1 and 2 (d) 1, 2 and 3

8. Which one of the following factors is taken account to calculate the Balance of Payment (BOP) of a country?
(a) Current Account
(b) Changes in the Foreign Exchange Reserves
(c) Error and Omissions
(d) All of the above

9. Which one of the following is not correct in the context of balance of payments of India during 2013-14?
(a) India's exports were less than its imports
(b) Trade balance was negative
(c) Net invisibles were positive
(d) Capital account balance was negative

1. (d) **2.** (b) **3.** (b) **4.** (b) **5.** (d) **6.** (c) **7.** (a) **8.** (d) **9.** (d)

Chapter nine
India's Foreign Trade

The patterns of India's foreign trade have changed considerably since the early 1990s. From the financial year 1990-91 to the one of 2019-20 the total value of goods exports increased more than 16 times (from $18 billion to over $300 billion). During the same time span, goods imports increased almost 20 times.

- Foreign trade plays a significant role in the economy of each country. Foreign trade helps a country to utilise its natural resources and to export its surplus production. It can import technical know-how.
- A country can industrialise itself by importing necessary capital, machines and raw materials from more advanced and industrialised nations. By proper control of foreign trade, employment, output, prices, industrialisation and economic development of the country can be influenced favourably.
- According to Economic Survey 2020-21, among India's trading partners, the top five export destinations are USA, China, UAE, Singapore and Bangladesh. The top five import destinations are China, USA, UAE, Switzerland and Saudi Arabia. With a bilateral trade of $ 86.4 billion in fiscal 2021, China has emerged as India's largest trading partner.

Foreign Trade Policy (FTP), 2015-20

- The new five years foreign Trade policy 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country in keeping with the 'Make in India' vision. The focus of the new policy is to support both the manufacturing and services sectors, with special emphasis on improving case of doing business. In April, 2020, Government extended FTP for one more year, upto 31st March, 2021. It was later extended for 6 months.
- *The government is pitching india as a friendly destination for manufacturing and exporting goods some key features of the new foreign tradepolicy are*
  - —India to be made a significant participant in world trade by 2020.
  - —Merchandise exports from India Scheme (MEIS) to promote specific services for specific markets foreign trade policy.
  - —FTP would reduce export obligation by 25% and given boost to domestic manufacturing.
  - —Industrial products to be supported in major markets rates ranging from 2% to 3%.
  - —Branding companies planned to promote exports in sectors where India has traditional strength.

New Schemes in FTP 2015-20

- FTP 2015-20 introduces two new schemes, namely "Merchandise Exports from India Scheme (MEIS" for export of specified goods to specified markets and Services Exports from India Scheme (SEIS) for increasing exports of notified services, in place of a plethora of schemes earlier, with different conditions for eligibiltiy and usage.

Merchadise Exports from India Scheme (MEIS)

- Now 5 different earlier schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri Infrastructure Incentive Scheme and VKGUY) have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS). Incentives under this scheme are available on exports of notified goods to notified markets at notified rates. In order to avail this benefit, all exporters are advised to declare on all shipping bills from 1st June, 2015 onwards mandatorily as "their intent to claim rewards under MEIS".

Service Exports from India Scheme (SEIS)

- Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). Now, all service providers located in India and earning foreign exchange, regardless of the Constitution or profile of the service provider, who is exporting notified services, would be eligible for the benefits at the rate of 3% or 5% of net foreign exchange earnings.
- The reward issued as Duty Credit Scrip under this scheme and goods imported by using this scrip will be freely transferable and usable for all types of goods/services for payment of custom duty, excise duty and service tax. Incentives (MEIS and SEIS) now are available to units located in SEZs also.

India's Foreign Trade Position

India's participation in foreign trade was continuously declining till 1980. Since 2001, it has continually improved. As per the current ranking (2018), India is the 16th largest exporter and 11th largest importer of foreign trade.

According to Economic Survey 2020-21, among India's trading partners, the top 5 countries with which India has negative bilateral trade balance are China, Switzertand, Saudi Arabia, Iraq and South Korea while the top 5 countries with which it has surplus trade balance are USA, UAE, Bangladesh, Nepal and UK. India has the highest trade deficit with China.

India's Trading

India's overall exports (Merchandise and Services Combined) in 2019-20 are estimated to be USD$ 528.45 billion. Overall imports in April, 2019-March 2020 are estimated to be USD$ 598.61 billion.

Indian Exports

Exports measure the amount of goods or services that domestic producers provide to foreign consumers. It is good that is sent to another country for sale. In the past, export of commercial quantities of goods normally required involvement of the custom authorities in both the country of export and the country of import.

More recently, with the advent of small trades over the internet such as through Amazon and E-bay, exports have largely by passed the involvement of customs in many countries due to the low individual values of these trades. Nonetheless, these small exports are still subject to legal restrictions applied by the country of export.

Indian exports averaged 246.76 INR billion from 1978 until 2013. India is also one of Asia's largest refined product exporters with petroleum accounting for around 18% of total exports.

Top Export Destinations (2019-20 in % Share)

United States	16.95%
United Arab Emirates	9.21%
China	5.3%
Hong Kong	3.5%
Singapore	2.85%
UK	2.8 %
Netherlands	2.67%
Germany	2.65%
Bangladesh	2.62%
Nepal	2.29 %

Indian Imports

- An import is any good or service brought into one country from another country in a legitimate fashion, typically for use in trade. Import goods or services are provided to domestic consumers by foreign producers.
- An import in the receiving country is an export to the sending country. Import of goods normally requires involvement of the custom authorities in both the country of import and the country of export and is often subject to import quotas, tariffs and trade agreements.
- Imports in India are reported by the Directorate General of Commerce. Among the major items of import, the value of Petroleum, Oil and Lubricants (POL) grew in the financial year of 2019-20. The other major items of import are gold, pearl/stones, petroleum products, coal/coke, telecom instruments, iron and steel in the financial year of 2019-20. Capital goods is the other major import category.
- In 2020-21, Indian imports were valued at $ 388.92 billion, an 18% drop from 2019-20, when the country imported goods and services worth $ 474.71 billion.

Top Import Destinations (2019-20 in % Share)

China	13.7%
United States	7.5%
United Arab Emirates	6.3%
Saudi Arabia	5.6%
Iraq	5%
Hong Kong	3.5%
Switzerland	3.5%
South Korea	3.3%
Indonesia	3.1%
Singapore	3.1%

Trade Composition

Export Composition

- The commodity composition of India's trade has undergone many changes since liberalisation and has been driven by trade policy, movements in international prices, and the changing pattern of domestic demand.

Trade Composition Exports

- The merchandise export stood at US$ 314.31 billion in 2019-20. The estimated value of services export for 2019-20 stood at US$ 214.14 billion. Petroleum products, precious stones, drug formulations & biologicals, gold and other precious metals continue to be top exported commodities, with fastest growth seen in drug formulations & biologicals in 2019-20 (April to November).

- Based on statistics from the International Monetary Fund's World Economic Outlook Database, India's total Gross Domestic Product amounted to $ 8.721 trillon as of October 2016. Therefore, exports accounted for about 3% of total Indian economic output.

India's Top 10 Exports

List of top 10 export product categories according to Department of Commerce, Government of India (FY 2019-20)

- Petroleum Products 13.18%
- Pearl, Precious, Semi-precious Stones 6.6%
- Drug Formulations, Biologicals 5.09%
- Gold and other Precious Metal Jewellery 4.39%
- Iron and Steel 2.96%
- Electric Machinery and Equipment 2.86%
- RMG Cotton including Accessories 2.76%
- Organic Chemicals 2.66%
- Motor Vehicles/Cars 2.5%
- Marine Products 2.24%

Imports

- The merchandise import stood at US$ 467.19 billion in 2019-20. The estimated value of services import for 2019-20 stood at US$ 131.41 billion. Crude petroleum, gold, petroleum products, coal, coke and briquittes constitute top import items, with fastest growth seen in electronics in 2019-20 (April to November). India's top five trading partners continue to be USA, China, UAE, Saudi Arabia and Hong Kong.
- India's top 10 imports accounted for almost three-quarters (74.3%) of the overall value of its product purchases from other countries.

India's Top Imports Products

The following product groups represent the highest dollar value in India's import purchases during 2019-20.

- Petroleum Crude 21.6%
- Gold 5.9%
- Petroleum Products 5.8%
- Coal, Coke and Briquittes, etc. 4.7%
- Pearl, Precious, Semi-precious Stones 4.7%
- Electronics Components 3.4%
- Telecom Instruments 3%
- Organic Chemicals 2.5%
- Industrial Machinery 2.5%
- Electric Machinery and Equipment 2.3%

Overall Trade Balance

- The Balance of Payments (BoP) position of India improved from accumulated foreign reserves of US$ 304.2 billion at end of 2013-14 to US$ 412.9 billion at end of 2018-19.
- With two of its top trading countries i.e., USA and United Arab Emirates, India has consistently run trade surplus since 2014-15. On the other hand, India has trade deficit continuously since 2014-15 with respect to other major trading partners i.e., China PRP, Saudi Arabia, Iraq, Germany, Korea RP, Indonesia and Switzerland. India had trade surplus with Hong Kong and Singapore till 2017-18, before it changed to trade deficit in 2018-19. The bilateral imbalances have remained stable in most cases.

Import Cover

- The stock of foreign exchange reserves in terms of months of retrained imports of goods as at end of year. It measures the number of months of money available in the national bank to cover the cost of imports. It is an operational definition of import cover. An import coverage ratio is the share (or percentage) of a country's own imports that is subject to a particular non-tariff barrier or anyone of a specified group of non-tariff barriers.
- They are calculated by attaching actual values to bilateral trade flows between various exporters and the importing country. Import cover is an important indicator of the stability of the currency. During the currency crisis of 2013, when foreign exchange reserves fell to around $275 billion, import cover dipped to around seven months. According to currency explits, eight to ten months of import cover is essential for the stability of the currency.

Export Promotion

- The main thrust of India's Foreign Trade Policy has been to promote exportable goods and produce importable goods in the country to meet the domestic demand for foreign goods. *A brief account of these major policy thrust are as follows:*

  —Export promotion refers to policies and measures of the government designed to encourage exports with a view to improving forex reserves and correcting the BoP deficit. The significance of export promotion (as a strategy to combat BoP deficit), has come into greater focus after imports have been liberalised in accordance with the emerging trend towards globalisation. The government is trying to encourage exports through various kinds of cash incentives, subsidies as well as concessions.

Measures for Export Promotion

- Several committees have been appointed to offer suggestions for the promotion of exports, *viz* Gorewala Committee 1950, De Souza Committee 1957, Import and Export Policy Committee 1962, Alexander Committee 1979, Tondon Committee 1980, Abid Hussain Committee 1984 and Rangarajan Committee 1991.
- It is the recommendation of these committees that several steps have been initiated for the promotion of exports.

Export Processing Zone (EPZ)

- A **Free Trade Zone** (FTZ) or **Export Processing Zone** (EPZ), also called **foreign-trade zone**, formerly free port, is an area within which goods may be landed, handled, manufactured or reconfigured and re-exported without the intervention of the customs authorities.
- Only when the goods are moved to consumers within the country, in which the zone is located do they become subject to the prevailing customs duties.
- Free-trade zones are organised around major seaports, international airports and national frontiers-areas with many geographic advantages for trade. It is a region where a group of countries has agreed to reduce or eliminate trade barriers. Free trade zones can be defined as labour intensive manufacturing centres that involve the import of raw materials or components and the export of factory products.

Special Economic Zone (SEZ)

- Asia's first **Export Processing Zone** (EPZ), was set-up in Kandla, India in 1965. The first SEZ Policy was announced in April 2000, which inter-alia provided for to make SEZ an engine of growth supported by quality infrastructure backed up by attractive fiscal package.
- To import stability to the SEZ regime, SEZ Act, 2005 was enacted and which came into effect from 10th February, 2006. As per the provisions of the SEZ Act, 2005 100% FDI is allowed in SEZs through the automatic route. **Incentives** *The act offers a highly attractive fiscal incentive package, which ensures*
  —Exemption from custom duties, central excise duties, service tax, central sales taxes and securities transaction tax to both the developers and the units.
  —Tax holidays for 15 years (currently the units enjoy a 7 years tax holiday), i.e. 100% tax exemption for 5 years, 50% for the next 5 years and 50% for the ploughed back export profits for the next 5 years.
  —100% income tax exemption for 10 years in a *block* period of 15 years for SEZ developers.
- **Infrastructure** *Provisions have been made for*
  —The establishment of free trade and warehousing zones to create world class trade-related infrastructure to facilitate import and export of goods aimed at making India a global trading hub. The setting up of offshore banking units and units in an International Financial Service Centre in SEZs.
  —The public private participation in infrastructure development.
- The setting up of a 'SEZ authority' in each Central Government SEZ for developing new infrastructure and strengthening the existing one.

Agri Export Zones (AEZ)

- With the prime objective of boosting agricultural exports from India in March 2001, Government of India announced a policy of setting up the Agri Export Zones (AEZs) across the country.
- The central government has sanctianed 60 AEZs comprising about 40 agricultural cammodities. AEZs is spread across 20 states in the country.
- His objective of setting up AEZs is to coverage the efforts made hitherto by various central and state government departments for increasing exports of agricultural commodities from India.

General Agreement on Tariffs and Trade

- The General Agreement of Tariffs and Trade (GATT) was a multilateral agreement regulations international trade. According to its preamble, its purpose was the *"Substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."*
- It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organisation (ITO).
- GATT was signed in 1947 and lasted until 1994, when it was replaced by the World Trade Organisation in 1995. The original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the modifications of GATT 1994.

GATT and the World Trade Organisation (Uruguay Round)

- In 1993, the GATT was updated (GATT 1994) to include new obligations upon its signatories. One of the most significant changes was the creation of the **World Trade Organisation** (WTO).
- The 75 existing GATT members and the European Communities became the founding members of the WTO on 1st January, 1995.
- The other GATT members rejoined the WTO in the following 2 years (the last being Congo in 1997). Since, the founding of the WTO, 21 new non-GATT members have joined and 29 are currently negotiating membership.
- There are total of 164 member countries in the WTO. Afghanistan became the new member as on 29th July, 2016. Russia and Vanuatu became members in 2012 but Syria and SFR Yugoslavia have not rejoined the WTO.

Black Money

- Black money is unaccounted for and untaxed cash generated by dealings in black economy. Black money proceeds are usually received in cash from underground economic activity and, as such, is not taxed.
- Recipients of black money hide it, spend it only in the underground economy, or attempt to give it the appearance of legitimacy through money laundering.

Self Check

Build Your Confidence

1. Name of the countries which India has negative bilateral trade balance.

1. China
2. Switzerland
3 South Korea

Codes

(a) Only 2
(b) 1 and 2
(c) Only 3
(d) 1, 2 and 3

2. Which one of the following items has gained the highest growth rate in the import composition of the Indian Economy in the last decade?

(a) Project good
(b) Iron and steel
(c) Petroleum Products
(d) Cotton Accessories

3. Measures to reduce imports will

(a) Boost injections into an economy.
(b) Reduce withdrawals from an economy.
(c) Decrease injections into an economy.
(d) Increase withdrawals from an economy.

4. Five different earlier schemes have been merged into a single scheme, namely

(a) Service Exports from India Scheme.
(b) Merchandise Exports from India Scheme.
(c) Pradhan Mantri Swasthya Suraksha Yojana.
(d) National Urban Health Mission.

5. International Trade is most likely to generate short-term unemployment in

(a) Industries in which there are neither imports nor exports.
(b) Import-competing industries.
(c) Industries that sell to domestic and foreign buyers.
(d) Industries that sell to only foreign buyers.

6. Free traders maintain that an open economy is advantageous in that it provides all the following except

(a) Increased competition for world producers.
(b) A wider selection of products for consumers.
(c) Relatively high wage levels for all domestic workers.
(d) The utilisation of the most efficient production methods.

7. Terms of trade between two countries refer to a ratio of ....

(a) Export prices to import prices.
(b) Currency values.
(c) Export to import.
(d) Balance of trade to Balance of payments.

8. Consider the following

1. Edible oil
2. Sugar
3. Medicinal and Pharma-products
4. Fertilisers
5. Petroleum crude and product

Which of the items given above are the components of the bulk import in the Indian economy?

(a) 1, 3, 4, 5
(b) 1, 2, 4, 5
(c) 2, 3, 4, 5
(d) All of the above

9. Which one of the following percentages is the share of the Indian Export in the International Trade?

(a) Less than 1%
(b) More than 1 but less than 4%
(c) More than 4 but less than 5%
(d) More than 5 but less than 7%

10. Which of the following countries has the largest trade surplus in 2020-21?

(a) China
(b) United States
(c) UAE
(d) Singapore

1. (d) **2.** (c) **3.** (b) **4.** (b) **5.** (b) **6.** (c) **7.** (a) **8.** (b) **9.** (b) **10.** (b)

Chapter ten
Demographic Profile of India

India comes next only to China as regards to the size of its population, but is seventh in the world as regards to the area. Thus, on 2.4% of world's area and with 1.8% of world's income, India is maintaining 18% of world's population. It clearly indicates that there is excessive burden of population in India.

Demography

- Demography is a statistical study of human population. It studies a variety of variables related to population like size, growth, distribution, density, composition and their spatial and temporal variations.
- A broader study of demography also includes the relationship between the aforementioned variables and the economic, social, cultural and other factors.
- Demographics are the quantifiable statistics of the given population based on the study of demography.

Theory of Demographic Transition

- The Demographic Transition theory is a generalised description of the changing pattern of mortality fertility and growth rates as societies move from one demographic regime to another.
- Theory of Demographic Transition is credited to **Frank W Notestein**, who gave his theory in 1945. This theory was based on the data from Western countries, which experienced a transition in demography from the stage of high birth rates and high mortality to a stage of low birth rates and low mortality with a consequent declining population.
- According to this theory, all countries pass through stages of demographic transition, which is accompanied by industrialisation and economic development. While Notestein gave three stages of demographic transition, later demographers expanded it into four stages.

These four stages have been described below:

First Stage

- Stage of high birth rate and high death *rate*.
- Birth and death rates are both high, population growth is slow and fluctuating.

Second Stage

(Early Expanding)

- *Stage of high birth rate and low death rate:*
  —Birth rate remains high death rate falls. Population begins to rise rapidly.

Third Stage (Late Expanding)

- *Stage of declining birth rate and low death rate:*
  —This stage is characterised by decline in birth rate, low death rate and low population growth (growth rate of population declines).
  —Birth rate starts to fall; death rate continues to fall. Population continues to rise.

Fourth Stage (Low Fluctuating)

- *Stage of low birth rate and low death rate:*
  —In the fourth stage of demographic transition, a low birth rate and low death rate lead to a stationary or declining population.
  —It is called a stage of stationary population.
  —Birth and death rates both are low. Population is steady or declining as in many Western European nations at present.

Optimum Theory of Population

- This theory states that in every country, there is an optimum level of population. "The optimum population is that, which gives the maximum income per head." If the population exceeds the optimum level, there is the problem of over population.

Population Theory of Malthus

- **Thomas Robert Malthus** was the first economist to propose a systematic theory of population. He gave his ideas regarding population in his book *Essay on the Principle of Population*. He argued that while food production could only increase in arithmetic progression, human populations grow exponentially. Thus, he predicted a future when humans would have no resources to survive on.
- He supported 'preventive' and 'positive' checks on population growth such as late marriage. He was however, against birth control after marriage.
- Most modern economists disagree with Malthus since, he neglects the possibilities from technology and the fact that a larger population increases the chances of someone achieving breakthroughs in technology.

Size and Growth of India's Population

- India's population increased rapidly in the post independence period. Between 1951-61, it increased by more than 7.82 crore or by nearly 21.6%, which exceeded its growth rate of the previous 40 years. This excessive rise in population is called **population explosion**.
- Since 1951, population has been increasing constantly. Between 1971-81, growth rate of population was 24.8% and between 1981-91, it was 23.8%.
- India's population growth rate, has decelerated to 17.64% in the decade 2001-2011, the slowest rate to growth in this past century. *Study of the growth of India's population can be divided into four periods of time*:

(i) Period of Stable Population (1891 to 1921)

- Between 1891 and 1921, rate of growth of population in India, was low. In these 30 years, population increased by 1.26 crore.
- It was so because in these years, calamities and epidemics, like famines, plague, malaria etc took a heavy toll of human lives. The epidemic in 1918, took a toll of 140 lakh human lives.

(ii) Period of Growth of Population (1921 to 1951)

- Since 1921, population has been increasing at a rapid rate. The trend of growth of population in India, since 1921, has been consistently on the rise. That is why, Census Commissioner has referred the year 1921 as Year of Great Divide. This increase was higher than that of the previous 30 years.

(iii) Period of Population Explosion (1951 to 1981)

- In this period, population increased at a very fast rate. This period is called **period of population explosion.**
  —**1951-1961** In this period, growth rate was recorded to be 21.6%, which was highest for any decade before that.
  —**1961-1971** This period witnessed an increase in population by 10 crore 90 lakhs. Growth rate was 24.8%.
  —**1971-1981** During this period, population in India rose to 68 crore 33 lakhs. Thus, 13 crore 51 lakhs persons were added to the total size of India's population.

(iv) Period of High Growth with Definite Signs of Slowing Down (1981 to Present)

- **1981-1991** In this period, population went up to 84 crore 63 lakhs making addition of 16 crore in 10 years.
- **1991-2001** In 2001, the population of India went up to 102.90 crore. Thus, between the period 1991-2001, the population of India increased 18.07 crore.
- **2001-2011** In 2011, the population of India, was 121.08 crores. This represents an increase of 18.14 crore in the previous decade. It was the first time since, census began that the decadal population growth was lower than the previous decade.

Birth and Death Rates

- Birth and death rates in India, are high compared to most countries in the world. Birth rate refers to number of children born per thousand persons in a year. Death rate refers to number of people dying per thousand persons in a year. When it is said that birth rate in India is 23, it means every year 23 children are born per thousand persons on an average.
- It is clear that birth rate in India, is still very high in comparison to birth rate of developed nations like Japan, Germany, Canada and UK.
- If, we compare the birth rates of India and China, we find that birth rate in India is double the birth rate in China. However, death rate in India is almost same in comparison to the death rates of other countries.

Density of Population

- Density of population refers to average number of people living per square kilometre. Density of population in a country is measured by dividing its total population by total land area.
- In 2011, India's total population was 121 crore that used to live over an area of 32.80 lakh sq km. According to Census 2011, density of population in India was 382 per sq km.

Real Population Density

- Instead of measuring population density for the entire area of the country, some parts of which might not be liveable, a more accurate measure is considered to be (real population density) or physiological density, which measures the population per sq km of arable land available in a country. This measure signifies the feeding potential of the country to its citizens.

- India's physiological density is much lower compared to many other countries due to the availability of large arable land.

Census 2011

- The Census 2011 is the 15th National Census survey conducted by the Census Organisation of India.
- Mr C Chandramouli is the Commissioner and Registrar General of the Indian 2011 Census.
- The 2011, Indian National census has been conducted in 2 phases – house listing and population.
- The National Census survey covered all the 28 States of the country and 7 Union Territories including 640 districts, 497 cities, 5767 Tehsils and over 6 lakh villages.

Rural-Urban Population

- Ratio of urban population to the total population of a country is an index of the level of industrialisation of that country. As industries gather momentum in a country, ratio of urban population goes on rising.
- India is an agricultural country, so ratio of urban population is less than the rural population.

Important Facts Related to Rural/Urban Population (2011 Census)

- In the decade from 2001 to 2011, rural population increased by 90.47 million, while urban population increased by 91 million. For the first time, increase in urban population has outpaced the growth in rural population. In percentage terms, the increase in rural and urban population was 12.18% and 31.80% respectively.
- Himachal Pradesh (89.96%) has the largest proportion of rural population, while Delhi (97.5%) has the highest proportion of urban population.
- Sex ratio in the country improved by 7 points, from 933 in 2001 to 940 in 2011. The improvement in rural areas was of one point from 946 to 947, while in urban areas, it improved by 26 points from 900 to 926. Kerala has the highest sex ratio in total (1084), rural (1077) and urban (1091) population.
- Child sex ratio (0-6 age group) has dropped in the country by 13 points between 2001 and 2011 (927 to 914). In rural areas, the fell was higher at 15 points (934-919), while in urban areas, it fell by 4 points (906-902). Andaman and Nicobar Islands has the highest child sex ratio in rural areas (975), while **Nagaland** has the highest in urban areas (979).
- Literacy rate for the country as a whole was 74.04% and was 68.91% in rural areas and 84.98% in urban areas. The increase in literacy rates was 9.21 points (total), 10.17 points (rural) and 5.06 points (urban).

Two Main causes of rise in urban population in India are as *follows*:

Migration Effect

- Rural life in India, suffers from many difficulties, such as less opportunities of employment, low level of income, lack of educational and training facilities, lack of health and medical facilities etc. In order to get rid of these difficulties, rural people migrate to urban areas.
- **Industrialisation Effect** The industrial revolution brought about new production techniques. By this manufacturing has created more jobs opportunities in urban areas.

Age Structure/Composition

- Age structure of the population of a country indicates the extent, to which the population of that country is productive from the economic point of view.
- Population in the age group of 15-60 years is known as working population. Population in the age group of 0-14 years and above 60 years is known as **non-working** or **dependent population**. Higher proportion of working population is beneficial for the economic development of the country.
- In India, percentage of population in the age group of 0-14 years is still high. In India, percentage of population above 60 years is increasing. That indicates higher life expectancy and reduction in death rate.

Demographic Dividend

- It refers to an opportunity before a country with a high share of population between the ages of 15 and 64, to boost economic growth. This stage is reached when the country experiences lower fertility rates, which means that the dependent population below the age of 15 years is low.
- The population above 64 years of age is also low due to the lower life expectancies of the older generations. On the other hand, the population between 15-64 is high, due to the higher birth rates in the previous generation. This reduces the dependency ratio (share of population not engaged in productive employment and dependent on others) and thus, boosts the economic growth.
- A larger working population also means that the domestic savings rate is high (since, the dependent population does not increase savings, but reduces them) and thus, investment and economic growth is higher. Many East Asian countries were able to achieve high economic growth rates by utilising their demographic dividend.
- Demographic dividend can only be useful, if it is accompanied by supportive national policies, which improve literacy, provide employment, health care etc. High share of young population in a country can also have negative consequences like social unrest, crime and high divorce rates etc.

Demographic Dividend: India

Population Group/Year	1961	1971	1981	1991	2001	2011
0-14	41	41.2	39.5	37.7	34.3	30.2
15-64	56	55.5	57	58.4	61.4	64.8
65 and above	3	3.3	3.5	3.9	4.3	5

Number shows the share of population as a percentage of total population.

Source *World Bank*

Population Pyramid

- Population pyramid is a graphical illustration of the different age groups in a population along with the male and female population. The horizontal axis represents the absolute numbers of population, with one side representing the male population and the other side representing the female population.
- The vertical axis is divided into equal divisions representing different age groups such that it encompasses the entire population of the country or region.

Life Expectancy

- Expectation of life refers to the average life of the people of a country. In India, expectation of life of the people is very short. It has improved as a result of planned efforts.

Average life expectancy is shown in the table below :

Expectation of Life (in years)

Years	Life Expectancy	Years	Life Expectancy
1921	19.4	1971	52.0
1931	26.9	1981	54.0
1941	32.0	1991	59.0
1951	33.0	2001	64.0
1961	41.0	2011	69.89

- In other countries of the world, expectation of life is much longer than ours. For instance, in Australia it is 79 years, in Japan 82 years, in England 77 years, in America 78 years, in Sweden and in Canada it is 80 years.

Sex Ratio

- All over the world, males out number the females. Sex ratio in the world is 986 females to 1000 males. According to 2011 Census, sex ratio in India was 940 females to 1000 males.

Literacy

- Any person above the age of 7 years, who can read and write in any language is treated as literate. According to the Census 2011, the rate of literacy in India was 74.04%. Male rate of literacy was 82.14% and female rate of literacy was 65.46%.
- The highest literacy rate was in Kerala. It was 93.91%.
- In Bihar, the literacy rate was just 63.82%.
- The female literacy rate of Kerala was 91.98%, which is also the highest in India.
- The lowest female literacy rate was in Rajasthan, it was only 52.66%. In Punjab, the female literacy rate was 71.34%. In Haryana, it was 66.77% and in Himachal Pradesh, it was 76.6%. In Jharkhand, it was only 56.21%.
- It may be noted that all the States and Union Territories have shown increase in literacy rate during 2001-2011.

National Population Policy

- Population policy refers to all those legal, administrative programmes and other government efforts, which aim at reducing birth rate and improving the quality of life.
- After independence, the Government of India adopted a national policy on population with the objective to check the increase in birth rate and improve the standard of living of people. This policy has been revised from time to time and its scope has been widened. It has been very effective in initiating measures for population control.

New National Population Policy (2000)

- The Government of India announced its New National Population Policy on 15th February, 2000. The National Population Policy (NPP) affirms the commitment of government towards voluntary consent of citizens, while availing of reproductive healthcare services.
- The New National Population Policy (NPP) provides a policy framework to meet the reproductive and child health needs of the people of India for the next 10 years.

Objective of NPP, 2000

- The immediate objective of the NPP 2000 is to address the unmet needs for centra caption, healthcare, infrastructure and health personnel and to provide integrated service delivery for basic reproductive and child healthcare.

Twelfth Plan and Family Welfare Programmes

- *The main targets of twelfth Plan regarding family welfare are given below:*

Particular	Target (2016-17)
Infant Mortality Rate (IMR)	25 per 1000
Maternal Mortality Rate (MMR)	100 per 100000
Total Fertility Rate	2.1
Sex Ratio for 0-6 years age group	from 914 to 950

Socio-Economic and Caste Census (SECC)

- The first post-independence, socio-economic and caste census was carried out by the Government in 2011. It will be carried out by the State Governments with the financial and technical support of the Government of India.
- The census will identify poor households based on certain automatic inclusion criterias, automatic exclusion criterias and deprivation indicators.

Census, 2011 Old Age People

- India has the second largest population of older (60+) persons in the world. The number of older persons in the population is expected to increase from 71 million in 2001 to 173 million in 2026.
- A majority (80%) of the elderly population in India is in the rural areas, thus, making service delivery to them a challenge and there are a large number of 80+ persons in the country.

National Population Register (NPR)

- The Government of India has decided to create a National Population Register (NPR) for the country.
- NPR will be a register of the usual residents of the country. It is compulsory for every citizen of the country to register in a National Register of Indian Citizens (NRIC). NRIC will be prepared from NPR after verification of citizenship.
- The data collected from NPR will be sent to UIDAI, for de-duplication and issue of Aadhar number. A person, who has already registered with UIDAI will have to enrol again in the NPR.

Aadhar

- Aadhar is a 12 digit unique number, which the Unique Identification Authority of India (UIDAI) will issue to residents of India on a voluntary basis.
- The number will be generated randomly and will not be based on any classification. The numbers will be linked to the basic biometric information of the person, including photograph, iris and fingerprints.

UIDAI
(Unique Identification Authority of India)

- UIDAI is an attached office under the Planning Commission of India, which was set-up in January, 2009, to issue unique identify numbers to people in the country and own and operate the Aadhar number database on an on-going basis.The agency will issue only the number and not the smart cards.
- The agency is headed by a chairman, who holds a cabinet rank. The first Chairman of UIDAI is Nandan Nilekani, former co-chairman of Infosys technologies.

Percentage of Elderly Persons to Total Population (India)

Years	Total Population (in million)	% of Elderly Persons
2001	70.69	6.90
2006	83.58	7.50
2011	98.47	8.30
2016	118.10	9.30
2021	143.24	10.70
2026	84.62	12.40

Religion Based Census Report

- The Census 2011 data on Population by Religious Communities, released by the Registrar General of India on August 25, 2015. It showed that the percentage of Hindus dipped by 0.7 Percentage Points (PP) in the decade 2001 to 2011, pulling it for the first time below 80%.
- The distribution is total population by six major religious communities namely, Hindu, Muslim, Christian, Sikh, Buddhist, Jain besides 'Other Religions and Persuasions' and 'Religion not stated'.

Population by Religious Communities based on Census 2011

Religion	Population
Hindus	96.63 crore (79.8%)
Muslims	17.22 crore (14.2%)
Christians	2.78 crore (2.3%)
Sikhs	2.08 crore (1.7%)
Buddhists	0.84 crore (0.7%)
Jains	0.45 crore (0.4%)
Other Religions & Persuasions	0.79 crore (0.7%)
Religion Not Stated	0.29 crore (0.2%)

Population by Religious Communities in India

Religious Community	Person	Male	Female
All Religious Communities	1028610328	532156772	496453556
Hindus	827578868	428678554	398900314
Muslims	138188240	71374134	66814106
Christians	24080016	11984663	12095353
Sikhs	19215730	10152298	9063432
Buddhists	7955207	4074155	3881052
Jains	4225053	2177398	2047655
Other Communities	6639626	3332551	3307075

State-Wise Sex Ratio in 2001 and 2011

State/Union Territory	Total Population	Sex Ratio (per 1000 females)	Population Density (per km)	Decadal Rate (growth rate)	Literacy Rate (in %)
Total India	1210569573	943	382	17.7	74.04
Jammu and Kashmir	1,25,41,302	889	124	23.6	67.2
Himachal Pradesh	68,64,602	972	123	12.9	82.8
Punjab	2,77,43,338	895	551	13.9	75.8
Uttarakhand	1,00,86,292	963	189	18.8	78.8
Haryana	2,53,51,462	879	573	19.9	75.6
Rajasthan	6,85,48,437	928	200	21.9	66.1
Uttar Pradesh	19,98,12,341	912	829	20.2	67.7
Bihar	10,40,99,452	918	1106	25.4	61.8
Sikkim	6,10,577	890	86	12.9	81.4
Arunachal Pradesh	13,83,727	938	17	26.0	65.4
Nagaland	19,78,502	931	119	– 0.6	79.6
Manipur	25,70,340	985	128	24.5	79.2
Mizoram	10,97,206	976	52	23.5	91.3
Tripura	36,73,917	960	350	14.8	87.2
Meghalaya	29,66,889	989	132	27.9	74.4
Assam	3,12,05,576	958	398	17.1	72.2
West Bengal	9,12,76,115	950	1028	13.8	76.3
Jharkhand	3,29,88,134	949	414	22.4	66.4
Odisha	4,19,74,218	979	270	14.0	72.9
Chhattisgarh	2,55,45,198	991	189	22.6	70.3
Madhya Pradesh	7,26,26,809	931	236	20.3	69.3
Gujarat	6,04,39,629	919	308	19.3	78.0
Maharashtra	11,23,74,333	929	365	16.0	82.3
Uttar Pradesh	8,45,80,777	993	308	11.0	67.0
Telangana	3,52,86,757	988	307	17.87	66.4
Karnataka	6,10,95,297	973	317	15.67	75.4
Goa	14,58,545	973	394	8.2	88.7
Kerala	3,34,06,061	1084	860	4.9	94.0
Tamil Nadu	7,21,47,030	996	555	15.6	80.1
Delhi	1,67,87,941	868	11320	21.2	86.2
Chandigarh	11,55,450	818	9258	17.2	86.0
Dadra and Nagar Haveli	2,43,247	618	2191	53.8	87.1
Daman and Diu	3,43,709	774	700	55.9	76.2
Lakshadweep	64,473	947	2149	6.3	91.8
Puducherry	12,47,953	1037	2547	28.1	85.8
Andaman and Nicobar	3,80,581	876	46	6.9	86.6

Self Check

Build Your Confidence

1. The present demographic transition of India is indicative of
(a) high population growth potential but low actual growth.
(b) high population growth potential and high actual growth.
(c) Partial industrialised economy.
(d) typically increasing urbanisation.

2. Arrange the following states in decreasing order of their respective literacy rates.
1. Goa
2. Mizoram
3. Kerala
4. Lakshadweep

(a) 3, 1, 2, 4 (b) 3, 2, 1, 4
(c) 4, 3, 1, 2 (d) 3, 4, 2, 1

3. Consider the following statements regarding census of India.
1. Census is held all places in India simultaneously.
2. Census, 2011 shows decline in population for the first time in history of India.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

4. Which of the following causes are major hurdle in tapping demographic dividend in India?
1. Appropriate labour policy of India.
2. Less female practice pation in workforce.
3. Migration.
4. Low inclusiveness and less employment generation.

Which of the following statements is/are correct?
(a) 1 and 2 (b) 2 and 3
(c) 1, 2 and 4 (d) All of these

5. Factors affecting population change are
(a) Births, migration and deaths.
(b) Births and deaths only.
(c) Births, deaths and marriage.
(d) Births, deaths and life expectancy.

6. Which arrangement of following would show the correct sequence of demographic transition as typically associated with economic development? **[UPSC 2013]**
1. High birth rate with high death rate.
2. Low birth rate with low death rate.
3. High birth rate with low death rate.

Codes
(a) 1, 2, 3 (b) 1, 3, 2
(c) 3, 1, 2 (d) 2, 1, 3

7. Which of the following statements is/are correct?
1. As per the 2011 census, the population of India has more than tripled since independence.
2. India's 2011 census showed that the country's population had grown by 181 million people in the prior decade.

Which of the statement(s) given below is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

8. Which of the following statement deals with the benefit of National Population Register?
(a) Strengthen security of the country and improve planning and prevent indentity theft
(b) Gives the basic biometric information
(c) Estimated the community based population
(d) Provision for population education in educational institution

9. What percentage of the total population of the world resides in India, as estimated in 2011? **[UPPCS 2012]**
(a) 15 (b) 17.5
(c) 20 (d) 22.5

10. During which decade did the population record a negative growth rate in India? **[UPPCS 2012]**
(a) 1921-1931 (b) 1911-1921
(c) 1941-1951 (d) 1941

11. Which of the following statements is/are correct?
1. Share of population of 0 to 14 years is low in 2011 but high in 1961, as a percentage of total population.
2. According to 2011 census, sex ratio in India was 940 females to 1000 males.
3. Child sex ratio (0-6 age group) has dropped in the country by 13 points between 2001 and 2011.

Which of the statement(s) given below is/are correct?
(a) Only 2
(b) 1 and 2
(c) 1, 2 and 3
(d) 2 and 3

1. (d) **2.** (d) **3.** (a) **4.** (d) **5.** (a) **6.** (b) **7.** (c) **8.** (a) **9.** (b) **10.** (b) **11.** (c)

Chapter eleven
Agriculture

The Indian economy continues to be predominantly an Agricultural Economy in terms of employment of labour force and as a source of subsistence for the millions in the countryside. It is an undisputed fact that the dream of 'Inclusive growth' will remain a far-cry, if the growth plans fail to account for the significance of agriculture. To quote Professor Gunnar Myrdal, "It is in the agriculture sector that the battle for long-term economic development of India will be won or lost."

Agricultural Sector

- Agriculture is the primary industry in India. The agriculture sector of India has occupied almost 43% of India's geographical area and over 58% of the rural households depend on agriculture as their principal means of livelihood.
- As per the NSSO, in 2011-12, the share of agriculture in employment was 48.9%.
- Agriculture and allied sector was the sole bright spot of Indian economy which saw contraction (-7% of GDP) in 2020-21. It recorded a positive growth of 3.4% despite the COVID- pandemic.
- The share of agriculture in GDP increased to 19.9% in 2020-21 from 17.8% in 2019-20.
- This is the biggest unorganised sector of the economy accounting for more than 90% share in total unorganised labour force.

> Agriculture Export Policy, 2018 aims to double agricultural exports from present US $ 30 billion to 60 billion by 2022 and reach 100 billion in the next few years.

Features of Indian Agriculture Sector

- **Largest Employment Providing Sector** Agriculture in India, is the most important source of employment.
- **Basis for Industrial Development** Agriculture offers raw materials including (cotton, sugarcane and oilseeds) for industries like textiles, sugar and oil-processing etc. Besides, it also offers market for the expanding industrial sector of the economy.
- Industries producing capital goods (like tractors, thrashers and harvesters) are directly dependent upon agricultural sector.
- **Development of Tertiary Sector** Tertiary sector provides helpful services to the industries and agriculture like banking, warehousing etc.
- **Internal Trade** is mostly done in agricultural produce. e.g. various means of transport get bulk of their business by the movement of agricultural goods.
- **Contribution in Foreign Trade** Agriculture plays an important role in the international trade. Jute, tea, coffee and spices are the country's well known **conventional** exports.
- Fertilizers, harvesters and thrashers are the notable import items meant exclusively for agriculture sector of the economy.
- **International Importance** India is the largest producer of coconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper. It is also the 2nd largest producer of rice, wheat, sugar, cotton, fruits and vegetables.

Five Year Plan and Agriculture

- **1st Plan** (1951-56) The 1st Plan aimed at solving **food crisis**, hence, highest priority to agriculture with allocation of more than 14% of the total plan outlay.The growth in agriculture remained 2.71%.
- **2nd Plan** (1956-61) This plan saw significant reduction in **agricultural outlay**. It was 11.7% of the total plan outlay.This plan witnessed a growth of 3.15% in agricultural sector.
- **3rd Plan** (1961-66) 2nd Plan experience and recognition that agricultural production is the limiting factor, the 3rd Plan fixed **ambitious targets** of production for all agricultural crops. This plan also saw the introduction of Intensive Agricultural District Programme (IADP), followed by High Yielding Variety Programme (HYVP). Agricultural growth fell to a low of 0.73%.

- **4th Plan** (1969-74) This plan aimed at systematic application of science and technology to improve agricultural practices. The allocation to agriculture sector was 15% of the total plan outlay. Agricultural growth reached a level of 4.16% during this plan.
- **5th Plan** (1974-79) The 5th Plan was the only period, when the actual foodgrain production exceeded the targeted production.The agricultural growth under this plan was 3.28%.
- **6th Plan** (1980-85) Agriculture growth rate in this plan was 4.3% as against the targeted 3.8% . The year 1983-84, of the plan is hailed as the Second Green Revolution. Agricultural sector during this plan made a growth of 2.52%. It was the result of expansion in supplies of inputs and services to farmers, agricultural extension and better management.
- **7th Plan** (1985-90) Total plan outlay on agriculture was 6% and except cotton, none of the targets fixed for various sectors was achieved. During this plan agricultural growth was 3.47%.
- **8th Plan** (1992-97) Agriculture growth rate in this plan was 2.44% on account of weather and climate conditions being favourable.The agricultural sector registered an impressive growth rate of 4.68%.
- **9th Plan** (1997-2002) Agriculture growth rate in this plan was 2.44%. All the set targets were not achieved and hence, 9th Plan was a failure on agriculture front. In this plan, the agricultural growth fell to 2.02%.
- **10th Plan** (2002-07) This plan adopted the prescription of the National Agricultural Policy (NAP), 2000 and therefore, envisaged better management of resources, soil and water, so as to promote sustainable and inclusive agricultural growth. The agricultural sector grow at 2.3%.
- **11th Plan** (2007–12) This Plan witnessed an average annual growth of 3.6% in the Gross Domestic Product (GDP) from agricultural and allied sector against a target of 4.0%. While it may appear that the performance of the agriculture and allied sector has fallen short of the target, production has improved remarkably, growing twice as fast as population.

Agriculture in the 12th Plan (2012-17)

- As against the 12th Five Year Plan (2012-17) target 4% growth for the agriculture and allied sectors, the growth registered was 1.5% in 2012-13, 4.2% in 2013-14, -0.2% in 2014-15 1.2% in 2015-16, and 4.9% in 2016-17.
- Some of the challenges faced by agriculture during the 12th Plan include a shrinking land base, dwindling water resources, adverse impact of climate change, shortage of farm labour and increasing costs and uncertainties associated with volatility in international markets. The 12th Plan targeted an average annual growth of 4% in agriculture.

Green Revolution in India

- The introduction of high-yielding varieties of seeds after 1965 and the increased use of fertilizers and irrigation are known collectively as the **Green Revolution**, which provided the increase in production needed to make India self-sufficient in foodgrains.
- The term 'Green Revolution' is a general one that is applied to successful agricultural experiments in many third world countries. It is not specific to India, but it was most successful in India.
- *There were three basic elements in the method of the Green Revolution:*
  (i) Continued expansion of farming areas.
  (ii) Double-cropping existing farmland.
  (iii) Using seeds with improved yields.

Drawbacks of First Green Revolution

- While the first Green Revolution achieved many successes, there were also many flaws in its strategy, which were not envisaged at that time. These flaws include, negative impact on environment and health due to excessive use of fertilizers and pesticides; depletion of soil nutrients; depletion of water resources including ground water; higher costs of input etc.

Bringing Green Revolution in Eastern India Programme (BGREI)

The BGREI was launched in 2010-11, as a part of the Rashtriya Krishi Vikas Yojana. It was implemented in the Eastern region of the country. It focused on resource allocation and utilisation. It has resulted in a robust increase in foodgrain production, growth rate being estimated at 11.9% during 2011-12 as against the overall growth rate of 2.2% of the country as a whole. The Indian state of West Bengal, Assam, Bihar, Chattisgarh, Jharkhand, Odisha and Eastern Utter Pradesh are getting the benefits of BGREI. Based on the past experiences and performance of 12th Five Year Plan, it has been decided to continue the centrally sponsored scheme of BGREI beyond 12th Plan i.e. 2015-16 to 2019-20.

- Certain other conditions have also emerged after the first Green Revolution, which are having a negative impact on agriculture like, land constraints due to diversion of land to other economic areas; climate change; diversion of crops to bio-diesel; fragmentation of land holdings making farming unviable.
- For these reasons and to ensure the food security of the country, there is a need for a Second Green Revolution in the country, which would address all the problems.

Second Green Revolution in India

- Second Green Revolution will consist of a number of different programmes working towards the same goals. *Some of the initiatives, which will help in this direction are as follows:*
  - —Increasing crop yields in Eastern states.
  - —Organic farming and contract farming.
  - —Amending the Agricultural Produce Marketing Committee (APMC) Acts.
  - —Investing in research to drought proof crops as well as to tackle climate change.
  - —Investing in supply chain and cold chains.
  - —Encouraging private investments through tax law amendments.
  - —Use of plant breeding and biotechnology.
  - —Rain water harvesting and watershed development.
  - —Improving credit availability.
  - —Refocusing on land reforms.
  - —Improving soil quality and reclaiming degraded land.

Major Agricultural Revolutions

Green Revolution	:	Cereals, wheat and leguminous plants.
White Revolution	:	Milk and dairy products
Silver Revolution	:	Egg and poultry
Yellow Revolution	:	Edible oil
Blue Revolution	:	Fishery
Pink Revolution	:	Prawns/Meat processing
Golden Revolution	:	Honey
Golden Fibre Revolution	:	Jute
Silver Fibre Revolution	:	Cotton

Evergreen Revolution

- The concept was given by renowned agricultural scientist **Dr MS Swaminathan**. Evergreen Revolution emphasises on organic agriculture and green agriculture with the help of integrated pest management, integrated nutrient supply and integrated natural resource management. The core of the Evergreen Revolution is sustainability.

Rainbow Revolution

- In July 2000, the Central Government of India had announced the first-ever National Agriculture Policy. The policy aimed at achieving a growth rate of over 4% per annum by introducing Rainbow Revolution in the next two decades so that the total GDP growth can be sustained at 6.5%.

Tricolour Revolution

- The reference to a Tricolour Revolution was made by Prime Minister Narendra Modi.

This phrase has three components these are as follows:

(i) **Saffron Energy Revolution** for promotion and better utilisation of solar energy.

(ii) **White Revolution** to ensure cattle welfare and further the goals of White Revolution.

(iii) **Blue Revolution** for fishermen's welfare, cleansing rivers and sea and conserving water.

Operation Green

- The former Finance Minister Arun Jaitley has announced Operation Green on the lines of Operation Flood for enhancing the production of tomato, onion and potatoes in budget 2018-19. A sum of ₹ 500 crore has been allocated for this new measure. It may help in doubling the income of farmers by the end of 2022. In the Budget 2021, it was expanded to include 22 perishable commodities.

National Commission on Farmers

- It was appointed in 2004, under the chairmanship of Dr MS Swaminathan.
- The commission suggested an Agricultural Renewal Plan, *which has five components*

  (i) Soil health enhancement with special focus on dry farming.

  (ii) Irrigation water supply augmentation and demand management.

  (iii) Credit and insurance facilities like creation of agriculture risk fund.

  (iv) Technological reforms in the form of proper integration of production and post-harvest technologies, development of a cadre of rural farm science managers and lab-to-land demonstrations.

  (v) Assured and remunerative marketing.
- The commission also suggested a Risk Stabilisation Fund and a farmer centric Minimum Support Price and Market Intervention Scheme (MIS) and creation of Pani Panchayats.

Agricultural Inputs

- It play a crucial role in determining yield levels and in turn augmentation of level of production in the long run. Improvement in yield depends on application of technology, use of quality seeds, fertilizers, pesticides, micro-nutrients and irrigation.

Seeds (National Seeds Policy, 2002)

- Seeds are a critical input for long-term sustained growth of agriculture. In India, more than four-fifths of farmers rely on farm saved seeds leading to a low seed replacement rate. Hence, the Central Government has been addressing this issue through various programmes/schemes.
  - —**Indian Seed Programme** involving the participation of Central and State Governments, the Indian Council of Agricultural Research (ICAR), state agricultural universities, co-operatives and the private sector and farmers and plant breeders.

—The Protection of Plant Varieties and Farmers' Rights (PPV and FRs) authority established in November 2005, at New Delhi, has been mandated to implement provisions of the PPV and FR Act, 2001.

—PPV and FR Act has been passed within the context of Sui Generis System of the WTO, so as to effectively block the efforts of MNCs to capture the seed market by getting patents in their favour and gradually buying out small seed growers in the country.

Sui Generis System

- TRIPS Agreement offers three options for plant varieties and their protection, *viz*, Patent System, Sui Generis Systems and combination of two.
- Under Sui Generis System, farmer has the right to save, use, exchange share or sell the farm produce including seeds. However, farmer cannot sell the branded seeds.

Seed Bank

- A scheme for the establishment and maintenance of a seed bank has been in operation since, 1999-2000.
- The basic objective of the scheme is to make available seeds for meeting contingent requirements and also develop infrastructure for production and distribution of seeds.
- The scheme is being implemented through National Seed Corporation of India and 12 State Seeds Corporations of various states.

Fertilizers

- India is meeting 85% of its urea requirement through indigenous production, but depends heavily on imports for its **phosphatic** and **potash** (P and K) fertilizer requirements.

Fertilizer Subsidy

- Fertilizer subsidy is borne by the Union Government. *The two objectives of providing fertilizer subsidy are as follows:*
  (i) Making fertilizers available to the farmers at affordable prices so as to encourage intensive cultivation.
  (ii) Attracting more investment to the domestic fertilizer industry.
- Since 2010, government is implementing a Nutrient Based Subsidy Scheme (NBS) in which a fixed subsidy is announced on per kg of nutrient annually. Additional subsidy is given to micro-nutrients. The prices of urea however, remain under statutory price control.

Irrigation

- It is one of the most important inputs for enhancing productivity and is required at different critical stages of plant growth of various crops. The Government of India has taken up irrigation potential creation through public funding and is assisting farmers to create potential on their own farms.
- The total irrigation potential in the country has increased from 81.1 million hectare in 1991-92 to about 139.9 million hectare in 2018-19.

Initiation of the Accelerated Irrigation Benefit Programme (AIBP)

- From 1996-97, to extend assistance for the completion of incomplete irrigation schemes. Under this programme, projects approved by the Planning Commission (Now NITI Aayog) are eligible for assistance. Monitoring of the projects covered under the AIBP is periodically done by the Central Water Commission.

National Mission on Micro Irrigation (NMMI)

- Irrigation consumes more than 80% of the water resources of the country. Availability of adequate quantity and quality of water is the key to achieve higher productivity levels.
- This mission will result in 2.85 million hectare to be brought under micro irrigation; savings in use of irrigation water, fertilizer and electricity; increase in production and productivity of crops; convergence with other on going schemes of Department of Agriculture and Cooperation (DAC) and other ministries on creation of water harvesting structures and linking the same with Micro Irrigation System for higher water use efficiency and enhanced return to the farmers.

Pradhan Mantri Krishi Sinchai Yojana (PMKSY)

- With an eye on improving farm productivity, the government has decided to spend ₹ 50,000 crore over the next 5 years under the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) launched in 2015.
- The major objective of the PMKSY is to achieve convergence of investments in irrigation at the field level expand cultivable area under assured irrigation improve on farm water use efficiency to reduce wastage of water, enhance adoption of precision irrigation and other water saving technologies.

Neeranchal Watershed Yojana

- The project is implemented by the Union Ministry of Rural Development over a six-year period (2016-21) to achieve objectives of PMKSY on 7th October, 2015. It will support the Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) in hydrology and water management, agricultural production systems, capacity building and monitoring, and evaluation. It seeks to ensure access to irrigation to every farmland (Har Khet Ko Pani) and for efficient use of water (Per Drop More Crop).

Sprinkler Irrigation

Under sprinkler irrigation, water is sprinkled under pressure on to the crop through a set of nozzles attached to a network of pipes in the form of rainfall. This system is suitable for high density horticultural crops. The sprinkler system sets, unlike drip system are moveable. Hence, one sprinkler set could cover more than one hectare by shifting from one place to another.

Drip Irrigation

It is also known as trickle irrigation or micro irrigation, it is an irrigation method that saves water and fertilizer by allowing water to drip slowly to the roots of plants, either on to the soil surface or directly on to the root zone, through a network of valves, pipes, tubing and emitters. It is done through emitters fitted on a network of pipes (mains, sub-mains and laterals). The emitting devices could be drippers, micro sprinklers, mini sprinklers, micro jets, misters, fan jets, micro sprayers and forgers.

Rainfed Area Development Programme

- Given the importance of rainfed agriculture in India, the Rainfed Area Development Programme (RADP) was launched by the government as a **pilot scheme** in 2011-12 under the RKVY focusing on small and marginal farmers and farming systems.
- It adopted a holistic 'end–to–end approach' covering integrated farming, on farm water management, storage marketing and value addition of farm produce in order to enhance farmers' income in rainfed areas.

National Rainfed Area Authority (NRAA)

- The government has set-up National Rainfed Area Authority (NRAA), an expert body to provide the much needed knowledge inputs regarding systematic upgradation and management of country's dry land and rainfed agriculture. An order for setting up the authority was issued on 3rd November, 2006.
- The NRAA has a two tier structure. The 1st tier is the governing board that provides necessary leadership and appropriate coordination in implementation of programmes.
- The 2nd tier is the **Executive Committee** consisting of technical experts and representatives from stakeholder ministries.

Power and Irrigation Subsidies

- Since water and electricity fall within the state domain, power and irrigation subsidies are provided by the State Governments.
- Irrigation subsidies are incurred on account of the pricing of irrigation water provided to the farmers by the Sate Governments.
- Consequences of power and irrigation subsidies.
  —Increased fiscal burden.
  —Less revenue available for investment in irrigation and other large scale projects.
  —Over exploitation of ground water resources by farmers.
  —Inefficient use of irrigation water leading to water logging and salinity.

Food Security

- The World Food Summit of 1996 defined food security as a condition existing when "All people, at all times, have physical, social and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life."
- India's food security programme tries to tackle some of these problems through various intervention. The main interventions can be said to be the public distribution system and the National Food Security Act, 2013.

Public Distribution System (PDS)

- Presently, PDS is operated under the joint responsibility of the Central and the State Governments. The Central Government, through FCI, has assumed the responsibility for procurement, storage, transportation and bulk allocation of foodgrains to the State Governments.
- The operational responsibility including allocation within states, identification of families below the poverty line, issue of ration cards and supervision of the functioning of fair price shops, rest with the State Governments.
- Under the PDS, presently, the commodities namely wheat, rice, sugar and kerosene are being allocated to the states/UTs for distribution. Some states/UTs also distribute additional/items of mass consumption including oils, iodised salt, spices etc.
- There are about 4.99 lakh Fair Price Shops (FPS) across India.
- The Targeted Public Distribution System (TPDS) was introduced with effect from June 1997.

Revamped Public Distribution System (RPDS)

- The Revamped Public Distribution System (RPDS) was launched in June, 1992, with a view to strengthen and streamline the PDS as well as to improve its reach in the far-flung, hilly, remote and inaccessible areas, where a substantial section of the poor live.
- Foodgrains for distribution in RPDS areas were issued to the states at 50 paise below the Central Issue Price. The scale of issue was upto 20 kg per card.
- The RPDS included area approach for ensuring effective reach of the PDS commodities, their delivery by State Governments at the doorstep of FPSs in the identified areas, additional ration cards to the left out families, infrastructure requirements like additional Fair Price Shops, storage capacity etc and additional commodities such as tea, salt, pulses, soap etc for distribution through PDS outlets.

Targeted Public Distribution System (TPDS)

- The TPDS as it operated earlier had been widely criticised for its failure to serve the population below the poverty line. Therefore, on the basis of the recommendations of the Chief Ministers Conference held in July, 1996, an effort was made to streamline the PDS, through the introduction of the Targeted Public Distribution System (TPDS) in June, 1997.
- This system follows a 2 tier subsidised pricing structure for families, Below Poverty Line (BPL) and for those Above Poverty Line (APL).
- The identification of poor under the scheme is done by the states as per the state-wise poverty estimates of Planning Commission.
- In order to make the TPDS more focused and targeted towards the poor, the **Antyodaya Anna Yojana** was launched in December 2000.
- The scheme contemplates identification of 10 million poor families and providing them with 25 kg of foodgrains per family per month at a low price of ₹ 2 per kg for wheat and ₹ 3 per kg for rice.

Agricultural Prices and Procurement

- The Government of India undertakes an agricultural pricing policy and procurement programme to provide reasonable returns to the farmers and instil certainty and confidence in them.
- The procurement programme is also essential to the functioning of the Public Distribution System (PDS).

Price Fixation

- Another method of intervention in the market mechanism has been the announcement of different administered prices *viz* minimum support prices statutory minimum prices procurement prices issue prices.
- These prices are announced for different agricultural crops by the Government of India on the recommendations of Commission for Agricultural Costs and Prices (CACP).
- **Minimum Supports Prices** (MSP) These are in the nature of a guarantee to the producers in that prices paid to the farmers cannot be lower than the MSP.
- **Procurement Prices** These are higher than the MSP and are the prices at which government buys from farmers. In recent years, government has been announcing endless procurement so, that farmers have been selling to the government at procurement prices.
- **Central Issues Prices** (CIP) It indicate the prices at which government supplies produce to the fair price shops and ration depots. Wheat and rice are issued to the State Governments/UTs at CIP for distribution through the PDS. States may choose to provide additional subsidy to the beneficiaries by reducing prices below CIP.
- Price support through MSP and procurement prices is extended only for specific crops. This has led to a change in cropping pattern in the country towards certain specific crops such as rice and wheat whose MSP has increased a lot. It has also benefitted farmers in those states where such crops are produced in a larger number.

Decentralised Procurement Scheme

- In view of a this, a decentralised procurement scheme was started in 1997, under which State Governments themselves procure and distribute foodgrains. The difference between the economic cost fixed for the State and the Central Issue Price (CIP) is passed on to the states as subsidy.
- The objectives of this scheme are to cover more farmers under MSP operations, improving efficiency of PDS, providing foodgrains suited to local tastes and reducing transportation costs.

National Food Security Act 2013, (NFSA)

- NFSA is the biggest intervention of its kind in the world in the realm of food security. If implemented property this law can improve the lives of millions in this country.
- *Some of the highlights of this act are as follows:*
  - —It extends to the whole of India.
  - —Priority households are entitled to 5 kgs of food grains per person per month and Antyodaya households to 35 kgs per household per month.
  - —Combined coverage of priority and Antyodaya households will extend to 75% of the rural population and 50% of the urban population.
  - —PDS issue prices will be 3/2/11 per kg for rice/wheat/millets. These may be revised after 3 years.
  - —For children in the age group 6 months to 6 years, an age-appropriate meal will be provided through the local Anganwadi.
  - —For children aged 6-14 years, one free mid-day meal in all government and government aided schools up to class VII.
  - —For children below 6 months 'exclusive breast feeding will be promoted'.
  - —Every pregnant and lactating mother is entitled to a free meal at the local Anganwadi (during pregnancy and 6 months after) and maternity benefits of ₹ 6000 .
  - —The act does not specify criteria for identification of eligible households. Central Government will determine state-wise coverage and states will then identify the beneficiaries.
  - —State food commissions will be created to monitor implementation of the act.
  - —Grievance Redressal System consists of the district. Grievance Redressal officer and the State Food Commission.
  - —Transparency provisions include placing PDS records in the public domain, conducting periodic social audits, use of information and communication technology and setting up of vigilance committees.

—The act also states that the Central and State Governments will endeavour to undertake PDS reforms.

International Fund for Agricultural Development

IFAD is an International Financial Institution and a specialised UN agency based in Rome – the UN's food and agricultural hub. It is a unique partnership of 165 members from the Organisation of the Petroleum Exporting Countries (OPEC), other developing countries and the Organisation for Economic Cooperation and Development (OECD).

FAD provides a strong global platform for discussing rural policy issues – and for increasing awareness about why investment in agriculture and rural development is critical to reducing poverty and improving food security.

Storage Capacity and Constraints

- There are *three agencies* in the public sector, which are engaged in building large scale storage/warehousing capacity namely; Food Corporation of India (FCI), Central Warehousing Corporation (CWC) and 17 States Warehousing Corporations (SWCs).
- While the capacity available with FCI is used mainly for storage of foodgrains that with CWC and SWCs is used for storage of foodgrains as well as certain other items.

Food Processing Industry

- India is the 3rd largest producer of food crops in the world, after **China** and the **US**.
- It contributes nearly 8.83% and 10.66% of Gross Value Added (GVA) in manufacturing and agriculture sector respectively in 2017-18 at 2011-12 prices. It also provides employment to 7 million peoples with a share of 32% in India's food market and 10.4% in India's total export. The output of food processing sector in India is expected to reach $ 535 billion by 2025-26.
- The industry is segmented into sectors namely, milk and allied products (dairy), meat and poultry, seafood, bakery and confectionery, fruit and vegetables, grain, pulses and oilseeds (staple) products, alcoholic and non-alcoholic products (beverages) and packaged foods. The classification is not distinct as many processed products overlap different segments.

Food Corporation of India (FCI)

FCI was set-up in 1965 with the primary duty to undertake the purchase, storage, movement, transport, distribution and sale of foodgrains and other foodstuffs.

It has also been entrusted with maintaining buffer stocks of foodgrains on behalf of the government. It is the sole repository of foodgrains meant for the PDS.

Land Reforms

- With the twin objectives of achieving social equity and ensuring economic growth *the land reforms programme was built around three major issues as follows:*
  (i) Abolition of intermediaries.
  (ii) Settlement and regulation of tenancy.
  (iii) Regulation of size of holdings.
- After independence, the government has undertaken many land reform measures e.g.
  —**Zamindari System** has been abolished. The actual cultivator has been given either the ownership right or the right of occupancy tenant.
  —**Tenancy System** has been reformed by enacting various legislative measures in different states.
  —Ceiling on landholdings has been fixed.
  —By 2004, about 1633 lakh hectare of holdings have been consolidated.
  —**Co-operative Farming** has also been developed.
  —In order to improve the conditions of landless farmers, Acharya **Vinoba Bhave** launched **Bhoodan Movement** in the country.

National Land Records Modernisation Programme (NLRMP)

- The Government of India decided to implement the centrally-sponsored scheme in the shape of the National Land Records Modernisation Programme (NLRMP) by merging two existing centrally-Sponsored Schemes of Computerisation of Land Records (CLR) and Strengthening of Revenue Administration and Updating of Land Records (SRA and ULR) in 2008.
- The integrated programme seeks to achieve the following - modernise management of land records, minimise scope of land/property disputes enhance transparency in the land records maintenance system and facilitate moving eventually, towards guaranteed conclusive titles to immovable properties in the country.
  —A single window to handle land records.
  —The mirror principle, which refers to the fact that cadastral records mirror the ground reality.
  —The curtain principle, which indicates that the record of title is a true depiction of the ownership status.
  —Title insurance, which guarantees the title for its correctness and identifies the title holder against loss arising on account of any defect therein.

Agricultural Finance and Credit Facilities

- Agricultural credit is disbursed through a multi-agency network comprising of Commercial Banks (CBs), Regional Rural Banks (RRBs) and co-operatives. With their vast network (covering almost all villages in the country), wide coverage and outreach extending to the remotest parts of the country, the Co-operative Credit Institutions, both in short and long-term structure, are the main institutional agencies for the dispensation of agricultural credit.

- After nationalisation, Commercial Banks have also started giving loans for farming operations. Regional Rural Banks and farmer service societies also strengthen the rural credit programmes.
- National Bank for Agriculture and Rural Development (NABARD) has been established as an apex agricultural finance institution.

Co-operative Credit Societies

- Rural co-operative credit institutions in India have been organised into short-term and long-term structures.
- The short-term co-operative credit structure consists of *three-tiers*–Primary Agricultural Credit Societies (PACS) at the village level, District Central Co-operative Banks (DCCB) at the district level and State Co-operative Banks (SCB) organised at the state level.
- For long-term credit requirements of the farmers long-term credit co-operatives have been set-up. These are organised at two levels and differ from state to state. *Generally they are of four types which are as follows*
  (i) Unitary structure in which State Co-operative Agricultural and Rural Development Banks (SCARDBs) operate at state level through their branches and have direct membership of individuals.
  (ii) Federal structure in which Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) operate as independent units at the primary level and federate themselves into SCARDS at the state level.
  (iii) Mix of federal and unitary types.
  (iv) No separate banks exist and long-term credit is provided by the long-term section of State Co-operative Banks (SCBs) co-operatives accounted for 17.2% of institutional agricultural credit in 2011-12.

Commercial Banks and Rural Credit

Share of commercial banks in rural credit was meagre just after independence.

Regional Rural Banks (RRBs)

- RRBs were set-up to supplement the efforts of co-operatives and commercial banks.
- In 1976, the Parliament enacted the Regional Rural Banks Act, 1976 to provide for the incorporation, regulation and winding up of Regional Rural Banks. The Act has been made effective from the 26th September, 1975.
- The equity of the RRBs is contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35.
- Besides the Reserve Bank, which is the regulatory authority for the RRBs in accordance with the provisions of the Banking Regulations Act, 1949, the Banking Regulations Act empowers NABARD (National Bank for Agriculture and Rural Development) to undertake the inspection of RRBs.
- Area of RRBs is limited to a specified region comprising one or more districts of a state. They grant direct loans and advances only to small and marginal farmers, rural artisans, agricultural labourers and others of small means for productive purposes. Lending rates of RRBs cannot be higher than those of co-operative societies in any particular state.

RRB (Amendment) Act, 2015

- The Regional Rural Banks (Amendment) Act seeks to amend the existing Act so as to increase the authorised capital of each Regional Rural Bank (RRB) from ₹ 5 crore to ₹ 2000 crore divided into ₹ 200 crore of fully paid shares of ₹ 10 each.
- The bill also provides that the authorised capital of any Regional Rural Bank shall not be reduced below ₹ 1crore and shares in all cases to be fully paid up shares of ₹ 10 each. It also provides that the issued capital of each rural bank shall not be less than ₹ 1crore.
- At present, there are 43 RRBs and they are doing well. The amendment to raise the authorised capital of the RRBs from ₹ 5 crore to ₹ 2000 crore, will strengthen these institutions and further deepen financial inclusion.

Kisan Credit Card (KCC) Scheme

- Kisan Credit Cards were started by the Government of India, Reserve Bank of India (RBI) and National Bank for Agricultural and Rural Development (NABARD) in August 1998, to help the farmers access timely and adequate credit. Since 1998, about 10.78 crore KCCs had been issued up to October 2011.
- The scheme includes reasonable components of consumption credit and investment credit within the overall credit limit sanctioned to the borrowers, to provide adequate and timely credit support to the farmers for their cultivation needs. Budget 2012-13, has expanded the scope of KCCs as now they can be used as smart cards and ATMs. The card is valid for 3 years and subject to annual renewals.

NABARD : *An Overview*

- NABARD was set-up by the Government of India as a development bank with the mandate of facilitating credit flow for promotion and development of agriculture and integrated rural development.
- The mandate also covers supporting all other allied economic activities in rural areas, promoting sustainable rural development and ushering in prosperity in the rural areas.

- It is an **apex institution** handling matters concerning policy, planning and operations in the field of credit for agriculture and for other economic and developmental activities in rural areas.
- Essentially, it is a refinancing agency for financial institutions offering production and investment credits for promoting agricultural and developmental activities in rural areas.

NAFED

- National Agricultural Co-operative Marketing Federation of India Limited (NAFED) is the Apex Co-operative Organisation at the national level.
- It deals in procurement distribution export and import of selected agricultural commodities. It was established in 1958.

TRIFED

- Tribal Co-operative Marketing Development Federation of India Limited (TRIFED) came into existence in 1987 and got registered under the Multi-State Co-operative Societies Act, 1984. Now, the Multi -State Co-operative Societies Act, 2002.

Recommendations of Task Force on Credit Related Issues of Farmers
(Chairman Umesh Chandra Sarangi)

- The task force looked into the issue of large number of farmers, who had taken loans from private moneylenders, not being covered under the loan waiver scheme.
- Financial literacy and counselling campaigns be undertaken to increase awareness among farmers on the KCC.
- Banks be encouraged to educate their rural branch staff about the KCC.
- Banks use farmers co-operatives and SHG federations as banking correspondents to increase out reach.
- The KCC be technology-enabled, including the conversion to a smart card with withdrawals and remittances enabled at **Automated Teller Machines** (ATMs), Points of Sale (PoS) and through hand held machines; banks need to have Core Banking Solutions (CBSs) in place at the earliest, to enable technology to benefit the farmer.
- The KCC limit be fixed for five years, based on the banker's assessment of total credit needs of the farmer for a full year and that the limit be operated by the borrower as and when needed, with no sublimits for kharif and rabi or for different stages of cultivation.
- There should be automatic renewal and annual increase in credit limit linked to inflation rate.

Agricultural Marketing and Extension Services

- Organised marketing of agricultural commodities is being promoted in the country through a network of regulated markets. Most of the states and **Union Territories** have enacted legislations (the Agriculture Produce Marketing Committee [APMC] Act) to provide for regulation of agricultural produce markets.
- Seventeen states or UTs have amended their APMC Act and the remaining are in the process of doing so.
- India has 2,477 principal regulated primary agricultural markets in the country. These markets are governed by APMC Acts and administered by a separate Agricultural Produce Marketing Committee (APMC) which has its own marketing regulations. This set up hinders the free flow of agricultural commodities from one market to another.

National Agriculture Market (NAM)

- On 14th April, 2016, Prime Minister launched National Agriculture Market (NAM) as a pan-India electronic trading portal for farm produce which creates a unified national market for agricultural commodities by integrating the existing Agriculture Produce Market Committee (APMC) markets.
- This portal provides a single window service for all APMC related services and information, such as commodity arrivals and prices, provision for responding to the trade offers, buy and sell trade offers, among other services.

National Agricultural Market Yojana

- The purpose behind NAM is the creation of a common national market for agricultural commodities through an e-platform network.
- As a part of National Agricultural Market (NAM), Prime Minister Narendra Modi launched the national e-agriculture market on 21st April, 2016. These e-mandis (markets) will integrate the various vegetable markets across country.
- The **Kisan Call Centre Scheme** was launched in 2004, to provide agricultural information to the farming community through toll-free telephone lines. A country-wide common 11 digit number —1800-180-1551has been allocated for KCCs.
- The **Agri-clinic** and **Agri-business Centres Scheme** was launched in 2002, to provide extension services to farmers on payment basis through setting up of economically viable self employment ventures. NABARD monitors the credit support to Agri-clinics through Commercial banks.

Agriculture Insurance

- *There are various major crop insurance schemes under implementation in the country:*

National Agricultural Insurance Scheme (NAIS)

- The NAIS was a government sponsored central sector crop insurance scheme being implemented in the country since 1999-2000, season with the objective of providing financial support to farmers in the event of failure of crops as a result of natural calamities, pests and diseases. The Agriculture Insurance Company of India Limited is the implementing agency for the scheme.

Modified NAIS (MNAIS)

- With the aim of further improving crop insurance schemes, the MNAIS is under implementation on pilot basis in 50 districts in the country from rabi 2010-11 season. Both the Agri-insurance scheme NAIS and modified NAIS have been replaced with a unified and comprehensive scheme; Pradhan Mantri Fasal Bima Yojana.

Agriculture Insurance Company of India Limited

- AICIL was incorporated under the Companies Act, 1956 in 2002 as a specialised participation from General Insurance Company four public sector GICs and NABARD.

Pilot Weather Based Crop Insurance Scheme (PWBCIS)

- Similarly, the WBCIS is also being implemented as a central-sector scheme from kharif 2007 season. The scheme is intended to provide insurance protection to farmers against adverse weather incidence such as deficit and excess rainfall, high or low temperature and humidity that are deemed to adversely impact crop production.

Commodity Futures Market

- The commodity futures market facilitates the price discovery process and provides a platform for price risk management in commodities. Currently, 113 commodities are notified for futures trading of which 51 are actively traded in 5 national and 16 regional commodity specific exchanges.

Forward Markets Commission

- The **Forward Markets Commission** (FMC) was the regulator for commodity futures trading, which it regulates under the provisions of the Forward Contracts (Regulation) Act, 1952.
- In 2015 FMC was merged with Securities and Exchange Board of India (SEBI) which became single regulator of stock and commodity market in India.

Major Schemes of Agriculture

- *There are various major scheme related to agriculture, which is given below:*

Pradhan Mantri Kisan Maan Dhan Yojana

The Pradhan Mantri Kisan Maan Dhan Yojana (PM-KMY) was launched at Ranchi, Jharkhand by the Prime Minister Narendra Modi on 12th September 2019. PM-KMY Scheme in India is a central sector scheme for the farmers aged between 18 to 40 years.

- The beneficiary can become a member of the PM-KMY Scheme by registering under the Pension Fund managed by the Life Insurance Corporation of India (LIC). The members are thus required to make a monthly contribution to the Pension Fund between ₹ 55/- to ₹ 200/-, depending on their age with the provision of equal contribution by the Central Government. This scheme is applicable for all the small and marginal farmers.

PM Kisan Samman Nidhi Yojana

- The Government with a view to augment the income of the farm families is implementing a Central Sector Scheme, namely Pradhan Mantri Kisan Samman Nidhi Yojana. PM Kisan Nidhi Yojana is for small and marginal farmers for helping in financial condition for purchase of seed, fertilizers etc.
- This scheme was started on 24th February, 2019 from Gorakhpur (UP). Under this scheme total amount of ₹ 6000 is transferred to bank accounts of farmer in 3 equal installments in every four months. The scheme is expected to cover around 14.5 crore farmers for year 2019-20. All landholding farmer's families, which have cultivable landholding in their names are eligible to get benefit under the scheme upto 2 hectares.

KUSUM Scheme

- The Union Government has announced ₹ 1.4 lakh crore Kisan Urja Suraksha evam Utthaan Mahaabhiyan (KUSUM) scheme for promoting solar farming i.e. decentralised solar power production of upto 28,250 MW to help farmers. The Union Budget 2018-19 has allocated ₹ 48,000 crore for the scheme for the ten-year period.
- Government will provide 60% subsidy on solar pumps to farmers. It will be shared between Centre and States while 30% will be provided through bank loans. The balance cost will be borne by farmers.

Green Revolution-Krishonnati Yojana

- Cabinet Committee on Economic Affairs (CCEA) has approved continuation of Umbrella Scheme, Green Revolution—Krishonnati Yojana in agriculture sector beyond 12th Five Year Plan from 2017-18 to 2019-20. The Umbrella scheme comprises of 11 schemes and missions. These schemes will continue for three financial years, i.e., 2017-18, 2018-19 and 2019-20 with an expenditure of ₹ 33,269 crore. Schemes which are part of Green Revolution-Krishonnati Yojana are
  —Mission for Intergrated Development of Horticulture (MIDH)
  —National Food Security Mission (NFSM)
  —National Mission for Sustainable Agriculture (NMSA)
  —Submission on Agriculture Extension (SMAE)
  —Submission on Seeds and Planting Material (SMSP)
  —Submission on Agricultural Mechanisation (SMAM)
  —Submission on Plant Protection and Plan Quarantine (SMPPQ)
  —Integrated Scheme on Agriculture Census, Economics and Statistics (ISACES)
  —Integrated Scheme on Agriculture Cooperation (ISAC)
  —Integrated Scheme on Agriculture Marketing (ISAM)
  —National e-Governance Plan (NeGP-A)

Aajeevika Grameen Express Yojana

- The Government of India has launched Aajeevika Grameen Express Yojana (AGEY) in August 2017, to provide an alternative source of livelihood to members of Self Help Groups (SHGs). This scheme has been launched under Deen Dayal Antyodaya Yojana - National Rural Livelihood Mission (DAY-NRLM). The main objective of AGEY is to provide an alternative source of livelihood to members of SHGs under DAY-NRLM by facilitating them to operate public transport services in backward rural areas.
- This will provide safe, affordable and community- monitored rural transport services like e-rickshaws, three and four wheeler motorised transport vehicles to connect remote villages with key services and amenities including access to markets, education and health for the overall economic development of the area. The sub-scheme will be implemented in 250 blocks in the country on a pilot basis for a period of three years from 2017-18 to 2019-20.

Pradhan Mantri Fasal Bima Yojana

- This is the new crop damage insurance scheme that has been approved by the Union Cabinet in January 2016. It replaced the existing 2 insurance schemes NAIS and Modified NAIS.
- The theme of the Scheme is **One Nation–One Scheme**. In this, all shortcomings and weaknesses of all previous schemes were removed and incorporated with the best features of all schemes.

Highlights of the Scheme

- There will be a uniform premium of only 2% to be paid by farmers for all Kharif crops and 1.5% for all Rabi crops. In case of annual commercial and horticultural crops, the premium to be paid by farmers will be only 5%.
- The premium rates to be paid by farmers are very low and balance premium will be paid by the government to provide full insured amount to the farmers against crop loss on account of natural calamities.
- There is no upper limit on government subsidy. Even if balance premium is 90%, it will be borne by the government.
- Earlier, there was a provision of capping the premium rate which resulted in low claims being paid to farmers. This capping was done to limit government outgo on the premium subsidy. This capping has now been removed and farmers will get claim against full sum insured without any reduction.
- The use of technology will be encouraged to a great extent. Smart phones will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers. Remote sensing will be used to reduce the number of crop cutting experiments.

‘Soil Health Card’ Scheme

- Narendra Modi, Prime Minister of India launched the Union government’s nationwide ‘Soil Health Card’ Scheme (SHCS) from Suratgarh, Rajasthan on February 19, 2015 where he described agriculture as the key to poverty eradication.
- The SHCS is an attempt to check deteriorating soil quality and spruce up farm productivity and will provide all 145 million farm owners in the country with a SHC in the next three years. In this way, the Ministry has been sanctioned ₹ 568 crore for the next three years.
- This ambitious scheme was announced when finance minister Arun Jaitley presented it in the first budget in July, 2014. The budget allotted ₹ 100 crore for issuing cards and an additional ₹ 56 crore to set-up 100 mobile soil testing laboratories across the country.

Mega Food Park Scheme (MFPS)

- The 10th Plan scheme of Food Parks was renamed as the Mega Food Park Scheme (MFPS) in 2008. The scheme has been launched with the objective of implementing the express objectives of the Vision 2015, document through creation of excellent infrastructure.

- As of 1st August, 2021, there are 22 Mega Food Parks functioning in the country.
- *Objectives of the Mega Food Park Scheme are as follows:*
  —To provide state of the art infrastructure for food processing in the country on a pre-identified cluster basis.
  —To ensure value addition of agricultural commodities.
  —To establish a sustainable raw material supply chain for each cluster. To facilitate induction of latest technology.
  —Quality assurance through better process control and capacity building.

National Mission on Food Processing (NMFP)

- NMFP has been launched under the 12th Plan for a decentralised implementation of various schemes under the ministry of food processing with the help of State Governments.
- It consists of the following main schemes technology up gradation of food processing industries, cold chain facilities for non-horticultural produces, modernisation of abattoirs, primary processing centres/collection centres in rural areas, upgradation of quality of street food etc.

National Food Processing Development Council (NFPDC)

NFPDC has been set-up to provide guidance to all schemes of the ministry of food processing including NMFP. It will comprise the Agriculture Minister as Chairman, representatives of State Government, industry associations and related government officials.

National Food Security Mission (NFSM)

- It was launched in rabi 2007-08. The mission aims to increase production through area expansion and productivity; create employment opportunities and enhance the farm level economy to restore confidence of farmers.
- To intensify the pulses production programme, since 2010-11, two additional programmes have been adopted under NFSM. *These are as follows:*
  —Merging of the pulse component of the Integrated Scheme of Oilseeds, Pulses, Oil Palm and Maize (ISOPOM) with the NFSM. **Jharkhand** and **Assam** have also been included under the programme.
  —Accelerated Pulse Production Programme (APPP) was initiated to boost the production of pulses by active promotion of technologies in 1000 clusters of 100 hectare each.
- The National Food Security Mission (NFSM) during the 12th Five Year plan will have 5 components
  (i) NFSM-Rice (ii) NFSM-Wheat (iii) NFSM-Pules
  (iv) NFSM-Coarse cereals and (v) NFSM-Commercial crops.

National Horticulture Mission (NHM)

- It was launched in 2005-06 for the holistic development of the horticulture sector through ensuring forward and backward linkages and with the active participation of all the stakeholders.
- 18 States and the 3 Union territories of Andaman and Nicobar Islands Lakshadweep and Puducherry are covered under the mission and the mission covers 372 districts.

National Bamboo Mission (NBM)

- The NBM is a Centrally Sponsored Scheme which was launched in 2006 -07 for harnessing the potential of the bamboo crop in the country. At present, it is being implemented in 27 States with a total outlay of ₹ 568.23 crore. ₹ 1200 crore have been allotted for this mission in the budget of 2018-19.

Horticulture Mission for North-East and Himalayan States (HMNEH)

- The technology mission for North-Eastern states including Sikkim, aimed at the holistic development of all the horticulture crops, has now been renamed as HMNEH.
- The main objective of the mission is to set-up nurseries for production and distribution of quality planting materials.

Rashtriya Krishi Vikas Yojana (RKVY)

- The RKVY was launched in 2007-08, with an outlay of ₹ 25000 crore in the 11th Plan for incentivising states to enhance public investment to achieve a 9% growth rate in agriculture and allied sectors.
- The RKVY permits taking up national priorities as sub-schemes allowing flexibility in project selection and implementation.
- *The sub-scheme under RKVY are as follows:*
  —Bringing Green Revolution to Eastern region - Uttar Pradesh, Jharkhand, Bihar, West Bengal, Assam, Odisha and Chhattisgarh introduced in 2010-11.
  —Integrated development of 60000 pulses and oilseeds villages in rainfed areas introduced in 2010-11.
  —Promotion of Oil Palm.
  —Initiative on village clusters.
  —Nutri-cereals.
  —National Mission for protein supplements.
  —Accelerated Fodder Development Programme.
  —Rainfed Area Development Programme and
  —National Mission on saffron-economic revival of Jammu and Kashmir saffron introduced in 2010-11.

Precision Farming

Also known as **satellite farming**, it uses satellite technology, information technology and GIS Systems to improve Crop management. It is based on observing and responding to intra-fields variations. It helps in matching farming practices with crop needs, reducing ecological footprint and boosting competitiveness through more efficient practices like improved management of fertilizer usage etc.

National Mission for Sustainable Agriculture (NMSA)

- NMSA is one of the 8 plans, under the National Action Plan on Climate Change (NAPCC) and will be implemented during the 12th Five Year Plan. It seeks to transform agriculture into an ecologically sustainable climate resilient production system, while at the same time, exploiting its fullest potential and thereby ensuring food security, equitable access to food resources, enhancing livelihood opportunities and contributing to economic stability at the national level.

Objectives of NMSA

- *The objectives of NMSA are as follows*
  - —To devise strategic plans at the agro-climatic zone level.
  - —To enhance agricultural productivity through customised interventions such as use of biotechnology.
  - —To facilitate access to information and institutional support by expanding automatic weather station networks to the Panchayat level and linking them to existing insurance mechanisms.
  - —To promote 'laboratory to land' research by creating model villages and model farm units in rainfed and dryland areas.
  - —To strategise long-term interventions for emission reduction from energy and non-energy uses by way of introduction of suitable crop varieties and farm practices, livestock and manure management.
  - —To realise the enormous potential of growth in dryland farming.

Organic Farming

- It is a form of agriculture that relies on techniques such as crop rotation, green manure compost and biological pest control.
- *The main objectives of National Project on Organic Farming include:*
  - —Capacity building through service providers.
  - —Financial and technical support for setting up of organic input production unit such as fruits and vegetable market, waste compost, bio-fertilizers and bio-pesticides and vermiculture hatcheries.
  - —Human resource development through training and demonstrations.
  - —Awareness creation and market development.
  - —Quality control of organic inputs.
  - —Biological assessment of soil health.

Indian Council of Agricultural Research (ICAR)

- ICAR is an autonomous organisation, under the Department of Agricultural Research and Education, Ministry of Agriculture, Government of India. The council is the apex body for coordinating, guiding and managing research and education in agriculture including horticulture, fisheries and animal sciences in the entire country. It was established in 16th July, 1929.

Animal Husbandry, Dairying and Fisheries

- The 11th Five Year Plan envisaged overall growth of 4.8% per annum, for the sector. In 2018-19, this sector contributed 187.7 million tonnes of milk, 103318 million numbers eggs, 44.73 million kg wool and 5.51 million tonnes of meat. Livestock sector has growth at a compound annual growth rate of 7.9% during last five year (as per Economic Survey 2019-20). Government has launched a new central scheme. 'National Animal Disease Control Programme (NADCP)' for control of Foot and Mouth Disease and Brucellosis in five year from 2019 to 2024. Complete control of FHD by 2025.

Dairy Sector

- India ranks first in the world in milk production with 20% of world production. It also has the largest bovine production in the world.
- The Ministry of Agriculture is implementing important schemes, namely the Intensive Dairy Development Programme, Strengthening infrastructure for quality and clean milk production and Assistance to Cooperative and Dairy Entrepreneurship Development Scheme, in the dairy sector. A major programme for genetic improvement called the **National Project for Cattle and Buffalo Breeding** (NPCBB) was also launched in 2000. The government in Budget 2020 announced its aim to double the milk processing capacity from 53.5 million tonnes to 108 million tonnes.

National Dairy Plan

- It is a strategic plan prepared by NDDB for achievement of 180 million tonnes of milk production by 2021-22. Under the plan, districts are separated into 324 high potential districts for intensive development and 282 low potential districts for further expansion. The plan envisages breed improvement through artificial Insemination and through natural service, setting up plants to augment cattle feed, by-pass protein and mineral mixture and expanding or strengthening milk processing infrastructure.

Livestock Insurance

- A centrally sponsored scheme for livestock insurance is being implemented in all the states with the twin objectives of providing protection mechanism to farmers and cattle bearers against any eventual loss of their animals due to death and to demonstrate the benefit of the insurance of livestock and popularise it with the ultimate goal of attaining qualitative improvement in livestock and its products.
- The scheme benefits farmers and cattle bearer with indigenous/cross-breed milch cattle and buffaloes in 300 selected districts. The benefit of subsidy is to be restricted to two animals per beneficiary per household.

Poultry

- Four regional Central Poultry Development Organisations located at Chandigarh, Bhubaneshwar, Mumbai and Hessarghatta are focusing on production of stocks suitable for backyard rearing, training to the farmers to upgrade their technical skills.
- The Poultry Development Scheme comprising three components, namely Assistance to State Poultry Farms, Rural Backyard Poultry Development and Poultry Estates is being implemented.

Fisheries

- Fish is an important source of and also an important source of livelihood, production of fish, both marines and inland , has gone up from 5.6 million tonnes in 2000-01 to 13.7 million tonnes in 2018-19. The marine exports stand at about 5% of total exports of India and constitutes 19.23% of Agri-exports. India is second largest producer in fishery sector.

Pradhan Mantri Matsya Sampada Yojana

On 10th September, 2020 Prime Minister Narendra Modi has officially launched the Pradhan Mantri Matsya Sampada Yojana through video conferencing. During the period 2020-2021 to 2024-2025, estimated investment of ₹ 20,050 crore are going to be done by the Government for this scheme. Out of this, ₹ 12,340 crore is proposed for beneficiary-oriented actvities in marine, inland fisheries and aquaculture and about ₹ 7,710 crore for fisheries infrastructure. The major aim of the government behind the scheme is

- Enhancing fish production by an additional 70 lakh tonne till 2024-25.
- Increasing fisheries export earnings to ₹ 1,00,000 crore.
- Doubling of incomes of fishers and fish.
- Reducing post-harvest losses from 20-25% to about 10%.
- Generation of additional 55 lakhs direct and indirect gainful employment opportunities in the fisheries sector and allied activities.

National Fisheries Policy, 2020

- In order to accelerate development of fisheries sector, the government will formulate fisheries management and fisheries spatial plan.
- To provide overall guideliness for the implementation of the policy and to review its objectives and progress a National Fisheries Development Council will be established.
- To increase the fishermen's income and boost exports, a clustered approach for development of aquaculture will be followed.

India's Position in World Agriculture Production

Produce	Global Rank (2020)
Wheat	2nd
Rice/Paddy	2nd
Total Pulses	1st
Groundnut (in shell)	2nd
Vegetables (with melons)	2nd
Fruits (excluding melons)	2nd
Sugarcane	2nd
Tea	3rd
Jute and Jute like fibres	1st
Cotton (lint)	2nd
Total Milk	1st
Total Eggs	3rd
Total Meat	5th

Mobile Apps for Farmers

- Union Agriculture and Farmers Wealth Minister, Shri Radha Mohan Singh launched two mobile apps for the farmers on 23rd December, 2015.

Mobile app 'Crop Insurance'

- It will help the farmers not only to find out complete details about insurance cover available in their area, but also to calculate the insurance premium for notified crops, coverage amount and loan amount in case of a loaned farmer.

Mobile app 'Agrimarket Mobile'

- This app automatically captures the location of person using mobile GPS and fetches the market prices of crops in those markets which fall within the range of 50 km.

There is another option to get price of any market and any crop in case person does not want to use GPS location.

New Agriculture Act 2020

Three Bills on agriculture reforms were introduced in the Parliament and passed in September, 2020 to replace the ordinances issued during the lockdown. These are:

(i) The Farmer's Produce Trade and Commerce (Promotion and Facilitation) Bill, 2020

(ii) The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill, 2020

(iii) The Essential Commodities (Amendment) Bill, 2020

The Farmer's Produce Trade and Commerce (Promotion and Facilitation) Ordinance, 2020 allows intra-state and inter-state trade of farmers' produce beyond the physical premises of APMC markets. State governments are prohibited from levying any market fee, cess or levy outside APMC areas.

The Farmers Agreement Ordinance creates a framework for contract farming through an agreement between a farmer and a buyer prior to the production or rearing of any farm produce. It provides for a three-level dispute settlement mechanism i.e. the Conciliation Board, Sub-Divisional Magistrate and Appellate Authority.

The Essential Commodities (Amendment) Ordinance, 2020 allows the central government to remove cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities. The amendment will deregulate the production, storage, movement and distribution of these food commodities. The Central government is allowed regulation of supply during war, famine, extraordinary price rise and natural calamity, while providing exemptions for exporters and processors at such times as well. Imposition of any stock limit on agricultural produce must be based on price rise.

Self Check

Build Your Confidence

1. The Government of India fixes the Minimum Support Prices after taking into account the recommendations of which among the following bodies?

(a) Ministry of Consumer Affairs, Food and Public Distribution
(b) Cabinet Committee of Economic Affairs
(c) Planning Commission
(d) Commission for Agricultural Costs and Prices

2. Consider the following statements.

1. The concept Evergreen Revolution was given by renowned agricultural scientist Norman Borlaug.
2. Evergreen Revolution emphasises on organic agriculture and green agriculture with the help of integrated post management, integrated nutrient supply and integrated natural resource management.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

3. Government of India established TRIFED in August 1987, with an objective to save tribals from exploitation by private traders. Which among the following is the precise full form of TRIFED?

(a) Tribal Federation of India Limited
(b) Tribal Marketing Development Federation of India Limited
(c) Tribal Co-operative Marketing Development Federation of India Limited
(d) Tribal Co-operative Federation of India Limited

4. The importance of agriculture in Indian economy is indicated by its contribution to which of the following? **[UPPCS 2006]**

(a) National income and employment
(b) Industrial development and international trade
(c) Supply of foodgrains
(d) All of the above

5. The Green Revolution in India has contributed to **[WBPCS 2007]**

(a) inter-regional inequality
(b) inter-class inequality
(c) inter-crop inequality
(d) All of the above

6. The price at which the government purchases foodgrains for maintaining the Public Distribution System and for building up buffer Stocks are known as **[IAS 2001]**

(a) Minimum Support Prices
(b) Procurement Prices
(c) Issue Prices
(d) Ceiling Prices

7. Consider the following statements

1. Agriculture and allied sectors contribute more than 15% of Gross Domestic Product of India.
2. Share in total employment by agriculture as high as 48.9%.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

8. Consider the following statements.

1. The accelerated Irrigation Benefits Programme was launched during 1996-97 to provide loan assistance to poor farmers.
2. The Command Area Development Programmes was launched in 1974-75 for the development of water use efficiency.

Which of the statement (s) given above is /are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

9. National Horticulture Mission was launched in which of the following Five Year Plans?

(a) Ninth Five Year Plan (b) Tenth Five Year Plan
(c) Eleventh Five Year Plan (d) None of these

10. The National Food Security Mission (NFSM) aims to enhance the production of

1. Rice
2. Wheat
3. Pulses
4. Coarse Cereals
5. vegetables.

Select the correct answer using the codes given below

(a) 1, 2 and 3 (b) 1, 2 and 5
(c) 2, 3 and 4 (d) 1, 2, 3 and 4

11. Bringing Green Revolution to Eastern India in a sub scheme of

(a) National Mission on Agriculture Extension and Technology
(b) National Mission for Sustainable Agriculture
(c) Rashtriya Krishi Vikas Yojana
(d) It is not a sub-scheme.

12. Consider the following statements about the National Agricultural Insurance Scheme (NAIS).

1. The Scheme has been implemented from Rabi 1999-2000 season.
2. The scheme is available non-loanee farmers only.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

1. (d) **2.** (b) **3.** (c) **4.** (d) **5.** (d) **6.** (b) **7.** (b) **8.** (c) **9.** (b) **10.** (d)
11. (d) **12.** (c)

Chapter twelve
Indian Industry

Before independence, Industrial Policy of the Government was characterised by Laissez-Faire i.e. non-interference policy in the affairs of industries. Industrial development was left to the exclusive care of private sector. However, in the post-independence era, government has been taking an active interest in the development of industries in India. So far, government has formulated five industrial policies i.e. Industrial Policy 1948, 1956, 1977, 1980 and 1991 respectively.

Industries in Indian Economy

- Industry refers to an economic activity concerned with the processing of raw materials and manufacture of goods in factories. Industries are often classified based on their principle product e.g. steel industry, automobile industry, textile industry etc.
- The Indian Government has been trying to promote rapid industrial growth since, independence. As a result of the various efforts, the industrial sector in India has grown in multifarious dimensions.

Role of Industry

- Rapid growth of national income is possible only through industrialisation as growth in agriculture is limited by factors including natural factors. Industrial growth in 8th Five Year Plan was 7.29%, in 9th Plan 4.29%, in 10th Plan (2002-07), 9.17% and in 11th Plan (approx) 10%. *Some of the broad goals and objectives of industrial development in India are as follows:*
  - —Industries can provide better quality and more employment than the agriculture sector. The share of industry in total employment increased from 16.2% in 1999-2000 to 21.9% in 2009-10.
  - —Value addition in the industrial sector can earn more foreign exchange than simply exporting raw materials.
  - —The industrial sector provides goods for the development of basic infrastructure of the country like power, telecom etc which then provides the basis for the growth of other sectors like agriculture and services.
  - —National security requires that products for defence and other strategic sectors be produced within the country itself so as to guard against adverse eventualities like sanctions, wars etc.
  - —**Meeting High Income Demand** Beyond certain limits, the demands of the people are usually for industrial products alone.
  - —**Absorbing Surplus Labour** (Employment Generation) underdeveloped countries like India are characterised by surplus labour and rapidly growing population. Industries are expected to create employment opportunities and facilitate economic development.
  - —**Bringing Technological Progress** Research and Development. It is associated with the process of industrialisation, which further leeds to development.

Industrial Policy

- The Department of Industrial Policy Promotion (DIPP) has been renamed as the Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry. It is responsible for the entire industrial policy.
- An industrial policy provides guidelines for the effective co-ordination of the activities of various sectors of the economy. The evolution of industrial policy in India may be studied in the background to see, how far it has worked as a potent tool to realise the goal of planned development.
- When India achieved independence in 1947, the national consensus was in favour of rapid industrialisation of the economy, which was seen not only as the key to economic development, but also to economic sovereignty.
- In the subsequent years, India's Industrial Policy evolved through successive Industrial Policy Resolutions and Industrial Policy Statements. Specific priorities for industrial development were also laid down in the successive Five Year Plans.

Industrial Policy Resolution, 1948 (IPR)

- The 1st Industrial Policy was announced in April 1948, by then Industrial Minister, Late SP Mukherjee. Its historic importance lies in the fact that it ushered in the system of 'Mixed Economy' in the country i.e. it entrusted the task of industrial development on both private and public sectors.

Salient Features of IPR, 1948

- Development of mixed economy.
- State programmes for the development of industries.
- Promotion of small-scale and cottage industries.
- Foreign investment was allowed, but effective control should be with Indians.
- *Industries classified into four categories:*
  - (i) Public Sector
  - (ii) Mixed Sector
  - (iii) Controlled Private Sector
  - (iv) Private and Co-operative Sector

Industrial Policy Resolution, 1956

- IPR, 1956 was the most comprehensive industrial policy, which was formulated in the backdrop of the adoption of the Constitution and the socio-economic goals.
- The policy may be described as the 'Economic Constitution' of India, as it is not only outlined the basic framework of the future industrial policies (especially upto 1991), but also of the general economic policies.
- Its main objectives were to accelerate the rate of economic growth and to speed up industrialisation for achieving a socialistic pattern of society.

Salient Features (IPR 1956)

- *The policy industries divided into three categories*:
  - (i) **Schedule A** (Public Sector) Seventeen industries were exclusively reserved for the public sector.
  - (ii) **Schedule B** (Mixed Sector) Twelve industries were placed in the mixed sector of public and private enterprise. These were to be progressively state-owned and in which state would generally set-up new units.
  - (iii) **Schedule C** (Private Sector) All the remaining industries and their future development would, in general be left to the initiative and enterprise of the private sector.

Industrial Licensing

- The Industries (Development and Regulation) Act, 1951, empowered the government to issue licenses for the setting-up of new industries, expansion of existing ones and for diversification of products.
- The main aims of the industrial licensing policy were the development and control of industrial investment and production as per national priorities, checking the concentration of industries and ensuring balanced regional development.
- However, from time-to-time, many deficiencies in the licensing system came to light. The government set-up several committees for the study of the licensing system and giving suggestions for its improvement.
- Such committees included RK Hazari Committee, 1964 and Dr Subimal Dutt Committee, 1967. On the basis of Subimal Dutt Committee recommendation, government enacted the Monopolies and Restrictive Trade Practises (MRTP) Act, 1969.

Monopolies and Restrictive Trade Practises Act, 1969 (MRTP)

- MRTP Act was enacted in 1969 and MRTP Commission was constituted in 1970, to prevent the concentration of economic power and to prohibit restrictive or unfair trade practices.
- Under the act, companies having assets beyond the threshold limit (i.e. ₹ 20 crores in 1985) were placed under the purview of the act.
- Certain restrictions are imposed on such companies like prior approval of the MRTP. Commission for establishment of new undertakings, expansion of undertakings, mergers and acquisitions.

Industrial Policy Statement, 1977

- The thrust of the policy was on decentralisation of the industries and the promotion of small-scale and cottage industries. It introduced the concept of tiny sector within the small-scale sector.

Industrial Policy Statement, 1980

- The policy emphasised the optimum utilisation of installed capacity, technological upgradation and modernisation.
- The policy selectively liberalised the industrial sector i.e. MRTP Act was liberalised, scope of licensing was reduced, simplified the procedure for regularisation of unauthorised excess capacity etc.

An Evaluation of Industrial Policy Before 1991

- Several official committees as well as other experts bring to light the major deficiencies of the industrial policies before 1991. *Some of the important criticism are as follows:*

  —The objective of the licensing policy was to ensure capacity creation according to the priorities decided in the Five Year Plan. But due to inherent demerits of the licensing system, in some areas excess capacity was created and there was under utilisation of capacity while at same time, despite availability of licenses, private players deliberately under produced goods, which helped develop monopoly and monopolistic conditions in the economy.

—Targets were not fixed for private sectors and they invested only assured profit and avoided risk.

—The objective of licensing policy was to check monopoly in the economy, but it infact led to development of monopoly in the economy. Big industrial houses succeeded in getting the licenses, while others failed.

—Due to licensing policy, developed states gained, more units were set-up in already developed states, while poor and under developed states lagged.

—Rigidity and complex nature of licensing caused delay in permission and there was problem of delay in projects, which slowed down the growth rate.

New Industrial Policy, 1991 (NIP)

- The Government of India announced the New Industrial Policy on 24th July, 1991. The main objective of this policy is to unshackle the Indian industrial economy from administrative and legal controls.
- Its main aim is to raise industrial efficiency to the international level through substantial deregulation of the industrial sector of the country.

Industries Requiring Compulsory Licensing

- Distillation and brewing of alcoholic drinks.
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
- Electronic aerospace and defence equipment all types.
- Industrial explosives including match boxes.
- Specific hazardous chemicals *viz Hydrocyanic acid, Phosgene, Isocyanates and diisocyanates of hydrocarbon.*

Main Features of NIP, 1991

- **Delicensing** The industrial licensing was abolished irrespective of the level of investment, except for 18 specified industries like defence, atomic energy etc. Since then, most of these industries were delicensed and now only three industries fall under the purview of industrial licensing.
- **Foreign Investment** Foreign capital investment limit was raised from 40% to 51% in high technology and high investment priority industries.
- **Foreign Technology** Automatic approval was granted for foreign technology agreements upto the limit of ₹ 200 crore subject to 5% royalty on domestic sales and 8% on exports.
- **Foreign Investment Promotion Board** (FIPB) It was established to expeditiously clear foreign investment proposals. It serves as a single window clearing agency for the FDI proposals.
- **Industrial Location Policy** Excepting the big cities with population of one million, in other cities, industrial licensing will not be required, but for those industries, where licensing is compulsory.
- In case of cities with population of one million or above, excepting non-pollutant industries, all other units will be set-up at a distance of 25 km from the city limits.
- **MRTP Limit Scrapped** The threshold limit of ₹ 100 crore worth of assets for classification of a company as MRTP company was removed, such companies were to be recognised on case-by-case evaluation basis.
- **Mandatory Convertibility Clause was Abolished** It is the condition imposed by the financial institutions on private companies that a part of their lending would be converted into equity at some future date.
- **New Small Enterprise Policy** A separate policy was announced by the government in August 1991, for the promotion of small-scale industries.
- Like the private enterprises, sick PSUs were also placed under the purview of the Board for Industrial and Financial Reconstruction (BIFR).
- Disinvestment of the shares of PSUs was initiated.

Competition Act, 2002

- The Competition Act was enacted by the government in 2002, on the recommendation of the SVS Raghavan Committee. It repealed the MRTP Act and the MRTP Commission was replaced by the Competition Commission of India (CCI).
- The objectives of the act are to encourage competition, prevent abuse of dominance (rather than dominance as such) and to ensure a level playing field for all the enterprises in the Indian economy.

Companies Act, 2013

- This act introduces significant changes in the provisions related to governance, e-management, compliance and enforcement, disclosure norms, auditors and mergers and acquisitions. Also, new concepts such as one-person company, small companies, dormant company, class action suits, registered valuers and corporate social responsibility have been included. The changes in the Act 2013 has far reaching implications that are set to significantly changes the manner, in which corporates operate in India. The Act 2013 has introduced several new concepts and has also tried to streamine many of the requirements by introducing new definitions.
- **One Person Company** The Act 2013 introduces a new type of entity to the existing list i.e. apart from forming a public or private limited company, the Act 2013 enables the formation of a new entity a 'One Person Company' (OPC).
- **Small Company** A small company has been defined as a company, other than a public company.

—Paid-up share capital of which does not exceed 50 lakh INR.

—Turnover of which as per its last profit and loss account does not exceed 2 crore. INR or such higher amount as may be prescribed which shall not be more than 20 crore INR.

- **Dormant Company** The Act 2013 states that a company can be classified as dormant when it is formed and registered under this Act 2013 for a future project or to hold an asset or intellectual property and has no significant accounting transaction.
- **National Financial Reporting Authority** (NFRA) The Act 2013 requires the Constitution of NFRA, which has been bestowed with significant powers not only in issuing the authoritative pronouncements, but also in regulating the audit profession.
- **Serious Fraud Investigation Office** (SFIO) The Act 2013 has bestowed legal status to SFIO.
- **Corporate Social Responsibility** The Act 2013 makes an effort to introduce the culture of Corporate Social Responsibility (CSR). In Indian corporates by requiring companies to formulate a corporate social responsibility policy and atleast incur a given minimum expenditure on social activities.

The Companies (Amed.) Act, 2015 and 2019

Important point related to Companies Act, 2015 are as follows:

- Omitting requirement for minimum paid-up share capital and consequential changes. The minimum paid-up share capital requirement of INR 1,00,000 (in case of a private company) and INR 5,00,000 (in case of a public company) under the Company Act, 2013 has been done away with.
- Making common seal optional and consequential changes for authorisation for execution of documents.
- Doing away with the requirement for filling a declaration by a company before commencement of business or exercising its borrowing powers.
- Prohibiting public inspection of board resolutions field in the registry.
- Empowering Audit Committee to give omnibus approvals for related party transaction on annual basis.
- Replacing 'special resolution with resolution' for approval of related party transactions by non-related shareholders.
- Further, Amendment to this Act in 2019, enlarged the scope of issuance of dematerialised shares to certain classes of unlisted companies and provided provisions for transfer of any unspent annual CSR fund to PM Relief Fund.

Public Sector

- At the time of independence, the country was predominantly agrarian and lacked basic industries and infrastructure facilities. The economy needed a big push.
- The push could not come from the Indian private sector, which was starved of funds and lacked technical and managerial abilities. Further, it was incapable of taking risk involved in long gestation investments. So, the development in the public sector became imperative.
- The expansion of public sector in the field of industries took place in a big way with the launching of the Second Plan (1956-61), which gave top priority to the industrial growth of the country.

Objectives of the Public Sector

- To capture commanding heights of the economy i.e. to take up strategic role in the industrialisation of the country.
- To accelerate the rate of economic growth through creation of basic infrastructure.
- To generate employment.
- To promote balanced regional development.
- To generate surplus resources for development.
- To promote exports and to develop import substitution industries.
- To check concentration of economic power.

Expansion of Public Sector

- There were only five Central Public Sector Enterprises (CPSEs) in 1951, with investment of ₹ 29 crore. The number of CPSEs (excluding financial institutions) has increased to 348 by March, 2019.
- There were over 800 state level public enterprises with total investment in public sector in the entire country (i.e. Centre + States) stood at over ₹ 6 lakh crore.

Contribution of Public Sector

- The public sector was instrumental in the creation of infrastructure and the development of basic industrial structure of the country.
- PSUs did a commendable job in the promotion of strategic and key industries like atomic energy, armaments and ammunition, aircrafts, heavy machinery, iron and steel, coal, drugs, fertilizers etc.
- The public sector provided employment to about 70% of the workers employed in the organised sector. Presently, public sector contributes about 24% to the GDP and accounts for over 20% of the Gross Domestic Capital Formation (investment).

Problems of the Public Sector

- The return on capital invested in PSUs has been deplorably low due to low profitability and losses of some PSUs.
- Problems related with the Price Policy i.e. Administered Prices of the products of PSUs were deliberately kept lower than the market prices.
- Lack of autonomy to the management of the PSUs due to excessive political interference.
- Low efficiency due to lack of incentives for better performance.
- Excessive overheads especially in providing housing and other amenities to the employees e.g. townships.
- Over staffing inflated the wage bills.

- **Inappropriate investment** decisions like inappropriate location, technology, product mix etc.
- **Indiscriminate expansion** of the public sector in almost all areas.

Public Sector Reforms

- To improve the performance of the PSUs, the government has adopted the following measures, especially in the post reform (1991 onwards) era.
- Memorandum of Understanding the concept of Memorandum of Understanding (MoU) was introduced in 1987, on the recommendation of the 'Committee to Review the Policy for the Public Enterprises' headed by Mr Arjun Sengupta.
- MoU refers to the agreement between the concerned ministry and the management of a PSUs in which the latter is provided a reasonable degree of autonomy and simultaneously held accountable for the performance of the PSUs.
- **New Industrial Policy, 1991** The policy contained the following reformative measures for PSUs; dereservation, disinvestment, professionalisation of management, reference of sick PSUs to the BIFR and expanding the scope of MoUs.
- **Voluntary Retirement Scheme** (VRS) The **VRS** (or Golden Handshake Scheme) was launched in 1988, for the rationalisation of manpower in the central PSUs. The scheme enabled the PSUs to shed their excess staff by offering attractive compensation package to the workers, who seek voluntary retirement.
- **Dismantling of Administered Price Mechanism** (APM) The government has initiated steps for dismantling of price controls in respect of a number of products of PSUs. e.g. it removed the price and distribution controls on iron, steel and cement. The government also decontrolled the prices of most of the fertilizers and petro-products.

Policy of Maharatnas

- Maharatna Scheme was introduced for Central Public Sector Enterprises (CPSEs), with effect from 19th May, 2010, in order to empower mega CPSEs to expand their operations and emerge as **global giants**.
- The objective of the scheme is to delegate enhanced powers to the boards of identified large-sized Navratna CPSEs, so as to facilitate expansion of their operations, both in domestic as well as global markets.
- *CPSEs fulfiling the following criteria are eligible to be considered for grant of Maharatna status*:
  —Having Navratna status.
  —Listed on the Indian Stock Exchange, with a minimum prescribed public shareholding under SEBI regulations.
  —An average annual turnover of more than ₹ 25000 crore during the last 3 years.
  —An average annual net worth of more than ₹ 15000 crore during the last 3 years.
  —An average annual net profit after tax of more than ₹ 5000 crore during the last 3 years.
  —Significant global presence or international operations.
- The coveted status empowers the boards of these firms to take investment decisions up to ₹ 5000 crore as against the present ₹ 1000 crore limit for Navratnas without seeking government approval.
- The Maharatna firms would now be free to decide on investments up to 15% of their net worth in a project, limited to an absolute ceiling of ₹ 5000 crore.

Maharatna CPSEs

- Oil and Natural Gas Corporation Limited (ONGC)
- Indian Oil Corporation Limited (IOCL)
- Steel Authority of India Limited (SAIL)
- NTPC Limited
- Coal India Limited (CIL)
- Bharat Heavy Electricals Limited (BHEL)
- Gas Authority of India Limited (GAIL)
- Bharat Petroleum Corporation Limited
- Hindustan Petroleum Corporation Limited
- Power Grid Corporation of India Limited
- Power Finance Corporation Limited (PFCL)

Policy of Navratnas

- Navratna was the title given originally to **nine Public Sector Enterprises** (PSEs), identified by the Government of India in 1997, as its most prestigious, which allowed them greater autonomy to compete in the global market.

Criteria for Navratna Status for PSUs

- It should have a schedule 'A' and Miniratna category— 1 status.
- It should have atleast three 'excellent' or 'very good' Memorandum of Understanding (MoU) ratings during the last 5 years.
- It should have a composite score of 60 out of 100 marks based on its performance during the last 3 years on these 6 criterias-net profit to net worth, manpower cost-to-cost of production or services, gross margin as capital employed, gross profit as turnover, earnings per share, inter-sectoral comparison based on net profit to net worth.
- The company should also have four independent directors on its board.
- Navratna status empowers the PSUs to invest up to ₹ 1000 crore or 15% of their net worth on a single project without seeking government approval. The overall ceiling on such investments in all projects put together is 30% of the net worth of the company.

Navratna CPSEs

- Bharat Electronics Limited
- Hindustan Aeronautics Limited
- Mahanagar Telephone Nigam Limited
- National Aluminium Company Limited
- NMDC Limited
- Oil India Limited
- Container Corporation of India Limited
- Engineers India Limited
- National Buildings Construction Corporation Limited
- Rashtriya Ispat Nigam Limited
- Rural Electrification Corporation Limited
- Shipping Corporation of India Limited
- Neyveli Lignite Corporation Limited

Policy of Miniratnas

- The government has also accorded the status of Miniratna to some profit making PSEs. There are two types of Miniratnas — Category I and Category II.

Category-I Miniratna

- These are companies, which have made a profit in each of last 3 years and earned a profit of ₹ 30 crore in atleast one of the 3 years.
- They are allowed to incur capital expenditure without government approval upto ₹ 500 crore or equal to their net worth whichever is lower. There are 62 Miniratnas of this category at present {June 2020}.

Category-II Miniratna

- These are companies, which have made profits for the last 3 years continuously and have a positive net worth. They can incur capital expenditure upto ₹ 300 crores or 50% of their net worth whichever is lower.
- There are presently (June 2020) 12 such category-II Miniratnas.

Disinvestment

- The New Industrial Policy, 1991, envisaged disinvestment of a part of government shareholdings in selected PSUs as an important element of public sector reforms. In pursuit of this, the process of disinvestment began in 1991-92, with the sale of minority stakes in some PSUs.
- The primary aim of disinvestment in this phase was to raise non-inflationary finance to plug budgetary deficit. But the focus of disinvestment shifted to strategic sale since 1999, in which substantial chunk of government equity is sold to private sector enterprises with an objective to improve the performance of the PSUs and to reorient public investment.

Objectives of Disinvestment

- To transfer the resources from non-strategic sector to the strategic sector, which is much higher on social priority such as basic health, family welfare, primary education etc.
- To raise funds to cover up the **fiscal deficit** of the government.
- To improve efficiency of the public sector by inducing private initiative and competition.
- To enhance accountability of the PSUs by exposing them to the capital market. To reduce political interference by imparting market orientation to the enterprise.
- Bring down government equity in all non- strategic PSUs to 26% or lower, if necessary.
- Restructure and revive potentially viable PSUs.
- Close down PSUs, which can not be revived.
- Fully protect the interest of workers.

Disinvestment *vs* Privatisation

Disinvestment refers to selling of equity of a PSU to a private organisation or to general public. Privatisation refers to providing for larger role for private capital and enterprise in the functioning of an economy. Privatisation is a wider term than disinvestment. Disinvestment is one of the means for achieving privatisation. *Privatisation may result from any of the following*

- Disinvestment
- Denationalisation (i.e. complete sell off of a PSUs)
- Transfer of management and control of a PSUs to the private sector
- Dereservation of areas reserved for the public sector etc.

The Disinvestment Process

- In 1992, government constituted a committee on the disinvestment of shares in PSE's headed by Dr C Rangarajan to recommend on the policy of disinvestment. The committee recommended that upto 49% equity of the PSUs under the exclusive participation of the state could be disinvested but for rest of the industries disinvestment can be allowed upto 74%.
- Further, the government constituted a 5 member Disinvestment Commission, under the chairmanship of Shri GV Ramakrishnan in August, 1996, to draw up a comprehensive policy for the long-term disinvestment programme.
- The commission was mandated to advise the government on the extent, methodology, strategy and timing of disinvestment.
- In May 2004, the government adopted National Common Minimum Programme, which outlined the policy of the government *with respect to the public sector as follows*:
  —In general, profit making PSU's will not be privatised.
  —In case of privatisation of profitable PSU's, government will retain at least 51% of the equity and the management control of the enterprise.
  —Navratnas PSUs will be retained under the public sector.
  —Chronically, loss-making companies will be either sold-off or closed, after all workers get their legitimate dues and compensation.

—All privatisations will be considered on a transparent and consultative case-by-case basis.

—A Board for Reconstruction of Public Sector Enterprises (BRPSEs) to be constituted.

—A National Investment Fund will be established.

- On 25th November, 2005, the government decided, in principle, to list large, profitable CPSEs on Domestic Stock Exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than Navratnas).
- On 17 May, 2020, as part of a stimulus package the Finance Minister Nirmala Sitharaman announced that the Government will privatize all Public Sector enterprises in non-strategic sector.

National Investment Fund

- In pursuance of the policy laid down in NCMP, the Central Government set-up National Investment Fund in November 2005. The proceeds from disinvestment of CPSUs will be channelised into NIF, which is to be maintained outside the Consolidated Fund of India.
- NIF will be professionally managed to provide sustainable returns to the government, without depleting the corpus. Selected Public Sector Mutual Funds will be entrusted with the management of the corpus of NIF. 75% of the Annual Income of NIF will be used to finance selected social sector schemes, which promote education, health and employment.
- The residual 25% of the annual income of the fund will be used to meet the capital investment requirements of profitable and revivable CPSUs that yield adequate returns or in order to enlarge their capital base to finance expansion diversification.
- The following Public Sector Mutual Funds have been appointed initially as Fund Managers, to manage the funds of NIF.

—UTI Assets Management Company Limited

—SBI Funds Management Company (Private) Limited

—Life Insurance Corporation, Asset Management Company Limited

National Monetisation Pipeline

The Union Government in August 2021 launched the National Monetisation Pipeline to unlock the value of investments in Brownfield public sector assets by tapping institutional and long-term capital. This four year pipeline will unlock value in Brownfield projects by engaging the private sector and transferring to them the rights but not the ownership in projects. It is indicatively valued at `6.0 lakh crore for 4 years with largest values coming in from monetisation of assets in Roads, Railways and Power transmission sector.

The Micro, Small and Medium Enterprises (MSMEs)

- Over the last five decades, the Small-Scale Industries (SSIs) sector has acquired place of prominence in the economy of the country. It has contributed significantly to the growth of the GDP, employment generation and exports.
- The sector now includes not only SSI units but also Small-Scale Service and Business Enterprises (SSSBEs) and is thus, referred to as the small enterprises sector.
- In India, Small-Scale Industries (SSIs) can be differentiated from the large-scale industries on the basis of three criteria *viz* volume of investment in the unit, annual turnover and number of workers employed.
- In accordance with the provision of Micro, Small and Medium Enterprises Development (MSMED) Act, the Micro, Small and Medium Enterprises (MSMEs) are classified on 1st June, 2020 in *two classes*:

  (i) **Manufacturing Enterprises** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the 1st Schedule to the Industries (Development and Regulation) Act, 1951. The manufacturing enterprise are defined in terms of investment in plant and machinery.

Enterprises	Manufacturing Sector
	Investment in Plant and Machineries
Micro Enterprises	Does not exceed ₹ 1 crore.
Small Enterprises	More than ₹ 10 crore.
Medium Enterprises	More than ₹ 20 crore.

  (ii) **Service Enterprises** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Enterprises	Service Sector
	Investment in Equipments
Micro Enterprises	Does not exceed ₹ 5 crore.
Small Enterprises	Does not exceed ₹ 50 crore.
Medium Enterprises	Does not exceed ₹ 100 crore.

Finance Minister N, Sitharaman announced the new amendment definitions of MSME in May, 2020 which are as follows :

New Definition of Enterprises

Types of Enterprises	Investment	Turn over
Micro	₹ 1 crore	₹ 5 crore
Small	₹ 10 crore	₹ 50 crore
Medium	₹ 50 crore	₹ 250 crore

Cottage and Village Industries

Cottage Industries

- This type of industry is run by family members on full or part time basis. It has negligible capital investment. There is hand made production using own tools and materials.

Village Industries

- The industries established in rural area having population below 10000 and having less than 15000 as fixed capital investment per worker are termed as village industries.

Differences Between Cottage and Small-Scale Industries

- Cottage industries are mostly in rural areas, while small industries are mostly in urban areas.
- Cottage industries are run by family members, while small industries have hired labourers.
- Cottage industries have very little capital investment, while small industries can have upto ₹ 5 crore invested.
- Cottage industries produce mostly traditional goods, while small industries produce many modern goods also.
- Cottage industries are located in the homes of workers, while small industries are not located in homes.

Contribution of Small-Scale Industries in Indian Economy

- The small-Scale sector accounts for over 80% of the manufacturing sector's employment. Total 120 million people employed in this sector.
- It contributed significantly towards the economic growth of the nation, with over 39% of the industrial production.
- The small-scale accounts for over 34% of the total exports and about 45% of the manufacturing exports. Further, over 90% of exports of the SSIs consists of non-traditional items like sports goods, readymade garments, processed foods, chemicals etc.
- SSIs are conducive for the economic development of underdeveloped countries like India. Such industries are relatively labour intensive, so they make economical use of the scarce capital.
- Small-scale industries are instrumental in reducing the inequalities in wealth. In these industries, capital is widely distributed in small quantities and the surplus of these industries is distributed among large number of people.
- Small-scale industries brings about regional dispersal of industries and alleviates regional imbalances.
- Small-scale industries, make use of local resources including the capital and entrepreneurial skills, which would have remained unused for want of such industries.
- Small industry sector has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification.

Problems of Small-Scale Industries

- These industries are not able to get raw material of adequate quality. The raw material they get, is also high in price.
- They are not able to get regular power supply.
- They are not able to get loans, since, they cannot offer good security.
- Due to old methods of production, the goods are many times of poor quality. They lack marketing support due to lack of funds.
- Their cost of production is high due to expensive raw material.
- They have mostly focussed on producing artistic goods, whose demand is limited and so production cannot be increased beyond a point.
- They have to compete with large-scale industries in many areas. Large industries are able to achieve low costs of production due to economies of scale.

Government Measures to Promote Small-Scale Industries

- Government initiated several measures for the promotion of small-scale and cottage industries immediately after independence. The importance of these industries was recognised in the very first Industrial Policy Resolution of 1948 and reiterated in all future industrial policy statements.
- Steps taken by the government for the development of these industries can be categorised as organisational, financial, fiscal, technical etc.

Organisational Measures

- **Establishment of Boards** Government constituted several boards at all India level to provide an organisational structure, through which the promotional efforts were to be carried out. These boards include Cottage Industries Board, Handloom Board, Handicraft Board, Khadi and Village Industries Board etc.
- **Industrial Estates** The policy of setting-up Industrial Estates was initiated in 1955, for the construction of factory premises and to provide basic facilities like power, water, roads etc.
- **District Industries Centre** (DIC) The concept of DIC was introduced in the Industrial Policy Statement of 1977. This programme was initiated in 1979, to cater to all the requirements of small-scale and village industries, under one roof.

Financial Measures

- **Small Industries Development Fund** (SIDF) It was set-up in 1986, to provide refinance (i.e. finance to the financial institutions in lieu of their-lending to SSIs) assistance for development, expansion, modernisation, rehabilitation of SSIs.
- **National Equity Fund** (NEF) It was set-up in 1987, to provide initial capital for setting-up of new projects in small-scale sector in the form of equity (i.e. shares).
- **Single Window Scheme** (SWS) It was introduced in 1988, to provide short-term as well as long-term financial assistance to SSIs.
- **Small Industries Development Bank of India** (SIDBI) It was established in October 1989, by amalgamation of Small Industries Development Fund (SIDF) and Natural Equity Fund (NEF). SIDBI is the apex financial institution for small enterprises sector. It provides finance to SSI, refinance assistance and coordinates the activities of other financial institutions for the provision of credit to SSIs.

Fiscal Measures

- Small-scale enterprises having turnover, upto ₹ 1 crore are fully exempted from the excise duty.
- Concessional rate of custom duties are levied on import of certain kind of raw materials and components used by SSIs.
- Price and purchase preference is granted to products manufactured in the small-scale sector in government purchase programme.

Technical Measures

- **Small-Scale Industries Development Organisation** (SIDO) It was established in 1954. SIDO provides technical, managerial, economic and marketing assistance to SSIs through its network of extension centres and service institutes.
- **Council for Advancement of Rural Technology** (CART) It was established in 1982, to provide technical assistance to rural industries.
- **Technology Development and Modernisation Fund** (TDMF) It was set-up for the technological upgradation and modernisation of the export oriented units.

Schemes/Programmes for Small Industries

Rajiv Gandhi Udyami Mitra Yojana

- Under this scheme, the selected lead agencies i.e. Udyami Mitras are providing guidance and assistance to the potential entrepreneurs registered with them, in preparation of project report, arranging finance, selection of technology, plant and machinery, marketing tie-ups with buyers, as well as obtaining various approvals, clearances and NOCs etc.
- **Udyami Mitras** are expected to assist the new entrepreneurs in the establishment and successful running of the enterprise for the first-sixth months.
- The scheme is beneficial to all potential first generation entrepreneurs, in all towns as well as rural areas, by encouraging establishment of new enterprises and thereby creating new job opportunities locally.
- A **Udyami Helpline** (a Call Centre for MSMEs) with toll-free number 1800-180-6763 is in operation to provide information, support, guidance and assistance to first generation entrepreneurs as well as other existing entrepreneurs.

Credit Rating Scheme for Micro and Small Enterprises

- National Small Industries Corporation (NSIC) in consultation with credit rating agencies and Indian Bank's Association has formulated a Performance and Credit Rating Scheme for Micro and Small Enterprises.
- NSIC is the nodal agency for the implementation of the scheme. NSIC empanelled the leading credit rating agencies like CARE, CRISIL, Dun and Bradstreet, FITCH, ICRA, ONICRA and SME Rating Agency of India Limited (SMERA) to conduct the rating of interested Micro and Small Enterprises under the scheme.

National Manufacturing Competitiveness Programme

- The National Manufacturing Competitiveness Programme (NMCP) for the MSMEs aims at enhancing the competitiveness of enterprise in this sector. There are 10 components of the NMCP, which have been approved and are available for MSMEs. *These are as follows:*
  —Lean Manufacturing Competitiveness Scheme (LMCS) for MSMEs.
  —Design Clinics Scheme for design expertise to MSMEs manufacturing sector.
  —Marketing Assistance and Technology Upgradation Scheme for MSMEs.
  —Enabling manufacturing sector to be competitive through Quality Management Standards (QMS) and Quality Technology Tools QTT.
  —Technology of Quality upgradation support for MSMEs.
  —Promotion of Information and Communication Technology (ICT) in MSME sector.
  —Setting-up Mini Tool Room and Training Centres under PPP Mode.
  —Marketing Assistance or Support to MSEs (Bar Code).
  —Building Awareness on Intellectual Rights for MSMEs.
  —Scheme for Providing Support for "Entrepreneurial and Managerial Developments of SMEs through Incubators".

Procurement Policy

- Government has approved a public procurement policy for Micro and Small Enterprises , which mandates that Central Ministries, Departments or PSUs have to procure minimum 20% of their total annual purchases from MSEs. Out of this 20%, a share of 4% has to be earmarked for the MSEs owned by SC/ST entrepreneurs.
- Central Ministries, Departments or PSUs will prepare their annual plan for setting of goal of 20% procurement and will mention in their annual reports. The policy will help to promote MSEs by improving their market access and competitiveness through increased participation by MSEs in government purchases and encouraging linkages between MSEs and large enterprises.

Credit Linked Capital Subsidy Scheme for Micro and Small Enterprises

- The scheme aims at facilitating technology up-gradation of Micro and Small Enterprises (MSEs) by providing 15% capital subsidy (limited to maximum ₹ 15 lakhs) for purchase of Plant and Machinery.

Reservation of Items for SSIs

- The policy to reserve certain items for the small-scale sector was introduced in 1967. It aims to promote the SSIs by protecting them from competition with the large-scale units.
- In April 1967, there were only 47 items in the reserved category, which were increased in several phases to 873 in 1984.

New Small Enterprise Policy, 1991

- Government announced a separate industrial policy for the small enterprise sector on 6th August, 1991. It was titled as, "*Policy Measures for Promoting and Strengthening Small, Tiny and Village Enterprises*".

Salient Features

- The ceiling of investment for the 'tiny sector' was raised from ₹2 lakh to ₹ 5 lakh.
- Large units including foreign firms were allowed to purchase upto 24% equity (shares) of the small-scale industries. Scope of tiny sector was enlarged to include all industry related service and business enterprises.
- Introduction of a new legal form of business organisation, limited partnership. In this form, the liability of atleast one partner is unlimited whereas other partners have their liability limited to the invested capital.

Current Policy on SSIs

- The report of the Task Force on micro, small and medium enterprises, presented to the Honorable PM on 30th January, 2010, provides a roadmap for the development and promotion of MSMEs.
- The detailed recommendations cover *6 major thematic areas*, namely credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development and taxation as also special measures for the North-Eastern region and Jammu and Kashmir.

Abid Hussain Committee Report

- The Abid Hussain Committee is appointed by the Government of India to suggest measures to improve the performance of small-scale industries. The committee submitted its report in January 1997.

Industrial Sickness

- The government defined the industrial sickness for the first time in the Sick Industrial Companies (Special Provisions) Act, 1985. According to this act, a medium or large (i.e. non-SSI) company was defined as sick if
  —It was registered for atleast 7 years (later reduced to 5 years).
  —It incurred cash losses in the current year and the preceding year.
  —Its entire net worth (i.e. paid-up capital and reserves) was eroded.
- A company is regarded, as weak or incipiently sick on the erosion of 50% of its peak net worth during any of preceding five financial years. Industrial sickness has been covered in the Companies (Second Amendment) Act, 2002 and Companies Act, 2012.

Causes of Industrial Sickness

- The causes of industries sickness can be classified into two categories i.e. internal and external causes.

Internal Causes

- Originate within the unit, so they can be controlled by the unit. *These include*
  —faults at planning and construction stage
  —inappropriate plant and machinery
  —management problems
  —entrepreneurial problems
  —labour problems
  —financial problems etc

External Causes

- Supposed to originate outside the unit, so are not under the control of the unit.

  Such factors include
  —erratic supply of inputs
  —power cuts
  —demand and credit constraints
  —changes in government policies etc

Revival of Sick Units

Government under take the following measures to revive the sick industrial units:

Industrial Investment Bank of India (IIBI)

- The government established the Industrial Reconstruction Corporation of India (IRCI) in 1971, as a company registered under the Companies Act. Its objective was to revive and rehabilitate the sick units by providing financial, managerial and technical assistance.
- In 1985, IRCI was renamed as Industrial Reconstruction Bank of India (IRBI) and was converted into a statutory corporation. Further in 1997, the IRBI was transformed into a full-fledged development financial institution and rechristened as Industrial Investment Bank of India (IIBI).

Board for Industrial and Financial Reconstruction (BIFR)

- The government set-up BIFR in 1987, under the Sick Industrial Companies (Special Provisions) Act (SICA), 1985. The BIFR is an autonomous quasi-judicial body to take final decision regarding revival and rehabilitation or winding up of the sick units.
- It is mandatory for a sick or weak unit to refer itself to the BIFR. On receipt of such reference, the board ascertains whether the company is indeed sick.
- If sickness is confirmed, the board may allow the company sometime to make its net worth positive on its own, prepare revival and rehabilitation package or wind-up the unit.

- *High interest rates and slower growth in household or retail credit resulted in slower growth in consumer durables.*
- *Industry is creating jobs, which have been relatively low-productivity jobs. As a result, per capita income in India has not benefited as much from inter-sectoral migration of workers out of agriculture as other Asian countries have.*

Economic Census

- The Central Sector Scheme on Economic Census (EC) and follow-up surveys was for the first-time formulated by the then Central Statistical Organisation (CSO) way back in *1976 with the following two main objectives:*
  - *(i)* To provide a frame (list) of all establishments in the country, from which samples could be drawn for collecting detailed information on operational and economic variables for any specific industry.
  - *(ii)* To compile information on these variable or parameters of all the establishments of the country including their distribution at All India, State or District etc levels for comprehensive analysis of the structure of the economy.
- Since then, six such EC's have been conducted so far, during the years 1977, 1980, 1990, 1998, 2005 and 2013. The Economic Census data, over the years, have provided a base for under taking follow-up surveys by NSSO and other governmental and non-governmental agencies to study the structure and composition of the various industrial sectors and their contribution.

Sixth Economic Census

- Central statistics office in the Ministry of Statistics and Programme Implementation (MoSPI) conducted the Sixth Economic Census during January 2013 to April 2014 in collaboration with directorates of economics and statistics in all the States and Union Territories.
- The Sixth Economic Census had also the same coverage as that of Fifth Economic Census. However, establishments engaged in public administration, defence and compulsory social security activities have been excluded as data pertaining to them are available with the government through administrative records and also due to the difficulties faced in collecting information from sue's establishments during the Fifth Economic Census.
- The Sixth Economic Census separately identified handicrafts handloom establishments for the first time.
- Further, Enumeration Blocks (EBs) of Population Census, 2011 have been used as the primary geographical units for collection of data.

Corporate Social Responsibility (CSR)

- According to the provision for Corporate Social Responsibility (CSR), every company having net worth of ₹ 500 crore or more or turnover of ₹ 1000 crore or more or a net profit of ₹ 5 crore or more during any financial year is required to constitute a Corporate Social Responsibility Committee.
- The Corporate Social Responsibility Committee will formulate a Corporate Social Responsibility Policy.
- Such a company is required to spend atleast 2% of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Index of Industrial Production (IIP)

- IIP is an index for measuring the level of industrial activity in the country. All India IIP is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period.
- It is complied and published monthly by the Central Statistics Office (CSO) with the time lag of 6 weeks from the reference month.

- The Index of Industrial Production (IIP) with 2004-05 as base is the leading indicator for industrial performance in the country. Compiled on a monthly basis, the current IIP series based on 399 products or product groups is aggregated into three broad groups of mining, manufacturing and electricity. The IIP as an index shows both the level of production and growth.
- The Central Statistics Office (CSO) of the Ministry of Statistics and Programme Implementation (MoSPI) released the new series of the IIP with 2004-05, as its new base on 10th June, 2011, replacing the IIP series with 1993-94 as base.

Core Sector

- The Core Sector consists of eight core industries in the economy having a weightage of 40.27% in the IIP. These *eight sectors* are Coal, Crude Oil, Natural Gas, Petroleum Refinery Products, Fertilizers, Steel, Cement and Electricity.

The weightage of Core Industries as follows

- **Natural Gas** (8.98%).
- **Fertilizers** (2.63%).
- **Steel** (17.92%).
- **Crude Oil** (6.88%).
- **Coal** (10.33%).
- **Refinery Products** (28.04%).
- **Cement** (5.37%).
- **Electricity** (19.85%)

Purchasing Managers Index (PMI)

- The PMI is a composite index of 5 'sub-indicators', which are extracted though surveys of purchasing managers form around the country, chosen for their geographic and industry diversification benefits.
- In India, the most widely followed PMI is the one prepared by HSBC called the India Manufacturing PMI.
- *The five sub-indexes in this system and their weightage are as follows*:

  (i) New orders-0.3, (ii) output-0.25, (iii) employment 0.2, (iv) suppliers delivery times 00.15, (v) stock of items purchased 00.1.

  A PMI of more than 50, represents expansion of the manufacturing sector, compared to the previous month. A reading under 50, represents a contraction, while a reading at 50 indicates no change.

India's Manufacturing Sector

- The 11th Plan had targeted growth in manufacturing at 10-11%, but actual performance was only about 7.7%. It is a matter of concern that the manufacturing sector has not shared in the dynamism of the economy not just in the 11th Plan, but even in preceding plan periods. As a result, the share of the manufacturing sector in GDP is only 15% in India, compared with 34% in China and 40% in Thailand.
- The slow pace of growth in the manufacturing sector at this stage of India's development is not an acceptable outcome. Manufacturing must provide a large portion of the additional employment opportunities as opposed to agriculture, for India's increasing number of youth.
- *The challenges to developing and implementing a cohesive manufacturing strategy* :

  —There is a multiplicity of ministries dealing with different aspects of industry e.g. commerce, labour, environment, science, finance etc. The states have a major role in facilitating the growth of manufacturing in terms of provision of infrastructure, management of various local regulations and managing labour related laws.

  —Industry associations lobbying for their members' (often conflicting) interests are important stakeholders.

  —Other stakeholder groups, who must be involved in the consultations in a more systematic and productive way are unions, land owners etc.

  —There are many over-sight bodies and committees, perhaps too many. There is need to sharpen their roles and improve co-ordination amongst them.

National Manufacturing Plan as Suggested by the 12th Plan

- India's strategic objectives for the manufacturing sector in the next 15 years should be to bring about a quantitative and qualitative change through a set of policies and plans with the *following five objectives*.

  (i) Increase manufacturing sector growth to 12-14%, over the medium term to make it the engine of growth for the economy.

  (ii) The 2-4% differential over the medium term growth rate of the overall economy will enable manufacturing to contribute at least 25% of GDP by 2025.

  (iii) Increase the rate of job creation in manufacturing to create 100 million additional jobs by the year 2025. Emphasis should be given to creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.

  (iv) Increase domestic value addition and technological 'depth' in manufacturing.

  (v) Enhance global competitiveness of Indian manufacturing through appropriate policy support.
- Ensure sustainability of growth, particularly with regard to the environment.

National Manufacturing Policy, 2011 (NMP)

The major objectives of the National Manufacturing Policy are as follows:

—to increase the sectoral share of manufacturing in GDP to atleast 25% by the year 2022;

—to increase the rate of job creation, so as to create 100 million additional jobs by the year 2022;

—to enhance global competitiveness, domestic value addition, technological depth and environmental sustainability of growth;

—to provide a productive environment to persons transitioning from the primary to the secondary and tertiary sectors through the creation of large integrated industrial townships called **National Investment** and **Manufacturing Zones** (NIMZs) with state-of-the-art infrastructure; land use on the basis of zoning; clean and energy efficient technologies;

—to ensure compliance of labour and environmental laws, while introducing procedural simplifications and rationalisation, so that the regulatory burden on industry is reduced;

—to provide an enabling environment for tapping the potential of the private sector and the entrepreneurial skills of the younger population.

Highlights of the National Manufacturing Policy

- It will set-up National Investment and Manufacturing Zones (NIMZs). The minimum land area of each NIMZ or greenfield integrated industrial townships with the modern infrastructure is to be 5000 hectares.
- The first phase of the NIMZ will be established along the Delhi-Mumbai Industrial Corridor.
- The National Investment and Manufacturing Zone (NIMZ) proposed under the National Manufacturing Policy will be managed by a Special Purpose Vehicle (SPV), headed by a government official and have experts, including those on environment.
- The industrial townships will be self-governing and autonomous bodies. Single window clearance will be provided to improve the regulatory environment.
- The Central Government will create the enabling policy framework, provide incentives for infrastructure development on a private-public partnership basis through appropriate financing instruments, while State Governments will identify suitable land and be equity holders in the NIMZs.
- The special purpose vehicle, which will administer the NIMZ will set-up skill development centres on a build own and operate basis.
- Private sector will be given standards deduction of 150% of expenditure for skill development institutes.
- With a view to protect the interests of labour in cases of closure of units, the policy has a mechanism of fund to insure the workers against such loss.
- The focus will also be on green manufacturing. In this regard, a Technology Acquisition Fund will be set-up to acquire global technologies and build a patent pool especially for equipment manufacturing that seeks to reduce energy consumption.
- Environmental clearances will continue to be given as per existing rules and regulations, but the Environment Ministry has agreed to give priority in processing cases from the manufacturing zones.
- The Environment Ministry will also designate officials from the State Pollution Control Board to ensure speedy clearances.

NIMZs

- The NMP provides for the development of NIMZs as integrated industrial townships with state-of-the-art infrastructure and land use on the basis of zoning; clean and energy-efficient technology; necessary social infrastructure and skill development facilities to provide a productive environment to persons transiting from the primary sector to the secondary and tertiary sectors.

Delhi-Mumbai Industrial Corridor Project (DMIC)

- The DMIC is proposed to be developed on side along the alignment of the 1483 km long Western Dedicated Rail Freight Corridor between **Dadri** (Uttar Pradesh) and Jawaharlal Nehru Port Trust (JNPT), **Navi Mumbai**. The project seeks to create a strong economic base with a globally competitive environment and state-of-the-art infrastructure to activate local commerce, enhance investments and attain sustainable development.
- A model industrial corridor of international standards is proposed to be developed with emphasis on expanding the manufacturing and services base and creating a 'Global Manufacturing and Trading Hub'. The DMIC runs across the 6 states of Uttar Pradesh, Haryana, Madhya Pradesh, Rajasthan, Gujarat and Maharashtra and majority of projects in DMIC are envisaged to be implemented through public private partnership.
- The DMIC Development Corporation (DMICDC) was incorporated in January 2008, for project development, coordination and implementation of the numerous projects in the DMIC.
- 6 investment regions and 6 industrial areas are approved to be developed in Phase I of the project.

Some Large-Scale Industries

Iron and Steel Industry

- 'Steel was a symbol of strength and a portent of the glory of India of the future'—Jawaharlal Nehru.
- The first public-owned steel plant was Rourkela Integrated Steel Plant was set-up in 1954 with the help of German Collaboration.
- Steel Authority of India Limited (SAIL) was set-up in 1974 and was responsible for the development of the steel industry and for major inputs for the industry.

- India is the fourth largest producer of the Crude Steel in the world after China, Japan and the USA in 2010. In 2019, India was ranked 2nd. India is the largest producer of **Sponge Iron** since, 2002.

Cotton and Synthetic Textile Industry

- It is the largest industry in India, accounting for about 20% of industrial output, provides employment to 20 million persons and contributes 33% to total export earnings.
- The Indian Textile Industry is predominantly cotton based with 65%.
- The organised Textile Industry comprises of (i) spinning mills; (ii) coarse and medium composite mills and (iii) fine and superfine composite mills.
- Average per capita consumption of cloth has increased steadily since **eighties**. It stood at 39 m in 2008-09.
- Textile Export Promotion Council (TEXPROCIL) was established by the government to strengthen and facilitate the textiles exports.
- The Scheme for Integrated Textile Park (SITP) was launched in July 2005, merging two schemes, i.e. Apparel Parks for Export Scheme (APES) and Textile Centre Infrastructure Development Scheme (TCIDS).
- In Global Textiles Exports (2019), India now stands at 2nd position.
- India's share in Global Textiles has increased by 25% in the year 2019.

Jute Industry

- Jute industry was started in 1885 and India is the largest producer and second largest exporter of jute in the world.
- Jute Technology Mission was launched on 2nd June, 2006.
- The revival package of National Jute Manufactures Corporation (NJMC) envisages operationalisation of three jute mills *viz.* Kinnison and Khardah in West Bengal and Rai Bahadur Hadrut Mill, Katihar (Bihar). Government has enacted Jute Packaging Materials (compulsory use in packing commodities) Act, 1997 to broaden the usage of jute.

Sugar Industry

- India is the largest producer of sugar in the world with a 22% share.
- It is the second largest agro-based industry in the country. Statutory Minimum Price (SMP) of sugar is fixed by the government on the recommendation of Commission for Agricultural Costs and Prices (CACP) and after consulting the State Governments, Association of Sugar Industry and cane growers.
- Dual price mechanism with partial control is applied to sugar industry. Under this, the government fixes the ratio levy and free sale sugar quota in the ratio 28 : 72. The levy sugar is sold to consumers through fair price shops at lower price and free sale sugar quota is sold by sugar factories at higher prices in the open market.

Cement Industry

- The foundation of stable Indian Cement Industry was laid in 1914, when the Indian Cement Company Limited started manufacturing of cement at Porbandar in Gujarat.
- India is the second largest producer of cement in the world.
- The per capita consumption of cement in India is just 68 kg.

Petrochemical Industry

- The real thrust to this industry came with the establishment of Indian Petrochemical Corporation Limited at Baroda.
- Petrochemical industry mainly, comprises synthetic fibres, polymers, elastomers, synthetic detergents and performance plastics. The main source of feedstock and fuel to this industry are natural gas and naptha.
- National Policy on Petrochemicals was announced in 2007 with the objective of increasing investment, demand and achieve environmentally sustainable growth.

Fertilizer Industry

- The first fertilizer industry was set-up in 1906 in Ranipat near Chennai.
- India meets 85% of its requirement through indigenous production, but is largely import dependent for meeting the phosphorus and potassium fertilizer.
- India is the second largest producer of fertilizer after China and second largest consumer after China.
- NPK (Nitrogen, Phosphorus, Potassium) consumption ratio in 2008-09 was 4.6:2:1. The ideal ratio is 4:2:1.
- Urea is the only fertilizer under statutory price control.
- With effect from 1st April, 2010, Nutrients Based Subsidy (NBS) Policy is implemented. The nutrients covered are NPK and Sulphur.

Automotive Industry

- India is the 2nd largest manufacturer of motorcycle and fifth largest manufacturer of commercial vehicles in the world.
- In 2009, India was the forth largest exporter of passenger cars after Japan, South Korea and Thailand.
- Automotive industry was delicensed in July 1991, however, passenger cars industry was delicensed in 1993. India is the largest manufactures of tractor in the world.

- India is the 9th largest car manufacturer in the world.

Industrial Growth

- It contributes close to 30% of total Gross Value Added (GVA).
- As per recently released national accounts data with 2011-12 as the base year, industrial growth rate of Gross Capital formation was much better in 2015-16 at 11.1%.
- Growth rate, at the base rate 2011-12, in the year of 2017-18 and 2018-19 was 5.9% and 6.9% (up to January, 2020) respectively.

Economic Reforms

- Economic reforms refer to all those programmes and policies, which were introduced by the government as a package of New Economic Policy (NEP) to restore the growth process, which by 1991, was scraping the bottom. There are two parameters of economic reforms macroeconomic Stabilisation Policy and Microeconomic Structural Adjustment Programmes.

Macroeconomic Stabilisation Policy

- Macroeconomic stabilisation measures refer to those set of measures, which affect the entire economy and are therefore, pervasive in nature (spreading across all sectors of the economy).
- These measures include review of: (a) Monetary Policy, (b) Fiscal Policy and (c) Exchange Rate Policy.
- The focus of these measures was to cope with the crises of confidence relating to ability of the government to manage the country's dwindling Balance of Payment (BoP) status, particularly its ability to repay the loans taken from the rest of the world.

Major Stabilisation Measures in India

- Devaluation of the Indian currency in 1991.
- Move of the exchange rate regime from that of a crawling peg towards a market determined one, though somewhat managed.
- Removal of quantitative restrictions on imports.
- Rationalisation of the tariff structure; reduction in the number of tariff rates and the peak rate of tariff has been reduced from around 400% to 12.5% for non-agriculture products.
- Current account convertibility with limited capital account convertibility.

Microeconomic Structural Adjustment Programmes

- These refer to those measures by the government, which focus on structural changes in the economy and which had specific bearing on different sectors of the economy. These measures include reforms in (a) Industrial Policy, (b) Trade Policy, (c) Public Sector Policy, (d) Price Policy, (e) Tariff Policy etc.
- It may be noted that while macroeconomic stabilisers are short-term measures to correct overall imbalances in the system, microeconomic adjustments are long-term measures aiming at improving the level of efficiency and productivity in different sectors of the economy.

Major Structural Adjustment Programme (SAP) in India

- Industrial deregulation, public sector reforms, industrial delicensing, removal of restrictions on industrial expansion etc.
- Public private partnership in infrastructure development and financial sector reforms.
- Removal of restraints on inter-state movement of foodgrains, the restructuring of the Public Distribution System (PDS), relaxation of restrictions under the Essential Commodities Act, introduction of forward trading in most agricultural commodities and removal of some marketing restrictions on crop produce.

Components of New Economic Policy/Economic Reforms

- New Economic Policy was announced in July 1991. Main components of new economic policy are Liberalisation, Privatisation and Globalisation (LPG) of the economy.

Reasons for Economic Reforms

- Mounting Fiscal Deficit
- Adverse Balance of Payments
- Fall in Foreign Exchange Reserves
- Rise in Prices
- International Pressures
- Poor Performances of Public Sector Enterprises

Liberalisation

- Liberalisation of the economy means freedom of the producing units from direct or physical controls by the government.

Measures Taken for Liberalisation

- With the exception of 5 industries, industrial licensing has been abolished for all other industries. In 2002, MRTP Act has been abolished and in its place a much Liberal Competition Act, 2002 has been enacted.
- Under the policy of liberalisation, industries (which are not covered under industrial licensing) are free to expand and produce. They need no prior official approval.
- Investment limit of the small industries has been raised to ₹ 5 crore so as to enable them to introduce

modernisation. Investment limit of tiny industries or micro enterprises has also been increased to ₹ 25 lakh.

- Under the policy of liberalisation, Indian industries will be free to buy machines and raw materials from abroad in order to expand and modernise themselves.
- Earlier, for regulating foreign exchange transactions, government had enacted Foreign Exchange Regulation Act—FERA. This act was very restrictive in nature. It involved various checks and controls on transactions involving foreign exchange.

Privatisation

- "Privatisation is the general process of involving the private sector in the ownership or operation of a state owned enterprise." It implies parting with government ownership or management of the public sector enterprises.
- *It may happen in two ways:*
  (i) outright sale of the government enterprises to the private entrepreneurs *or*.
  (*ii*) withdrawal of the government ownership and management from the mixed enterprises (the enterprises jointly owned and managed by the government and the private entrepreneurs).

Measures Adopted for Privatisation

- Number of industries reserved for the public sector has been reduced from 17 to 3 only.
- Public sector industrial units are treated in the same way as sick industries of private sector. In this respect, Sick Industrial Companies Act, 1985, has been amended in December 1991.
- With a view to improve the working of public sector enterprises, a system of MoU has been introduced. Under it, management of public sector enterprises will be given more freedom and they will be accountable for the results.
- National Renewal Fund was established for protecting the interest of employees on account of privatisation. The employees were offered Voluntary Retirement under this scheme. Upto March 2009, more than 6 lakh employees had sought voluntary retirement from public sector units. This fund is even used for providing social security measures to retrenched employees of PSUs.

Globalisation

- Globalisation means integrating the economy of a country with the economies of other countries in an environment of free flow of goods and services across the borders.
- It is a process, associated with increasing openness, growing economic inter-dependence and deepening economic integration with the world economy.
- Owing to globalisation, it was expected that capital and technology will flow from developed countries of the world into India. Accordingly, India would have access to the fruits of global growth.

Measures Adopted for Globalisation

- Under economic reforms, limit of foreign capital investment has been raised. In many industries, foreign direct investment to the extent of 100% has been allowed without any restriction and red-tapism.
- To achieve the objective of globalisation, partial convertibility of Indian rupee was allowed. It was in conformity with economic reforms.
- *This convertibility is valid for the following transactions*
  —import and export of goods and services;
  —payment of interest or dividend on investment;
  —remittances to meet family expenses.
- It is called **partial convertibility** because It does not cover capital transactions.
- All restrictions and controls on foreign trade have been removed. Open competition has been encouraged. Administrative controls have also been minimised.
- Custom duties and tariffs imposed on imports and exports are being reduced gradually.

Make in India

- Make in India compaign aims at reviving the job creating manufacturing sector, which is being seen as the key to taking the Indian economy on a sustainable high growth path. It is being seen as the key to taking the Indian Economy on a sustainable high path. It aims to take manufacturing growth to 10% on a sustainable basis.
- *Some of the important features of make in India are as follows:*
  —It aims to attract foreign companies to set-up factories in India and invest in the country's infrastructure.
  —It aims to transform the economy from the services-driven growth model to labour-intensive manufacturing-drive growth. This is expected to create over 10 million new jobs annually.
  —25 key sectors have been identified, in which India has the potential of becoming a world leader. These include automobiles, chemicals, IT, pharmaceuticals, textiles, ports, aviation, leather, tourism and hospitality, wellness, railways etc.
  —A dedicated new portal (www.makeinindia. com)has been especially created to answer queries from business entities.
  —Top executives from 3000 top companies and corporations world wide were invited to be part of the campaign.
  —Indian embassies around the world also became part of this global campaign.
  —The Department of Industrial Policy and Promotion (DIPP) constituted an eight-member expert panel to redress grievances and queries and handle queries of global and domestic investors within 24 hours.

Digital India

- Digital India aimed at transforming the country into 4 digitally empowered social and knowledge economy, as well as to revive the State of Governance in the country.
- It is an 'umbrella programme' weaving together many existing schemes under multiple ministries and departments to ensure that it's services are available to citizens electronically.
- In order to achieve to above objective, several projects products were already launched by the Government and Public Sector Enterprises or ready to be launched as indicated below.
- Digital Locker System aims to minimise the usage of physical documents and enable sharing of e-documents across agencies.
- Swachh Bharat Mission (SBM) mobile app would be used by people and government organisations for achieving the goals of Swachh Bharat Mission.
- e-Sign framework would allow citizens to digitally sign a document online using Aadhaar authentication. The Online Registration System (ORS) under the e-Hospital application has been introduced.
- Digitise India Platform (DIP) for large-scale digitisation of records in the country that would facilitate efficient delivery of services to the citizens. Bharat Net, a high speed digital highway to connect all 2.5 lakh Gram Panchayats of country.
- Centre of Excellence on Internet on Things (IoT) is a joint initiative of Department of Electronics and Information Technology (Deity), ERNET and NASSCOM.
- The BSNL has introduced Next Generation Network (NGN) to replace 30 years old exchanges.

Startup India - Standup India

- Startup India compaign has been launched on 16th January, 2016 by the honourable Prime Minister of India, Narendra Modi. The Startup India, Standup India initiative and unveil the government's actions plans to support early stage startups.
- Startup India, Standup India celebrates the entrepreneurship spirit of country's youth and those that are using technology to change the way we solve problems in India across industries, from medicine and sports to education and the environment.

Aim of Scheme

- Organised by Department of Industrial Policy and Promotion (DIPP), along with other key Indian startup ecosystem players, the Startup India, Standup India initiative aims to celebrate the country's entrepreneurial spirit, and create a strong ecosystem for fostering innovation and startups in India.

Start-up India Mission

- Start-up India campaign is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start ups with jobs creation.
- The campaign was first announced by Prime Minister Narendra Modi in his 15th August, 2015 address from the Red Fort. The mission was launched on 16th January, 2016.
- It is focused on to restrict role of states in policy domain and to get rid of 'license raj' and hindrances like in land permissions, foreign investment proposal, environmental clearances. It was organised by Department of Industrial Policy and Promotion (DIPP).
- The key points of Start-up India Mission are as follows
  —Single Window Clearance even with the help of a mobile application
  —₹ 10,000 crore fund of funds
  —80% reduction in patent registration fee
  —Modified and more friendly Bankruptcy Code to ensure 90 days exit window
  —Freedom from mystifying inspections for 3 years
  —Freedom from Capital Gain Tax for 3 years
  —Freedom from tax in profits for 3 years
  —Starting with 5 lakh schools to target 10 lakh children for innovation programme

Stand-up India Scheme

- Stand-up India scheme facilitates loans between ₹ 10 lakh and ₹ 1 crore to at least one Scheduled Caste or Scheduled Tribe borrower and at least one woman borrower per bank branch for setting up a Greenfield enterprise. This enterprise may be in manufacturing, services or trading.
- In case of non-enterprise individual, at least services or trading and in case of non-enterprise individual, at least 51% of share holding and controlling stake should be held by either an SC/ST or women entrepreneur. Prime Minister launched the 'Stand-up India Scheme' and a web portal for the scheme on 6th January, 2016 at sector 62, Noida.
- The key points of Stand-up India Scheme are as follows
  —Composite loan between ₹ 10 lakh and ₹ 1 crore, inclusive of working capital component for setting up any enterprise. Debit Card (Rupay) for drawal of working capital.
  —Credit history of borrower to be developed. Refinance window through Small Industries Development Bank of India (SIDBI) with an initial amount of ₹ 10,000 crore. Creation of a corpus of ₹ 5,000 crore for credit guarantee through National Credit Guarantee Trustee Company (NCGTC).

Self Check

Build Your Confidence

1. Which one of the following committees recommended the abolition of reservation of item of small-scale sector in industry? **[UPPCS 2006]**
(a) Abid Hussain Committee
(b) Narsimhan Committee
(c) Nayak Committee
(d) Rakesh Mohan Committee

2. Which one of the following Industrial Policies has abolished (with a few exception) the Industrial Licensing?
(a) Industrial Policy, 1970 (b) Industrial Policy, 1980
(c) Industrial Policy, 1991 (d) Industrial Policy, 1985

3. A labour intensive industry is one that **[UPPCS 2006]**
(a) require hard manual labour
(b) pay adequate wages to the labour
(c) employs more hands
(d) provide facilities to labour

4. Why is Government of India disinvesting its equity in the central public sector enterprises?
1. The government intends to use the revenue earned from the disinvestment mainly to pay back the external debt.
2. The government no longer intends to retain the management control of the CPSEs.

Select the correct answer using the codes given below
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

5. What is/are the recent policy initiatives of Government of India to promote the growth of manufacturing sector?
1. Setting-up National Investment and Manufacturing Zones.
2. Providing benefits of single window clearance.
3. Establishing the Technology Acquisition and Development Fund.

Select the correct answer using the codes given below
(a) 2 and 3 (b) 1 and 3
(c) 1 and 2 (d) All of these

6. Consider the following statements
1. Privatisation of public sector units occurs, when government sells 5% of its share.
2. Abid Hussain Committee recommended the abolition of reservation of items of small-scale sector in industry.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

7. Consider the following statements
1. Startup India initiative aims to celebrate the country's entrepreneurial spirit.
2. Income tax has been exempted for 3 years in Startup India Scheme.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

8. Consider the following statements
1. World Investment Report is published by World Bank.
2. Bokaro Steel Limited was established with the assistance of Soviet Union.

Which of the statement given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

9. Consider the following statements
1. The first cement industry in India was the Indian Cement Company Limited.
2. The per capita consumption of cement in India is one of the highest in world.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

10. Consider the following statements
1. India had no iron and steel industry at independence.
2. The first iron and steel industry in independent India was set-up in Raurkela.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

11. The Companies Act, 2013 introduces a new type of entity to existing list i.e. apart from forming a public or private limited company. The 2013 Act enables the formation of a new entity is
(a) one person company
(b) two person company
(c) more than five person company
(d) None of the above

12. In the 'Index of Core Industries', which one of the following is given the highest weight overlapping?
(a) Coal Production **[UPSC 2015]**
(b) Electricity Generation
(c) Fertilizers Production
(d) Steel Production

1. (a) **2.** (c) **3.** (c) **4.** (d) **5.** (d) **6.** (b) **7.** (c) **8.** (b) **9.** (c) **10.** (a)
11. (a) **12.** (b)

Chapter thirteen
Services Sector

"The phenomenal expansion of services worldwide led to the services being regarded as an engine of growth and even as a necessary concomitant of economic growth."

Current Scenario

- The services sector is not only the dominant sector in India's GDP, but also has attracted significant foreign investment and contribute significantly to export and employment generation. In the fiscal year 2020-21, it contributed 54% of total Gross Value Addition (GVA) in India. It attracted cumulative foreign direct investment worth US $ 87.06 billion between April 2000 and March 2021 and ranked first in FDI inflow as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT). According to RBI, in June 2021 India's service exports stood at US $ 19.72 billion while imports stood at US $ 11.14 billion.

Composition of Service Sector

- India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

International Comparison

- In world GDP of US$ 142 trillion in 2019, the share of services was 66%, more or less the same as in 2007. In the last 13 years, the share of service in world GDP has declined by 2.7% points.
- Among the top 15 countries with highest overall GDP in 2019, India ranked 5th in overall GDP and 8th in terms of services GDP in 2020-21 (Provisional).
- Among the top 15 nations in the period of 2001 to 2013, the maximum services share to GVA was recorded by Spain (9.7% points), followed by India (7.8% points) and China (6.8% points). In 2017, India, USA ranked 1st in GDP of services.

Share of Services in Income and Employment

- While the share of services in employment for many developed countries is very high and in many cases higher than the share of services in income, the gap between these shares is relatively less. Except China and India, all the other BRICS countries also have a **similar pattern**.
- In the Indian and Chinese cases, there is a wide gap between the two, with gap being wider for India. China's share of services in both income and employment is relatively low due to the domination of the industrial sector, but the gap is also narrower than that of India.
- Of the 15 countries, in the last 13-years period between 2001 and 2014, China had the highest increase in the share of services employment (34.4% points) followed by Brazil (17.2% points) and Spain (14.3% points). For India, the increase was by only 4.7% points.

Services Sectors of India

- India's services sectors has emerged as a prominent sector in terms of its contribution to national and states incomes, trade flows, FDI inflows and employment.
- The years, India's overall and services growth rates have outpaced those of the world.

- This sector has been pulling up the growth of the Indian economy with a great amount of stability.
- As per the new method of India's National Accounts statistics, the service sector accounting for 55.3% of India's Gross Value Added (GVA) at basic prices (current prices) in 2019-20.

Growth of India's Services Sector (GVA at Basic Price)

	2019-20	2020-21
Total Services	6.9	8.8%
Trade, hotels, transport and communication	5.9	21.4%
Financial Services	6.4	3.68%
Construction	1.3	12.6%
Total GVA/GFC		

FDI in India's Services Sector

- Though there is ambiguity in the classification of FDI in services, it is the combined FDI share of the top 10 service sectors such as financial and non-financial services falling under the Department of Industrial Policy and Promotion (DIPP)'s services sectors definition; as well as telecommunications; trading; computer hardware and software; construction; hotels and tourism; hospital and diagnostic centres; consultancy services; sea transport; and infromation and broadcasting that can be taken as the best estimate of services FDI. FDI inflows into the services sector increased by 34 per cent year on year during April-September 2020 to reach US $ 23.61 billion.

Two Phases of Growth Rate of Exports of Services

The growth rates exports services of India and the world show *two distinct phases*, the first till 1996, when the two growths had a scissor-like movement and the second phase after 1996, when the growth of India's services exports was higher than that of the world in almost all the years except 2009. In this second phase, the former was much above the latter in upswings, but almost converged with the latter during downswings.

Some Major Services of India

- The service sector is a vital cog in the wheel of Indian economy. The sector accounting for 55.2% of the GVA. The government has taken many initiatives in the different services which include digitisation, e-visas, infrastructure status to Logistics, Start-up India, Schemes for the housing sector, etc. which could give a further fillip to the Services Sector. Major Services' Sector-wise performance and some recent government policies to boost the growth of the sector are as follows:

Tourism

- India ranked 22nd in the world in terms of international tourist arrivals in 2018, improving from the 26th position in 2017. India now accounts for 1.24% of world's international tourist arrivals and 5 per cent of Asia and Pacific's international tourist arrivals. India ranks 13th in the world and 7th in Asia and Pacific in terms of tourism foreign exchange earnings, accounting for close to 2 per cent of the world's tourism foreign exchange earnings.
- Looking at tourism trends at the state level, the top five states attracting domestic tourists are Tamil Nadu, Uttar Pradesh, Karnataka, Andhra Pradesh and Maharashtra, accounting for nearly 65 per cent of the total domestic tourist visits in the country in 2018. The top five states attracting foreign tourists are Tamil Nadu, Maharashtra, Uttar Pradesh, Delhi and Rajasthan, accounting for about 67 per cent of the total foreign tourist visits in the country in 2018.

Various initiatives have been taken by the government to promote tourism include

- the introduction of the e-Visa facility under three categories of Tourist,
- Medical and Business for the citizens of 163 countries;
- launch of Global Media Campaign on various Channels;
- launch of 'The Heritage trails to promote the World Heritage Sites in India;
- launch of International Media Campaign on various international TV channels;
- Celebration of 'Paryatan Parv' having 3 components namely 'Dekho Apna Desh' to encourage Indians to visit their own country,
- 'Tourism for All' with tourism events at sites across all states in the country, and
- 'Tourism and Governance' with interactive sessions and
- workshops with stakeholders on varied themes.

Hotels and Restaurants

- Tourism is a major engine of economic growth, an important source of foreign exchange earnings and a generator of employment of diverse kinds in many countries including India.
- According to the World Travel and Tourism Council (WTTC), the total contribution of travel and tourism to world GDP was US $ 8.9 trillion (10.3% of GDP) in 2019.
- The latest World Tourism Barometer of the United Nation's World Tourism Organisation (UNWTO) also shows that international tourist arrivals reached 1.2 billion in 2015, a 4.4% increase over the previous year, and for 2016 the forecast is a 3.5-4.5% increase.
- India's share in ITAs is a paltry 0.7% compared to 7.4% of France, 6.6% of the USA, 5.7% of Spain and 4.9% of China.
- According to Indian Tourist Statistics released by Ministry of Tourism in October 2020, Uttar Pradesh attracted maximum number of domestic tourists followed by Tamil Nadu and Andhra Pradesh.

Transport Related Services

Some transport related services are as follows:

Shipping

- India has a 0.9 % share in world fleet as on January 2019. India has 13 major ports and about 200 non-major ports. The total cargo capacity of Indian ports stood at 1,452.64 Million Tonnes Per Annum (MTPA) at the end of March 2019, more than doubling from 628.03 MTPA at the end of March 2010. Ports such as Paradip, Chennai, Visakhapatnam, Deendayal (Kandla) and JNPT had the highest cargo capacities as of March 2019. The total numbers of ships owned by Indian companies stood at 1,414 as of August 2019, up from 1,040 in 2010.
- The Shipping turnaround time at ports has almost halved from 4.67 days in 2010-11 to 2.62 days in 2019-20. It is lowest at the Cochin, New Mangalore, V. O. Chidambaranar and Chennai ports, and the highest at the Kolkata port. As per the latest UNCTAD data, the median ship turnaround time globally is 0.97 days, suggesting that India has room to further improve upon the efficiency at ports.

Port Services

- Port services are closely connected to shipping services and **merchandise trade.** The performance of the latter two is also dependent on the efficiency of ports.
- The **Maritime Agenda** 2010-20, covers some of these issues like full mechanisation of cargo handling and movements, having draft of not less than 14 m in major ports and 17 m in hub ports and shifting of **transshipment** of Indian containers from foreign ports to Indian ports.
- The outlay for shipping sector in 12th Plan includes ₹ 6960 crore as global budgetary scheme and ₹ 21990 crore as Internal and Extra Budgetary Resources (IEBR).

Business Services

- Business services include services like computer- related services, research and development, accounting services and legal services and renting of machinery in order of importance (shares) as per India's National Accounts.

IT-BPM

- The Indian IT-BPM Industry has been the flag-bearer of India's exports for the past two decades, with industry size reaching about US$ 177 billion in March 2019. The sector contributes significantly to the economy through employment growth and value addition. IT services constituted 51 per cent of the IT-BPM sector in 2018-19, followed by Software & Engineering Services (20.6 per cent share) and BPM Services (19.7 per cent share) (Figure 4). Within the IT-BPM sector, IT services remained the dominant segment with about US$ 97 billion in revenues in 2019-20.
- E-commerce market is estimated at US$ 33bn, with a 19.1% growth in 2016-17. To further promote this sector, many initiatives have been taken, which include
- the establishment of BPO Promotion and Common Services Centres to help create digital inclusion and equitable growth and provide employment to 1.45 lakh persons, mostly in the small towns;
- setting up a separate Northeast BPO Promotion Scheme with 5000 seats and having employment potential of 15000 persons;
- preparing the draft Open Data Protection Policy law;
- besides long-term initiatives like Digital India, Make in India, Smart Citites, e-Governance, push for digital talent through skill India, drive towards a cashless economy and efforts to kindle innovation through Start-up India.

Real Estate

- Real Estate is one of the significant sector in terms of employment generation. Driven by increasing transparency and returns there's a surge in private investment in sector. Indian real estate attracted US $ 5 billion institutional investment in 2020, equivalent to 93% of transactions recorded in the previous year.
- The Pradhan Mantri Awas Yojana (PMAY) with the government sanctioning over 3.1 million houses for the affordable housing segment in urban regions. Of this, about 1.6 million houses have been grounded and are at various stages of construction, and about 0.4 million houses have built under the mission.
- PPP policy for affordable housing was also announced on 21st September, 2017 for affordable housing segment to provide further impetus to the ambitious 'Housing for all by 2022' mission.
- Credit Linked Subsidy Scheme (CLSS) under PMAY was extended to the Middle Income Group (MIG) segment, which got included in the scheme from 1st January, 2017.
- With the enactment of Real Estate (Regulation and Development) Act, 2016, it is anticipated that accountability would lead to higher growth across the real estate value chain, while compulsory disclosures and registrations would ensure transparency.

Research and Development

- The professional Scientific and Technical activities which include R & D services grew by 17.5% and 41.1 in 2014-15 and 2015-16 respectively. India-based R&D services companies, which account for almost 22% of the global market, grew at 12.7%. However, India's gross expenditure on R & D has been at around 1% of GDP. India has climbed 2 spots and has been ranked 46th by the World Intellectual Property Organisation in the Global Innovation Index 2021 ranking.

- Buoyed by the government's support which includes important schemes of different Ministries/Departments, the R&D sector in India is all set to witness robust growth in the coming years. According to a study, engineering R&D market in India is estimated to grow at a CAGR of 14% to reach US$ 42 billion by 2020. India is also expected to witness strong growth in its agriculture and pharmaceutical sectors as the government is investing large sums to set up dedicated research centres for R&D in these sectors.

Space

- India spent about US$ 1.8 billion on space programmes in 2019-20. However, India's government space expenditure still lags behind that of the major players in the space sector, such as USA,which spent about 10 times more than India in the space sector in 2019-20. China, which has become a key player in the space sector in the recent years, also spent about six times more than India in 2018.
- India has launched around 5-7 satellites per year in the recent years with no failures, barring one in 2017. On the other hand, Russia, USA and China dominate the satellite launching services with 20, 31 and 39 satellites respectively in 2018. The global space economy for 2018 tallied about US$ 360 billion, which includes space systems manufacturing and space-based services.

Legal Services

- Legal services have been growing at a steady rate of 8.2% in each of the years from 2005-06 to 2011-12. The Indian legal profession today consists of approximately 1.2 million registered advocates.
- Though, India's rankings are better than most of the **South Asian** and some **South-East Asian** countries in all the three parameters, there is a need for further improvement particularly in speeding up disposal of cases.
- The National Legal Services Authority (NALSA) has been constituted under the Legal Services Authorities Act, 1987, to monitor and evaluate implementation of legal aid programmes and to lay down policies and principles for making legal services available under the act.

Accounting and Audit Services

- The accountancy service providers in India are self-regulated through a combination of statutory bodies like the Institute of Chartered Accountants of India (ICAI), the Institute of Cost and Work Accountants of India and the Institute of Company Secretaries of India (ICSI).
- Tapping the outsourcing market of the US and other developing countries in niche areas like actuarial and accountancy services would depend on the availability of high quality experts in tax, insurance and pension laws of the US and other countries and encouraging setting up of back offices of foreign firms in India. Tie-ups of domestic firms with foreign firms can help to gain expertise and markets, which would otherwise not be individually available for small domestic accountancy firms.
- This would also need relaxation in some domestic regulations and obtaining due recognition to Indian qualifications through **Mutual Recognition Agreements** (MRAs). As with legal services, FDI in accounting services will help to improve the competitiveness of the Indian market and link it better to global markets.

Communication Services

Telecom and Related Services

- Telecom services is another sunrise sector, in which India has made a mark with the **second largest** telephone network in the world, after only China.
- 12th Plan targets for the telecommunication sector– Provision of 1200 million connections by 2017, Broad band connection of 175 million by 2017, Mobile access to all villages and increase rural teledensity to 70% by 2017, To increase domestic manufactured products in telecom network to the extent of 60% with value addition of 45% by 2017.

Postal Services

- India Post is the largest postal network in the world and provides access to affordable postal services to all citizens in the country through its vast network. Out of 1.55 lakh post.offices, 1.39 lakh are in rural areas and the remaining 15736 in urban areas.
- The Department of Posts plays a crucial role in disbursing wages to Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) beneficiaries. Nearly 6.92 crore MGNREGS accounts have been opened in post offices up to December, 2015.
- Towards financial inclusion, the number of Post Office Savings Bank (POSB) accounts has increased from 30.86 crore to 33.97 crore and total deposits in POSB accounts and cash certificates to ₹ 6.53 lakh crore in the last one year.
- More than 80 lakh Sukanya Samriddhi Yojana accounts have been opened with a cumulative investment of more than ₹ 2900 crore since the launch of the scheme on 22nd January, 2015.
- More than 1.84 crore Kisan Vikas Patras have been sold, attracting an investment of more than ₹ 16,429 crore since launch on 18th November, 2014.
- The Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeewan Jyoti Yojana and Atal Pension Yojana were rolled out for POSB account holders in Core Banking Solution (CBS) post offices. So, far more than 1,35,000 policies have been sold to POSB customers.

India's Service Trade

- India's share in global exports of commercial services increased to 3.2% in 2013 from 1.2% in 2000. Its ranking among the leading exporters in 2013 was 6th.
- In the 2016, trade of services grew by 11.39%. In the wake of the COVID-19 pandemic, most of the sub-sectors of the services sector witnessed a contraction in growth during 2020-21.

Challenges of Service Sector

- The immediate challenge for the services sector covering **myriad activities** and areas is growth revival. India's growth has been basically a services led growth pulling up overall growth of the economy.
- While this could be through a business as usual approach, a more targeted approach with focus on big-ticket services could lead to exponential gains for the economy. While software and telecom services have led by example, there are some other important services like tourism including medical tourism and shipping and logistics.
- With world tourist arrivals expected to increase by 43 million every year on an average from 2010 to 2030 and FTAs in emerging countries expected to grow faster than in advanced economies, a goldmine of opportunity in tourism is waiting for India, which at present has a paltry share of 0.64% in world tourist arrivals.

Major Schemes

Pradhan Mantri Ujjwal Yojana

- Prime Minister Narendra Modi has launched Pradhan Mantri Ujjwal Yojana on 1st May, 2016 (Labour Day) at Ballia (UP) by providing cooking gas connections to 10 women.
- The objective of the scheme is to provide cooking gas connections to 5 million beneficiaries below the poverty line in the next 3 years (till the year 2019). Main objectives of this policy are
  - —Free LPG gas connection in the name of the female member. It will be a cylinder and regulator.
  - —The scheme will include the rural and urban BPL family. ₹ 1600 will be sent to Pradhan Mantri Jan Dhan Yojana bank as subsidies.

Power Tex India Scheme

- The Union Ministry of Textiles has launched Power Tex India on 3 April 2017, a 3-year comprehensive scheme for Powerloom Sector Development. The Power Tex India Scheme aims to boost common infrastructure and modernisation of the powerloom sector in the country. Power Tex India scheme comprises new research and development in powerloom textiles, new markets, branding, subsidies and welfare schemes for the workers.
- Components of the scheme are
  - —Pradhan Mantri Credit Scheme (PMCS) for powerloom weavers.
  - —Solar energy Scheme (SEC) for powerlooms.
  - —In-situ Upgradation of Plain Powerlooms.
  - —Group Workshed Scheme (GSW).
  - —Yarn Bank Scheme.
  - —Common Facility Centre (CFC).
  - —Facilitation, IT, Awareness, Market Development and Publicity for Powerloom Schemes,
  - —Tex Venture Capital Fund.
  - —Grant-in-Aid and Modernisation. Upgradation of Powerloom Service Centres (PSCs).

Saubhagya Yojana

Central Government has launched Saubhagya – Pradhan Mantri Sahaj Bijli Har Ghar Yojana on 27 September, 2017 for electrifying all the households in rural and urban areas which are still living without power. The main purpose of Pradhan Mantri Sahaj Bijli Har Ghar Yojana – Saubhagya is the electrification of a large number of rural households which will help in the manufacturing sector, growth of social and economic dividends by pushing the demand for power.

Self Check

Build Your Confidence

1. Which one of the following sub-sector of the services sector in India has contributed the highest per cent in the annual growth rate of the GDP? **[MPPCS 2000]**

(a) Real estate, ownership of dwellings and business services
(b) Community, social and personal services
(c) Transport, storage and communication
(d) Trade, hotels and restaurants

2. Consider the following statements

1. Software is one sector, in which India has achieved a remarkable global brand identity.
2. The contribution of the services sector to the national economy both in terms of value addition and employment generation is growing over the year.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

3. Consider the following statements

1. When a country progresses further the manufacturing sector takes a back seat and give a way to service sector in terms of both output and employment.
2. When a country progresses further manufacturing sector become increasingly service sector.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

4. Consider the following statements

1. Computer software has the highest percentage of share in service sector export in India.
2. Communication services has highest growth rate in service sector in 11th Five Year Plan.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

5. Various initiatives have been taken by the government to promote tourism include

1. the introduction of e-visa facility under three categories of tourism.
2. Medical and business for the citizens of 163 countries.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

6. Which one of the following services is included in the services sector of Indian Economy? **[UPPCS 2008]**

(a) Transport, storage and communication
(b) Financing, insurance, real estate and business services
(c) Community, social and personal services
(d) All of the above

7. Consider the following statements

1. In last decade, India is to China, in developing countries in the terms of Compounded Annual Growth Rate (CAGR) in services sector.
2. In the last decade, Russia had higher Compounded Annual Growth Rate (CAGR) in services sector than India.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

8. Which one of the following percentage of Foreign Direct Investment (FDI) is allowed in the Indian entities publishing newspapers and periodicals dealing with news and current affairs? **[IAS 2005]**

(a) 26% *(b)* 49%
(c) 74% *(d)* 100%

9. Which one of the following service of the Indian Economy has the highest percentage of share in the services sector export?

(a) Computer software *(b)* Financial and non-financial
(c) Computer hardware *(d)* Legal consultancy

10. Consider the following statements regarding IT sector of India.

1. India has achieved brand identity in this sector.
2. Besides it's impact on growth, it is also a provider of skill employment both in India and abroad.

Which of the statement (s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

11. In the Index of Eight Core Industries, which one of the following is has the highest weight?

(a) Coal production
(b) Electricity generation
(c) Fertilizer production
(d) Steel production

1. (d) **2.** (c) **3.** (c) **4.** (c) **5.** (c) **6.** (d) **7.** (a) **8.** (a) **9.** (a) **10.** (c)
11. (d)

Chapter fourteen
Infrastructure

Infrastructure refers to such core elements of economic and social change, which serve as a support system to the production activity in the economy. Infrastructure is broadly categorised as economic infrastructure and social infrastructure. Development of infrastructure is a sine-qua non of economic development. If proper attention is not paid to the development of infrastructure, it is likely to act as a severe constraint on the economic development process of the country.

Definition of Infrastructure

- The **Rakesh Mohan Committee** on infrastructure titled '*The India Infrastructure Report' 1996*, listed electricity, gas, water supply, telecom, roads, industrial parks, railways, ports, airports, urban infrastructure and storage as infrastructure sector.
- A clear understanding of what is covered under the **rubric** of infrastructure is necessary for policy formulation, setting of targets and monitoring projects to ensure consistency and comparability in the data collected and reported by various agencies.

Economic Infrastructure

- It refers to all such elements of economic changes (like power, transport and communication), which serve as a foundation for the process of economic growth.
- In the absence of economic infrastructure, any efficient system of economic growth would remain a distant possibility.

Social Infrastructure

- It refers to the core elements of social changes (like schools, colleges, hospitals and nursing homes), which serve as a foundation for the process of social development of a country. Social development focuses on human resource development, implying the development of **skilled personnel** as well as healthy and efficient human beings.

Infrastructure in 12th Plan

- The total investment in the infrastructure sector during the 12th Five Year Plan, estimated at ₹ 56.3 lakh crore (approx, US $ 1 trillion), will be nearly double that made during the 11th Five Year Plan. This step up in investment will be feasible primarily because of enlarged private sector participation that is envisaged.
- Unbundling of infrastructure projects, **Public Private Partnership** (PPP) and more transparent regulatory mechanisms have induced private investors to increase their participation in infrastructure sectors, their share in infrastructure investment increased from 22% in 10th Five Year Plan to 35% in the 11th Plan and is expected to be about 48% during the 12th Five Year Plan, more than half of the resources required for infrastructure would need to come from the public sector, from the government and their portals. This would require not only the creation of the fiscal space, but also use of a rational pricing policy.

Infrastructure Targets in the 12th Plan

- Increase investment in infrastructure as a percentage of GDP to 9% by the end of 12th Five Year Plan.
- Increase the Gross Irrigated Area from 90 million hectare to 103 million hectare by the end of 12th Five Year Plan.
- Provide electricity to all villages and reduce AT and C (Aggregate Technical and Commercial) losses to 20% by the end of 12th Five Year Plan.

- Connect all villages with all weather roads by the end of 12th Five Year Plan. Upgrade National and State Highways to the minimum two-lane standard by the end of 12th Five Year Plan.
- Complete Eastern and Western dedicated **Freight corridors** by the end of 12th Five Year Plan.
- Increase **rural teledensity** to 70% by the end of 12th Five Year Plan. Ensure 50% of rural population has access to 55 LPCD (litres per capita per day) piped drinking water supply and 50% of Gram Panchayats achieve the Nirmal Gram Status by the end of 12th Five Year Plan.

Funding of Infrastructure

Public Private Partnerships in Infrastructure

- The Planning Commission of India (now NITI Aayog) has defined PPP in a generic term "the PPP is a mode of implementing government programmes/schemes in partnership with the private sector. It provides an opportunity for private sector participation in financing, designing, construction, operation and maintenance of public sector programme and projects".
- PPPs are expected to augment resource availability as well as improve efficiency of infrastructure service delivery. **Time** and **cost over run** in construction of PPP projects are also expected to be lower compared to traditional public procurement. The government has also been emphasising the need to explore the scope for PPPs in the development of the social sectors like **health** and **education**.
- Some of the major PPP projects undertaken, thus so far are Delhi, Mumbai, Hyderabad and Bengaluru airports; 4 ultra-mega power projects, container **terminals** at Mumbai, Chennai and Tuticorin ports.

Viability Gap Funding Scheme

- With a view to support the infrastructure projects, the viability Gap Funding Scheme for support to PPPs in infrastructure announced in 2004 and the modalities to operationalise it put is place by 2005.
- It provides financial support in the form of grants, one time or deferred to infrastructure project undertaken through public private partnership with a view to make them commercially viable.
- VGF Scheme provides total viability gap funding up to 20% of the total project cost.
- The government or statutory entity that owns the project may, if it so decides, provide additional grants out of its budget up to further 20% of the total project cost.

On 24th July, 2007, India's first infrastructure index series FTSE-IDFC launched. The series is aimed at bringing broad range of investors including retail investors into listed companies involved in the business of infrastructure.

India Infrastructure Project Development Fund (IIPDF) was announced in Budget, 2007-08. The IIPD fund will contribute up to 75% of the preparatory expenditure in the form of interest free loans that will be recovered from the successful bidder. It has been set-up in Department of Economic Affairs.

Infrastructure Debt Funds (IDFs)

- Infrastructure Debt Fund was launched on 5th March, 2012 by the government, though the announcement for it was made in the Union Budget 2011-12. It is a $ 2 billion fund to catalyse long-term lending to core sectors.
- IDFs are investment vehicles which can be sponsored by commercial banks and NBFCs in India, in which domestic/*offshon* institutional investors, specially insurance and pension fund can invest, through units and bonds issued by the IDFs.
- The fund would seek to raise **debt capital** from domestic and foreign resources in the form of long-term pension, insurance funds and sovereign wealth funds.

Transport System in India

- Modes of transport include air, rail, road and water. Transportation in India is a large and varied sector of the economy.

Road Transport

- India has the second largest road network in the world. The road network comprises of National Highways (NHs), State Highways, major/other district roads and village/rural roads.
- The share of road traffic in total traffic has grown from 12% freight and 31.6% passenger traffic in 1950-51, to an estimated 60% freight and 87% passenger traffic during the 10th Five Year Plan period.

National Highways

- National Highways comprise only 2% of the total length of roads, but they carry over 40% of the **total traffic** across the country.
- Development and maintenance work of NHs is carried out through 3 agencies, *viz* National Highways Authority of India (NHAI), State Public Works Departments (PWDs) and Border Road Organisation (BRO).

National Highway Development Project (NHDP)

- It is the largest highway project undertaken in the country and is being implemented by NHAI in Phase I to VII. It is a project to upgrade, rehabilitate and widen major highways in India to a higher standard.
- Phase I and II of NHDP Comprises Golden quadrilateral; North-South corridor and East-West corridor.

- Golden Quadrilateral Connecting four metropolitan cities-Delhi, Mumbai, Chennai and Kolkata having an aggregate length of 5846 km.
- The NSEW corridor comprises a length of 7142 km and connects Srinagar (North) to Kanyakumari (South) and Silchar (East) to Porbandar (West).
- NHDP is being implemented in all phases except Phase VI at present.

Bharatmala Pariyojana

- It is an umbrella programme for highways sector, launched in 2015 to bridge the critical infrastructure gap in India by development of economic corridors, inter corridors and feeder routes, coastal and port connectivity roads etc.
- A total of around 24,800 are being considered in Phase I of Bharatmala. It also includes 10,000 kms of balance road works under NHDP, taking the total of 34,800 kms at an estimated cost of ₹ 5,35,000 crore.
- Besides focussing on improving the quality of roads, this scheme will also focus on providing all weather connectivity to border areas as well as ports and economic hubs.

Special Accelerated Road Development Programme for North-Eastern (SARDP-NE) Region

- The SARDP-NE aims at improving the road connectivity to state capitals, district headquarters and remote places of the North-East region. This will ensure connectivity of 88 district headquarters in the North-Eastern states to two-lane NHs/two lane state roads.

State Highways

- The State Highways account for nearly 154.5 thousand km or 3.8% of the total length of roads. These roads connect the principal cities and resource centres of the states with the NHs.

Pradhan Mantri Gram Sadak Yojana (PMGSY)

- The PMGSY was launched on 25th December, 2000, to provide single all weather connectivity to eligible unconnected habitations having population of 500 persons and above in plain areas and 250 persons and above in hill states, the tribal (Schedule V) areas, desert areas and LWE affected districts as identified by the Ministry of Home Affairs. It is a 100% centrally sponsored scheme.

Pradhan Mantri Bharat Jodo Pariyojana (PMBJP)

- The ₹ 40000 crore project connecting all the major cities, not covered by National Highway Development Programme, by four-lane highways, named Pradhan Mantri Bharat Jodo Pariyojana or ‘PM-BJP’, involves four-laning of 10000 km of road stretches. It tries to link up major cities to the NHDP highways.

Roads for LWE Districts

- A programme for development of around 1202 km of National Highways and 4362 km of State roads in Left Wing Extremism (LWE) affected areas has been taken up. It is stated for completion by March 2015.

Setu Bharatam Programme

- This programme was launched by Prime Minister Narendra Modi on 4th March, 2016 at a budget of ₹ 102 billion (US$1.5billion), with an aim to make all national highways free of railway crossings by 2019.
- Under the project as may as 208 rail over and under bridges (ROBs/RUBs) would be constructed at unmanned railway crossings on national highways and more than 1,500 British-era bridges would be widened, rehabilitated or replaced in a phased manner at a cost ₹ 208 billion (US$3.1 billion) and ₹ 300 billion (US$4.5 billion), respectively. ₹ 50,000 crore are to be spent to build bridges for safe and seamless travel on national highways.

National Infrastructure Pipeline (NIP)

- NIP was announced by the Prime Minister in 2019 during the Independence Day speech. It is a roadmap for an investment of over ₹ 100 lakh crore in infrastructure over the next five years (2020-25).
- The main objective of NIP is to create jobs, improve ease of living and provide equitable access to infrastructure for all.
- The total project capital expenditure in infrastructure sectors in India during the fiscals 2020 to 2025 is projected at ₹ 102 Lakh crore. Sectors such as energy (24%), urban (16%), railways (13%) and roads (19%) accounted for 70% of the projected infrastructure.

Green Highways Policy 2015

Union government unveiled its Green Highways policy on September 29, 2015. Under it, bushes and trees will be grown along all the highways in a phased manner.

The purpose of this policy is to promote the greening of highway corridors with the participation of the local community, including local contractors and the local Forest Department.

Thus, the manifest objective of this policy is plantation and the latent objective was to generate employment. The investment in the project would be ₹ 1000 crore this year, calculated as 1% of the ₹ 100000 crore investment in national highway projects in the year.

The policy aims at planting trees along all highways. Private and government companies along with Non-governmental organisations are participated. The project will be awarded to contractors in small stretches of 8 to 10 km as pilot scheme.

Railways

- First rail steamed off in 1853 between Bombay and Thane for a distance of 34 km.
- Indian Railways is the country’s biggest nationalised enterprise.

- In terms of route length, Indian Railway system is the **4th largest** after USA, Russia and China.
- Of the two main segments, freights and passengers of the Indian Railways, the freight segment accounts for roughly two-third of revenues.
- Railway Budget was separated from the Union Budget in the year 1921, on the recommendation of **Acworth Committee**. However, the government in 2016 decided to merge them on the recommendations of Shankar Acharaya Committee.
- The railway network is divided into 17 zones. Divisions are the basic operating units.

The 17 zones and their respective headquarters are as under:

Zonal Railway	Headquarters	Zonal Railway	Headquarters
Central	Mumbai	North-Western	Jaipur
Eastern	Kolkata	Southern	Chennai
East-Coast	Bhubaneshwar	South-Central	Secunderabad
East-Central	Hajipur	South-Eastern	Kolkata
Northern	New Delhi	South-East Central	Bilaspur
North-Central	Allahabad	South-Western	Hubli
North-Eastern	Gorakhpur	Western	Mumbai
North-Frontier	Maligaon, Guwahati	West-Central	Jabalpur
		Metro Railway	Kolkata

Types of Railway Lines

- There are four gauges in India. *These are as follows:*
  (i) **Broad Gauge** (1676 mm) This is the widest gauge in regular use. It is wider than the 1435 mm standard gauge and also called **Indian Gauge.**
  (ii) **Metre Gauge** (1000 mm) It is one metre broad. About 14500 route km of railway lines are metre gauge in 2009. The metre gauge network is especially dense in the **West.**
  (iii) **Narrow Gauge** (762 mm). The rationale for the narrow gauges was economy in building the lines. It considered that narrow gauge lines would act as feeder lines to the broad and metre gauges. The most well known line is probably the **Kalka-Shimla route.**
  (iv) **Narrow Gauge** (610 mm) A few places in India have even narrow 2-feet (610 mm) gauge e.g. New Jalpaiguri, Darjeeling, Neral Matheran and the Gwalior branch lines.

The Public Undertakings of the Railways

- *There are* thirteen *undertakings under the administrative control of the Ministry of Railways*:
  (i) Rail India Technical and Economic Services Limited, (RITES)
  (ii) Indian Railway Construction (IRCON) International Limited
  (iii) Indian Railway Finance Corporation Limited (IRFC)
  (iv) Container Corporation of India Limited (CONCOR)
  (v) Konkan Railway Corporation Limited (KRCL)
  (vi) Mumbai Rail Vikas Nigam Limited (MRVNL)
  (vii) Indian Railway Catering and Tourism Corporation Limited (IRCTC)
  (viii) Railtel Corporation of Indian Limited (Rail Tel)
  (ix) Rail Vikas Nigam Limited (RVNL)
  (x) Dedicated Freight Corridor Corporation of India Limited (DFCCIL)
  (xi) Bharat Wagon and Engineering Corporation of India Limited (BWEL)
  (xii) Burn Standard Company Limited (BSCL)
  (xiii) Braithwaite and Company Limited (BCL)

Rolling Stock and their Places

Rolling Stock	Places
Diesel Locomotive Works	Varanasi
Chittaranjan Locomotive Works	Chittaranjan
Rail Coach Factory	Kapurthala
Integral Coach Factory	Perambudur (Chennai)
Rail Wheel Factory	Bengaluru
Diesel Loco Modernisation Works	Patiala
Research, Design and Standard Organisation	Lucknow

Rail Coach Factory (RCF), rolled out the first proto type air conditioned Double Decker Coach in March, 2010.

Dedicated Freight Corridor (DFC)

- With the present growth rate in GDP of over 8%, the Indian railways expects to carry 85 million tonnes of incremental traffic per year and about 1100 million tonnes revenue earning freight traffic by the end of 11th Five Year Plan. It has, thus, become necessary to augment the freight carrying capacity of the railways.

Railways and the 12th Plan

- The 12th Five Year Plan (2012-17) has envisaged an **integrated approach** for the transport sector as a whole. The vision for transport is to be guided by a modal mix that will lead to an efficient, sustainable, economic, safe, reliable, environment friendly and regionally balanced transport system, in line with the objectives of the plan.
- Indian Railway aims at developing a strategy to build up the rail network to be part of an effective **multi-modal transport system.**

5-digit Train Numbers

- It came into effect from 20th December, 2010. Accordingly, all the Superfast, Mail/Express Rajdhani, Garib Rath passenger trains and others have now uniform 5 digit numbers, i.e. digit 1 has been prefixed to the existing 4 digit numbers.

Railway Vision 2020 Highlights

- It envisages increasing the railway sector's share in the GDP from the existing level of 1% to about 3% and its revenue to grow by 10% annually over the next 10 years.

- Laying of 25000 km of new lines.
- Quadrupling of the 6000 km network with segregation of passenger and freight lines.
- Electrification of 14000 km rail route.
- Completion of gauge conversion.
- Upgradation of speed to 160-200 kmph for passenger train.
- Construction of 2000 km of high speed rail lines.

Luxury Trains in India

The Buddha Luxury Train in Uttar Pradesh will be started on the lines of **Palace on Wheels.**

Some luxury trains in India.

- Deccan Odyssey
- Fairy Queen
- Maharaja's Express
- Golden Chariot
- Royal Rajasthan on Wheels
- Indian Maharaja

New Initiatives by Indian Railways

- **Kisan Rail Train Services** It has been started by Indian Railways in 2020 to transport perishables and agri-products, including milk, meat and fish. It enables movement of perishables from production or surplus regions to consumption or deficient regions. The first Kisan Rail train was flagged off on 07-08-2020 between Devlali (Maharashtra) and Danapur (Bihar). As of June 2021, 60 routes have been operationalised.
- **Kisan Vision Project** It is to encourage setting up of cold storage and temperature-controlled perishable cargo centres through PPP model. Logistics based PSUs including the Container Corporation of India Limited, Central Warehousing Corporation and Central Rail-side Warehouse Company Limited have been asked to provide infrastructure at six Indian Railways locations under a pilot project-the Kisan Vision Project.
- **Private Participation in Railways** The Government of India in accordance with the recommendation of Bibek Debroy Committee has invited private participation for operation of passenger train services over 109 origin destination pairs of routes, using ISI modern trains on existing rail infrastructure. The main objective behind this step is to introduce modern technology, reduce maintenance cost and reduce demand supply deficit in the passenger transport sector.
- Indian railways is adopting a **multi-pronged** strategy to provide safer, faster, cleaner and more comfortable passenger trains. Seven corridors have been identified for conducting pre-feasibility studies for running high-speed trains at speeds above 350 km/h. These trains are popularly known as **Bullet trains**.
- **Link Holfmann Busch** (LHB) Coaches are being inducted in train services including certain important Rajdhani and Mail-express trains.
- Till December 2012, LHB coaches has been inducted in about 14 Rajdhani, 12 Shatabdi and 11 AC Duranto services.
- LHB coaches have higher carrying capacity, better riding comfort, higher speed potential, longer life, upgraded amenities, provision of control discharge toilet system, lower maintenance requirement, enhanced safety features and aesthetic interiors.
- Indian Railways alongwith the Defence Research and Development Organisation (DRDO) has developed **environment-friendly bio-toilets** for its passenger coaches.

Upgradation of Passenger Amenities

- Adarsh Stations are being developed with basic facilities such as drinking water, adequate toilets, catering services etc.
- SIMRAN (Satellite Imaging for Rail Navigation) is being carried out. The SIMRAN used real time train tracking through GPS and mobile GSM technologies.
- Passenger Reservation System (PRS), is the largest passenger network in the world and is thoroughly computerised.
- Freight Operations Information System (FOIS), gives an account of all demands, number of loads /rakes / trains and their pipeline, etc. FOIS is being implemented in two phases. Phase I (Rake Management System) and Phase II (Terminal Management System).

Green Initiatives Taken in the Railways

- The year 2011-12, has been declared as the Year of Green Energy' by the railways. *Some of the green initiatives taken by the railways are as follows:*
  - —Free supply of 14 lakh CFLs to railway households and phasing out of incandescent lamps.
  - —Regenerative breaking in Mumbai EMUs.
  - —Windmill at Integral Coach Factory, Chennai.
  - —Production of locos with 'hotel land converter'.
  - —Use of bio-diesel, CNG and LNG in locos, workshops etc.

Dedicated Freight Corridor (DFC)

DFC is a high speed and high-capacity railway corridor dedicated exclusively for movement of goods and services. In 2006, the Government established a dedicated body, the Dedicated Freight Corridor Corporation of India (DFCCIL) to develop two corridors i.e. Western Dedicated Freight Corridor (WDFC) and Eastern Dedicated Freight Corridor (EDFC). In 2010, four more freight corridors were announced i.e.-East West Corridor (Kolkata-Mumbai), North-South Corridor (Delhi-Chennai), East Coast Corridor (Kharagpur- Vijaywada) and Southern Corridor (Chennai-Goa).

High Level Safety Review Committee (Railways)

- The committee under **Dr Anil Kakodkar** recently presented its report. The total financial implication of the recommendations over 5 years would be ₹100000 crore. *Its key recommendations and observations are as follows:*
  - —Indian Railways is at the brink of collapse unless some concrete measures are taken.
  - —There is need for independent mechanism for safety regulation. A statutory Railway Safety Authority needs to be created.
  - —A Railway Research and Development Council needs to be set-up.
  - —An advanced signaling system should be adopted for the entire route length within 5 years.
  - —All level crossing (manned and unmanned) should be eliminated over 5 years.
  - —Switch over from ICF design coaches to LHB design coaches.

Some Other Committees on Railway Safety

- Shahnawaj Committee (1954)
- Kunjaru Committee (1962)
- Wanchu Committee (1968)
- Sikari Committee (1978)
- Khanna Committee (1998)

Metro Rail Projects

- The metro railway system and service are operational in 10 cities in India. These are Kolkata, Delhi, Bengaluru, Gurugram, Mumbai, Chennai, Jaipur, Kochi, Hyderabad and Lucknow. The Kolkata Metro rail is the oldest (1984) metro service in the country.
- The **Delhi metro** is rapid transit system serving Delhi, Gurgaon, Noida and Ghaziabad in the NCR. The network consist of Eight lanes with a total length of 296 Kilometres with 214 stations.
- Delhi metro is being built and operated by the Delhi Metro Rail Corporation (DMRC), which is a joint company of Government of India and the Government of Delhi. After the Phase IV total length of Delhi metro will be 413 km. It is the second oldest metro in India after the Kolkata metro.
- Metro Railways Amendment Act, 2010, with effect from September, 2009, provides an umbrella 'statutory' safety cover for metro rail work in all the metro cities of India.
- The act was extended to National Capital Region, Bengaluru, Mumbai and Chennai metropolitan areas with effect from 16th October, 2009.
- Metro rail projects have also been taken up on PPP basis in Mumbai for Versova-Andheri-Ghatkopar (11.07 km), Charkhup to Mankhurd *via* Bandra (31.87 km) and Hyderabad metro (71.16 km) with **viability gap funding** support from the Government of India.
- The first line of the metro in Chennai is opened in June, 2015. In the North, a metro in Jaipur also started in June 2015. The long awaited first phase of Mumbai's metro launched to the public in 2014.
- In 2015, a new line for Bengaluru's Metro was launched. Metros in Kochi in Kerala and in Hyderabad is opened in 2017.
- There are also metro systems planned for many other cities like Ahmedabad in Gujarat, Pune in Maharashtra, Kanpur in Uttar Pradesh, Patna in Bihar etc.

Rapid Rail

- National Capital Region Planning Board (NCRPB) created a spearate entity – National Capital Region Transport Company (NCRTC) in 2013. Aim of this entity to provide fast, safe and comfortable rapid transit in NCR. It is possible by Regional Rapid Transit System (RRTS). The RRTS are expected to have design speed of 180 kmph with high acceleration and deceleration.

Bullet Train

- Bullet train project is an initiative by Indian Government to build a high speed bullet train that would connect Mumbai to Ahmedabad. This project expected to nearly 18.6 billion dollars and should be operational in about seven years.

Water Transport

- There are two kinds of water transport **inland water transport** or **river transport** and **shipping** which includes coastal shipping and overseas shipping.

Inland Water Transport (IWT)

- India has over 14500 km of navigable waterways. Inland Water Transport (IWT), has certain inherent advantages namely: fuel efficiency, environment friendliness, cost effectiveness and decongestion of road etc.
  - —Inland Waterways Authority of India (IWAI), was set-up in 1986, for regulation and development of inland waterways for the purpose of **shipping** and **navigation.**
  - —Out of total transport IWT accounts for 32% in Bangladesh, 20% in Germany, 14% in the US, 9% in China and only 0.15% in India.
  - —IWT is best suited for the movement of bulk cargo, overdivisional cargo and hazardous goods. It is also an **environmentally friendly** made.

Shipping

- Shipping plays an important role in the **transport sector** of India's economy. Approximately, 95% of the country's trade volume (68% in terms of value) is moved by the sea.
  - —India has one of the **largest merchant** shipping fleet among the developing countries and ranks 16th amongst the countries with the largest cargo carrying fleet.

—The salient features of India's shipping policy are the promotion of national shipping to increase self-reliance in the carriage of the country's overseas trade and protection of stakeholder's interest in EXIM trade.

—Government nationalised the fiscal regime for Indian shipping by introducing **Tonnage Tax System** from the financial year 2004-05, in order to provide Indian Shipping Industry a level playing field vis-a-vis international shipping companies and also facilitate the growth of Indian tonnage. India has allowed 100% FDI in the shipping sector.

—India has a long coastline studded with 13 major ports and 200 non-major ports providing congenial and favourable conditions for the development of this alternate mode of transport.

—Major ports are the direct responsibility of the Central Government while non-major ports are managed and administered by the State Governments.

—India has the 17th largest coastline in the world.

Categories of Shipping

Shipping is divided into two categories

(i) Coastal (ii) Overseas.

Coastal Shipping

- This includes shipping within the country along the coastline. Due to India's long coastline, coastal shipping provides an excellent opportunity for an energy efficient, cheap mode of transport, especially for large and bulky goods.

Cruise Shipping

- To promote the growth of shipping, an Inter-Ministerial Steering Committee with Secretary (Shipping) as Chairman, was constituted in June, 2010. The Steering Committee has identified five ports namely, Mumbai, Goa, Chennai, Managalore and Cochin for development of cruise tourism.
- **Tariff Authority for Major Ports** (TAMP) was established in 1997 to determine tariffs for major ports and to specify the conditionality governing these tariffs. Non-major ports however, are free to determine their tariffs as these are deregulated.

Sagarmala Project

This initiative was launched in 2015 to strengthen the port infrastructure and operational efficiencies of the ports. It also aims to set up new mega ports, modernising India's existing ports, developing 14 Coastal Economic Zones (CEZs) and constructing new multi-modal logistics parks. The project also seeks to lower the logistics cost of domestic cargo and improve the living standard of Coastal communities.

Air Transport (Civil Aviation)

- Air transport is the speediest of all means of transport. It is particularly useful for transporting costly and light weight consignments. Air transport has its special significance at the time of war and for providing help in **natural calamities.**
- Air transport is also used in **spraying pesticides** in agricultural fields. India has many favourable features for the development of air transport, e.g. vast plains facilitating landing and take-off operations, vast size of the country, appropriate climate etc. However, it is a very expensive means of transport.
- India has around 486 airports of which 34 are designated as international airports. 11 international airports are managed by AAI while 6 are in private hands. Passenger terminal capacity in all airports put together is around 230-240 million.

Recent Initiatives to Promote the Aviation Industry

- 100% FDI is permitted for greenfield airport project under the automatic route.
- Up to 74% FDI is permitted for existing airport projects under the automatic route, above 74% and up to 100% permitted under government approval route.
- 49% FDI is allowed in Scheduled Air Transport Services/Domestic Scheduled Passenger Airline under automatic route. But 100% for NRIs.

  —Air India and Indian Airlines were merged to make them more efficient.

  —Greenfield Airports at Bengaluru and Hyderabad were completed and Delhi and Mumbai airports were restructured.

National Civil Aviation Policy (NCAP) 2015

Minister of Civil Aviation P. Ashok Gajapathi Raju released the Revised Draft National Civil Aviation Policy (NCAP 2015) in New Delhi on October 30, 2015.

Aims of the Policy

- To provide a conducive environment and a level playing field to various aviation sub-sectors, i.e Airlines, Airports, Cargo, Maintenance Repairs and Overhaul services, General Aviation, Aerospace manufacturing, Skill Development, etc.
- To create an ecosystem to enable 30 crore domestic ticketing by 2022 and 50 crore by 2027. Similarly, international ticketing to increase to 20 crore by 2027.

Power/Energy Sector

- Energy is the most important component of economic infrastructure. Even agriculture needs energy to run tubewells, tractors and thrashers. In fact, energy has become the lifeline of human existence.

Commercial and Non-Commercial Energies

- Energy is broadly classified as commercial and non-commercial energy. Firewood, agricultural waste (straw etc) and animal waste (cowdung) are the important components of non-commercial energy.

- Coal, petroleum products, natural gas and electricity are the important components of commercial energy. These goods are largely used for commercial purposes in the factories and farms. They command a price and have an established market of sale and purchase.

Conventional and Non-Conventional Sources of Energy

- Conventional sources of energy are those, which are known as to us and which are popularly in use since a very long time. Examples are coal, petroleum, natural gas and electricity. Non-conventional sources of energy are those sources, which have been discovered or explored only in the recent past and which are yet to gain popularity for their use. Examples are solar energy, wind energy, biomass etc. *Share of different sources in Total Energy Production (Supply) (in percentage)*

Electricity

- Electricity is the most useful and convenient source of energy in India. *Three main sources of electricity in India are as follows:*
  (i) **Thermal Power Stations** Generation of electricity by using coal is known as **Thermoelectricity**. It is an important source of electricity in India, generating nearly two third of the total electricity. Now, there are more than **318** thermal power plants in India.
  (ii) **Hydroelectricity Stations** Generation of electricity using water is known as **Hydroelectricity**. Whatever, water is available in India for generation of electricity, we are not able to utilise 50% of it. The share of hydroelectricity is only one-fourth of the total electricity generated. Some important hydroelectric power stations are Koyna, Bhakra Nangal, Beas, Hirakud, Kosi, Nagarjuna Sagar, Malaprabha etc.
  (iii) **Atomic Power Stations** In the modern times, atomic energy or nuclear energy is used all over the world as a source of energy. Its sources are **uranium** and **thorium**. It is a new and cheap source of energy. Atomic Energy Commission of India is engaged in the research of atomic energy.
- In India, first atomic power station was established at **Tarapur** in Bombay in 1969. Subsequently, many nuclear power plants were established in India including Kalpakkam in Tamil Nadu, Narora in Uttar Pradesh, Surat in Gujarat etc.
- The nuclear power generation has been increasing in India. But, the safety parameters of atomic power plants has, now to be re-devised considering the Fukushima episode. This is why, people are now more worried regarding proposed **Jaitapur Power Plant** in **Maharashtra.**

Major Schemes

UDAY Scheme

- The Union Cabinet chaired by Prime Minister Narendra Modi approved the **Ujwal Discom Assurance Yojana** (UDAY) scheme on November 5, 2015 that aimed at bailing out debt ridden State-run power **distribution companies** (discoms).
- The financial restructuring package is launched to financially turn around discoms that have been severely indebted and make them strong.
- According to the package, States can take over by March, 2016, 75% of the discoms' debts up to September, 2015, by issuing special bonds at a price determined by the Reserve Bank at G-Sec rates plus 5%.

UJALA YOJANA

- It was launched by Union Minister for State (IC) for Power, Coal and Renewable Energy Piyush Goyal in Bhopal Madhya Pradesh on 30th April, 2016.
- The UJALA scheme is being implemented by Energy Efficiency Services Limited (EESL), a joint venture of PSUs under the Union Ministry of Power.
- The scheme will help to reduce electricity bills of consumers, contribute to the energy security of India and also help in environment protection. The main motive of this policy is energy efficiency in the country. Consumers can buy the bulbs from distributor by showing any identification card.

Urban Flagship Programme

- Government's flagship **Pradhan Mantri Awas Yojana** (PMAY) housing scheme, alongwith its long-planned **Smart Cities Mission** and the **Atal Mission for Rejuvenation and Urban Transformation** (AMRUT) is an urban renewal initiative started on 25th June, 2015.

AMRUT for 500 Cities

- The Narendra Modi Government has renewed the 10 years old Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and named it after the first BJP Prime Minister. The renewed scheme is known as **Atal Mission for Rejuvenation and Urban Transformation** (AMRUT). AMRUT for 500 Tier 2 and Tier 3 cities will also be launched alongwith smart city project.
- For AMRUT as well, states have been asked to recommend cities which can be included under this scheme. Uttar Pradesh leads the pack, as it can nominate 64 cities under this project. Here is the breakdown for different states

—Tamil Nadu (33)	—Maharashtra (37)
—Gujarat (31)	—Karnataka (21)
—Andhra Pradesh (31)	—Rajasthan (30)
—West Bengal (28)	—Bihar (27)
—Odisha (19)	—Haryana (19)
—Kerala (18)	—Punjab (17)
—Telangana (15)	—Chhattisgarh (10)

Under this scheme, Central Government will provide 30% of the overall cost, if the city has a population of more than 10 lakh; and 50% if under 10 lakh.

100 Smart Cities

Government of India has announced an ambitious 100 Smart Cities programme. Based on the population and area, a fix number has been allocated for each state. Hence, Uttar Pradesh, the most populated state, will get 13 smart cities, meanwhile Tamil Nadu will receive 12 smart cities.

Maharashtra will get 10 cities, while Karnataka and Gujarat will get 6 each. West Bengal and Rajasthan has been allocated 4 smart cities; Bihar, Andhra Pradesh and Punjab 3 each and Odisha, Haryana, Telangana and Chhattisgarh will get 2 smart cities each. Jammu and Kashmir, Kerala, Jharkhand, Assam, Himachal Pradesh, Goa, Arunachal Padesh and Chandigarh, along with National Capital New Delhi will get one smart city each.

Pradhan Mantri Awas Yojana 'Housing for All by 2022'

- A new integrated national housing mission launched by merging UPA flagship scheme and Rajiv Awas Yojana.
- The third project is the 'Housing for All by 2022' scheme, wherein more than 2 crore homes would be build across all the urban locations in the next 7 years.
- The Cabinet, headed by Prime Minister, accepted the recommendations of an Inter-Ministerial Committee to approve a substantial increase in interest relief on loan for the urban poor to promote affordable homes.
- The committee recommended to increase interest subvention to 6.50% on housing loan for economically weaker sections of society. Women, SC/STs and people from Economically Weaker Section (EWS) would be the main beneficiaries of this urban housing project.

There are four components to the National Urban Housing Mission

(i) **Redevelopment Plan of Slums** Under this, with the participation of private developers using land as a resource component, every beneficiary would be provided a Central grant of ₹ 1 lakh on an average.

(ii) **Affordable Housing through Credit-linked Subsidy Scheme** Under this, an interest subsidy of 6.50% on each housing loan to Economically Weaker Section (EWS) and Low Income Groups (LIG) beneficiaries would be provided by the Central Government.

(iii) **Affordable Housing in Partnership with Private and Public Sectors** Under this, the Central assistance of ₹ 1.50 lakh to each beneficiary would be provided to promote housing stock for urban poor with the involvement of private and public sectors. Provided 35% of houses of the projects are proposed to be earmarked for EWS category.

(iv) **Subsidy for Individual Beneficiary-led Construction or Enhancement of Houses** Under this, a Central assistance of ₹ 1.50 lakh would be provided to each eligible urban poor beneficiary to enable him build his own house or undertake improvements to existing houses.

Heritage City Development and Augmentation Yojana (HRIDAY)

- Union Government has launched a Heritage City Development and Augmentation Yojana (HRIDAY) scheme to preserve and rejuvenate the rich cultural heritage of the country. Union Governments ambitious ₹ 500 crore HRIDAY project was launched by Urban Development Minister Venkaiah Naidu in New Delhi. In the initial phase, 12 heritage cities have been identified which will be rejuvenated and developed under HRIDAY. The 12 cities are—Amritsar, Varanasi, Gaya, Puri, Ajmer, Mathura, Dwarka, Badami, Velankanni, Kanchipuram, Warangal and Amaravati.

The aims of HRIDAY are as follows:

—It aims to bring urban planning, economic growth and heritage conservation together for heritage cities.

—It also seeks beautification in an inclusive and integrated manner with focus on cleanliness, livelihoods, skills, safety, security, accessibility and faster service delivery of heritage cities.

—Heritage Management Plan (HMP) will be prepared for the identified cities which will outline heritage resources and develop policies to guide their conservation, restoration, future use and development.

—It will seek to improve last-mile connectivity heritage sites by documentation, conservation of areas, providing more facilities for women, senior citizens and differently abled citizens.

—HRIDAY will be dovetailed with the Tourism Ministry's Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) scheme which has an outlay of ₹ 100 crore for augmentation of infrastructure at pilgrimage sites across the country.

UDAN Scheme

- The UDAN RCS (Regional Connectivity Scheme) was launched in October, 2016. The PM Narendra Modi has launched the 'Ude Desh ka Aam Nagrik' (UDAN) Scheme from Jubbarhatti, an airport on the outskirts of Shimla on 27 April, 2017.
- As per the modalities of the scheme, airfare for a one-hour journey of 500 km has been capped at an all-inclusive charge of ₹ 2500.
- The scheme has been launched to provide connectivity to un-served and under-served airports of the country through revival of existing air-served airports of the country through revival of existing air-strips and airports.
- First flight under this scheme was on the route of Shimla to Delhi.

Self Check

Build Your Confidence

1. Among other things which one of the following was the purpose for which Deepak Parekh Committee was constituted? **[IAS 2009]**
- (a) To study the current socio-economic conditions of certain minority communities
- (b) To suggest measures for financing the development of infrastructure
- (c) To frame a policy on the genetically modified organisms
- (d) To suggest measures to reduce the fiscal deficit in the Union budget

2. There has been a persistent deficit budget year after year. Which of the following actions can be taken by the government to reduce the deficit?
1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalising subsidies
4. Expanding industries

Select the correct answer using the codes given below:
- (a) 1 and 3
- (b) 2 and 3
- (c) Only 1
- (d) 1, 2, 3 and 4

3. Consider the following components
1. Bring an additional one crore hectares under assured irrigation.
2. To provide road connectivity to all villages that has a population of 2000.
3. To give telephone connectivity to the remaining villages.

Which of the component(s) given above is/are included in the in the Bharat Nirman Scheme?
- (a) 1, 2 and 3 (b) 1 and 3
- (c) 2 and 3 (d) Only 2

4. Which one of the following is not a nuclear power centre?
- (a) Narora (b) Kakrapara
- (c) Chamera (d) Kota

5. Ten year old JNNURM Scheme named as
- (a) AMRUT
- (b) Housing for all
- (c) HRIDAY
- (d) UDAN Scheme

6. With what purpose is the Government of India promoting the concept of 'Mega Food Park'? **[UPSC 2011]**
1. To provide good infrastructure facilities for the food processing industry.
2. To increase the processing of perishable items and reduce wastage.
3. To provide emerging and eco-friendly food processing technologies to entrepreneurs.

Select the correct answer using the codes given below
- (a) Only 1 (b) 1 and 2
- (c) 2 and 3 (d) All of these

7. Name the scheme under which accidental death insurance cover for up to ₹ 2 lakh will be provided to the people of age group of 18-70 years?
- (a) Atal Jeevan Bima Yojana
- (b) Pradhan Mantri Suraksha Bima Yojana
- (c) Pradhan Mantri Jeevan Jyoti Bima Yojana
- (d) Atal Pension Yojana

8. Consider the following statements
1. Golden Quadrilateral is a National Highway Development Project connecting Delhi, Pune, Chennai and Kolkata.
2. North-South Corridor which comprises 4-laning of National Highways connecting-Salem.

Which of the statement(s) given above is/are correct?
- (a) Only 1 (b) Only 2
- (c) Both 1 and 2 (d) Neither 1 nor 2

9. Which kind of the power accounts for the largest share of power generation in India? **[UPPCS 2008]**
- (a) Nuclear
- (b) Hydro-electricity
- (c) Thermal
- (d) Solar

10. Which one of the following statement is correct? **[UPPCS 2008]**
- (a) Singrsauli mines are located in Andhra Pradesh
- (b) In India, majority of domestic coal supply comes from open cost mines
- (c) Reliance is the only private sector refinery in India
- (d) None of the above

11. Oil shale is obtained from
(a) coal bed methane
(b) metamorphic rocks containing clathrate hydrates
(c) sedimentary rocks containing kerogen
(d) coastal regions

12. Ujala Scheme launched for
(a) Power
(b) Coal
(c) Renewable energy
(d) All of the above

13. Ude Desh ke Aam Nagrik (UDAN) is a regional connectivity scheme launched in
(a) 2014
(b) 2015
(c) 2016
(d) 2017

14. Component(s) of the National Urban Housing Mission is/are
(a) Affordable Housing through Credit Linked Susidy Scheme
(b) Redevelopment plan of slums
(c) Affordable housing in partnership with private and public sector
(d) All of the above

1. (b) **2.** (d) **3.** (b) **4.** (c) **5.** (a) **6.** (a) **7.** (b) **8.** (b) **9.** (c) **10.** (b)
11. (c) **12.** (d) **13.** (d) **14.** (d)

Chapter fifteen
Poverty and Unemployment

"Goal of sustained poverty reduction cannot be achieved unless equality of opportunity and access to basic services is ensured. Goal of reducing inequality must be explicitly incorporated in policies and programmes aimed at poverty reduction."

Poverty

- Poverty is a social phenomenon, wherein a section of society is unable to fulfill even its basic necessities of life.
- The UN Human Rights Council has defined poverty as a human condition characterised by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights.
- Global poverty had dropped at the rate of around 1 per cent point per year between 1990 and 2015. The World Bank had developed $ 1.90 per day as criteria for deciding International Poverty Line.
- According to UNDP's Multidimensional Poverty Index 2019, India was able to lift 271 million people out of poverty between 2006 to 2016. However, still 365.55 million poor people resides in the country.

Types of Poverty

The poverty has two aspects:

Absolute Poverty

- It is a situation, in which the consumption or income level of people is less than some minimum level necessary to meet basic needs as per the national standards. It is expressed in terms of a poverty line.
- Economists have given many definitions of poverty in this regard, but in a large number of countries poverty has been defined in the context of per capita intake of calories and minimum level of per capita consumption expenditure.
  - —**Calorie Criteria** The energy that an individual gets from the food that he eats everyday is measured in terms of calories. In India, Planning Commission was of the opinion that an individual in rural area must get 2400 Kilo calories and in urban area, 2100 calories per day.
  - —**Minimum Consumption Expenditure Criteria** An Expert Committee was appointed in 1962, by the Planning Commission to determine poverty line, by adopting Minimum Consumption Expenditure Criteria. As per this committee, those people will be treated as living below the poverty line, whose per-capita consumption expenditure at 2004, prices is below ₹ 368 per month in rural areas and below ₹ 559 per month in urban areas.

Relative Poverty

- Relative poverty refers to poverty on the basis of comparison of per-capita income of different countries. The country, whose per-capita income is quite less in comparison to other countries is treated as relatively poor nation.
- In poor nations, that part of population, which is living at the bottom (whose income is less), is unable to fulfill the basic requirements of life. In addition to the $ 1.90 per-day international poverty line, the World Bank measures poverty lines of $ 3.20 and $ 5,50, reflecting national poverty lines in lower-middle income and upper-middle income countries.

Poverty in India

- There is substantial decline in poverty ratios in India from about 45% in 1993-94 to about 21.9% in 2011-12. India lifted 271 million people out of poverty between 2006 and 2016. If the trend continues, people below poverty line may come down to less than 20% in the next few years.
- In a given year in India, official poverty lines finds higher in some states than in others because price levels vary from state to state.

Categories of Poor in India

- Although poverty is a relative concept, but where there is an absolute poverty, we can categorise the poor people by defining the poverty line.
- Some are always poor, some are occasionally poor and some are never poor.
- We can categorise poor people in three categories; semicolon chronic poor, trausient poor and non-poor.

Poverty Line

- It is the line, which indicates the level of purchasing power required to satisfy the minimum needs of a person.
- This line divides the population in two groups, one of those, who have this purchasing power or more and the other group of those people, who do not have this much of purchasing power.
- The former group is regarded as living '**Above the Poverty Line** (APL)'. These people are not regarded as poor. The latter group is considered as living '**Below the Poverty Line** (BPL)'. These people are called **poor**.
- Asian Development Bank has defined a new poverty line taking base of expenditure of US $ 1.35 per day.
- According to the Tendulkar Committee Report, which gives state wise poverty estimates, Odisha with 57.2% of BPL people is the poorest state followed by Bihar, Madhya Pradesh and Chhattisgarh.

Measures of Poverty

- *The extent of poverty is depicted by the following measures:*

Head Count Ratio or Poverty Ratio

- It is calculated by dividing the number of people below poverty line by the total population. It measures the proportion of poor in the total population.

Poverty Gap Index (PGI)

- It is the difference between the poverty line and the average income of all households living Below Poverty Line (BPL), expressed as a percentage of poverty line. It indicates the depth and severity of poverty.

$$\text{PGI} = \frac{\text{Poverty Line} - \text{Average Income of BPL}}{\text{Poverty Line}}$$

Squared Poverty Gap Index

- It is the mean of the squared individual poverty gaps relative to the poverty line. It indicates the severity of poverty as well as the inequality among the poor.

Sen Index of Poverty

- It was developed by **Professor Amartya Sen**. It is based on the head count ratio, poverty gap index and the Gini co-efficient. It takes into account the extent and severity of poverty as well as inequality.

It is expressed as:

$$S = H[I + (1 - I)G]$$

Where, S = Sen index of poverty
H = Head count index
I = Poverty gap index and
G = Gini co-efficient.

Multi-Dimensional Poverty Index (MPI)

- It was developed in 2010, by Oxford Poverty and Human Development Initiative and the United Nations Development Programme. It uses different factors to determine poverty beyond income-based lists. It uses a range of deprivations that afflict an individual's life.
- The measure assesses the nature and intensity of poverty at the individual level in education, health outcomes and standard of living. *The MPI is calculated* as follows:

$$\text{MPI} = H \times A$$

Where, H = Percentage of people, who are MPI poor (incidence of poverty).
A = Average intensity of MPI poverty across the poor (%).

Human Poverty Index (HPI)

- Earlier UNDP set HPI as parameter to measure poverty in its Human Development Reports but 2010 onwards it switched over to a new parameter, namely–Multidimensional Poverty Index (MPI).
- The measure assesses the nature and intensity of poverty at the individual level in education. Health out comes and standards of living.

Fisher Price Index (FPI)

- It updates the poverty line on the basis of actual consumption data. This index gives just 60% weightage to food articles.
- The reason why Tendulkar's method show higher poverty level is primarily that he has moved away from the traditional practice of bench marking poverty by certain caloric consumption levels.

Conditional Cash Transfers (CCTs)

- It is an important mechanism to fight poverty around the world. Here, the government transfers cash to the beneficiaries conditional upon certain action by the receiver. These actions could include enrolling children into school, regular check-up with doctor, institutional delivery, receiving vaccination etc.
- It helps to reduce poverty not only by providing cash to the needy households, but also inducing positive behaviour in the people through the conditions.

Expert Groups for Estimating Poverty

Lakdawala Committee

- It was constituted in 1989 by the Planning Commission to consider methodological and computational aspects of estimation of proportion and number of poor in India.
- The report of this committee was submitted in July, 1993.
- It suggested that the consumption expenditure should be calculated based on caloric consumption as earlier.
- It also suggested that state specific poverty lines should be constructed and these should be updated using CPI – Industrial workers in urban areas and CPI–Agricultural labour in rural areas.

Tendulkar Committee Report

- Tendulkar Committee headed by Prime Minister's Economic Advisor, Mr Suresh Tendulkar was set-up in March, 2009 to look into the methodology of estimating poverty in India. Tendulkar Committee submitted its report in December, 2009 to the Planning Commission.
- In its findings, this committee has moved away from just calorie criterion definition to a broader definition of poverty that also includes expenditure on health, education, clothing in addition to food.
- Using this approach, new poverty line for the year 2004-05, has been raised from ₹ 356 percapita per month to ₹ 447 percapita per month in rural areas and from ₹ 539 per capita per month to ₹ 579 percapita per month in urban areas. In daily terms, poverty line has been raised from ₹ 12 to ₹15 percapita per day in rural areas and from ₹ 18 percapita per day to ₹ 19 percapita per day in urban areas.
- As per Tendulkar Committee Report, 37.2% of Indian population is living below poverty line using 'uniform recall period consumption' in the year 2004-05, against the official estimate of 27.5%. According to this report, 41.8% population in rural areas and 25.7% population in urban areas is living below poverty line.
- The new, updated data released by the commission based on the price indices computed from the 66th Round NSS (2009-10) data on Household Consumer Expenditure Survey, say anyone who has ₹ 28 to spend daily is out of poverty.
- It has estimated the poverty lines at all India level as MPCE (Monthly Per-Capita Consumption Expenditure) of ₹ 673 for rural areas and ₹ 860 for urban areas in 2009-10.
- Based on these cut-offs, the percentage of people living below the poverty line in the country has declined from 37.2% in 2004-05 to 21.92 in 2011-12.

Two methods of poverty estimation on the basis of consumption:

Uniform Recall Period (URP)

- Here, consumption data is asked for a 30 days recall period for all items. The updated poverty estimates of the Tendulkar Committee have lowered the poverty line from ₹ 32 a day to ₹ 28.

Mixed Recall Period (MRP)

- Here, consumption expenditure is asked for five frequently used items clothing, footwear durable goods, education and institutional medical expenses for a 365 days recall period and other items are asked for a 30 days recall period.

NC Saxena Committee

(For BPL Families in Rural Areas)

- To review the Methodology for conducting BPL Census in Rural Areas. An expert group headed by Dr NC Saxena was constituted by the Ministry of Rural Development to recommend a suitable methodology for identification of BPL families in rural areas.
- The expert group submitted its report in August, 2009 and recommended doing away with score-based ranking of rural households followed for the BPL Census, 2002.
- The committee has recommended automatic exclusion of some privileged sections and automatic inclusion of certain deprived and vulnerable sections of society and a survey for the remaining population to rank them on a scale of 10.
- Based on the above methodology, the committee estimated the population below the poverty line at 50% of the total population.

SR Hashim Committee

(For BPL Families in Urban Areas)

- On the methodology for identification of BPL families in urban areas, according to the expert group headed by renowned economist.
- SR Hashim to suggest methodology for identifying urban poor, households having three of the four items like refrigerator, motorised two-wheelers, landline telephone or washing machines should not be treated as poor.
- The panel has suggested that the government should use three-stage approach-automatic exclusion, automatic inclusion and scoring index to identify urban poor.
- Planning Commission had constituted the expert group to recommend the detailed methodology for the identification of families living below poverty line in the urban areas on 13th May, 2010.

- Under the automatic inclusion step, homeless families facing social and occupation deprivations should be included in the BPL list. As per the report, a family be defined as poor if any of its member (including children) is a beggar or rag picker, domestic worker and sweeper or sanitation worker or mali. The family would also be poor if all its earning adult members are either daily wagers or workers with irregular wages.
- In the third and final stage, the remaining households should be assigned scores from 0 to 12 based on various indicators of residential, social and occupational vulnerabilities. Those households with scores from 1 to 12 should be considered eligible for inclusion in the BPL list in the increasing order of the intensity of their deprivations meaning thereby that those with higher scores are more deprived, the report suggested.

Rangarajan Committee on Poverty

- Planning Commission constituted an expert group headed by C Rangarajan to review the Tendulkar Committee methodology for estimating poverty in May, 2012. Perspective of people about poverty has changed, therefore, commission needs to take a fresh look into the methodology for estimation of poverty in the country. The committee submitted its report on 6th July, 2014 to the Planning Commission.
- The report observed that the population, living below poverty line, has decreased from 38.2% in 2009-10 to 29.5% in 2011-12. This report, thus, contested the facts given by the Tendulkar Committee. The Rangarajan report also revised the poverty line by increasing it to ₹ 972/month (or ₹ 32/day), as against the ₹ 816/ month suggested by the Tendulkar Committee. For the urban areas, the Rangarajan Committee revised the poverty line to ₹ 1407/month (₹ 47/day), as against ₹ 1000/month of the Tendulkar Committee.

Statewise Poverty Estimates (% below poverty line)

States	2004-05	2011-12	Decrease
Andhra Pradesh	29.9	9.2	20.7
Arunachal Pradesh	31.1	34.7	–3.6
Assam	34.4	32	2.4
Bihar	54.4	33.7	20.7
Chhattisgarh	49.4	39.9	9.5
Delhi	13.1	9.9	3.2
Goa	25	5.1	19.9
Gujarat	31.8	16.6	15.2
Haryana	24.1	11.2	12.9
Himachal Pradesh	22.9	8.1	14.8
Jammu and Kashmir	13.2	10.4	2.8
Jharkhand	45.3	37	8.3
Karnataka	33.4	20.9	12.5
Kerala	19.7	7.1	12.6
Madhya Pradesh	48.6	31.7	16.9
Maharashtra	38.1	17.4	20.7
Manipur	38	36.9	1.1
Meghalaya	16.1	11.9	4.2
Mizoram	15.3	20.4	–5.1
Nagaland	9	18.9	–9.9
Odisha	57.2	32.6	24.6
Puducherry	14.1	9.7	4.4
Punjab	20.9	8.3	12.6
Rajasthan	34.4	14.7	19.7
Sikkim	31.1	8.2	22.9
Tamil Nadu	28.9	11.3	17.6
Tripura	40.6	14.1	26.5
Uttar Pradesh	40.9	29.4	11.5
Uttarakhand	32.7	11.3	21.4
West Bengal	34.3	20	14.3
All India	**37.2**	**21.9**	**15.3**

Source: Review Expert Group to Review the Methodology for Estimation of Poverty NITI Aayog, Government of India.

UN Report on Indian Poverty

- In the Millennium Development Report, 2010, it has been mentioned that the poverty rate in India was 51% in 1990. However, it is expected to fall to a level of 24% by 2015. According to the UNDP, the 8 poorest Indian States— Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh and West Bengal have more number of poor, than the 26 poorest African nations.

Measurement of Poverty by UNDP

- As per UNDP, poverty is a multi-dimensional problem. Apart from income, it also includes factors like-health and *nutrition*. World Bank has established 2 parameters to measure poverty at the international level
  —Those earning less than 1.25 US $ of per day, such persons are referred as suffering from **extreme poverty**.
  —Those spending less than 2 US $ per day. These sections are referred to as **poor**.
- Besides these parameters, **Lorenz Curve** and **Gini Co-efficient** are also used to observed poverty in a state. The Asian Development Bank (ADB) has set the parameter of US $ 1.35; while Indian Government has set this parameter at US $ 1.02.

State of Poverty (World Bank Report)

- World Bank, on 18th April, 2013, in its report entitled, where are the poor and most poor, observed that
  —one-third of the global poor in India.
  —the poor in the India live on less than US$ 1.25 a day.

—there are around 120 crore extremely poor persons in the world today.

—between 1981-2010, the developing countries have witnessed a decline in poverty rate from 50% to 21%.

—despite development in Africa, poverty is still widespread.

Inequality

- Inequality often refers to the income gap between the rich and poor of society. The greater the gap the greater the inequality. It essentially refers to disparities in the distribution of economic assets and income among individuals and groups within a nation and nations.
- It may result from the operation of the economic system, access to assets, education and skills, social factors like caste and gender etc.

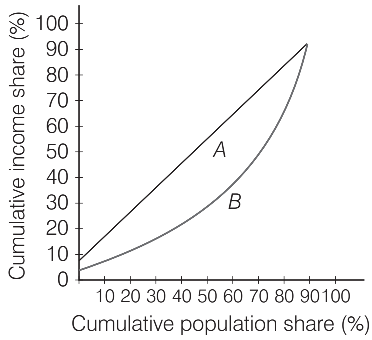
Adverse Impacts of Inequality

- Growing inequalities can dampen growth due to potential instability; weaken social cohesion.
- Urban-dominated growth in India has caused social friction as a result of the high levels of migration to cities and a shortage of foreign investment in more isolated areas.
- In societies, where wealth is concentrated in the hands of a few, there is danger of policy levers being captured by the rich for their own benefit and a weakening of the institutional foundations of the growth process.

Gini Co-efficient

- The Gini co-efficient (also known as the **Gini index** or **Gini ratio**) is a measure of statistical dispersion developed by the Italian statistician and sociologist Corrado Gini, it measures the inequality among values of a frequency distribution (e.g. levels of income).
- Gini co-efficient is commonly used as a measure of inequality of income or wealth. A Gini co-efficient of zero expresses perfect equality, where all values are the same (e.g. where everyone has an exactly equal income).
- A Gini co-efficient of one (100 on the percentile scale) expresses maximal inequality among values (e.g. where only one person has all the income).
- The Gini co-efficient is usually defined mathematically based on the Lorenz curve, which plots the proportion of the total income of the population (y axis) that is cumulatively earned by the bottom x% of the population (see diagram). The line at 45 degrees Gini, thus, represents perfect equality of incomes.

Lorenz Curve of Income Distribution



Inequality in India

- Both overall GDP and per capita GDP have increased rapidly in the economic reform period. The number of poor as the percentage of population have also come down. However, inequality in the reform period has increased.
- According to Inequality Virus Report, 2021 released by Oxfam, the wealth of Indian billionaries increased by 35% during the lockdown, while millions lost their job and saw reduction in their income level in 2020.
- Gini co-efficient increased from 0.27 to 0.28 in rural areas and from 0.35 to 0.39 in urban areas between 2004-05 and 2009-10. The Gini co-efficient of wealth in India in 2017 is at 0.83, which puts India among the highest inequality countries. Top 10% wage earners make 12 times more than the bottom 10% compared to 6 times 20 years ago.

Trickle Down theory says that let business flourish, since their profits ultimately trickle down to lower income individuals and the ease of the economy.

Typically, India used the Consumer Price Index for Agricultural Labour (CPIAL) and CPIIW for industrial labour.

Employment and Unemployment

Employment

- Employment refers to the capacity in which a worker pursues gainful activity during the referece period. According to their status of employment, there are three types of employed workers, self employed workers, casual wage and regular wage employees.

Unemployment

- Unemployment refers to a situation, when a person is able and willing to work at the prevailing wage rate, but does not get the opportunity to work. The term unemployment is directly related with the concept of labour force, because the people, who are not included in labour force cannot be regarded as unemployed.
- **Labour force** includes all people in the working age group (15-59 years), who are able and willing to work. Labour force

equals the work force plus the number of unemployed people. So, unemployment refers to only involuntary unemployment.

- **Unemployment rate** is defined as the number of persons unemployed per 1000 persons in the labour force (which included both the employed and the unemployed).

Types of Unemployment

There are following types of unemployment are as follows:

Voluntary Unemployment

- It occurs when a person is not willing to work at the prevailing rate of wage or does not desire to work. It is not taken into consideration while measuring unemployment in an economy.

Involuntary Unemployment

- It is the situation, in which the worker is willing and able to work, but he does not get work. It is also called **open unemployment**.

Frictional Unemployment

- It is temporary unemployment which is associated with the changing of jobs in an economy. It can occur due to immobility it of labour, shortage of raw materials, lack of knowledge of job opportunities, breakage of machines etc.

Structural Unemployment

- It is concerned with the structural pattern of the economy. *It arises in situations such as*:
  —Shortage of factors of production like land, capital etc.
  —Workers don't have skills for new industries.
  —Compared to supply of labour availability of employment is less.
  —When certain industries close down.
  —When there is a change in production technology and nature of produced products.
- Mainly, it is caused due to a mismatch between the skills of a person and the requirements of the job.

Cyclical Unemployment

- It is associated with a general depression in the overall economy. It occurs due to economic cycles of boom and depression. During depression, demand falls and production goes down which leads to fall in level of employment.

Seasonal Unemployment

- It arises because some occupations require workers only during certain parts of the year such as in agriculture, sugar industry etc.

Technical Unemployment

- It is associated with technical changes. Modern industries are capital intensive and workers are being replaced by machines. Adoption of labour saving technologies renders some workers unemployed.

Educated Unemployment

- It refers to unemployment of those who are normally educated. It is both of open unemployment and under employment type, i.e. those who can't find work and those who work in a job that is not in keeping with their skills, education or capacity.

Disguised Unemployment

- It is a situation, in which more persons are employed to do a job which can be done with equal efficiency by a less number of workers.
- *The following features of disguised unemployment are as follows:*
  —Marginal productivity of labour is zero. However, Professor Sen does not agree with this view.
  —It is not possible to identify the persons who are actually unemployed.
  —Excess of population and lack of capital is the principal cause.
  —Generally associated with agricultural families.

Under Employment

- It is a situation, in which a person is employed in a job, which is not commensurate with his/her qualification, skill and experience. Under this condition, capabilities of the workers are not utilised to the optimum level.
- Under employment is another problem in developing countries alongwith unemployment. It measures how well the labour force is being utilised in terms of skills experience and availability of work.

Types of Under Employment

- *There are two types of under employment*:
  (i) **Visible Under Employment** It is when people get work for less than the normal hours of work e.g. 2 hours a day.
  (ii) **Invisible Under Employment** It is the situation, in which people work full time, but their income is very low or they work in jobs, in which they cannot make full use of their ability e.g. an MA degree holder working as a driver.
- Under employment is found when persons engaged in part time work are prepared to do more work than they are doing or the productivity and income of a person rises after shifting another type of occupation.

Nature and Estimates of Unemployment in India

- Like all the underdeveloped countries, India presently suffers mainly from structural unemployment, which exists in open and disguised forms.
- Apart from structural unemployment, there is Keynesian involuntary unemployment, which can be eliminated by increasing effective demand as is done in developed countries.

Causes of Unemployment in India

- Rapid population growth.
- Limited land holding.
- Seasonal agriculture.
- Decline of manufacturing industries.
- Inadequate employment planning and its execution.
- Impact of global slowdown.

Key Indicators for this Estimation of Under Employment in India

- Labour Force Participation Rate (LFPR)

$$= \frac{\text{Number of employed persons} + \text{Number of unemployed persons}}{\text{Total population}} \times 1000$$

- Worker Population Ratio (WPR) $= \frac{\text{Number of employed persons}}{\text{Total population}} \times 1000$
- Proportion Unemployed (PU) $= \frac{\text{Number of unemployed persons}}{\text{Total population}} \times 1000$
- Unemployment Rate (UR) $= \frac{\text{Number of unemployed persons}}{\text{Number of employed persons} + \text{Number of unemployed persons}} \times 1000$

Measures of Unemployment in India

- On the recommendation of the Bhagwati Committee, since 1972-73, National Sample Survey Office (NSSO) comes out with quinquennial survey on employment and unemployment. The persons surveyed are classified into various activity categories on the basis of activities pursued during certain specified reference periods as Usual Principle Status, Current Weekly Status and Current Daily Status.
- **Usual Principle and Subsidiary Status** (UPSS) A person is considered working or employed, if the person was engaged for a relatively larger period (over 182 days) in any one or more work related (economic) activities during the reference period of 365 days preceding the date of survey.
- **Current Weekly Status** (CWS) A person is considered working or employed, if the person was engaged for at least 1 hour on any 1 day on any work related (economic) activity during the reference period. It also measures chronic unemployment.
- **Current Daily Status** (CDS) It is the time rate and measured in man days. A person is considered unemployed, if he does not find work even on a day or some days during the survey week.

Salient Features of NSSO (68th Round) on Employment and Unemployment

- Between NSS 66th round (2009-10) and 68th round (2011-12), labour force participation rate (LFPR) in usual status for rural males and urban males remained at the same level, decreased by 1 percentage point for rural females and increased by about 1 percentage point for urban females.
- The Unemployment Rate (UR) in usual status was about 2 per cent for both males and females in rural areas, 3 per cent for urban males and 5 per cent for urban females.
- The unemployment rate among the youth (age: 15-29 years) was much higher as compared to that in the overall population.
- The unemployment rates in usual status among the educated youth (age: 15-29 years and level of education: secondary and above) were 8.1 per cent, 15.5 per cent, 11.7 per cent and 19.8 per cent for rural males, rural females, urban males and urban females, respectively.
- The annual report (July 2017-June 2018) of the Periodic Labour Force Survey (PLFS) of NSSO, released on 1st June, 2019, pegs the all India unemployment rate at 6.1 per cent in the given year. Unemployment was higher in the urban areas as compared to the rural. For the rural areas, the unemployment rate was 5.3 per cent, while in the urban areas it was 7.8 per cent.
- The GDP from manufacturing increased at 9.5% per annum between 2004-05 and 2009-10, alongwith same increase in employment in the organised manufacturing sector. However, the overall employment in manufacturing actually declined during this period. Between 2004-05 and 2009-10, vast majority of new jobs were created in casual employment, mainly in construction.

Periodic Labour Force Survey (PLFS) 2021

PLFS is an annual survey conducted by the National Statistical Office (NSO), started in 2017, to ascertain the State of employment. The PLFS 2021, contains data for the 12 months between July 2019 and June 2020. It calculate employment based on Usual Status (US) and Current Weakly Status (CWS). The report shows that in 2019-20, India's Labour Force Participation Rate (LFPR) improved marginally from 37.5% in 2018-19 to 40.1% in 2019-20.

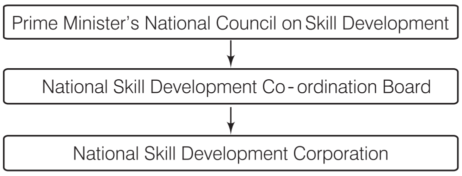
Poverty Eradication and Employment Related Programme

- Currently, India is passing through an unprecedented phase of demographic changes. The ongoing demographic changes are likely to contribute to an ever increasing size of labour force in the country.

- The government has been attempting to improve basic education through a host of measures in recent decades and achieving some success. But, vocational education and imparting skills remains a critical area of concern.

Skill Development Programme

- The Union Cabinet has approved a Coordinated Action Plan for Skill Development, which envisages a target of 500 million skilled persons by 2022. The plan will be executed through 3 tier strategy of



Prime Minister's National Council on Skill Development

- The council is chaired by the Prime Minister with Ministers for Human Resource Development, Finance, Heavy Industries, Rural Development, Housing and Urban Poverty Alleviation and Labour and Employment as members.
- Deputy Chairman, Planning Commission, Chairperson of the National Manufacturing Competitiveness Council, Chairperson of the National Skill Development Corporation and six experts in the area of skill development are its other members.
- The Prime Minister's National Council on Skill Development has endorsed a vision of creating 500 million skilled people by 2022 through skill systems, which must have high degree of inclusiveness in terms of gender, rural or urban, organised or unorganised and traditional or contemporary.

National Skill Development Co-ordination Board (NSDCB)

- The NSDCB has been set-up under the chairmanship of Deputy Chairman, Planning Commission, with secretaries of ministries of human resource development, labour and employment, rural development, housing and urban poverty alleviation and finance as members.
- Secretaries of four states by rotation, for a period of 2 years, three distinguished academicians and subject area specialists are the other members. Secretary, planning commission is the member secretary of the board.

National Skill Development Corporation

- The third tier of the coordinated action on skill development is NSDC, which is a non-profit company under the Companies Act with an appropriate governance structure.
- The Central Government has created a National Skill Development Fund with an initial corpus of ₹ 995.10 crore for supporting the activities of the corporation.
- The corpus of the fund is expected to go up to about ₹ 15,000 crore as it is intended to garner capital from governments, public and private sectors and bilateral and multilateral sources.

Objectives of Skill Development Programme in India

- Create opportunities for all to acquire skills throughout life and especially for youth, women and disadvantaged groups. Promote commitment by all stakeholders to own skill development. Develop a high-quality skilled workforce relevant to current and emerging market needs.
- Enable establishment of flexible delivery mechanisms that respond to the characteristics for a wide range of needs of stakeholders. Enable effective coordination between different ministries, the centre and states and public and private providers.

Pradhan Mantri Kaushal Vikas Yojana

It is a demand-driven, reward-based skill training scheme. PMKVY is formed to provide skill training to class 10 and 12 dropout youths across the country.

Under the scheme, besides assessing and certifying 10 lakh youth for the skills they already possess, around 24 lakh youth will be skilled over the next year.

The important characteristics of PMKVY are as follows

- It will cover 24 lakh persons and skill training would be based on the National Skill Qualification Framework (NSQF) and industry-led standards.
- It will be implemented by the Union Ministry of Skill Development and Entrepreneurship through the National Skill Development Corporation (NSDC) training partners. In addition, Central and State Government affiliated training providers would also be used for training purposes.
- Focus of the training would be on improved curricula, better pedagogy and better trained instructors.
- A monetary reward will be given to trainees on assessment and certification by third party assessment bodies. The average monetary reward would be around ₹ 8000 per trainee.

Skill Loan Scheme

- Under the scheme, loans ranging from ₹ 5000 to ₹ 1.5 lakh will be made available to 34 lakh youth to attend skill development programmes. It will be operational between 2015 and 2020.

Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)

- The National Rural Employment Guarantee Act (NREGA) was enacted in 2005. It was implemented in three phases, starting with 200 districts in 2006 to cover the whole country by 2008. On 2nd October, 2009 it was renamed as **Mahatma Gandhi.**

Features of MGNREGS

- It seeks to provide at least 100 days (150 days for tribals) of guaranteed wage employment in one financial year to at least one adult member of every rural household who volunteer to do unskilled manual work.
- Atleast 33% of the beneficiaries are to be women.
- Originally, it promised a wage rate of ₹ 100 per day from January, 2011 wages have been linked to increase with Consumer Price Index for Agricultural Labour (CPI-AL) for each state.
- Focuses on works related to water conservation, drought proofing, land development, flood control, rural connectivity through all weather roads etc.
- Provides time bound employment guarantee and wage payment within 15 days.
- A 60:40 wage to material ratio has to be maintained to ensure greater employment generation. No contractor or machinery is allowed for any work.
- Panchayats have been given an important role through preparation of perspective plan, approval of shelf of projects and execution of works atleast to the extent of 50% in terms of cost.
- Rights based framework.
- Transparency accountability.

Recent Changes in MGNREGS

- 30 new activities such as rural sanitation, live stock, fishery etc have been added to the permissible list.
- Electronic Fund Management System in all states has been initiated in a phased manner.
- Convergence of MGNREGS with total sanitation campaign has been undertaken.
- Provision has been made for seeding in Aadhaar into the MGNREGS workers records to prevent leakage.

National Rural Livelihood Mission (NRLM)

- The Swarna Jayanti Grameen Swarojgar Yojana (SGSY) has been restructured and launched as the National Rural Livelihood Mission (NRLM). NRLM was recently renamed as **Ajeevika.**

Key Features of NRLM

- It will ensure that atleast one member (preferably a woman) from each identified poor rural household is brought under a Self Help Group (SHG).
- NRLM focuses on setting up and strengthening of institutions of the poor in partnership mode.
- Poor will be provided with adequate skills to manage their institutions.
- NRLM would work towards universal financial inclusion.
- It provides revolving fund, interest subsidy and capital subsidy to the SHGS.
- It will provide infrastructure support for key livelihoods and support for marketing.
- Funding would be in the ratio of 75:25 between Centre and States (9:10 for North-East and special category states).
- It will be implemented in phases to reach all districts of the country by the end of 12th Plan.
- All states have to transition to NRLM from SGSY within 1 year of launch.

National Urban Livelihood Mission (NULM)

- The centrally sponsored scheme of Swarna Jayanti Shahari Rozgar Yojana has been restructured as the National Urban Livelihood Mission (NULM) to be implemented in the 12th Plan.
- The new scheme expands the beneficiaries among the urban poor to include homeless and street vendors.
- A special provision for funding of 24/7 shelters with all essential facilities for the urban homeless has been made.

PM Street Vendor's Aatmanirbhar Nidhi (PM SVANidhi) scheme

The PM SVANidhi scheme was launched by the Ministry of Housing and Urban Affairs, on 1st June, 2020. It aims to provide affordable working capital loans to street vendors to resume their livelihoods that have been affected due to the corona virus lockdown. It targets over 50 lakh street vendors who would be eligible to avail a working capital loan of up to ₹ 10,000 whose businesses were operational on or before 24th March, 2020. The street vendors will be allowed to repay the loan in monthly installments in one year.

Pradhan Mantri Garib Kalyan Rojgar Yojana

- The Government of India has decided to launch a rural public works scheme 'Garib Kalyan Rojgar Abhiyaan' through video-conferencing from village Telihar in Khagaria district of Bihar on 20th June, 2020. The scheme will empower and provide livelihood opportunities to the returnee migrant workers and rural citizens who have returned to their home states due to the Covid-19 induced lockdown. A total of 116 districts across six states, namely Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Jharkhand and Odisha (where maximum migrant workers have returned) have been chosen for the campaign.
- 12 different Ministries/Departments, namely, Rural Development, Panchayati Raj, Road Transport and Highways, Mines, Drinking Water and Sanitation, Environment, Railways, etc. will be coordinating for the implementation of the scheme. It will involve intensified and focused implementation of 25 different types of works to provide employment to the migrant workers on one hand and create infrastructure in the rural regions of the country on the other hand.

Self Check

Build Your Confidence

1. Consider the following statements
1. Assam has the highest percentage of poverty according to the Suresh Tendulkar Committee in India.
2. In India, the infant mortality rate per thousand of live birth of girls is more than for boys.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

2. Consider the following statements
1. Gini co-efficient is the measure of income inequality in a country with 1 representing complete inequality and 0, as complete equality.
2. India's Gini co-efficient is less than the US, but more than China.

Which of the statement(s) given above is/are correct?
(a) Only 2 (b) Only 1
(c) Noth 1 and 2 (d) Neither 1 nor 2

3. The foster-greer-thorbecke index is the difference between the
(a) mean income of poor and poverty line
(b) median income of poor and poverty line
(c) median income of poor and mean income of poor
(d) mode of the income of poor and mean income of poor

4. The poverty gap index is the difference between the
(a) mean income of poor and poverty line
(b) median income of poor and mean income of poor
(c) median income of poor and poverty line
(d) mode of the income of poor and mean income of poor

5. Match the following

List I (Committee)	List II (BPL Population)
A. Tendulkar Committee	1. 50 %
B. NC Saxena Committee	2. 77 %
C. Arjun Sen Gupta Committee	3. 37 %

Codes

	A	B	C		A	B	C
(a)	3	2	1	(b)	1	2	3
(c)	2	3	1	(d)	2	1	3

6. Estimates of poverty are made by the Planning Commission based on the data provided by which of the following?
(a) NSSO
(b) CSO
(c) Ministry of Rural Development
(d) Finance Ministry

7. Disguised unemployment generally means **[IAS 2013]**
(a) large number of people remain unemployed
(b) alternative employment is not available
(c) marginal productivity of labour is zero
(d) productivity of workers is low

8. The Government of India has decided to measure poverty line in terms of
(a) household consumption
(b) household savings
(c) household investment
(d) household

9. How does the National Rural livelihood mission seek to improve livelihood options of rural poor? **[IAS 2012]**
1. By setting up a large number of new manufacturing industries and agribusiness centres in rural areas.
2. By strengthening self-half groups and providing still development.
3. By supplying seeds, fertilizers, diesel pump-sets and micro-irrigation equation free of cost to farmers.

Select the correct answer using the codes given below
(a) 1 and 2 (b) Only 2
(c) 1 and 3 (d) All of these

10. Among the following who are eligible to benefit from MNREGA? **[IAS 2011]**
(a) Adult member of only SC and ST households
(b) Adult members of BPL households
(c) Adult members of households of all backward communities
(d) Adult members of any households

11. Disguised unemployment in India is mainly related to
1. agricultural sector 2. rural sector **[MPPCS 2001]**
3. factory sector 4. urban area

Select the correct answer using the codes given below
(a) 1 and 2 (b) 1 and 4
(c) 2 and 4 (d) 2 and 3

1. (b) **2.** (b) **3.** (a) **4.** (a) **5.** (a) **6.** (a) **7.** (c) **8.** (a) **9.** (b) **10.** (d) **11.** (c)

Chapter sixteen
Government Schemes and Programmes

Government aided schemes and programmes are run by the Central and State Governments for the health and welfare of citizens. The people of the countries are one of its most valuable resources.

Social Welfare Schemes

- Some new social development schemes to address the critical issues of the country have been introduced. *These include the following:*

Skill Development and Employment Scheme

Rail Kaushal Vikas Yojana

- This skill development initiative of Ministry of Railways was launched on 17th September, 2021 to provide training to 50,000 candidates over the next three years. It is a component of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and will provide training to youth in four trades i.e. Electrician, Welder, Machinist and Fitter.

Van Dhan Internship Programme

- The Ministry of Tribal Affairs launched the Van Dhan Internship Programme on 17th October, 2019. Under the ministry, the program will be organised by TRIFED (Tribal Cooperative Marketing Development Federation of India). The program will train the interns and the interns will help the tribal population in becoming self reliant and entrepreneurs.

Solar Charkha Mission

- President Ram Nath Kovind launched Solar Charkha Mission on June 27, 2018, in which the government will be providing a subsidy of ₹ 550 crore to the thousands of artisans and generating employment in the rural areas. The Ministry of Micro Small and Medium Enterprise (MSME) will cover the 50 indentified clusters across the country including in the Northeast and in each cluster 400 to 2000 artisans will be employed. Along with this mission, the government also launched a Sampark portal, a digital platform on which five lakh job seekers can connect with the Ministry of Micro Small and Medium Enterprise (MSME).

'Nai Manzil' Scheme

- The Union Minister for Minority Affairs Dr. Najma Heptulla launched a new Central Sector Scheme 'Nai Manzil' in Patna on August 8, 2015.
- The scheme is intended to cover people in between 17 to 35 age group from all minority communities as well as Madarasa students.
- The scheme 'Nai Manzil' scheme will address educational and livelihood needs of minority communities in general and muslims in particular as it lags behind other minority communities in terms of educational attainments.
- It is a new direction and a new goal for the all out of school/dropped out students and those studying in Madarasas. It is so because they will not be getting formal Class XII and Class X Certificates rendering them largely un employed in organised sector.

USTAD Scheme

- Union Minister Najma Heptullah launched a welfare scheme, Upgradation of Skills and Training in Ancestral arts/crafts for Development (USTAD), aimed at upgrading and promoting the skills of artisans from the minority community, on May 14, 2015. It is launched from Varanasi in order to improve degrading conditions of world famous Banaras Saree weavers who belong to minority communities.

- The programme is linked to the 'Make in India' campaign and termed as close to the Prime Minister's heart. It seeks to help weavers and artisans connect with buyers all over the world.

Van Bandhu Kalyan Yojana

- For the welfare of the tribal people 'Van Bandhu Kalyan Yojana' is being launched with an initial allocation of ₹100 crore. YKY aims at creating enabling environment for need based and outcome oriented holistic development of the tribal people.
- The scheme is launched on a pilot basis and will be implemented in only 1 block in each of the 10 states being selected for the scheme. The states which have been picked are Andhra Pradesh, Madhya Pradesh, Himachal Pradesh, Telangana, Odisha, Jharkhand, Gujarat, Chhattisgarh, Rajasthan and Maharashtra.

Skill Upgradation Programme for Minorities

- A programme for the upgradation of skills and training in ancestral arts for development for the minorities called **upgradation of traditional skills in arts, resources and goods** is to be launched to preserve the traditional arts and crafts, which are rich heritage.
- An additional amount of ₹ 100 crore for Modernisation of Madarsas has been in the budget provided to the Department of School Education.

Rural Infrastructure and Development

Swamitva Scheme

- Prime Minister Narendra Modi on 24th April,2020 launched 'Swamitva Yojana' or Ownership Scheme to map residential land ownership in the rural sector using modern technology like the use of drones. The scheme aimed to revolutionise property record maintenance in India was launched on the Panchayati Raj Diwas by the Prime Minister, who also interacted with members of Gram Panchayats across the country through video conferencing.
- Swamitva Yojana is aimed to fill the above gap to provide ownership rights to people in the villages. It is expected to go a long way in settling property rights in rural hinterlands and likely to become a tool for empowerment and entitlement, reducing social strife on account of discord over properties. The property records for a village will also be maintained at the Panchayat level, allowing for the collection of associated taxes from the owners. The money generated from these local taxes will be used to build rural infrastructure and facilities.

National Broadband Mission

- The government has launched the National Broadband Mission on 17th December, 2019. National Broadband Mission aimed at providing broadband access in all villages in the country by 2022. It will help in achieving fast track growth of digital communications infrastructure, bridge the digital divide, facilitate digital empowerment and inclusion and provide affordable and universal access of broadband for all. Objective of this mission is to empower those people who are living in India's rural and remote regions with digital connectivity on the back of ongoing BharatNet initiative that aims to connect 250,000 gram panchayats or village blocks with an optic fibre network.

Swachh Bharat Abhiyan

- Total sanitation by 2019, is the slogan of this programme. The year 2019 also marks the 150th Birth Anniversary of Mahatma Gandhi. Nirmal Bharat Abhiyan was relaunched in name of Swachh Bharat Abhiyan.

GOBAR-Dhan Yojana

- The Galvanising Organic Bio-Agro Resources Dhan (GOBAR-DHAN) scheme was launched by Haryana's Chief Minister Manohar Lal Khattar and Uma Bharti (Union Minister for Sanitation and Drinking Water) on April 30, 2018. The GOBAR-Dhan scheme is an effort by the government to improve the living conditions in the Indian villages and make them open-defecation free. A segment of the **Swachh Bharat** initiative, this scheme will focus on useful conversion of solid waste and cattle dung into manure and biogas.

Pradhan Mantri Awaas Yojana (PMAY)

- The rural housing scheme Indira Awaas Yojana (IAY), started by former Prime Minister Rajiv Gandhi, has been restructured and renamed as Pradhan Mantri Awaas Yojana (PMAY) on 21st September, 2016. The IAY would be included by the PMAY. Under the new scheme, the government was aiming to construct one crore houses by 2019.
- Under the new modified PMAY scheme, the sharing pattern between the Centre and states is same, but the grant would be transferred directly into the bank account of beneficiaries, who had been selected on the basis of socio-economic caste census of 2011.

Pradhan Mantri Awas Yojana – Gramin

- PM Narendra Modi launched the scheme on 20 November, 2016 at Agra. Aim of scheme to construct ₹ 1 crore Pucca Houses in rural areas in next 3 years by financial assistance (for plain areas – ₹ 1,20,000 and for hilly areas – ₹ 1,30,000).

Shyama Prasad Mukherjee Rurban Mission (SPMRM)

- It launched in 2016 to deliver integrated project based infrastructure in the rural areas. The scheme will also include development of economic activities and skill development. The preferred mode of delivery would be through PPPs while using various scheme funds.
- The scheme of Providing Urban Amenities in Rural Areas (PURA) is merged with Shyama Prasad Mukherjee Rurban Mission.

Benefits of Rurban Mission

The benefits of Rurban mission are as follows

- Under this scheme, the facilities of cities will be given to villages.
- Electricity, water, roads and health facilities will be provided to villages.
- The villages will be developed on the line of the cluster.
- Population in a cluster will be 21,000 to 50,000.
- 30% of total expenditure on Center Gap Funding will be from our Budget.

Sansad Adarsh Gram Yojana

- It is a rural development and cleanliness programme broadly focusing upon the development in the villages, which includes social development, cultural development and spread motivation among the people on social mobilisation of the village community. The programme was launched by the Prime Minister on the birth anniversary of Jayaprakash Narayan on 11th October, 2014. Prime Minister Narendra Modi adopted Jayapur village under this scheme.

Bharat Nirman

- This programme, launched in 2005-06 for building infrastructure and basic amenities in a rural areas, has 6 components, namely rural housing, irrigation potential, drinking water, rural roads, electrification and rural telephone.

Pradhan Mantri Gram Sadak Yojana (PMGSY)

- The PMGSY was launched in December, 2000, as a fully funded centrally sponsored scheme with the objective of providing connectivity to the eligible unconnected habitations in the core network with a population of 500 persons and above (as per Census, 2001) in plains areas and 250 persons and above in hill states, tribal areas, desert areas. The government has revised its target year for completion of phase-I of PMGSY a rural road scheme, to 2019 from 2022.

Water and Sanitation Scheme

- The Central Government has been assisting State Governments by way of various centrally sponsored schemes through national financial institutions providing better urban infrastructure, and improving the state of drinking water infrastructure and sanitation in the country. *Some of the initiatives in this area are as follows*

Jal Jeevan Mission

- The mission was launched on 15th August, 2019 to provide safe and adequate drinking water through individual household tap connections by 2024 to all households in rural India. It is based on community approach to water management and will implement source sustainability measures as mandatory elements, such as recharge and reuse through grey water management, water conservation and rain water harvesting.

Atal Bhujal Yojana

- Atal Bhujal Yojana is Central Government's ₹ 6,000 crore ambitious water conservation scheme launched in June, 2018 to deal with the ever-deepening crisis of depleting groundwater level. The main objectives of this scheme are to revitalise groundwater level and create sufficient water storage for agricultural purposes; rejuvenation of the surface water bodies so that groundwater level can be increased, especially in the rural areas; recharging sources of groundwater and ensure effective use of water by involving people at local level.

"Sankalp Se Siddhi" Programme

- "Sankalp Se Siddhi" (Attainment through Resolve) programme is a new initiative launched by PM Narendra Modi on 23 August ,2017 for a New India movement from 2017 to 2022. This program aims to bring in many changes in the country for the betterment of country's economy, citizens, society, governance, security and other verticals.

Neeranchal

- To give an added impetus to watershed development in the country, a new programme called Neeranchal with an initial outlay of 2142 crore in the current financial year. Pashmina Promotion Programme (P-3) and a programme for the development of other crafts of Jammu and Kashmir is also to be started. For this a sum of ₹ 50 crore is set aside.

Rural Sanitation Total Sanitation Campaign (TSC) and Nirmal Bharat Abhiyan

- Government started the Central Rural Sanitation Programme(CRSP) in 1986 primarily with the objective of improving the quality of life of the rural people and also to provide privacy and dignity to women.

- The concept of sanitation was expanded to include personal hygiene, home sanitation, safe water, garbage disposal, excreta disposal and waste water disposal. With this broader concept of sanitation, CRSP adopted a demand driven approach with the name Total Sanitation Campaign (TSC) with effect from 1999. Nirmal Gram Puraskar (NGP) is given to Panchayati Raj Institutions that achieve 100% coverage of sanitation facilities.
- Encouraged by the success of NGP, the TSC is being renamed as 'Nirmal Bharat Abhiyan' (NBA). The objective is to acelerate the sanitation coverage in the rural areas so as to comprehensively cover the rural community through renewed strategies and saturation approach.
- Nirmal Bharat Abhiyan (NBA) envisages covering the entire community for saturated outcomes with a view to create.

Integrated Low Cost Sanitation Scheme (ILCS)

- The ILCS aims at conversion of individual dry latrines into pour flush latrines thereby liberating manual scavengers from the age-old, degrading practice of manually carrying night soil. The allocation for the scheme for 2012-13, is ₹ 25 crore.

Education

- India, which had a bottom heavy population is now graduating to an economy with middle-heavy population. To reap the benefits of the demographic dividend to the full, India has to provide education to its population and that too quality education.
- The draft Twelfth Plan focuses on teacher training and evaluation and measures to enforce accountability. It also stresses the need to build capacity in secondary schools to absorb the pass outs from expanded primary enrolments.

Schemes for Transformational and Advanced Research in Science (STARS) Project

- This initiative was launched in October 2019 to improve monitoring and measurement activities in the Indian School Education System. This project is aligned with objectives of National Education Policy 2020 and is aided by the World Bank. This scheme covers 6 States i.e. Himachal Pradesh, Rajasthan, Maharashtra, Madhya Pradesh, Kerala and Odisha.

Atal Innovation Mission

- Atal Innovation Mission (AIM) is Government of India's flagship initiative to promote a culture of innovation and entrepreneurship in the country on 26th April, 2018 . It is launched by the NITI Aayog.
- The Atal Innovation Mission has two core functions: Entrepreneurship promotion through Self-Employment and Talent Utilisation, wherein innovators would be supported and mentored to become successful entrepreneurs. And Innovation promotion: to provide a platform where innovative ideas are generated.

DIKSHA Scheme

- The Union Ministry of Human Resource and Development (HRD) has launched Diksha (National Digital Infrastructure for Teachers) Portal (diksha.gov.in) in September, 2017 for providing digital platform to teacher to make their lifestyle more digital. It will serve as National Digital Infrastructure for Teachers. Through this portal, all teachers across nation will be equipped with advanced digital technology. The portal will help teachers boost their teaching skills and create their own separate profile with their skills and knowledge.

SWAYAM Scheme

- MHRD has launched a Massive Open Online Courses (MOOCs) platform popularly known as SWAYAM (Study Webs of Active learning for Young Aspiring Minds) on 9th July, 2017. The portal is offering various online courses for school education and higher education. NCERT is developing course modules for Massive Open and Online Course (MOOCs) for school education system in 12 subject areas (accountancy, business studies, biology, chemistry, economics, history, geography, mathematics, physics, political science, psychology and sociology) for classes 9-12.

Samagra Shiksha Scheme

- The Samagra Shiksha Scheme was launched by the Union Ministry of Human Resource Development (HRD) on May 24, 2018, in view of improving the quality of education at school level in India. It is an overarching program which will incorporate digital technology and introduce skill development in the school education system. An annual grant of five thousand to twenty thousand rupees will be provided for strengthening libraries in schools under the program.

Sarva Shiksha Abhiyan (SSA)/Right to Education (RTE)

- The Right of Children to Free and Compulsory Education (RTE) Act, 2009, legislating Article 21A of the Constitution of India, became operational in the country on 1st April, 2010. It implies that every child has a right to elementary education of satisfactory and equitable quality in a formal school, which satisfies certain essential norms and standards, significant reduction in the number of out-of-school children on account of SSA interventions has been noted.
- Top 5 government education schemes are Shiksha Sahayog Yojana, Sarva Shiksha Abhiyan, Saakshar Bharat, Kanya Saaksharta Prothsan Yojana and Kasturba Gandhi Balika Vidyalaya Yojana.

- Rashtriya Madhyamik Siksha Abhiyan (RMSA) has quality intervention schemes to ensure that all second any conform to prescribed worms, removing gender, socio-economic and disability barriers.

PM Poshan Scheme

- Pm Poshan is a revamped version of the existing Md-Day Meal scheme. Central Government of India on 20th September, 2021 renamed the existing Mid-Day Meal Scheme as Pradhan mantri Poshan Shakti Nirman Yojana (PM Poshan). Meals will now be extended to students studying in pre-primary levels or Bal Vatikas of government and government-aided primary schools, in addition to those already covered under the scheme. It is expected to benefit 11.80 crore children studying in 11.20 lakh schools across the country.
- PM Poshan has been launched for a period of five years, from 2021-22 to 2025-26, with a budget of ₹ 1,30,794.90 crore. This included ₹ 54,061.73 crore as the Central government's share and ₹ 31,733.17 crore as State government's share. The Centre will also bear an additional cost of ₹ 45,000 crore for food grains. The nationwide Mid-Day Meals Scheme was launched in 1995 by the Narasimha Rao government.

Rashtriya Madhyamik Shiksha Abhiyan (RMSA)

- RMSA was launched in March, 2009, with the objective to enhance access to secondary education and to improve its quality.
- Objectives include : improving quality of education imported at the secondary level through making all secondary schools conform to prescribed norms; removing gender, socio-economic and disability barriers; providing universal access to secondary level education by 2017 and achieving universal retention by 2020.
- Important physical facilities provided under the scheme are-additional class rooms, laboratories, libraries, toilet blocks, art and craft rooms and residential hostels for teachers.

Saakshar Bharat (SB) or Adult Education

- Saakshar Bharat has been formulated with the objective of achieving 80% literacy level by 2012 at national level by focusing on adult women literacy seeking to reduce the gap between male and female literacy to not more than 10% points. The principal target of the mission is to impart functional literacy to 70 million non-literate adults in the age group of 15 years and beyond.

Financial Inclusion Mission

- To provide all households in the country with banking services, a time bound programme is to be launched as Financial Inclusion mission on 15th August, in 2014.
- It would particularly focus to empower the weaker sections of the society, including women, small and marginal farmers and labourers. Two bank accounts in each household are proposed to be opened which will be eligible for credit.

Pradhan Mantri Jan-Dhan Yojana

The Pradhan Mantri Jan-Dhan Yojana (PMJDY), launched by Prime Minister Narendra Modi on August 28, 2014 was recognised for opening the most bank accounts (about 12 crore) in one week as part of the financial inclusion campaign. *The benefits of account holders under PMJDY are as follows:*

Accidental Insurance Coverage

- Accidental insurance of ₹ 2 lakh is available to all RuPay card holders in the age group of 18 to 70 where RuPay card need to be used once in 45 days of receipt.
- Claim intimation should be given his or her bank where account is maintained within 30 days from the date of accident.
- The persons should normally be head of the family or an earning member of the family and should be in the age group of 18 to 59.
- Account holder need to have valid RuPay card. The account can be any bank account including a small account.
- Only one person in the family will be covered and in case of the person having multiple cards or accounts, the benefit will be allowed only under one card i.e. one person per family will get a single cover of ₹ 30000.
- The claim of ₹ 30000 is payable to the nominee(s) of account holder who need to submit necessary documents to the Nodal Branch of the concerned bank.
- Government employees (serving/retired) and their families, persons filling Income Tax Return or TDS deductees and persons covered under the Aam Adami Bima Yojana, are ineligible for life insurance under PMJDY.
- Overdraft facility upto ₹ 10,000 is available.

Direct Benefit Transfer

- The government has decided to initiate direct transfer of subsidy under various social schemes into beneficiaries' bank accounts. The transfer will be enabled through a payments bridge known as **Aadhar Payment Bridge** (APB), wherein funds can be transferred into any Aadhar-enabled bank account on the basis of the Aadhar number.
- This eliminates chances of fraud or error in the cash transfer process. The Aadhar number will be linked to the beneficiary database, so that ghosts or duplicates are weeded out from the beneficiary list.

- To make withdrawal of money by the beneficiaries easier and more accessible and friendly, micro ATMs will be set- up by banks or post offices throughout the country in an open manner particularly with the help of SHGs, Community Service Centres (CSCs), post offices, grocery stores, petrol pumps, etc in rural areas and accessible pockets. This is being done initially in 51 pilot districts across the country from 1st January, 2013 pilots on direct benefit.

Brief Descriptions of Major Programmes

- Transfer (DBT) have also been successfully conducted in the States of Jharkhand, Tripura, and Maharashtra to transfer monetary benefits related to rural employment, pension, the IAY and other social welfare schemes. An important pilot is the fair price shops in East Godavari and Hyderabad districts of Andhra Pradesh, which are being enabled to carry out online Aadhar authentication.

PAHAL

- The Direct Benefit Transfer of LPG (DBTL) or PAHAL (Pratyaksh Hastantrit Labh) scheme was earlier launched on 1st June, 2013 and finally covered 291 districts.
- The modified scheme is being relaunched in 54 districts on 15th November, 2015 in the 1st Phase and in the rest of the country on 1st January, 2015. Under the modified scheme, the LPG consumer can now receive subsidy in his bank account by two methods. Such a consumer will be called CTC (Cash Transfer Compliant) in the bank account. The two options are as follows
  —**Option I (Primary)** For joining the scheme, the consumers have to fill up a form available with distributors and also on www.mylpg.in. The consumers need to provide their Aadhaar number to LPG distributor and to bank.
  —**Option II (Secondary)** If LPG consumer does not have an Aadhaar number, he can directly receive subsidy in his bank account without the use of Aadhaar number.

Health

- Improvement in the standard of living and health status of the population has remained one of the important objectives for policymakers in India.
- In line with the National Health Policy, 2002, the NRHM was launched on 12th April, 2005 with the objective of providing accessible, affordable and quality healthcare to the rural population.
- It seeks to bring about architectural correction in the health systems by adopting the approaches like increasing
- involvement of community in planning and management of healthcare facilities, improved programme management, flexible financing and provision of untied grants, decentralised planning and augmentation of human resources.
- The government has launched a large number of programmes and schemes to address the major concerns and bridge the gaps in existing health infrastructure and provide accessible, affordable, equitable healthcare.

Prime Minister Atmanirbhar Swasth Bharat Yojana (PMASBY)

This scheme was launched on 1st February 2021 with an outlay of about ₹ 64,180 crore for six years. Under this scheme, the Union Government will support for establishment of 17,788 rural health and wellness centre in 10 high focus states. Integrated public health labs and critical care hospitals will also be established in every district and government will also strengthen the National Centre for Disease Control (NCDC) and its regional branches.

National Digital health Mission

This mission was launched on 15th August, 2020 to create an integrated healthcare system by linking practitioners with the patients digitally and by giving them access to real time health records. This scheme will be implemented by the National Health Authority (NHA) under the Ministry of Health and Family Welfare.

Suposhit Maa Abhiyan

Lok Sabha Speaker Om Birla launched 'Suposhit Maa Abhiyan' in March, 2020 to provide nutritional support to pregnant women and adolescent girls. In the first phase of the campaign, 1,000 kits of 17 kg balanced diet each were provided to 1,000 pregnant women. Only one pregnant woman would be adopted in this scheme from a family.

SUMAN Scheme

- The government launched the Surakshit Matritva Aashwasan (SUMAN) scheme on 10th October, 2019. The scheme was launched by Union Health Minister Harsh Vardhan. The scheme aimed for zero preventable maternal and newborn deaths in India. The scheme will ensure to help in bringing down maternal and infant mortality rates in the country. The beneficiaries who visit public health facilities will avail several free services. The scheme provides zero expense access to identify and manage complications during and after pregnancy. It also provides free transport from home to health institutions.

Bharatiya Poshan Krishi Kosh

- The Union Government has launched Bharatiya Poshan Krishi Kosh with the aim of reducing malnutrition in India. The Kosh was launched by WCD Minister Smriti Irani along with Bill Gates on 18th November, 2019 in New Delhi. The Bharatiya Poshan Krishi Kosh is a repository of diverse crops across 128 agro-climatic zones to help enable better nutritional outcomes. The Kosh aims to reduce malnutrition among women and children across the country, through a multi-sectoral results-based frame work, including agriculture.

Pradhan Mantri Matru Vandana Yojana

- Pradhan Mantri Matru Vandana Yojana (PMMVY) is a maternity benefit program run by the government of India. It was introduced in 2017 and is implemented by the Ministry of Women and Child Development. It is a conditional cash transfer scheme for pregnant and lactating women of 19 years of age or above for the first live birth.
- It provides a partial wage compensation to women for wage-loss during childbirth and childcare and to provide conditions for safe delivery and good nutrition and feeding practices. In 2013, the scheme was brought under the National Food Security Act, 2013 to implement the provision of cash maternity benefit of ₹ 6,000 (US$84) stated in the Act. Presently, the scheme is implemented on a pilot basis in 53 selected districts.

Ayushman Bharat Scheme

- It is centrally sponsored health insurance scheme of Ministry of Health and Family Welfare. It will cover of ₹ 5 lakh per family per year, taking care of almost all secondary care and tertiary care procedures. There will be no limitation on family size and age in the scheme. It was announced in Union Budget 2018.

Mission Indradhanush

- The Union Ministry of Health and Family Welfare launched Mission Indradhanush on 25 December, 2014 to achieve full immunisation coverage for all children by 2020. The mission aims to cover all those children who are either unvaccinated or are partially vaccinated against seven vaccine preventable diseses including diphtheria, whooping cough, tetanus, polio, tuberculosis, mearles and hepatitis-B.

National Rural Health Mission (NRHM)

- The NRHM, which provides an overarching umbrella to the existing health and family welfare programmes, was launched in 2005, to improve accessibility to quality healthcare for the rural population, bridge gaps in healthcare, facilitate decentralised planning in the health sector and bring about inter-sectoral convergence.
- Better infrastructure, availability of manpower, drugs and equipment and augmentation of health human resources in health facilities at different levels have led to improvement in healthcare delivery services and increase in Out Patient Department (OPD) and In Patient Department (IPD) services.
- The NRHM is thus also about the health sector reform. The architectural correction envisaged under NHRM is organised around 5 pillars, each of which is made up of a number of overlapping core strategies.
  —Increasing participation and ownership by the community.
  —Improved management capacity.
  —Flexible financing.
  —Innovations in human resources development for the health sector.
  —Setting of standards and norms with monitoring.

Accredited Social Health Activist (ASHA)

- One of the key components of the National Rural Health mission is to provide every village in the country with a trained female community health activist ASHA or Accredited Social Health Activist elected from the village itself and accountable to it, the ASHA will be work as an interface between the community and the public health system.
- *Following are the key components of ASHA*:
  —ASHA must primarily be a woman resident of the village, married, widowed or divorced, preferably in the age group of 25 to 45 years.
  —She should be a literate woman with formal education up to class VIII. This may be relaxed only if no suitable person with this qualification is available.
  —Capacity building of ASHA is being seen as a continuous process. ASHA will have to undergo series of training episodes to acquire the necessary knowledge, skills and confidence for performing her spelled out roles.
  —ASHA will mobilise the community and facilitate them in accessing health and health related services available at the Anganwadi or sub-centre or primary health centres, such as immunisation, Ante Natal Check-up (ANC), Post Natal Check-up supplementary nutrition, sanitation and other services being provided by the government.
  —She will act as a depot older for essential provisions being made available to all habitations like Oral Rehydration Therapy (ORT), Iron Folic Acid Tablet (IFA), Chloroquine, Disposable Delivery Kits (DDK), Oral Pills and Condoms, etc.
- At the village level, it is recognised that ASHA cannot function without adequate institutional support. Women's committees (like self-help groups or women's health committees), village Health and Sanitation Committee of the Gram Panchayat, peripheral health workers especially ANMs and Anganwadi workers and the trainers of ASHA and in-service periodic training would be a major source of support to ASHA.

Auxiliary Nurse Midwife (ANM)

- The roles of Auxiliary Nurse Midwife (ANM) and ASHA have been integrated in various ways. The ANM will hold weekly or fortnightly meeting with ASHA and provide on job training by discussing the activities undertaken during the week or fortnight and provide guidance in case ASHA encounters any problem.

Anganwadi Workers (AWW)

- The responsibilities of Anganwadi Workers (AWW) will be to their role will be guide ASHA in performing on health and integrated with the role of ASHA. AWW will guide ASHA in performing activities such as organising Health Day once or twice a month at Anganwadi centre and orientating women on health related issues such as importance of nutritious food, personal hygiene, care during pregnancy, importance of immunisation etc.
- Anganwadi worker will be depot holder for drug kits and will be issuing it to ASHA. ASHA will support the AWW in mobilising pregnant and lactating women and infants for nutrition supplement. She would also take initiative for bringing the beneficiaries from the village on specific days of immunisation, health check-ups or health days etc to Anganwadi centres.

National Urban Health Mission (NUHM)

- The National Urban Health Mission (NUHM) is a sub-mission of National Health Mission (NHM). NUHM envisages to meet health care needs of the urban population with the focus on urban poor, by making available to them essential primary health care services and reducing their out of pocket expenses for treatment.
- This will be achieved by strengthening the existing health care service delivery system, targeting the people living in slums and converging with various schemes relating to wider determinants of health drinking water, sanitation, school education, etc. implemented by the ministries of Urban Development, Housing and Urban Poverty Alleviation, Human Resource Development and Women and Child Development. *NUHM would endeavour to achieve its goal through:*
  - —Need based city specific urban health care system to meet the diverse health care needs of the urban poor and other vulnerable sections.
  - —Institutional mechanism and management systems to meet the health-related challenges of a rapidly growing urban population.
  - —Partnership with community and local bodies for a more proactive involvement in planning, implementation and monitoring of health activities.
  - —Availability of resources for providing essential primary health care to urban poor service providers and other stakeholders.
  - —Partnerships with NGOs for profit and not for profit health.

Janani Suraksha Yojana (JSY)

- JSY is continuation of the previous delivery allowance scheme of the Central Government. It is being implemented with the objective of reducing maternal and neonatal mortality by promoting institutional delivery among poor pregnant women.
- Under this scheme, pregnant women belonging to below poverty line families and SC, ST families will get an assistance of ₹ 500 if delivered at home, ₹ 600 for urban institutional delivery, ₹ 700 for delivery in health centers in rural areas and ₹ 1500 for cesarean delivery. This benefit is available if delivered in recognised private health institutions other than government hospitals also. *The eligibility conditions for the beneficiaries are as follows:*
  - —The woman delivering at home or admitted to sub-centreor government hospital or registered private hospital (general ward), must belong to BPL family.
  - —Current delivery must be the first or second live delivery.
  - —She should be above 19 years of age and must have got ANC check up at-least 3 times.
  - —Must have taken Iron and Folic acid tablets and TT injection.
  - —SC or ST women not belonging to BPL families are also entitled for this benefit if they are admitted to general ward of government or registered private hospital.
- The JSY launched in 2005, aims to bring down the MMR by promoting institutional deliveries conducted by skilled birth attendants.

Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)

- The PMSSY was launched in March, 2006, with aims at correcting regional imbalances in the availability of affordable or reliable tertiary healthcare services and augmenting facilities for quality medical education in the country.

Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH)

- The Indian system of medicines is also being developed and promoted by involvement/integration of the AYUSH system in national healthcare delivery through an allocation of ₹ 990 crore plan outlay in 2012-13. To integrate AYUSH healthcare with mainstream allopathic healthcare services, the states are provided financial support for co-location of AYUSH facilities at PHCs, CHCs and district hospitals and supply of essential drugs to standalone AYUSH hospitals or dispensaries.

Women Empowerment Programmes

Some of the important schemes and policy initiatives for economic and social empowerment of women and child development are as follows:

PMMSK Scheme

- Pradhan Mantri Mahila Shakti Kendra Scheme (PMMSK) was approved by cabinet committe on Economic Affairs in November 2017 for a period 2017-18 to 2019-20. PMMSK Scheme is envisioned as one stop convergence support service for empowering rural women with opportunities for skill development, digital literacy, health and nutrition and employment. This scheme will perform under the patronage of Ministry of Women and Child Development.

Beti Bachao, Beti Padhao Yojana

- Government has introduced a new scheme called **Beti Bachao, Beti Padhao**, which will help in generating awareness and improving the efficiency of delivery of welfare services meant for women with an initial corpus of ₹ 100 crore. The government would focus on campaigns to sensitise people of this country towards the concerns of the girl child and women.
- The process of sensitisation must being early and therefore the school curriculum must have a separate chapter on gender main streaming.

National Nutrition Mission (POSHAN Abhiyan)

- National Nutrition Mission was launched as an expansion of Beti Bachao Beti Padhao programme by Prime Minister Narendra Modi at Jhunjhunu in Rajasthan on the occasion of the International Women's Day on March 8, 2018. The main objectives of this scheme are to attain proper nutritional status among children from 0-6 years, adolescent girls, pregnant women and lactating mothers in a timely manner; reduce stunting, under-nutrition, and anaemia among young children, women, and adolescent girls; and lowering low birth weight by at least 2% per annum.

Sukanya Samridhi Yojana

- Sukanya Samridhi Yojana was launched by Prime Minister Narendra Modi under BBBP campaign in January, 2015. A small deposit scheme for girl child 'Sukanya Samridhi Yojana' was launched under the Beti Bachao, Beti Padhao (BBBP) campaign. With an aim to provide social security for girls, the scheme will enable parents to open bank accounts of girls who are under 10 years of age.
- Thus, Sukanya Samridhi account can be opened in any post office or authorised branches of commercial banks.
- The account will fetch an interest rate of 9.1% and no income tax will be levied. The account can be opened at any time from the birth of a girl child till she attains the age of 10 years, with a minimum deposit of ₹1000. A maximum of ₹1.5 lakh can be deposited during the financial year.
- The account will remain operative for 21, years from the date of opening of the account. When the girl is 21 years old, she will get the entire amount. To meet the requirement of higher education expenses, partial withdrawal of 50% of the balance amount will be allowed after the girl child has attended 18 years of age.

Pradhan Mantri Ujjwala Yojana

- Prime Minister Narendra Modi has launched Pradhan Mantri Ujjwala Yojana on 1st May, 2016 (Labour Day) at Ballia (UP) by providing cooking gas connections to 10 women.
- The objective of the scheme is to provide cooking gas connections to 5 million beneficiaries below the poverty line in the next 3 years (till the year 2019). Main objectives of this policy are
  - —Free LPG gas connection in the name of the female member. It will be a cylinder and regulator.
  - —The scheme will include the rural and urban BPL family. ₹ 1600 will be sent to Pradhan Mantri Jan Dhan Yojana bank as subsidies.

Rajiv Gandhi Scheme Empowerment of Adolescent Girls (RGSEAG) Sabla

- Sabla now operational in 205 selected districts, aims at all-round development of adolescent girls in the age group 11 to 18 years and making them self-reliant with a special focus on out-of-school girls.
- The scheme has 2 major components, nutrition and non-nutrition. Nutrition is being given in the form of 'take home rations' or 'hot cooked meals' to out-of -school 11 to 14 years old girls and all adolescent girls in the 14 to 18 age group.
- The non-nutrition component addresses the developmental needs of 11 to 18 years old adolescent girls, who are provided iron-folic acid supplementation, health check-up and referral services, nutrition and health education, counselling or guidance on family welfare, skill education, guidance on accessing public services and vocational training. The target of the scheme is to provide nutrition to 1 crore adolescent girls in a year.

Integrated Child Development Services (ICDS) Scheme

- Launched on 2nd October, 1975, ICDS scheme represents one of the world's largest and most unique programmes for early childhood development. ICDS is the foremost symbol of India's commitment to her children– India's response to the challenge of providing pre-school education on one hand and breaking the vicious cycle of malnutrition, morbidity, reduced learning capacity and mortality, on the other.

National Mission for Empowerment of Women (NMEW)

- This initiative for holistic empowerment of women through better convergence and engendering of policies, programmes and schemes of different ministries was operationalised in 2010-11.
- Under the mission, institutional structures at state level including State Mission authorities headed by Chief Ministers and State Resource Centres for Women (SRCWs) for spearheading initiatives for women's empowerment have been established across the country.

Rashtriya Mahila Kosh (RMK)

- The RMK provides micro-credit in a quasi-informal manner, lending to Intermediate Micro-credit Organisations (IMOs) across states. It focuses on poor women and their empowerment through the provision of credit for livelihood-related activities.

Other Women Empowerment Programmes

- **Support to Training and Employment Programme for Women** (STEPW) (set-up in 2003-04) To increase the self-reliance and autonomy of women by enhancing their productivity and enabling them to take up income generation activities.
- **Swayamsiddha** (set-up in 2001) Aims at organising women into self help groups to form a strong institutional base.
- **Swadhar** (set-up in 1995) Aims to support women to become independent in spirit, in thought, in action and have full control over their lives rather than be the victim of others actions.
- **Development of Women and Children in Rural Areas** (DWCRA) (set-up in 1982) To improve the socio-economic status of the poor women in the rural areas through creation of groups of women for income-generating activities on a self-sustaining basis.
- **Dhana Laxmi** (set-up in March, 2008) Conditional cash transfer scheme for the girl child to encourage families to educate girl children and to prevent child marriage.
- **Ujjawala** (set-up in 4th December, 2007) A comprehensive scheme for prevention of trafficking with five specific components-prevention, rescue, rehabilitation reintegration and repatriation of victims.
- **Gender Budgeting Scheme** (GBS) (set-up in 2004) with a view to empower women.
- **Swawlamban** (NORAD) (Norwegian Agency for International Development) Scheme is being implemented by the Department of Women and Child Development, Government of India with partial assistance from Norway since, 1982.
- Its basic objective is to provide training and skill to women to facilitate them obtain employment or self-employment on a sustained basis.
- The target group under the scheme are the poor and needy women, women from weaker sections of the society, such as scheduled castes, scheduled tribes etc.
- Financial assistance is provided to undertake training programmes for women in both traditional as well as non-traditional trades.

Social Defence

Major social defence programmes are given below:

Pradhan Mantri Laghu Vyapari Maan-dhan Scheme

- National Pension Scheme for Traders, Shopkeepers and Self-Employed Persons (originally proposed name was, Pradhan Mantri Laghu Vyapari Maan-dhan Scheme) has been launched on 12th September, 2019. It is a voluntary and contributory pension scheme. Enrolment to the scheme is done through the Common Service Centres, with its network of 3.50 lakh Centres across the country.
- The traders in the age group of 18-40 years with an annual turnover, not exceeding ₹1.5 crore and who are not a member of EPFO/ESIC/NPS/PM-SYM or an income tax payer, can join the scheme. Under the scheme, 50% monthly contribution is payable by the beneficiary and equal matching contribution is paid by the Central Government. Subscribers, after attaining the age of 60 years, are eligible for a monthly minimum assured pension of ₹ 3,000/.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)

- PMJJBY is one of the several ambitious social security programmes initiated by Narendra Modi.
- It is basically a term life insurance policy that can be renewed either on a yearly basis or for a longer period of time. It will provide life insurance coverage on the death of the policy holder.
- The Pradhan Mantri Jeevan Jyoti Bima Yojana willl be made available to anyone between the age group of 18 to 50 years.
- The policy holders will need to pay INR 330 per year. The risk coverage being provided in the Pradhan Mantri Jeevan Jyoti Bima Yojana is INR 2 lakh.
- Life Insurance Corporation of India (LIC) will be offering the plan. However, other life insurers, who are eager to take part in the programme, can join it through tie-ups with specific banks.

Atal Pension Yojana (APY)

- The idea of APY is to provide a definite pension to all Indians, However, in order to get pension during your old age, you need to contribute accordingly.
- An Indian national within the age group of 18 to 40 years is eligible to contribute under APY.

- There is also a policy under the scheme, wherein if the pension account holder dies, the contributions would go to the family or the nominee of the account.

Pradhan Mantri Suraksha Bima Yojana (PMSBY)

- PMSBY aims to reach poor people with it's benefied insurance scheme after the successful performance of Jan Dhan Yojana.
- Benefits
  - —The death benefits are up to 2 lakh.
  - —In case of irrecoverable and total loss of both hands, both eyes or sight or one leg or foot, the insurance cover would be up to 2 lakh.
  - —In case of lost of one leg, hand, foot eye or sight, the sum assured would be ₹ 1 lakh.
- The premium is just ₹ 12 per annum for each member.
- The aspirants should have completed 18 years of age or should not be more than to years of ager in order to get benefit of PMSBY.

National Social Assistance Programme (NSAP)

- The National Social Assistance Scheme (NSAS) or National Social Assistance Programme (NSAP) is a flagship welfare programme of the Government of India initiated on 15th August, 1995.
- Article 41 of the Indian Constitution directs the State to provide public assistance to its citizens in case of unemployment, old age, sickness and disablement and in other cases of undeserved want within the limit of its economic capacity and development. The scheme is a 'giant step' towards achieving the directive principle in the Constitution.
- NSAP at present comprises of Indira Gandhi National Old Age Pension Scheme (IGNOAPS), Indira Gandhi National Widow Pension Scheme (IGNWPS), Indira Gandhi National Disability Pension Scheme (IGNDPS), National Family Benefit Scheme (NFBS) and Annapurna Scheme.

National Old Age Pension Scheme

- The National Old Age Pension scheme provides a pension for *the elderly who live below the poverty line.*
  - —The age of the applicant (male or female) should be 60 or above (revised from 65 in 2009).
  - —The applicant may reside in either rural or urban areas, but must be living under the poverty line.
  - —The amount of old age pension in ₹ 300 per month for applicants aged 60 to 79. For applicants aged above 80 years, the amount has been revised in ₹ 500 a month according to the 2012 budget.

National Family Benefit Scheme (NFBS)

- In case of the death of the 'primary breadwinner' of a household living below poverty line conditions, a lump sum grant of ₹ 20000 (from fiscal 2012-13) is provided to the household. The primary breadwinner as specified in the scheme, whether male or female, had to be a member of the household whose earning contributed substantially to the total household income.
- The death of such a primary breadwinner occurring whilst he or she in the age group of 18 to 64 years i.e. more than 18 years of age and less than 65 years of age, makes the family eligible to receive grants under this scheme.

Indira Gandhi National Widow Pension Scheme (IGNWPS)

- A pension of ₹ 300 per month (From fiscal 2012-13) to be granted to widows aged 40 to 59 living below poverty-line conditions. Pradhan of Gram Panchayat shall review the list of widows and report in case of any re-marriage.

Indira Gandhi National Disability Pension Scheme (IGNDPS)

- It is a component of National Social Assistance Programme (NSAP). Under IGNDPS, central assistance of ₹ 300 pm per beneficiary is provided to persons with severe or multiple disabilities in the age group of 18 to 79 years and belonging to a household living Below Poverty Line (BPL) as per criteria prescribed by Government of India.

Other Social Protection Programmes

- Keeping in view the importance of the informal sector's share in total workforce, the government has been focusing on expanding the coverage of social security schemes so as to provide a minimum level of social protection to workers in the unorganised sector and ensure inclusive development. *These include the following*:

One Nation One Ration Card Scheme

- Union Minister Ram Vilas Paswan launched the NDA government's ambitious project 'one nation one ration card' scheme on 1st June, 2020. This card will enable migrant workers to get cheap food grains with one ration card across the country.

- The scheme has facilitated all the eligible families under the National Food Security Act to get ration from any fair price shop in their vicinity on the basis of biometrics. Under the scheme, automation of all the 24 thousand 980 Fair Price Shops of the state has been completed by installing POS machines. The price of wheat is ₹ 3 per Kg and rice at ₹ 2 per Kg. This scheme was implemented in 12 states across India. These include; Madhya Pradesh, Maharashtra, Goa,Gujarat, Jharkhand, Karnataka, Telangana, Rajasthan, Kerala, Tripura, Haryana and Andhra Pradesh.

Rashtriya Vayoshri Yojana

- Rashtriya Vayoshri Yojana is a scheme for providing physical aids and assisted-living devices for senior citizens belonging to BPL category. It is launched in Nellore, Andhra Pradesh on 1st April, 2017. It is the first-of-its-kind Central Sector Scheme (CCS) in India, to be fully funded by the Central Government.

Aam Admi Bima Yojana (AABY)

- The Janashree Bima Yojana (JBY) has now been merged with the AABY to provide better administration of life insurance cover to the economically backward sections of society.
- The scheme extends life and disability cover to persons between the ages of 18 and 59 years living below and marginally above the poverty line under 47 identified vocational and occupational groups, including 'rural landless households'.
- It provides insurance cover of a sum of ₹ 30000 on natural death, ₹ 75000 on death due to accident ₹ 37500 for partial permanent disability due to accident and ₹ 75000 on death or total permanent disability due to accident.
- The scheme also provides an add-on benefit of scholarship of ₹ 100 per month per child paid on half-yearly basis to a maximum of two children per member studying in classes 9 to 12 (including ITI courses).

Rashtriya Swasthya Bima Yojana (RSBY)

- The RSBY was launched on 1st October, 2007, to provide smart card-based cashless health insurance cover of ₹ 30000 per family per annum on a family floater basis to BPL families (a unit of five) in the unorganised sector.
- The scheme became operational from 1st April, 2008. The premium is shared on 75:25 basis by the Centre and State Governments. In the case of the North-Eastern states and Jammu and Kashmir, the premium is shared in a 90:10 ratio. As on 31st December, 2012, the scheme is being implemented in 27 States or UTs with more than 3.34 crore smart card issued.

Pradhan Mantri Vaya Vandana Yojana (PMVVY)

- Government has launched the 'Pradhan Mantri Vaya Vandana Yojana (PMVVY)' to provide social security during old age and to protect elderly persons aged 60 and above against a future fall in their interest income due to uncertain market conditions. The scheme enables old age income security for senior citizens through provision of assured pension/return linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC).

National Social Security Fund

- A National Social Security Fund for unorganised sector workers with initial allocation of ₹ 1000 crores has been set-up. This fund will support schemes for weaver, toddy tappers, rickshaw pullers, beedi workers etc.

Annapurna Scheme

- On 1st April, 2000 a new scheme known as **Annapurna scheme** was launched. This scheme aimed at providing food security to meet the requirement of those senior citizens who, though eligible, have remained uncovered under the other government scheme. Under the Annapurna scheme, 10 kg of food grains per month are provided free of cost to the beneficiary. The number of persons to be benefited from the scheme are in the first instance, 20% of the persons eligible to receive pension in States or UTs.

Employment, Poverty, Rural and Urban Development Programmes till 2015

Name of the Programmes	Years of Beginning	Objectives/Descriptions
Training Rural Youth for Self-Employment (TRYSEM)	1979	Programme for training rural youth for self-employment.
Integrated Rural Development Programme (IRDP)	1980	All-round development of the rural poor through a programme of asset endowment for self-employment.
National Rural Employment Programme (NREP)	1980	To provide profitable employment opportunities to the rural poor.
Rural Landless Employment Guarantee Programme (RLEGP)	1983	For providing employment to landless farmers and labourers.
Jawahar Rozgar Yojana	1989	For providing employment to rural unemployed.
Nehru Rozgar Yojana	1989	For providing employment to urban unemployed.
Scheme of Urban Wage Employment (SUWE)	1990	To provide wages employment after arranging the basic facilities for poor people in the urban areas, where population is less than 1 lakh.
Employment Assurance Scheme (EAS)	1993	To provide employment of at least 100 days in a year in village.
Swarna Jayanti Shahari Rozgar Yojana (SJSRY), it has been revamped with effect from April, 2009. The revamped scheme has five components: Urban Self-Employment Programme (USEP); Urban Women Self Help Programme (UWSP); Skill Training for Employment Promotion amongst Urban Poor (STEP-UP); Urban Wage Employment Programme (UWEP); and Urban Community Development Network (UCDN)	1997	To provide gainful employment to urban unemployed and under employed poor through self employment of wage employment.
Swaranajayanti Gram Swarozgar Yojana (SGSY), it replaced IRDP, DWCRA, Ganga Kalyan Yojana (1997), Million Wells Scheme (1989) and Supply of Improved Tool kits to Rural Artisans (1992)	1999	For eliminating rural poverty and unemployment and promoting self employment through establishing micro enterprises in rural areas. Targets to cover 50% SCs/STs, 40% women, 15% minorities and 3% disabled.
Jai Prakash Narayan Rozgar Guarantee Yojana (JPNRGY)	Proposed in 2002-03 Budget	Employment guarantee in most poor districts.
Pradhan Mantri Gramodaya Yojana (PMGY)	2000	Focus on village level development in 5 critical areas, i.e. primary health, primary education, housing, rural roads and drinking water and nutrition with the overall objective of improving the quality of life of people in rural areas.
Food for Work Programme	2001	To give food through wage employment in the drought affected areas in eight states. Wages are paid by the State Governments, partly in cash and partly in foodgrains.
MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme). The scheme was notified throughout the country with effect from 1st April, 2008. Renamed as MGNREGS from 2nd October, 2009. SGRY and Food for Work Programme merged into it.	2nd February 2006	It aims at enhancing livelihood security of households in rural areas of the country by providing at least 100 days of guaranteed wage employment in a financial year to every household, whose adult members volunteer to do unskilled manual work. It also mandates 33% participation for women. The primary objective of the scheme is to augment wage employment.
Prime Minister's Employment Generation Programme (PMEGP)	2008	To generate employment opportunities in rural as well as urban areas through setting up of new self-employment ventures or projects or micro enterprises.
Atal Mission for Rejuvenation and Urban Transformation (AMRUT)	2015	To upgrade urban infrastructure across 500 towns and cities.

Rural Development Programmes till 2015

Name of the Programmes	Years of Beginning	Objectives/Descriptions
Council for Advancement of People's Actions and Rural Technology (CAPART)	1986	To provide assistance for rural prosperity.
Integrated Wasteland Development Programme (IWDP)	1989-90	For the development of wasteland and degraded lands.
District Rural Development Agency (DRDA)	1993	To provide financial assistance for rural development.
Member of Parliament Local Area Development Programme (MPLAD)	1993	It provides for ₹ 2 crore to each MP to undertake development activities in its constituency. The amount has been raised to ₹ 5 crore from 2011.

Name of the Programmes	Years of Beginning	Objectives/Descriptions
Indira Awas Yojana	1999	To help construction of new dwelling units as well as conversion of unserviceable kutcha houses into pucca or semi-pucca by members of SC or STs, rural poor below the poverty line by extending them grant-in-aid.
Total Sanitation Campaign (TSC)	1999	It follows a community led and people-centred approach and places emphasis on Information, Communication and Education (ICE) for demand generation of sanitation facilities.
Pradhan Mantri Gram Sadak Yojana (PMGSY)	2000	To line all villages with pakka road.
Annapurna Scheme	2000	To ensure food security for all, create a hunger free India in the next 5 years and to reform and improve the Public Distribution System, so as to serve the poorest of the poor in rural and urban areas.
Valmiki Ambedkar Awas Yojana (VABAY)	2001	Facilitates construction and upgradation of dwelling units for slum dwellers.
Nirmal Gram Puruskar (NGP)	2003	It is an incentive scheme to encourage PRIs to take up sanitation promotion.
Bharat Nirman Programme	2005	Development of rural infrastructure including 6 components : irrigation, water supply, housing, road, telephone and electricity.
Jawaharlal Nehru National Urban Renewal Mission (JNNURM), it has 2 components. (a) Basic services to urban poor and (b) Integrated Housing and Slum Development Programme	2005	To assist cities and towns in taking up housing and infrastructural facilities for the urban poor in 63 cities (now 65 cities) in the country.
National Rural Drinking Water Programme (NRDWP)-previously called Accelerated Rural Water Supply Programme.	2009	Aims to move forward from achieving habitation level coverage towards household level drinking water coverage through resorting to multiple sources like ground water and surface water etc.
Affordable Housing in Partnership (AHIP)	2009	Aims at constructing one million houses for the EWS or LIG or MIG with at least 25% for EWS category seeks to operationalise National Habitat Policy, 2007.
Saansad Adarsh Gram Yojana	2014	Rural development and cleanliness programme
Shyama Prasad Mukherji Rurban Mission	2015	To deliver integrated project based infrastructure in the rural areas.
Deendayal Upadhyaya Gram Jyoti Yojana	2015	Power supply to the rural areas
Deendayal Upadhyaya Grameen Kaushalya Yojana	2015	Skill upgradation of skill youth

Women Empowerment Programmes till 2015

Name of the Programmes	Years of Beginning	Objectives/Descriptions
Swadhar	1995	To support women to become independent in spirit, in thought, in action and have full control over their lives rather than be the victim of other's actions.
Swayam Siddha	2001	At organising women into Self-Help Groups to from a strong institutional base.
Support to Training and Employment Programme for Women (STEP)	2003-04	To increase the self-reliance and autonomy of women by enhancing their productivity and enabling them to take up income generation activities.
Ujjwala	2007	A comprehensive scheme for prevention of trafficking with 5 specific components: prevention, rescue, rehabilitation, reintegration and repatriation of victims.
Dhan Laxmi	2008	Conditional cash transfer scheme for the girl child to encourage families to educate girl children and to prevent child marriage.
Indira Gandhi Matritva Sahyog Yojana (IGMSY)	2010	To improve the health and nutrition status of pregnant, lactating women and infants.
National Mission for Empowerment of Women (NMEW)	2010	To achieve empowerment of women socially, economically and educationally by securing convergence of schemes.
Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (RGSEAG)- 'Sabla'	2010	It aims at empowering adolescent girls of 11 to 18 years by improving their nutritional and health status, upgradation of home skills, life skills and vocational skills.

Child Welfare Programmes till 2015

Name of the Programmes	Years of Beginning	Objectives/Descriptions
Reproductive and Child Health Programme	1951	To provide quality integrated and sustainable Primary Health Care services to the women in the reproductive age group and young children and special focus on family planning and immunisation.
Integrated Child Development Services (ICDS)	1975	It is aimed at enhancing the health, nutrition and learning opportunities of infants, young children (0 to 6 years) and their mothers.
Rajiv Gandhi National Creche Scheme for the Children of Working Mothers	2006	Overall development of children, childhood protection, complete immunisation, awareness generation among parents on malnutrition, health and education.
Scheme for Welfare of Working Children in Need of Care and Protection	2008-09	Provides for non-formal education, vocational training, etc to working children to facilitate, their entry or re-entry into mainstream education.
Integrated Child Protection Scheme (ICPS)	2009-10	Providing a safe and secure environment for comprehensive development of children, who are in need of care and protection as well as children in conflict with law.
Bal Bandhu Scheme	2011	Provides for protection of children is areas of civil unrest. It is implemented by NCPCR with grant from PM's National Relief Fund.
Beti Bachao Beti Padhao Yojana	2014	Generating awareness and improving the efficiency of delivery of welfare services meant for women.

Education Oriented Programmes till 2018

Name of the Programmes	Years of Beginning	Objectives/Descriptions
Mid-Day Meal Scheme (largest feeding school programme in the world.)	1995	Improving the nutritional status of children in classes I-VII in government, local body and government aided schools and EGS and AIE centres with the end objective of enabling disadvantaged and poor children to attend school regularly.
Sarva Shiksha Abhiyan (SSA)	2001	All children (6 to 14) complete 5 years of primary schooling by 2007; all children complete 8 years of elementary schooling by 2010; bridge all gender and social category gaps at primary stage by 2007 and at elementary education level by 2010; universal retention by 2010.
National Programme for Education of Girls at Elementary Level (NPEGEL)- important component of SSA	2003	Focused intervention to reach the 'Hardest to Reach' girls and provides for 'Model School' in every cluster with more intense community mobilisation and supervision of girls enrollment in schools.
Kasturba Gandhi Balika Vidyalayas (KGBVs) (with effect from) 1st April, 2007, merged with SSA)	2004	To set-up residential schools at upper primary level for girls belonging to SC, ST, OBC or Minority communities. The scheme is being implemented in rural areas and urban areas with female literacy below 30% and national average respectively.
Rashtriya Madhyamik Shiksha Abhiyan (RMSA) or Scheme for Universalisation of Access for Secondary Education (SUCCESS)	2009	Aims at raising the enrolment rate at secondary stage from 52.26% in 2005-06 to 75% in next 5 years by providing a secondary school within a reasonable distance of 5 km of any habitation; ensure universal access by 2017 and universal retention by 2020.
Saakshar Bharat	2009	National Literacy mission has been recased as 'Saakshar Bharat'. The aim is to cover all adults, is the age group of 15 and above, with its primary focus on women.
Inclusive Education for the Disabled at Secondary Stage (IEDSS)-replaced Integrated Education for Disabled Children (IEDC)	2009-10	Provides 100% central assistance for inclusive education of disabled children studying in class IX-XII in government, local body and government-aided schools.
Atal Innovation Mission	2018	To promote innovation and entrepreneurship across the length and breadth of the country. The other sections of AIM are the Atal Tinkering Lab and Atal Incubation centre.

Health Oriented Programmes till 2018

Name of the Programmes	Years of Beginning	Objectives/Descriptions
National Rural Health Mission (NRHM)	2005	To provide effective healthcare to rural population with special focus on 18 states with weak health indices or infrastructure; to raise public spending on health from 0.9% of GDP to 2.3% of GDP reduction of IMA and MMR; and universal access to healthcare with emphasis on women.
Janani Suraksha Yojana (JSY)-a core component of NRHM	2005	Focus on demand promotion for institutional deliveries in states and regions and targets lowering of MMR; it is a conditional cash transfer programme to increase births in health facilities.
Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)	2010	To correct regional imbalance in tertiary healthcare and augmenting facilities for quality medical education in the country; and setting up 6 AIIMS-like institution in phase-1 and in phase-2, 2 more AIIMS like institutions.
Ayushman Bharat or Pradhan Mantri Jan Arogya Yojana	2018	Health Insurance Scheme for approx 10 crore families identified through socio economic caste census database. The scheme guarantees eligible families expenses of upto ₹ 5 lack per year in any government or empanelled private hospitals all over India.

Self Check

Build Your Confidence

1. Consider the following schemes launched by the Union Government **[IAS 2001]**

1. Antyodaya Anna Yojana
2. Beti Bachao, Beti Padhao Yojana
3. Sukanya Samridhi Yojana
4. Jawahar Gram Samridhi Yojana

Which of these were announced in the year 2014-15?

(a) 1 and 2 (b) 1, 2 and 3 (c) 2 and 3 (d) 3 and 4

2. Consider the following statements **[IAS 2000]**

1. The National Heritage City Development and Augmentation Yojana (HRIDAY) aims to bring together urban planning, economics growth and heritage conservation.
2. As per the announcement, the scheme will involve a partnership and local communities offer dable technologies.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

3. Consider the following statements about the Rashtriya Madhyamik Shiksha Abhiyan (RMSA)

1. It aims to enhance access to secondary education in India.
2. It has quality intervention schemes to ensure that all secondary schools conform to prescribed norms, removing gender, socio-economic and disability barriers.
3. It has the target to achieve the universal retention by 2020.

Which of the statements given above are correct?

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of these

4. Which one of the following areas of the country is mainly emphasised in the Bharat Nirman project Launched by the Indian Government?

(a) Building infrastructure and basic amenities in the urban slum areas
(b) Building infrastructure and basic amenities in the rural areas
(c) Building infrastructure and basic amenities in the semi-urban areas
(d) Both 'a' and 'c'

5. Consider the following norms of the Mid-day Meal Scheme

1. To provide a minimum of 450 calories of food.
2. To provide a minimum 12 gram of protein.
3. To provide an adequate quantities of micro-nutrients like iron, folic acid, vitamin-A.
4. To provide an adequate quantities of essential fatty acids and medicine for the common cold and diarrhoea.

Which of the norms given above are correct about the Mid-day Meal Scheme?

(a) 1, 3 and 4 (b) 1, 2 and 3 (c) 1, 2 and 4 (d) All of these

6. Consider the following statements

1. Accidental insurance of 1 lakh is available to all RuPay Card holder in the age group of 18-60 where RuPay Card need to be usedonce in 2 months of recipt.
2. Accidental insurance claim intimation should be given his or her bank where account is maintained within 30 days from the date of accident.

Which of the statement(s) given of accidental insurance coverage under Pradhan Mantri Jan-Dhan Yojana is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

7. Consider the following **[IAS 2012]**

1. Hotels and restaurants
2. Motor transport undertakings
3. Newspaper establishments
4. Private medical institutions

The employees of which of the above can have the 'Social Security' coverage under Employees State Insurance scheme?

(a) 2 and 4 (b) 1, 2 and 3
(c) 2 and 3 (d) All of these

8. How do District Rural Development Agencies (DRDAs) help in the reduction of rural poverty in India? **[IAS 2012]**

1. DRDAs act as Panchayati Raj institutions in certain specified backward regions of the country.
2. DRDAs undertake area-specific scientific study of the causes of poverty and malnutrition and prepare detailed remedial measures.
3. DRDAs secure inter-sectoral and inter-departmental co-ordination and co-operation for effective implementation of anti-poverty programmes.
4. DRDAs watch over and ensure effective utilisation of the funds intended for anti-poverty programmes.

Which of the statements given above are correct?

(a) 2 and 4 (b) 1, 2 and 3
(c) 2 and 3 (d) All of these

9. Which one of the following statements is/are correct about the Pradhan Mantri Gram Sadak Yojana (PMGSY)?

(a) It provides connectivity to all the unconnected habitations of more than 1000 persons in the rural areas by good quality all weather roads
(b) It was launched in 2005 as a fully funded centrally sponsored scheme
(c) It provides connectivity to all unconnected habitations of more than 250 persons in the hilly and desert areas by good quality all weather roads
(d) Both 'a' and 'c'

10. Which one of the following schemes subsumed the Valmiki Awas Yojana?

(a) Integrated Housing and Slum Development Programme (IHSDP)
(b) Sampoorna Grameen Swarozgar Yojana (SGSRY)
(c) Rajiv Awas Yojana (RAY)
(d) Integrated Rural Development Programme (IRDP)

11. Which one of the following descriptions is correct about the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) of the Indian Government?

(a) JNNURM is the single largest initiative ever launched in the country to address the issues of urban infrastructure and basic services to the urban poor
(b) JNNURM will be implemented over a period of 7 years from 2005 to 2012
(c) The National Building organisation is the model agency for co-ordination of sanction, monitoring and review of projects under BSUP and IHSDP
(d) All of the above

12. Consider the following statements

1. MNREGA was launched in the Eleventh Five Year Plan.
2. Indira Awas yojana was launched in the Ninth Five Year Plan.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

13. Consider the following statements about Pradhan Mantri Kaushal Vikas Yojana

1. Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is a flagship outcome-based skill training scheme.
2. It was unveiled anveited by Prime Minister Narendra Modi on 20th March, 2015

Which of the statement(s) given above is /are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

14. In order to provide pensions to workers of the unorganised sector, which one among the following schemes has been launched by the government?

(a) Swabhiman (b) Swavalamban
(c) Swadhar (d) Aadhaar

15. Janani Suraksha Yojana focuses on

1. reducing maternal mortality rates.
2. reducing infant mortality rates.
3. increasing life expectancy among women.

Which of the statement(s) given above is/are correct?

(a) 1 and 2 (b) 2 and 3
(c) Only 1 (d) All of these

16. Consider the following statements on National Programme of Education for Girls at Elementary Level (NPEGEL)

1. It addresses issues at micro-level.
2. It is implemented in Educationally Backward Blocs .
3. It addresses the needs of girls's 'in school.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Only 3 (d) All of these

17. Which of the following are the objectives of Nirmal Gram Puruskar?

1. Bringing sanitation to the forefront of rural development discourse.
2. Incentivising the PRIs.
3. Increasing social mobilisation.

Select the correct answer using the codes given below

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

18. Which of the following are the major strategic shifts under the proposed National Rural Livelihood mission?

1. Focus of allocation- based strategy.
2. Making SHGs the prime movers of rural development.
3. Making SHGs a subordinate banking institutions for making available easy credit.

Select the correct answer using the codes given below

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) None of these

19. Consider the following statements on NREGA (National Rural Employment Guarantee Act) of 2005.

1. It is not a legally enforceable right to 60 days of employment.
2. It provided economic and not social security to rural workers.
3. It is not universal in the sense,; it is applicable only to BPL families.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Only 3 (d) None of these

20. Consider the following statements

1. Rashtriya Krishi Vikas Yojana (RKVY) was launched to incentivise the states to enhance public investment to achieve 4% growth rate in Agriculture and Allied sectors during the Eleventh Five Year Plan period.
2. Rashtriya Krishi Vikas Yojana (RKVY) was launched in 2006-07.

Which of the statement(s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

21. Which one of the following schemes is not included in the Rashtriya Krishi Vikas Yojana (RKVY)?

(a) National Mission for Protein Supplements
(b) Saffron Mission
(c) Accelerated Fodder Development Programme
(d) All of the above

22. Consider the following statements

1. The Poshan Krishi Kosh aims to reduce malnutrition among women and children across the country.
2. SUMAN scheme aimed for zero preventable maternal death in India.

Which of the statement(s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

23. With regard to household saving, the budget proposes

1. under the Rajiv Gandhi Equity Saving Scheme, the income limit for the first time investors is being raised from ₹ 10 lakh to ₹ 15 lakh.
2. persons taking loans for first home up to ₹ 25 lakh will be entitled to an additional deduction of interest of upto ₹ 1 lakh.
3. inflation indexed bonds will be introduced to protect saving from inflation.

Which of the statements given above are correct?

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

24. Consider the following statements about Rashtriya Swasthya Bima Yojana (RSBY)

1. Under RSBY the premium is shared on 85 : 15 basis by the Centre and State Governments.
2. In the case of the North-Eastern States and Jammu and Kashmir, under RSBY the premium is shared in a 90 : 10 ratio.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

25. Consider the following statements

1. Mahila Samakhya Scheme is implemented in 9 states.
2. Mahila Samakhya Scheme recognises the centrality of education in empowering women to achieve equality.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

26. Consider the following about the Rajiv Gandhi Scheme for Empowerment of Adolescent Girls SABLA

1. To enhance the nutritional status of adolescent girls.
2. To empower women in achieving equality.

Which of the statement(s) given above is/are the aims of the SABLA Scheme?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

27. Which one of the following is the main objective of the Ujjawala Scheme launched for women and children in India?

(a) To prevent the trafficking, rescue, rehabilitation, reintegration and repatriation of women and children
(b) To assist women and children below 6 years to attain self-sufficiency in the health-care and nutrition
(c) To prevent women from becoming victims to maternal mortality and infant mortality in the society
(d) None of the above

28. Consider the following statements

1. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) aims at enhancing livelihood security of households in both rural and urban areas of the country.
2. The primary objective of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) is to augment wage employment.

Which of the statement(s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

29. Which one of the following statements is correct about the Rajiv Gandhi Scheme for Empowerment of Adolescent Girls SABLA launched by the Indian Government?

(a) The scheme will be implemented using the platform of Anganwadi Centres (AWCs) of the Integrated Child Development Services (ICDSs) Scheme
(b) The cost sharing of the scheme would be on a 50 : 50 basis between the Centre and States
(c) The scheme is implemented by the Ministry of Rural Development
(d) Both 'a' and 'b'

30. Consider the following statements about the Sarva Shiksha Abhiyan

1. To achieve the universalisation of elementary education in a time bound manner.
2. To make free and compulsory education for children of ages 6-16.

Which of the statement(s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

31. How does the National Rural Livelihood Mission seek to improve livelihood options of rural poor? **[UPSC, 2012]**

1. By setting up a large number of new manufacturing industries and agribusiness centres in rural areas.
2. By strengthening 'self-help groups' and providing suill development.
3. By supplying seeds, fertilizers, diesel, pump-sets and micro irrigation equipments free of cost to farmers.

Select the correct answer using the codes given below

(a) 1 and 2 (b) Only 2
(c) 1 and 3 (d) All of these

1. (c)	**2.** (d)	**3.** (d)	**4.** (b)	**5.** (b)	**6.** (b)	**7.** (a)	**8.** (d)	**9.** (c)	**10.** (a)
11. (d)	**12.** (b)	**13.** (c)	**14.** (b)	**15.** (a)	**16.** (d)	**17.** (d)	**18.** (b)	**19.** (d)	**20.** (c)
21. (d)	**22.** (c)	**23.** (b)	**24.** (c)	**25.** (c)	**26.** (c)	**27.** (a)	**28.** (b)	**29.** (a)	**30.** (a)
31. (b)									

Chapter seventeen
International Financial and Economic Organisation

At the Bretton Woods Conference in 1944 it was decided to establish new monetary order that would expand international trade, promote international capital flow and contribute to monetary stability.

International Organisations

- An international organisation has been defined as a forum of co-operation of sovereign states based on multilateral international agreement and comprising of a relatively stable range of participants.
- The fundamental feature of this is the existence of permanent organs with definite competences and powers acting for the carrying out of common aims.

Role of International Organisation

There are various functions of the International Organisations (IOs), *which are as follows* :

- One of the main functions of International Organisations (IOs), is that it keeps infact the sovereignty of states and despite their different social systems, establish and expand peaceful co-operation among them.
- The second main function is to ensure that the competition among the individual states remains peaceful.

Bretton Woods Conference

- The Bretton Woods Conference, officially known as the **United Nations Monetary** and Financial Conference, was a gathering of delegates to agree upon a series of new rules for the Post World War II International Monetary System.
- *The two major accomplishments of the conference were as follows :*
  (i) The creation of the International Monetary Fund (IMF).
  (ii) The creation of International Bank for Reconstruction and Development (IBRD) also known as **World Bank**.

International Monetary Fund (IMF)

- The International Monetary Fund (IMF) is the inter-governmental organisation that overseas the global financial systems by following the macro-economic policies of its member countries, in particular, those with an impact on exchange rate and the Balance of Payments (BoP). Its headquarter is in **Washington DC**, **United States**.
- The IMF was formally organised on 27th, December 1945, when the first 29 countries signed its Articles of Agreement.
- Presently, the IMF has **190 member countries**. The Principality of Andorra became the 190th member of IMF on 16th October, 2020. It is a specialised agency of the United Nations, but has its own charter, governing structure and finances. Its members are represented through a quota system broadly based on their, relative size in the global economy.
- A Global Financial Stability Report (GFSR) is developed and published by the International Monetary Fund. The report is issued twice a year and provides updates on current economic conditions and financial markets worldwide. IMF's other publication is the World Economic Outlook.

IMF Lending

- IMF loans are meant to help member countries tackle Balance of Payments (BoP) problems, stabilise their economies and restore sustainable economic growth.
- *Today, IMF lending serves three main purposes :*
  (i) First, it can smoothen adjustment to various shocks, helping a member country avoid disruptive economic adjustment or sovereign default, something that would be extremely costly, both for the country itself and possibly for other countries through economic and financial **ripple effects** (known as **contagion**).
  (ii) Second, IMF programmes can help to **unlock** other financings, acting as a **catalyst** for other **lenders**.
  (iii) Third, IMF lending can help prevent **crisis.** The experience is capital account crisis typically inflicts substantial costs on countries themselves and on other countries through contagion.

IMF Quota

- When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members that are broadly comparable in economic size and characteristics.
- The quota determines the country's financial contribution to the IMF, its **voting power** and ability to access IMF financing. Quota subscriptions generate most of the IMF's financial resources.

Special Drawing Rights (SDRs)

- SDRs is an international reserve asset, created by the IMF in 1969, to supplement its member countries' **official reserves.** Its value is based on a basket of five key international currencies (US dollar, Japanese yen, pound sterling, euro and Chinese renminbi) and SDRs can be exchanged for freely usable currencies. Chinese renminbi came into effect on 1st October, 2016.

SDRs (Special Drawing Rights) as Global Reserve Currency

- In recent times, there has been a call to make the SDRs i.e. the **global reserve currency.** In this light, there are several issues related to reserve currency that we need to understand.
- A reserve currency is one, which is held widely by **Central Banks** and other financial institutions internationally and is used for most international trade and other transactions.
- Having a currency as one of the global reserve currencies, enables the issuer to import at lower rates than other countries, since they don't need to pay **transaction costs.** It also provides the ability to import according to the needs, if needed, by simply printing more money.
- A currency to be a global currency should be widely available in the international market, it should be freely **convertible.** Also, reserve currencies are generally held as **government** bonds and not as hard cash. For these reasons, the Chinese Yen cannot yet become the global reserve currency.
- China is not yet the biggest economy in the world, its currency is alleged to be manipulated by the government and China limits the amount of its bonds that foreigners can hold.
- There are however, many reasons to find an alternative to the US dollar as the global reserve currency. *Firstly*, it creates a global recessionary bias, both during and after financial crisis. *Secondly*, if the US succeeds in reigning in its large budget and current account deficits, the global liquidity will shrink. *Thirdly*, the large accumulation of dollars by countries around the world like **China** has led to global imbalances.
- The SDR of IMF is not a currency. It is a potential claim on the currencies of the member countries. To increase the importance of SDRs internationally, it should be issued in larger quantities annually and it should be made the main or only means of IMF financing.

IMF Reforms

- On 15th December, 2010, IMF's Board of Governors approved a package of reforms of the fund's quotas and governance completing the **14th** General Review of Quotas.
- The reform package builds on the 2008 reforms, which became effective on 3rd March, 2011.
- *The 14th General Review of quotas will* :
  —double quotas from approximately SDR 238.4 billion to SDR 476.8 billion (about US $ 720 billion).
  —shift more than 6% quota share from over-represented countries to under-represented countries.
  —shift more than 6% quota share to dynamic emerging market and developing countries.
  —realign quota share to make all 4 BRIC countries, among the top 10 largest shareholders in the fund.
  —preserve the quota and voting share of the poorest member countries.
- Subsequent to the 2010 reforms implementation, India's quota share will go upto 2.79%, giving it a rank of 8th. IMF quota changes have to be approved by 85% votes alongwith consent of the country, whose share is changed.
- However, repayment of all the loans taken from the IMF has been completed on 31st May, 2000. India is now a contributor to the IMF.
- The quotas determine the amount of foreign exchange a member may borrow from the IMF and its voting power on IMF policy matters. Quotas are denominated in SDRs.

Debt Relief

- In addition to concessional loans, some low- income countries are also eligible for debts to be written off under *two key initiatives.* The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

World Bank

- The World Bank Group (WBG) is a family of five international organisations that provide leveraged loans, generally to poor countries. The bank came into formal existence on 27th December, 1945 following international ratification of the **Bretton Woods Agreements,** which emerged from the United Nations Monetary and Financial Conference (1st to 22nd July, 1944).

- It also provided the foundations of the **Osiander-Committee** in 1951, responsible for the preparation and evaluation of the World Development Report.
- Commencing operations on 25th June, 1946 it approved its first loan on 9th May, 1947 ($ 250 million to France for (post war reconstruction), in real terms the largest loan issued by the bank (to date).
- 13th President of World Bank Group is David Malpass. Traditionally, the President of this bank has always been an American Citizen nominated by the United States.
- The *World Bank itself comprises of two major organisations* are as follows :
  (i) International Bank for Reconstruction and Development.
  (ii) International Development Association.
  (*Associated with the World Bank, but legally and financially separate are three other organisations*).
  —International Finance Corporation.
  —International Centre for Settlement of Investment Disputes.
  —Multilateral Investment Guarantee Agency.

World Bank Groups

International Bank for Reconstruction and Development (IBRD)

- Founded in 1944, to help **Europe** recover from World War-II, the International Bank for Reconstruction and Development (IBRD) works with middle-income and credit worthy poorer countries to promote sustainable, equitable and job-creating growth, reduce poverty and address issues of regional and global importance.
- IBRD is owned and operated for the benefit of its **189 member countries.** Delivering flexible, timely and tailored financial products, knowledge and technical services and strategic advice helps its members achieve results.

> **Ease of Doing Business Index**
>
> The ease of doing business index is an index created by Simeon Djanhov at the world Bank group. Higher ranking indicate better usually simpler, regulations for businesses and stronger protections of property rights. A nation's ranking on the index is based on the average of 10 Subindexs - starting a business, Dealing with construction permits, Getting electricity, registering property, Getting credit, Protecting investors, paying taxes, trading across borders, enforcing contracts and Resolving inslovency.

International Development Association (IDA)

- The International Development Association (IDA) is the part of the **World Bank** that helps the world's poorest countries. Established in 1960, it aims to reduce poverty by providing interest-free credits and grants for programmes that boost **economic growth,** reduce **inequalities** and improve **people's living conditions.**
- It serves middle-income countries with capital investment and advisory services. It is one of the largest sources of assistance for the world's 79 poorest countries, 39 of which are in **Africa.** It is the single largest source of donor funds for basic social services in the poorest countries. As of June, 2021 the IDA has 173 countries as member.
- It lends money (known as **credits**) on concessional terms. This means that IDA credits have no interest charge and repayments are stretched over 35 to 40 years, including a 10-years grace period.

International Finance Corporation (IFC)

- The International Finance Corporation (IFC) promotes sustainable private sector investment in developing countries. It is a member of the World Bank Group and is headquartered in **Washington DC.**
- It shares the primary objective of all World Bank Group institutions: to improve the quality of the lives of people in its developing member countries. It has **184 member countries**.
- It promotes sustainable private sector development primarily by
  —financing private sector projects and companies located in the developing world.
  —helping private companies in the developing world mobilise financing in international financial markets.
  —providing advice and technical assistance to businesses and governments.

Multilateral Investment Guarantee Agency (MIGA)

- The Multilateral Investment Guarantee Agency (MIGA) is a member organisation of the World Bank Group that offers political risk insurance. It was established to promote **foreign direct investment** into developing countries.
- It promotes foreign direct investment into developing countries by insuring investors against political risk, advising governments on attracting investment, sharing information through online investment information services and mediating disputes between **investors** and **governments.**
- As of June, 2021 MIGA is comprised of 182 member states among which 157 are developing countries while 25 are industralised countries.

Objectives of MIGA

- Raising FDI inflows to the developing countries.
- Reducing poverty.
- Achieving higher economic growth.
- Increasing standard of livings.

International Centre for Settlement of Investment Disputes (ICSID)

- The International Centre for Settlement of Investment Disputes (ICSID), an institution of the World Bank Group based in Washington DC was established in 1966, pursuant to the convention on the settlement of investment disputes between states and nationals of other states (the ICSID Convention or Washington Convention).

- ICSID has an **administrative council,** chaired by the World Bank's President and a Secretariat. It provides facilities for the **conciliation** and **arbitration** of investment disputes between member countries and individual investors.
- As of June, 2021, 163 countries had signed the ICSID convention. India, Brazil and South Africa is not the signatory (member) to ICSID.

The two major accomplishments of the Brettan woods conference were the creation of IMF and IBRD.

> **IMF *vs* World Bank**
>
> **Similarities** Both are **global institutions** since most countries of the world are their members. Both are concerned with **strengthening** the economies of member nations.
>
> **Differences World Bank's purpose is to promote economic and social progress in developing countries.** IMF's purpose is to **oversee** and **maintain** an orderly system of payments and receipts between nations.

The United Nations Conference on Trade and Development (UNCTAD)

- The United Nations Conference on Trade and Development (UNCTAD) was established in 1964, as a **permanent inter-governmental body.** It is the principal organ of the United Nations General Assembly dealing with trade, investment and development issues.
- The organisation's goals are to "Maximise the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis."

Objectives of UNCTAD

- The primary objective of the UNCTAD is to formulate policies relating to all **aspects** of **development** including trade, aid, transport, finance and technology.

UNCTAD Conferences

- The highest decision-making body of UNCTAD is the **quadrennial** (every 4 years) **conference**, at which member states make assessments of current trade and development issues, discuss policy options and formulate global policy responses.
- The conference also sets the organisation's **mandate** and **work priorities.**
  —The conference is a subsidiary organ of the United Nations General Assembly.
  —The conferences serve an important political function: they allow inter-governmental consensus building regarding the state of the world economy and development policies and they play a key role in identifying the role of the United Nations and UNCTAD in addressing economic development problems.

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

- It was a multilateral agreement regulating international trade. According to its preamble, its purpose was the 'substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis'. It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating government to create the International Trade Organisation (ITO). GATT was signed in 1947 and lasted until 1994, when it was replaced by the World Trade Organisation in 1995. The original GATT text (GATT 1947) is still in effect under the WTO framework subject to the modifications of GATT 1994.

World Trade Organisation (WTO)

- The WTO is an intergovernmental organisation which regulates international trade.
- The WTO officially commenced on 1st January, 1995 under the Marrakesh Agreement, signed by 123 nations on 15th April, 1994. The WTO has 164 members. Afghanistan became the 164th member on 29th July, 2016.

Structure

Highest Level Ministerial Conference

- The Ministerial Conference is the topmost body of the WTO, which meets every 2 years. It brings together all the members of WTO.

Second Level General Council

- The General Council of the WTO is the highest level decision-making body in Geneva, which meets regularly to carry out the functions of WTO.

Third Level Councils for Trade

- The workings of GATT, which covers international trade in goods, are the responsibility of the Council of Trade.

Fourth Level Subsidiary Bodies

- There are subsidiary bodies under the various councils dealing with specific subjects such as agriculture, subsidies, market access etc.

Functions

- Regulating WTO trade agreements.
- Establish form for trade negotiations.
- Monitoring trade policies and handling trade disputes.

- Provide Technical Assistance.
- To co-operate with other international or trade organisations.

Agreement on Agriculture and its Implication

- The Uruguay Round produced the first multilateral agreement dedicated to the sector. It was a significant first step towards order, fair competition and a less distorted sector. The Uruguay Round agreement included a commitment to continue the reform through new negotiations.
- The objective of the agriculture agreement is to reform trade in the sector and to make policies more market-oriented. This would improve predictability and security for importing and exporting countries alike.
- *The new rules and commitments apply to*
  —Market access various trade restrictions confronting imports.
  —Domestic support subsidies and other programmes, including those that raise or guarantee farmgate prices and farmers' incomes.
- Export subsidies and other methods used to make exports artificially competitive.
- Least developed countries do not have to make commitments to reduce tariffs or subsidies.
- The base level for tariff cuts was the bound rate before 1st January, 1995 or for unbound tariffs, the actual rate charged in September, 1986 when the Uruguay Round began.
- The other figures were targets used to calculate countries legally-binding 'schedules' of commitments.

Key Agreements of World Trade Organisation

World Trade Organisation agreements are as follows

General Agreement of Tariffs and Trade (GATT)

- It all began with trade in goods. From 1947 to 1994, GATT was the forum for negotiating lower customs duty rates and other trade barriers, the text of the General Agreement spelt out important rules, particularly non-discrimination.

General Agreement on Trade in Services (GATS)

- Banks, insurance firms, telecommunications companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of freer and fairer trade that originally only applied to trade in goods. These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS.

Trade Related Aspects of Intellectual Property Rights (TRIPS)

- The 1995, TRIPS Agreement provided for both product patents and process patents. Product patents are meant to protect the individual product, while process patent protects the process used to create the product. The agreement gave developing countries 10 years to enact laws to protect intellectual property. Thus, India enacted its Patents (Amendment) Act in 2005, to conform to the agreement. Developed countries, on the other hand, had to enact laws in 1995 itself. Under the agreement, protection to patents had to be provided for 20 years.

Non-Agricultural Market Access (NAMA)

It refers to all products not covered by the agreement on agriculture. In other words, in practice, it includes manufacturing products, fuels and mining products, fish and fish products and forestry products.

- The Uruguay round produced significant improvements in market access for NAMA products in the developed country markets, as tariff averages were reduced from 6.3% to 3.8%.
- Binding coverage for NAMA products in developing countries increased from 21% to 73%, which has considerably increased the predictability of trade.

Boxes in WTO

- In WTO terminology, subsidies in general are identified by 'Boxes' which are given the colours of traffic lights': green (permitted), amber (slow down - i.e. be reduced), red (forbidden). In agriculture, things are, as usual, more complicated.
- The Agriculture Agreement has no Red Box, although domestic support exceeding the reduction commitment levels in the Amber Box is prohibited; and there is a Blue Box for subsidies that are tied to programmes that limit production. There are also exemptions for developing countries (sometimes called an 'S&D Box').
- The Green Box contains fixed payments to producers for environmental programmes, so long as the payments are 'decoupled' from current production levels. All domestic support measures considered to distort production and trade (with some exceptions) fall into the Amber box. The provision excepts 5% of agricultural production for developed countries, 10% for developing countries.
- The Amber box subsidies with conditions designed to reduce distortion are placed in Blue box. They include the direct payment to the farmers to reduce production. Blue box contains subsidies which can be increased without limit, so long as payments are linked to production-limiting programmes.

Intellectual Property

- The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the 1986-94 Uruguay Round, introduced intellectual property rules into the multilateral trading system for the first time.

- *The agreement covers five broad issues are as follows :*
  (i) How basic principles of the trading system and other international intellectual property agreements should be applied.
  (ii) How to give adequate protection to intellectual property rights.
  (iii) How countries should enforce those rights adequately in their own territories.
  (iv) How to settle disputes on intellectual property between members of the WTO.
  (v) Special transitional arrangements during the period when the new system is being introduced.

Other Important International Organisations

G-20

- The G-20 comprises **19 countries** namely Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, the Republic of Korea, Turkey, the United Kingdom, the United States of America **and the European Union**, which is represented by the rotating council presidency and the European Central Bank as the 20th member.
- It represents 90% of the global gross national product, 80% of the **world's trade** and two-third of the **world's population**.

India and G-20

- India is a member of the G-20, since it was established as Finance Ministers Forum in 1999.
- Currently, India is co-chair of the working group on G-20 framework for strong, sustainable and balanced growth alongwith **Canada**.
- *India is contributing to various thematic issues being deliberated in G-20 such as :*
  —Financial sector regulatory reforms
  —Climate change
  —IFIs (International Financial Institutions) reform
  —Growth and fiscal consolidation
  —Enhancing shareholding in forums such as FSB, IASB
  —Issues pertaining to Non-Cooperative Jurisdiction (Global Forum, FATF etc)

G-7 (Formerly G-8)

- It is an informal group of seven advanced developed nations which meets annually to discuss issues related with global finance, security, energy and world trade.
- It was established in 1970s in the backdrop of global energy crises and collapse of the Bretton Woods fixed exchange rate system. Russia was added as the members of G-7 in 1994.
- G-7 includes USA, Canada, Germany, Britain, France, Italy and Japan. Russia was expelled from this organisation in 2014 after its annexation of Crimea.

Organisation of Petroleum Exporting Countries (OPEC)

- The Organisation of the Petroleum Exporting Countries (OPEC) is a permanent, inter-governmental organisation, created at the Baghdad Conference during 10th-14th September, 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela.
- OPEC had its headquarters in Geneva, Switzerland, in the first 5 years of its existence. This was moved to Vienna, Austria, on 1st September, 1965.
- The current members are Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, UAE and Venezuela.
- OPEC's objectives are to co-ordinate and unify petroleum policies among member countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations and a fair return on capital to those investing in the industry.

Asia-Pacific Economic Co-operation (APEC)

- Asia-Pacific Economic Co-operation or APEC, is the premier forum for facilitating economic growth, co-operation, trade and investment in the Asia-Pacific region. APEC is the only inter-governmental grouping in the world operating on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants.
- APEC has 21 members, referred to as **Member Economies**, which account for approximately 40.5% of the world's population, approximately 54.2% of world GDP and about 43.7% of world trade.
- APEC's 21 member economies are Australia, Brunei Darussalam; Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Republic of the Philippines, the Russian Federation, Singapore, Chinese Taipei, Thailand, United States of America, Vietnam.

Purpose and Goals

APEC was established in 1989, to further enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific Community. Since, its inception, APEC has worked to reduce tariffs and other trade barriers across the Asia-Pacific region, creating efficient domestic economies and dramatically increasing exports.

Key to achieving APEC's vision are, what are referred to as the 'Bogor Goals' of free and open trade and investment in the Asia-Pacific by 2010 for industrialised economies and 2020 for developing economies. These goals were adopted by leaders at their 1994 meeting in **Bogor, Indonesia**.

Organisation for Economic Co-operation and Development (OECD)

- The Organisation for Economic Co-operation and Development (French: *Organisation de co-opération et de development economics*, OCDE) is an international economic organisation of 38 countries founded in 1961, to stimulate economic progress and world trade.
- It defines itself as a forum of countries committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identifying good practices and co-ordinating domestic and international policies of its members.
- The OECD originated in 1948 as the Organisation for European Economic Co-operation (OEEC), led by **Robert Marjolin of France**, to help administer the Marshall Plan for the reconstruction of Europe after World War-II.
- Later, its membership was extended to non-European states. In 1961, it was reformed into the Organisation for Economic Co-operation and Development by the Convention on the Organisation for Economic Co-operation and Development.
- Most OECD members are high-income economies with a High Human Development Index (HDI) and are regarded as developed countries (Chile being the only OECD member, which is also a member in the organisation of developing countries, the group of 77).

Bank for International Settlements (BIS)

- It was founded in 1930. The Bank for International Settlements (BIS) is one of the oldest international financial organisations. Since then, the bank has operated with the objective of fostering international monetary and financial strength. The Bank for International Settlements is also called 'a **Bank for all the Central Banks.**'
- The statutes-of-the bank determine its governance. *The three major decision-making bodies of the bank are as follows :*
  (i) Members of the Central Banks
  (ii) Board of Directors
  (iii) The Bank's Management
- From time-to-time, the BIS has rendered financial services to assist Central Banks. BIS is situated in Basel, Switzerland. As of June 2021, Central Banks of 62 countries are the member of BIS.

Financial Stability Board (FSB)

- FSB was established in 2009, following the G-20 **London Summit** and includes all G-20 major economies including India. It is based in Basel, Switzerland.
- It was established to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.
- The G-20 gave FSB more power in **surveillance role**. It consists of representatives from National Financial Institutions (like Central Banks, Finance Ministries, Regulatory Institutions) and International Financial Institutions.

Financial Action Task Force (FATF)

- FATF is an international inter-governmental body responsible for setting global standards for anti-money laundering and combating financing of terrorism. Its secretariat is located at the headquarters of OECD in Paris.
- The total number of members of FATF is 39 (comprises 37 member jurisdictions and 2 regional organisations).
- India became an observer of FATF in 2006 and subsequently the 34th full member in 2010. India agreed to implement short, medium and long range reforms related to anti-laundering and financing of terrorism to get the membership. Membership will help India to build capacity to fight terrorism, terrorist financing and to successfully investigate and prosecute money laundering cases.

Asian Clearing Union (ACU)

- ACU is an organisation with its headquarters at Tehran, Iran, established to promote regional co-operation. It was established in 1974, at the initiative of United Nations Economic and Social Commission for Asia and Pacific (ESCAPs).

International Labour Organisation (ILO)

- The International Labour Organisation emerged with the League of Nations from the Treaty of Versailles in 1919. It was founded to give expression to the growing concern for social reform after World War I and the (convention) that any reform had to be conducted at an international level.
- The ILO has generated such hallmarks of industrial society as the eight-hour working day, maternity protection, child labour laws and a range of policies, which promote workplace safety and peaceful industrial relations.

  The main objectives of ILO are given below.
  (i) To promote and realise standards and Fundamental Principles and Rights at Work.
  (ii) To create greater opportunities for women and men to secure decent employment and income.
  (iii) To strengthen tripartism and social dialogue.
  (iv) To enhance the coverage and effectiveness of social protection for all.

IBSA (India-Brazil-South Africa)

- It is a international group free promoting international co-operation between India, Brazil and South Africa.
- It was created to promote South co-operation and build consensus on the issue of international importance.
- It represents an important pole for galvanising.

BRICS (Brazil-Russia-India-China-South Africa)

- BRICS is the acronym for an association of 5 major emerging national economies : Brazil, Russia, India, China and South Africa.
- The BRICS first summit was held in yekaterinburg, Russia on 16th June, 2009 and the term was coined by economist Jim O'Neill.
- In order to promote co-operation and boost economic growth, the member countries of BRICS had established specialised institutions such as New Development Bank, Reserve Contigency Arrangement, Fibre Optic Cable Network etc.

13th BRICS SUMMIT

This summit was hosted by India through Video conferencing mode on 9th September, 2021. The theme of the summit was BRICS@ 15: Intra-BRICS Cooperation for Continuity, Consolidation and Consensus.

At this conference, member countries agreed to work towards four priority areas i.e. Promotion of Multilateralism, Counter-terrorism, Using digital and technological tools for achieving SDGs and Enhancing people to people cooperation.

The 'New Delhi Declaration' was adopted by the BRICS leaders.

European Union (EU)

- European Union is an economic and Political Union of 27 member states that are located primarily in Europe.
- The EU received the 2012 Nobal Piece Prize for having "contributed to the advancement of peace and reconciliation, democracy and Human Rights in Europe".
- United Kingdom left the European Union on 31st January.

Euro

It was established by the provisions in the year 1992, Maastricht Treaty.

The Euro is the currency used by the institutions of the European Union and is the official currency of the Eurozone, which consists of 19 of the 27 Member States of the European Union.

Eurasian Economic Union (EEU)

- The Eurasian Economic Union, which comes into force in January, 2015, offers a unique chance for co-operation between Western Europe and the Asia-Pacific Region. The EEU members are currently (June, 2021) Russia, Belarus, Kazakhstan and Armenia. Kyrgyzstan also joined the union. Its headquarter is in Moscow (Russia).

Eurasian Development Bank

- Its mission is to facilitate the development of market economies, economic growth and the expansion of trade its member states through investments. The bank's objectives also include financing projects that support Eurasian integration. The bank has provided financing totaling more than $ 4.5 billion to investment projects in its members states.

SAARC (South Asian Association for Regional Co-operation)

- It was founded in 1985 and dedicated to economic, technological, social and cultural development emphasising collective self-reliance.
- It promote the welfare of the people of South Asia and to improve their quality of life.
- It strengthen co-operation among themselves in international forums on matters of common interest.
- It was established to contribute to mutual trust, understanding and appreciation of one another's problems.

SAARC Summits

Dates	Hosts
7th-8th December, 1985	Dhaka (Bangladesh)
16th-17th November, 1986	Bangalore (India)
2nd-4th November, 1987	Kathmandu (Nepal)
29th-31st December, 1988	Islamabad (Pakistan)
21st-23rd November, 1990	Male (Maldives)
21st December, 1991	Colombo (Sri Lanka)
10th-11th April, 1993	Dhaka (Bangladesh)
2nd-4th May, 1995	New Delhi (India)
12th-14th May, 1997	Male (Maldives)
29th-31st July, 1998	Colombo (Sri Lanka)
4th-6th January, 2002	Kathmandu (Nepal)
2nd-6th January, 2004	Islamabad (Pakistan)
12th-13th November, 2005	Dhaka (Bangladesh)
3rd-4th April, 2007	New Delhi (India)
1st-3rd August, 2008	Colombo (Sri Lanka)
28th-29th April, 2010	Thimphu (Bhutan)
10th-11th November, 2011	Addu (Maldives)
26th-27th November, 2014	Kathmandu (Nepal)
9-10 November, 2016	Pakistan (cancelled)

SAFTA

- The South Asian Free Trade Area (SAFTA) is an agreement reacher on 6th January, 2004 at the 12th SAARC summit in Islamabad Pakistan, to reduce the import tax and duties on all goods to zero by the year 2016.

SAPTA

- The South Asian Preferential Agreement (SAPTA) is a Inter-Governmental Group of SAAR couations. It was established on 11th April, 1993 and enter into force on 7th December, 1995.

ASEAN (Association of South-East Asian Nations)

- It was established in 1967 in Bangkok, Thailand by Indonesia, Malaysia, Philippines, Singapore and Thailand. As on June, 2021 it has 10 members which includes apart from the founding members, Brunei Darussalam, Vietnam Lao PDR, Myanmar and Cambodia.
- It is an forum to promote active collaboration and mutual assistance on matters of common interest in the economic, social, central, technical, scientific and administrative field.
- It also work towards promoting regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the UN Charter.

Last Few Summits of ASEAN

Dates	Places
April, 2010	Hanoi (Vietnam)
October, 2010	Hanoi (Vietnam)
May, 2011	Jakarta (Indonesia)
November, 2011	Bali (Indonesia)
2012	Naypyidaw (Myanmar)
2012	Naypyidaw (Myanmar)
April, 2013	Brunei
October, 2013	Brunei
May, 2014	Myanmar
November, 2014	Myanmar
April, 2015	Malaysia
November, 2015	Manila, Philippines
April, 2016	Laos, Vientiane
November, 2017	Manila, Philippines
April, 2018	Singapore
June-November 2019	Thailand
2020	Vietnam
2021	Brunei Darussalam

Regional Financial Institutions

New Development Bank

- The New Development Bank (NDB) formerly referred to as the BRICS Development Bank, is a multilateral development bank established by the BRICS states (Brazil, Russia, India, China and South Africa). The bank is headquartered in Shanghai, China. The first regional office of the NDB will be opened in Johannesburg South Africa.
- The idea for setting up the bank was proposed by India at the 4th BRICS summit in 2012 held in Delhi. The creation of a new development bank was the main theme of the meeting. BRICS leaders agreed to set-up a development bank at the 5th BRICS summit held in Durban, South Africa on 27th March, 2013.
- On 15th July, 2014, the first day of the 6th BRICS summit held in Fortaleza, Brazil, the BRICS states signed the Agreement on the New Development Bank, which makes provisions for the legal basis of the bank. On 11th May, 2015, K V Kamath was appointed as the President of the bank. As of June, 2021, Marcos Prado Troyuo is the President of NDB.
- The New Development Bank work towards mobilising resources for infrastructure, sustainable development projects in BRICS and other emerging economy and developing countries, to supplement existing efforts of multilateral regional financial institutions for global growth and development.

Asian Infrastructure Investment Bank (AIIB)

- It is a Multilateral Development Bank (MDB) conceived for the 21st century. Chinese President Xi Jinping and Premier Li Keqiang announced the AIIB initiative during their respective visits to South-East Asian countries in October 2013.
- Representatives from 22 countries signed the October 2014 memorandum of Understanding (MOU) to establish the AIIB and Beijing was selected to host bank headquarters.
- By the deadline of March 31st for submission of membership applications, the Prospective Founding Members had increased to 57, and the 4th CNM was organised in Beijing in April 2015, after ratifications were received from 10 member states holding a total number of 50% of the initial subscriptions of the Authorised Capital Stock. At present (June, 2021) total member of AIIB is 103.

Asian Development Bank (ADB)

- The Asian Development Bank was established following the recommendations of the United Nations Economic and Social Commission for **Asia** and the **Pacific**.
- It was formed to foster economic growth and co-operation in the region of **Asia** and the **Pacific** and to contribute to the **acceleration** of economic development of the developing countries of the region.
- The Asian Development Bank (ADB), an international partnership of 68 member countries, was established in 1966, with its headquarter is at Manila, Philippines. India is a founder member.
- The bank is engaged in promoting economic and social progress of its developing member countries in the Asia and the Pacific region.
- *Its principle functions are as follows :*
  - —To make loans and equity investments for the economic and social advancement of its developing member countries.
  - —To provide Technical Assistance (TA) for the preparation and execution of development projects and programme and advisory services.
  - —To respond to the requests for assistance in co-ordinating development policies and plans in developing member countries.
  - —To respond to the requests for assistance, co-ordinating development policies and plans of developing member countries.

Self Check

Build Your Confidence

1. India is the member of the following international organisation **[IAS 2009]**
1. Indian Ocean Rim Association for Regional Co-operation.
2. Organisation for Economic Co-operation and Development.

Which of the statement(s) given above is/are correct?
(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

2. Consider the following statements
1. IMF and World Bank both are Bretton Wood Heir.
2. World Bank provides long-term loan for promoting balance economic development.
3. IMF provides loans to eliminate BoP disequilibrium.

Which of the statements given above are correct?
(a) 1 and 2 *(b)* 2 and 3
(c) 1 and 3 *(d)* All of these

3. Consider the following statements
1. IMF was established in 1944.
2. IMF was 188 member countries.

Which of the statement(s) given above is/are correct?
(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

4. Which of the following statements is true for IMF?
(a) It is not an agency of UNO
(b) It can grant loan to any country
(c) It can grant loan State Governments of India
(d) It can grants loan only to member nations

5. Choose the correct statements regarding the IBRD of the World Bank Group.
1. IBRD gets its money from the capital markets.
2. It has triple A' rating since 1959.

Which of the statement(s) given above is/are correct?
(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

6. Choose the correct option related to World Bank Organisations IBRD and IDA.
1. India use IDA funds on social sector.
2. India use IBRD funds on infrastructure development.
3. IBRD loan is cheaper then IDA loans.

Which of the statement(s) given above is/are correct?
(a) Only 1 *(b)* 1 and 3 *(c)* 1 and 2 *(d)* 2 and 3

7. According to the UNCTAD which of the above is/are categorised as 'emerging economy,
1. Brazil 2. Mexico 3. South Africa

Select the correct answer using the codes given below
(a) Only 1 *(b)* 1 and 3
(c) 2 and 3 *(d)* All of these

8. In the context of International Trade Dumping refers to
(a) selling a commodity cheaper in foreign market and costly in domestic market
(b) sending cheap goods to developing countries by developed countries
(c) free distribution of used products by developed countries in developing countries
(d) All of the above

9. Consider the following statements.
1. Gilt-edged market deals in bullion.
2. World Development Report is an annual publication of UNDP.

Which of the statement(s) given above is/are correct?
(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

10. Consider the following statements
1. The Eurasian Commission was modelled on the European Commission.
2. The Eurasian economic union offers unique chance for co-operation between Western Europe and the Asia-Pocific Region.

Which of the statement (s) given above is/are correct?
(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

11. The headquarters of World Trade Organisation are at **[UPPCS 2011]**
(a) Doha *(b)* Geneva
(c) Rome *(d)* New York

12. Regarding the International Monetary Fund (IMF), which one of the following statements is correct? **[IAS 2011]**
(a) It can grant loans to any country
(b) It can grant loans to only developing countries
(c) It can grant loans to only member countries
(d) It can grant loans to the Central Bank of a country

13. Which one of the following issues the 'Global Economic prospects' report Periodically?
(a) The Asian Development Bank
(b) The European Bank for Reconstruction and Development
(c) The US Federal Reserve Bank
(d) The World Bank

1. (a) **2.** (d) **3.** (c) **4.** (b) **5.** (c) **6.** (c) **7.** (d) **8.** (a) **9.** (c) **10.** (c)
11. (b) **12.** (c) **13.** (d)

Economic Survey 2020-21

The Department of Economic Affairs, Finance Ministry of India presents the Economic Survey in the Parliament every year, just before the Union Budget. The Union Minister for Finance and Corporate Affairs, Nirmala Sitharaman presented the Economic Survey 2020-21 in the Parliament on 29th January, 2021. The Economic Survey 2019-20, prepared by Chief Economic Adviser Krishnamurthy Subramanian with his team.

Economic Survey

- India's Economic Survey 2020-21 was tabled in the Parliament by the Chief Economic Advisor (CEA) Krishnamurthy V Subramanian followed by Finance Minister Nirmala Sitharaman on 29th January, 2021.
- The Survey was prepared under Krishnamurthy Subramanian, the Chief Economic Advisor (CEA) to the Government of India.
- The 2020-21 survey has been conducted in the background of the COVID-19 pandemic and the economic impact of the COVID-19 pandemic in India.
- A foundational theme of a survey as a result of the pandemic has been "Saving Lives and Livelihoods."

Economic Estimation

- India's real GDP is projected to record a growth of 11.0 % in 2021-22 and nominal GDP by 15.4 %. This means that the Indian GDP in 2021-22 is expected to be at ₹ 149.2 lakh crore.
- The survey projected a V-shaped recovery: as seen in 7.5% decline in GDP in Q2 and recovery across all key economic indicators vis-a-vis the 23.9% GDP contraction in Q1.
- As per the advance estimates by NSO, India's GDP is estimated to grow by (-) 7.7% in FY21- a robust sequential growth of 23.9% in H2: FY21 over H1: FY21.
- Global economic output is estimated to fall by 4.4 % in 2020, the sharpest contraction in a century.
- Exports expected to decline by 5.8% and imports by 11.3% in the second half of FY21.

Bare Necessities

- The Economic Survey 2020-21 has constructed a **Bare Necessities Index** at rural, urban and all India level, with 26 indicators on 5 dimensions- sanitation, water, housing, micro-environment and other facilities.
- The survey showed that all states have increased access to bare necessities in 2018 in comparison to 2012. The highest access was recorded in states like Punjab, Kerala, Gujarat and Haryana and lowest was recorded in Jharkhand, Odisha, West Bengal and Tripura.
- The inter-state disparities in the access to ‘the bare necessities’ also showed a decline in 2018 in comparison to 2012 across rural and urban areas.

Fiscal Development

- The monthly GST collections have crossed the' 1 lakh crore mark consecutively for the last 3 months, reaching its' highest ever in December 2020.
- Reforms in tax administration have begun a process of transparency and accountability and have incentivised tax compliance by enhancing honest tax-payers' experience .

External Sector

- The foreign exchange reserves rose to an all-time high of US$ 586.1 billion as on 8th January, 2021.
- Trade balance with China and the US improved as imports slowed.
- India expected to have a Current Account Surplus of 2% of GDP in FY21, a historic high after 17 years.

Rupee appreciation/ depreciation

- In terms of the 6-currency Nominal Effective Exchange Rate (NEER) (trade-based weights), Rupee depreciated by 4.1% in December 2020 over March 2020; appreciated by 2.9% in terms of Real Effective Exchange Rate (REER).
- In terms of 36-currency NEER(trade-based weights), Rupee depreciated by 2.9% in December 2020 over March 2020; appreciated by 2.2% in terms of REER.

Monetary Management and Financial Intermediation

- Credit growth of banks slowed down to 6.7 % as on 1st January, 2021.
- Gross Non Performing Assets ratio of Scheduled Commercial Banks decreased from 8.21 per cent at the end of March, 2020 to 7.49 % at the end of September, 2020.

Agriculture

- The agriculture sector is the only silver lining while services, manufacturing and construction were most hit by the lockdown that was imposed to curb the outbreak of the COVID-19 pandemic.
- The Agriculture and Allied activities clocked a growth of 3.4 % at constant prices during 2020-21 (**first advance estimate**).
- The share of Agriculture and Allied Sectors in Gross Value Added (GVA) of the country at current prices is 17.8 % for the year 2019-20.
- Total food grain production in the country in the agriculture year 2019-20 (as per Fourth Advance Estimates), is 11.44 million tonnes more than during 2018-19.
- As of mid January 2021, a total of 44,673 Kisan Credit Cards (KCCs) have been issued to fishers and fish farmers.
- Under the Pradhan Mantri Garib Kalyan Anna Yojana, 80.96 crores beneficiaries were provided additional foodgrains, i.e. above the NFSA mandated requirements, of 5 kg per person per month free of cost till November, 2020.
- The top agriculture and related products exported from India were marine products, basmati rice, buffalo meat, spices, non-basmati rice; cotton raw, oil meals, sugar, castor oil and tea.

Education

- The percentage of enrolled children from government and private schools owning a smartphone increased enormously from 36.5 % in 2018 to 61.8 % in 2020 in rural India.

Health

- The Economic Survey 2020-21 has strongly recommended an increase in public spending on healthcare services from 1 % to 2.5 - 3 % of GDP, as envisaged in the National Health Policy 2017.
- The Survey has recommended that the National Health Mission (NHM) should be continued in conjunction with Ayushman Bharat Yojana.
- India became the fastest country to roll-out 10 lakh vaccines and has also emerged as a leading supplier of the vaccine to Brazil and neighbouring countries.

Skill Development

- The Economic Survey 2020-21 states that only 2.4 % of the workforce of age 15-59 years have received formal vocational/technical training and another 8.9 % of the workforce received training through informal sources.
- Out of the 8.9 % workforce who received non-formal training, the largest chunk is contributed by on-the-job training (3.3 %), followed by self-learning (2.5 %) and hereditary sources (2.1 %) and other sources (1 %).
- Among those who received formal training, the most opted training course is IT-ITeS among both males and females.
- The Unified Skill Regulator- National Council for Vocational Education and Training (NCVET) was operationalised.
- Pradhan Mantri Kaushal Vikas Yojana 3.0 was rolled out in 2020-21 with a tentative target to skill 8 lakh candidates including migrants.

Services Sector

- India's services sector contracted by nearly 16% during H1: FY2020-21, during the COVID-19 pandemic mandated lock down, owing to its contact-intensive nature.
- Key indicators such as Services Purchasing Managers' Index, rail freight traffic and port traffic, are all displaying a V-shaped recovery after a sharp decline during the lockdown.
- The services sector accounts for over 54 % of India's GVA and nearly four-fifths of total FDI inflow into India.

KEY POINTS ABOUT ECONOMIC SURVEY

- The Survey is prepared by the Finance Ministry's Department of Economic Affairs.
- The survey is an official report card on the government's financial performance and the state of the economy during the year ending March 31.
- It is usually released a day before the Union Budget is tabled and consists of Volume I, Volume II and Statistical Appendix.
- The Chief Economic Advisor (CEA) of India (Current- Krishnamurthy Subramanian) is the Chief author of the Economic Survey.
- First Economic Survey of India was published by the Government of India for the Financial year 1950-51.

Self Check

Build Your Confidence

1. Which among the following was the foundational theme of the Economic Survey 2020-21
(a) Saving Lives and Livelihoods
(b) Reinvigorating Human Capital
(c) Economic Survey for Aspirational India
(d) Bare Necessities

2. The Economic survey 2020-21 has projected how much GDP Growth for Fiscal year 2020-21?
(a) 11% (b) 14%
(c) 9.5% (d) 8%

3. Which among the following states has topped the Bare Necessities Index devised by Economic Survey 2020-21 to assess the quality of life ?
(a) Odisha (b) Maharashtra
(c) Kerala (d) West Bengal

4. The Pradhan Mantri Kaushal Vikas Yojana 3.0 aims to train how many candidates?
(a) 6 Lakhs (b) 8 Lakhs
(c) 10 Lakhs (d) 5 Lakhs

5. The foreign exchange reserve rose to an all time high US $ 586.1 billion as on 8th January, 2021. It is sufficient to cover import for
(a) 12 months (b) 15 months
(c) 18 months (d) 21 months

6. As per the Economic Survey of India 2020-21, India is expected to have a current Account surplus of ...... GDP in FY21.
(a) 4% (b) 3%
(c) 5% (d) 2%

7. As per the Economic Survey of India, which one of the following scheme played a critical role in mitigating inequality as the access of the poorest to pre-natal / post-natal care and institutional deliveries increased significantly ?
(a) National Health Mission (b) Ayushman Bharat Yojana
(c) Indradhanush Scheme (d) MID Day Meal Scheme

8. What is the Sovereign Credit Rating of India as issued by S&P and Moody Credit rating Agency ?
(a) ABA / Aaa3 (b) BBB / Baa3
(c) CCC / Cbb2 (d) AAA/Baa2

9. With reference to the state of innovation in India which of the following statement(s) is / are correct ?
1. India entered the top -50 innovating countries for the first time in 2020.
2. The private sector contributes a disproportionately large share in total Gross Domestic Expenditure on R&D (GERD).

Codes
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

10. With reference to the state of skill development in India, which of the following statement(s) is/are correct ?
1. Skill training in Aviation sector was most preferred by Indian Youths
2. The Economic Survey 2020-21 states that only 2.4% of the workforce of age 15-29 years have received formal vocational / technical training.

Codes
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

11. With reference to observation of Economic Survey 2021-21 on Agricultural sector, which of the following statement(s) is /are correct?
1. The Agriculture and Allied activities clocked a growth of 3.4% at constant prices during 2020-21.
2. The top agriculture and related products exported from India were marine products, basmati rice, buffalo meat and spices.

Codes
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

12. Consider the following statements regarding Economic Survey.
1. It is prepared by the Department of Revenue of Finance Ministry.
2. First Economic Survey of India was published by the Government of India for the Financial year 1950-51.
3. It is usually released a day before the Union Budget is tabled and consists of Volume I and II and Statistical appendix.

Which of the statements given above is/are correct?
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

1. (a) **2.** (a) **3.** (c) **4.** (b) **5.** (c) **6.** (d) **7.** (a) **8.** (b) **9.** (a) **10.** (b)
11. (c) **12.** (b) .

Union Budget 2021-22

Finance Minister Nirmala Sitharaman, in her maiden Budget on 1st February, 2021, sought to tackle several key points in the economy through incremental steps. Budget 2021-22 reflects Government's firm commitment to substantially boost investment in Agriculture, Social sector, Education and Health, Infrastructure Digital Economy and MSME for job creation. Government aspires to make India a $5 trillion economy up to the year 2024-25.

Introduction

- Finance Minister Nirmala Sitharaman presented the first paperless Union Budget in India's history on 1st February, 2020 in view of the ongoing COVID-19 pandemic.
- Union Budget 2021-22 lays down the vision for Atmanirbhar Bharat or Self reliant India.
- On this occasion a dedicated Union Budget Mobile App to provide all Union Budget documents after her Budget speech in the Parliament has also been launched.

Key Highlights of Union Budget 2021-22

6 pillars of the Union Budget 2021-22

1. Health and Wellbeing
2. Physical and Financial Capital and Infrastructure
3. Inclusive Development for Aspirational India
4. Reinvigorating Human Capital
5. Innovation and R&D
6. Minimum Government and Maximum Governance

Fiscal Position

- Revised Estimate 2020-21 for Expenditure is ₹ 34.50 lakh crore as against original BE expenditure of ₹ 30.42 lakh crore.
- Estimates of ₹ 34.83 lakh crore BE for expenditure in 2021-2022 including ₹ 5.5 lakh crore as capital expenditure, an increase of 34.5% to give required push to economy.
- The fiscal deficit in BE 2021-2022 is estimated to be 6.8% of GDP.

Fifteenth Finance Commission recommendation

- The final report covering 2021-26 was submitted to the President, retaining vertical shares of states at 41%.
- Net borrowing for the states allowed at 4% of GSDP for the year 2021-2022 as per recommendation of 15th FC.

Tax Proposals

- No changes in IT Slabs, 80C and 80D limits.
- Senior citizens of 75 years of age and having only pension income are exempted from filing their income tax returns.
- Dispute Resolution Committee to be set up for taxpayers with taxable income up to ₹ 50 lakh and disputed income up to ₹ 10 lakh .
- National Faceless Income Tax Appellate Tribunal Centre to be established.
- Limit of turnover for tax audit increased to ₹ 10 crore from ₹ 5 crore for entities carrying out 95% transactions digitally.

Customs Duty

- Exemption duty on steel scrap up to March 2022; customs duty on naphtha cut to 2.5 pc
- Rationalising customs duties on gold and silver
- Customs duty on cotton increased to 10%, silk to 15%
- Customs duty on solar lanterns cut to 5%

Physical & Financial Capital and Infrastructure

- Government has committed ₹ 1.97 lakh crore for PLI schemes covering 13 sectors. Further 7 textile parks will be launched over 3 years under Mega Investment Textiles Parks (MITRA) scheme.
- Highest ever Outlay of ₹ 1.18 lakh crore for Ministry Of Road Transport and Highways.
- A comprehensive National Hydrogen Energy Mission 2021-22 to be launched.
- Ujjwala Scheme will be extended to cover 1 cr more beneficiaries.
- Pipelines of GAIL (India) Ltd, Indian Oil Corp (IOC) and HPCL will be monetised
- Asset Reconstruction Company Limited and Asset Management Company to be set up.
- Government set up a development financial institution.
- Setting up a system of Regulated Gold Exchanges: SEBI to be notified as a regulator and Warehousing Development and Regulatory Authority to be strengthened

Increasing FDI in Insurance Sector

- To increase the permissible FDI limit from 49% to 74% and allow foreign ownership and control with safeguards.

Health and Wellbeing

- ₹ 2,83,846 lakh crore outlay for health and wellness sector which also includes ₹ 35,000 crore for COVID-19 vaccines.
- ₹ 64,180 crore outlay over 6 years for PM Atmanirbhar Swasth Bharat Yojana.
- Mission Poshan 2.0 to be launched to strengthen nutritional content, delivery, outreach and outcome.
- ₹ 2,87,000 crore over 5 years for Jal Jeevan Mission (Urban) to be launched with an aim to provide tap connections to 2.86 crore household.
- Urban Swachh Bharat Mission 2.0 to be launched at an outlay of ₹ 1,41,678 crore over 5 years.
- ₹ 2,217 crore to tackle air pollution, for 42 urban centers with a million plus population.
- Voluntary scrapping policy announced based on fitness test; 20 years in a personal vehicle and 15 years for the commercial vehicle.

Inclusive Development for Aspirational India

- SWAMITVA Scheme to be extended to all States/UTs.
- Agricultural credit target enhanced to ₹ 16.5 lakh crore in FY22 - animal husbandry, dairy and fisheries to be the focus areas.
- Rural Infrastructure Development Fund to be enhanced to ₹ 40,00 crore from ₹ 30,000 crore.
- To double the Micro Irrigation Fund to ₹ 10,000 crore. 'Operation Green Scheme' to be extended to 22 perishable products, to boost value addition in agriculture and allied products
- 5 major fishing harbours - Kochi, Chennai, Visakhapatnam, Paradip and Petuaghat to be developed as hubs of economic activity
- Under Stand Up India Scheme for SCs,STs and women; Margin money requirement reduced to 15%

Reinvigorating Human Capital

- 15,000 schools to be strengthened by implementing all NEP components.
- 100 new Sainik Schools to be set up in partnership with NGOs/private schools/states.
- Higher Education Commission to be set up, legislation to be introduced this year for the same.
- Central University to come up in Leh for accessibility of higher education in Ladakh.
- Unit cost for setting up 750 Eklavya Model Residential Schools in tribal areas, increased from ₹ 20 crore per school to ₹ 38 crore and to ₹ 48 crore per school in hilly and difficult areas.

Innovation and R&D

- ₹ 50,000 crore outlay over 5 years for Modalities of National Research Foundation announced in July 2019.
- National Language Translation Mission (NTLM) to make governance-and-policy related knowledge available in major Indian languages.
- PSLV-CS51 to be launched by New Space India Limited (NSIL) carrying Brazil's Amazonia Satellite and some Indian satellites.
- ₹ 4,000 crore over five years for Deep Ocean Mission survey exploration and conservation of deep sea biodiversity.

Minimum Government, Maximum Governance

- ₹ 3,768 crore allocated for first digital census in the history of India.
- ₹ 1,000 crore for the welfare of Tea workers especially women and their children in Assam and West Bengal through a special scheme.

Railway Infrastructure

- ₹ 1,10,055 crore for Railways of which ₹ 1,07,100 crore is for capital expenditure.
- National Rail Plan for India (2030): to create a 'future ready' Railway system by 2030.

- 100% electrification of Broad-Gauge routes to be completed by December, 2023.

Infrastructure

- To spend ₹ 1.41 Lakh crore for Urban Clean India Mission.
- Proposes voluntary Vehicle Scrappage Policy.
- Outlay of ₹ 1.18 lakh crore for Ministry of Road Transport and Highways.
- India to spend ₹ 1.1 Lakh crore for Railways in FY22.

Healthcare

- Govt to spend ₹ 64,180 crore on Healthcare over six years.
- Govt sets aside ₹ 35,000 crore for COVID-19 vaccine in FY22.

FACTS ABOUT BUDGET of INDIA

- The first budget of India was submitted on 18th February, 1869 by James Wilson.
- The first ever Union Budget of India was presented by the first Finance Minister of India RK Shanmukham Chetty on 26th November, 1947.
- The first Budget of the Republic of India was presented by John Mathai on 28th February, 1950.
- Indira Gandhi was the only woman Finance Minister who took over the Finance portfolio from 1970 to 1971 and presented the budget
- Morarji Desai holds the record of presenting the budget for 10 times followed by P Chidambaram presenting budget 9 times and former President Pranav Mukherjee presenting it for 8 times.
- Finance Minister Yashwant Sinha changed the tradition of announcing the budget at 5 pm on the last working day of February to 11 Am in 1999.
- In 2016, the railway budget was clubbed with the general budget for the first time in 92 years.
- In 2017 Finance Minister Arun Jaitley changed the date of budget presentation from last day of February to 1st February.
- In 2019, Finance Minister Nirmala Sitharaman replaced the standard Budget briefcase with the traditional 'Bahi Khata' with the National Emblem.
- For the first time in Independent India's history, the Budget for the FY 2021-22 is paperless.

Self Check

Build Your Confidence

1. The first paperless Budget was presented in Fiscal Year (FY)–
(a) 2020 (b) 2021
(c) 2019 (d) 2018

2. Which among the following sectors, received highest allocation in the Budget 2021-22
(a) Home Affairs (b) Railways
(c) Defence (d) Education

3. The Foreign Direct Investment (FDI) limit in which of the following sector has been increased from 49% to 74% in Union Budget 2021-22?
(a) Defence (b) Real Estate
(c) Telecom (d) Insurance

4. How many textile parks will be launched over 3 years under I Mega Investment Textile Parks (MITRA) Scheme?
(a) 6 (b) 7
(c) 8 (d) 9

5. With reference to Budget estimates, which of the following pair is incorrectly matched ?

	Pair I	Pair II
a.	Revenue Deficit	5.1%
b.	Fiscal Deficit	6.8%
c.	GDP Growth (Nominal)	14.4%
d.	Budget Deficit	6.2%

6. Which among the following scheme has been launched to improve the state of healthcare in the country in Budget 2021-22?
(a) PM Aatma Nirbhar Swasth Bharat Yojana
(b) National Digital Health Mission
(c) Ayushman Bharat Yojana
(d) Indradhanush Scheme

7. In the Budget 2021-22, Government has decided to establish five major fishing harbours. It will be established at
(a) Kochi (b) Paradip
(c) Petuaghat (d) All of these

8. Which one of the following is not one of the pillars of Budget 2020-21?
(a) Health and Well being
(b) Equitable Education
(c) Minimum Government and Maximum Governance
(d) Inclusive Development for Aspirational India

9. Which among the following social groups, has been exempted from filling their income tax returns ?
(a) Sensior citizens of 75 years of age
(b) Ex-servicemen of Indian Army
(c) Sport person
(d) Health care workers

10. The Union Budget 2021-22 allowed the states to borrow at ...... of GSDP for the year 2021-22 as per recommendation of 15th Finance Commission.
(a) 2% (b) 2.5%
(c) 3.5% (d) 4%

11. Which among the following Businesses are exempted from keeping audited accounts ?
(a) Which carry 95% of their transactions digitally.
(b) Whose turnover is less then five crore rupees
(c) Both (a) and (b)
(d) Which are eligible for GST - e filling

12. Which among the following mission will be lauched for conservation of deep sea biodiversity ?
(a) National Ocean Mission
(b) Biodiversity Conservation Mission for Oceans
(c) Deep Ocean Mission
(d) Monsoon Mission

13. In the Budget 2021-22 Ujjwala scheme has been extended to cover 1 crore more beneficiaries. This scheme is related to
(a) Aviation Sector
(b) Adult Education
(c) Clean Energy
(d) Rural Health

14. In the Budget 2021-22, the Government has allocated .... for COVID -19 vaccines.
(a) ₹ 35,000 crore
(b) ₹ 25,000 crore
(c) ₹ 40,000 crore
(d) ₹ 45,000 crore

15. With reference to budget announcements for Agricultural sector, which of the following statement is incorrect ?
(a) SVAMITVA Scheme is extended to all States / UTS.
(b) Outlay for rural infrastructure Development fund has been increased.
(c) 5 major fishing harbours will be established.
(d) Operation Green Scheme will be extended to include 24 perishable products.

16. In the Budget 2021-22, the Agricultural Credit target has been enhanced to
(a) ₹ 16.5 Lakh Crore
(b) ₹ 15 Lakh Crore
(c) ₹ 12 Lakh crore
(d) ₹ 18.5 Lakh Crore

17. In the Budget 2021-22, ₹ 1000 crore has been alloted for the farmers engaged in
(a) cultivation of spices
(b) cultivation of tea
(c) cultivation of jute
(d) dairy

18. In the Budget 2021-22 highest allocation has been provided for which of the following schemes?
(a) PM-KISAN
(b) Jal Jeevan Mission
(c) MGNREGS
(d) SWACHH Bharat Mission

19. The Government in Budget 2021-22 has announced establishment of a Central University at
(a) Leh
(b) Kargil
(c) Imphal
(d) Itanagar

20. Which among the following subsidy saw higest allocation under Budget 2020-21 ?
(a) Fertiliser Subsidy
(b) Food Subsidy
(c) Petroleum Subsidy
(d) Electricity Subsidy

21. According to the Budget 2021-22, a Dispute Resolution Committee will be set up for taxpayrs, with taxable income up to …… lakh and disputed income up to …… lakh.
(a) ₹ 40, 20
(b) ₹ 50, 10
(c) ₹ 60, 20
(d) ₹. 80, 30

22. The Budget 2021-22 contain provisions for levy of Agriculture and infrastructure Development cess, it will be levied on
(a) Alcoholic beverages (b) Petrol
(c) Import of Gold and Silver (d) All of the above

23. In the Budget 2021-22, the marginal money requirement for Stand Up India scheme has been reduced to 15%. This scheme is related with
(a) Entrepreneurship among SCs, STs and women.
(b) Construction of Houses for SCs, STs and Women.
(c) Establishment of Eklavya model Residental School in tribal areas.
(d) Construction of Water Harvesting Infrastructure in tribal dominated areas

24. The Deadline for Commissioning of Western Dedicated Freight Corridor (WDFC) and Eastern Dedicated Freight Corridor (EDFC) has been set up by
(a) April 2022
(b) June, 2022
(c) December, 2023
(d) March, 2023

25. Math the following.

	Finance Minister		Facts about Budget
A.	RK Shanmukham Chetty	1.	Changed the date of budget presentation from last day of February to 1st February
B.	Morarji Desai	2.	Replaced the standard Budget briefcase with the traditional Bahi Khata with the National Emblem.
C.	Arun Jaitley	3.	Presented Maximum number of budgets
D.	Nirmala Sitharaman	4.	First ever Budget of Union of India

Codes
(a) 1 2 3 4 (b) 2 4 1 3
(c) 4 3 1 2 (d) 3 1 4 2

1. (b)	2. (c)	3. (d)	4. (b)	5. (d)	6. (a)	7. (d)	8. (b)	9. (a)	10. (d)
11. (c)	12. (c)	13. (c)	14. (a)	15. (d)	16. (a)	17. (b)	18. (c)	19. (a)	20. (b)
21. (b)	22. (d)	23. (a)	24. (b)	25. (c)					

Practice Set 1

ANALYSE YOURSELF

1. Which of the following statement(s) is true about HDI?

1. Since 2010, UNDP began using the new method of calculating HDI.
2. It is based on life expectancy, per capita income mean years of schooling and expected years of schooling.
3. HDI is the *arithmatic* mean of the Life Expectancy Index, Education Index and Income Index.

Select the correct answer using the codes given below

(a) Only 1 (b) 2 and 3 (c) 1 and 2 (d) All of these

2. Deficit financing leads to inflation in general, but it can be checked if

(a) government expenditure leads to increase in aggregate supply in ratio of aggregate demand
(b) only aggregate demand is increased
(c) all the expenditure is devoted to the payment of national debt
(d) All of the above

3. Name the bank announced to be set-up in the budget for regulating and refinancing all Micro-Finance Institutions (MFI) which are in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities?

(a) Micro Bank (b) MUDRA Bank
(c) SIDBI Bank (d) Micro-Finance Bank

4. Which of the following are the main causes of slow rate of growth of per capita income in India?

1. High level of fiscal deficits.
2. High capital output ratio.
3. High rate of household savings.
4. High rate of growth of population.
5. High rate of capital formation.

Select the correct answer using the codes given below

(a) 1, 2 and 4 (b) 2 and 4 (c) 3 and 4 (d) 2, 3 and 5

5. Which of the following statements are true regarding the TRIPS agreement of the WTO?

1. TRIPS is related to protecting the intellectual property rights.
2. Developing countries were supposed to pass TRIPS Complaint National Legislation by 2005. While for developed countries the time limit was till 1995.

Select the correct answer using the codes given below

(a) Only 2 (b) Only 1
(c) Both 1 and 2 (d) Neither 1 nor 2

6. Consider the following statements regarding the OPEC

1. At present, OPEC has a total 15 member countries.
2. The objective of OPEC was to control production and price of petroleum so as to safeguard the interests of oil exporting countries.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2 (c) Both 1 and 2 (d) Neither 1 nor 2

7. Consider the following regarding the functions of WTO

1. To provide facilities for implementation, administration and operation of multilateral agreements of the World Trade.
2. To provide a platform to member countries to decide future strategies related to trade and tariff.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

8. Consider the following statements

1. Geographical indication is granted to a community or group or an institution that represents the interests of the world.
2. It is given to a product for a specific period of time (10 years in India).

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

9. The GST Bill comprises -

1. The CGST Bill - The Central Goods and Services Tax Bill, 2017
2. The IGST Bill - The Integrated Goods and Services Tax Bill, 2017
3. The UTGST Bill- The Union Territory Goods and Services Tax Bill, 2017
4. The Compensation Bill - The Goods and Services Tax (Compensation to the States) Bill, 2017

Select the correct answer using the codes given below

(a) Only 1 (b) 1 and 2
(c) 1,2 and 3 (d) 1, 2 , 3 and 4

10. Consider the following statements

1. Laghu Vyapari Maan Dhan Scheme is pension scheme for small traders.
2. Laghu Vyapari Maan Dhan Scheme launched under the Ministry of Labour and Employment.
3. Under this scheme traders aged between 18 to 40 who have an annual turnover of less than ₹1.5 crore are eligible.

Which of the statement (s) given above is/are correct ?

(a) Only 1 (b) Only 2
(c) 2 and 3 (d) All of these

11. The capital account convertibility of the Indian Rupee implies

(a) that the Indian Rupee can be exchanged by the authorised dealers for travel
(b) that the Indian Rupee can be exchanged for any major currency for the purpose of trade in goods and services
(c) that the Indian Rupee can be exchanged for any major currency for the purpose of trading financial assets
(d) None of the above

12. World Bank provides long-run capital to member countries for economic reconstruction and development. World Bank provides capital mainly for the following purposes

1. To rehabilitate war ruined economics.
2. To finance productive efforts according to peacetime requirements.
3. To develop resources and production facilities in underdeveloped countries.

Which of the statement(s) given above are correct?

(a) 1 and 2 (b) 2 and 3 (c) 1 and 3 (d) All of these

13. Consider the following statements

1. Ministerial conference is the highest decision-making body of the WTO, which usually meets once every 2 years.
2. Its headquarters is in Geneva.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

14. Consider the following statement(s) regarding the International Monetary fund

1. IMF is controlled and managed by a Board of Governors.
2. Each Governor has the right of 250 votes on the basis of membership and one additional vote for each SDR 1 lakh quota.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2 (c) Both 1 and 2 (d) Neither 1 nor 2

15. Consider the following statements

1. General agreement on trade in services is a treaty of the World Trade Organisation (WTO) that entered into force in January, 1995.
2. All members of the WTO are signatories to the general agreement on trade in services.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

16. IMF was established to meet which of the following objectives?

1. Promoting International Monetary Co-operation.
2. Expanding International Trade.
3. Lessening the disequilibrium in balance of trade.
4. Avoiding competitive exchange depreciations.

Select the correct answer using the codes given below

(a) 3 and 4 (b) 1, 2 and 3 (c) 2 and 3 (d) All of these

17. Consider the following statements about 'Mega Food Park'

1. To provide good infrastructure facilities for food processing industries.
2. To increase processing perishable items and reduce wastage.
3. To provide emerging and eco friendly food processing technology to entrepreneurs.

Which of the statement(s) given above are correct?

(a) 2 and 3 (b) 1 and 2 (c) 1 and 3 (d) All of these

18. Which one of the following is related with the Baltic Dry index?

(a) An assessment of the price of moving the major raw materials by sea
(b) An index showing the rising and falling prices of shares and equities in the Baltic region
(c) An assessment showing the prices of the crude oil produced in the Baltic region
(d) None of the above

19. Which one of the following items has the highest share of India in the world exports?

(a) Coffee, Tea, Mate, Spices etc
(b) Pearls, Precious stones, Metals, Coins etc
(c) Lac, Gums, Resins, Vegetable Saps and extracts etc
(d) Vegetable Plaiting Materials, Vegetable Products etc

20. The fair and remuneration price of sugarcane is approved by the

(a) Cabinet Committee on Economic Affairs
(b) Commission for Agricultural Costs and Prices
(c) Directorate of Marketing and Inspection, Ministry of Agriculture
(d) Agricultural Produce Market Committee

21. Which one of the following factors is taken account to calculate the Balance of Payment (BOP), of a country?

(a) Current account
(b) Changes in the foreign exchange reserves
(c) Errors and omissions (d) All of these

22. Which one of the following international organisations offers political risk insurance guarantees to help investors to protect foreign direct investments made in developing countries against political risk?

(a) IDA (b) IFC (c) IMF (d) MIGA

23. Examine the following statements in the context of the Base Rate system of interest rates

1. Corporate entities were able to get loans at interest rates lower than PLR while it is not possible with Base Rate.
2. Monetary policy is transmitted better through Base Rate system.
3. Base Rate is applicable only to loans given after 1st July, 2010.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) 2 and 3 (c) Only 2 (d) All of these

24. Consider the following statements

1. Regional Rural banks were set-up in 1975, under an Act of Parliament to exclusively cater to the credit needs of rural population.
2. The sponsor banks have the largest share in the equality of Regional Rural banks.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

25. Which of these statements is true regarding the Special Drawing Rights (SDRs) of IMF?

1. The SDRs are equivalent to a currency and represent a claim on the IMF.
2. The value of SDRs in terms of its component currencies is fixed annually.
3. The basket of currencies of SDRs which presently consist of US Dollar, Euro, the chinese renminbi, Pound and Yen is revised every 5 years.

Select the correct answer using the codes given below

(a) Only 3 (b) Only 1 (c) Both 1 and 2 (d) All of these

26. Which of the following statements are true regarding Hedge Funds?
1. Hedge funds are open to only select group of investors.
2. Hedge funds have been allowed to function in India recently after registering with SEBI.

Select the correct answer using the codes given below
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

27. Consider the following statements
1. NABARD is the nodal agency for implementing the schemes in respect of co-operative credit and RRBs.
2. NABARD was the nodal agency for implementing the agricultural debt waiver and Debt Relief Scheme, 2008.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

28. Which of the following statements are true regarding the Agreement on Agriculture of the WTO?
1. Green box, blue box and amber box refer to domestic subsidies in agriculture.
2. There is no limit on green box subsidies for both developing and developed economies.
3. In the long-run, the agreement on agriculture is expected to benefit the developing countries.

Select the correct answer using the codes given below
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) All of these

29. Which State Government launched 'Bhagyashree' scheme in place of the Sukanya scheme which caters to girls from Below Poverty Line (BPL) families?
(a) Gujarat (b) Kerala
(c) Maharashtra (d) Haryana

30. Which of the following are the objectives of the Commission for Agricultural Costs and Prices (CACP)?
1. To stabilise agricultural prices.
2. To ensure meaningful real income levels to the farmers.
3. To protect the interest of the consumers by providing essential agricultural commodities at reasonable rate through PDS.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3 (c) 1 and 3 (d) All of these

31. Which of these statements is true regarding the lending provisions of the IMF?
1. IMF lends to only member countries.
2. IMF lends only to help with Balance of Payments (BoP) problems.
3. IMF lending is also possible for specific projects relating to economic restructuring of an economy.

Select the correct answer using the codes given below
(a) 1 and 3 (b) Only 1 (c) 1 and 2 (d) Only 3

32. Which of the following statements is true regarding a Non-Banking Financial Company (NBFC)?
1. NBFC cannot accept demand deposits.
2. For a NBFC financial assets must be 50% more than its total assets.
3. Normal banks do all of the activities normally done by an NBFC.

Select the correct answer using the codes given below
(a) Only 1 (b) 2 and 3
(c) 1 and 2 (d) All of these

33. The Competition Commission of India (CCI) wants the rules tightened to bring a larger number of Mergers and Acquisitions (M and As) under its scrutiny. In this context, consider the following statements about CCI
1. Competition Commission of India (CCI) was established with effect from14th October, 2003.
2. The goal is to curtail the monopoly tendencies and foster the competition among public sector enterprises.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

34. Which of the following statements is true regarding the innovation index measure?
1. It is developed by INSEAD, France.
2. Japan is the top country in this index.
3. The National Innovation Council (NIC) was formed to foster innovation in India especially in the area of growth.

Select the correct answer using the codes given below
(a) 2 and 3 (b) 1 and 2
(c) 1 and 3 (d) All of these

35. Examine these statements in the context of the financial instruments known as futures.
1. Futures are agreements between two parties to buy or sell shares at a future date.
2. Options are a class of futures where there is a right, but not the obligation to buy or sell at a future date.
3. Forwards are a particular class of futures.

Which of the statement(s) given above is/are correct?
(a) 1 and 3 (b) Only 1
(c) Only 2 (d) All of these

36. Which one of the following is likely to the most inflationary, in it's effect?
(a) Repayment of public debt
(b) Borrowing from the public to finance a budget deficit
(c) Borrowing from banks to finance a budget deficit
(d) Creating new money to finance a budget deficit

37. Consider the following statements regarding Reserve Bank of India
1. It is a banker to the Central Government.
2. It formulates and administers monetary policy.
3. It acts as an agent of the government in respect of India.
4. It handles the borrowing programme of Government of India.

Which of the statement(s) given above are correct?
(a) 1 and 2 (b) 2, 3 and 4 (c) 3 and 4 (d) All of these

38. Consider the following regarding World Trade organisation
1. The Uruguay round of GATT (1986-93) gave birth to WTO.
2. WTO was officially constituted as a permanent body on 1st January,1995 as an effective formal organisation.

Which of the statements given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

39. Under the WTO agreement, Agreement on Agriculture (AoA), developing countries won over with some concessional features and flexibilities. Its three pillars are

1. domestic support
2. export subsidies
3. market access
4. non-tariff barriers

Which of the statement(s) given above are correct?

(a) 1, 2 and 3 *(b)* 2, 3 and 4
(c) 1, 3 and 4 *(d)* All of the above

40. Consider the following regarding WTO

1. WTO negotiations proceed not by consensus of all members, but by a process of informal negotiations between small groups.
2. Such negotiations are often called green room.

Which of the statement(s) given above is/are correct?

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

41. Name of the scheme allows the beneficiaries can avail of the benefits across India, that is poor migrant workers can buy subsidised rice and wheat from any ration shop in the country.

(a) One Nation, One Ration Card
(b) Shyama Prasad Mukherji Rurban Mission
(c) USTAD Scheme
(d) Deendayal Upadhyay Antyodaya Yojana

42. Which one of the follwing items has gained the highest growth rate in the import composition of the Indian economy in the last decade?

(a) Pearls, precious and semiprecious stones
(b) Gold and silver
(c) Oil-cake and other solid residues
(d) None of the above

43. Consider the following regarding the objectives of WTO

1. To improve the standard of living of people in member countries.
2. To ensure full employment and increase in effective demand.
3. To enlarge production and trade of goods and services.

Which of the statement(s) given above are correct?

(a) 1 and 2 *(b)* 2 and 3 *(c)* 1 and 3 *(d)* All of these

44. What is the cause of inflation?

(a) Printing too much money *(b)* Increase in production cost
(c) Decline in exchange rates *(d)* All of these

45. Hawala transactions relate to payments

(a) received in rupees against overseas currencies and *vice versa* without going through the official channels
(b) received for sale or transfer of shares without going through the established stock exchanges
(c) received as commission for services rendered to overseas investors, buyers or sellers in assisting them to get over the red tape and in getting preferential treatment
(d) made to political parties or to individuals for meeting election expenses

46. Consider the following statements

1. The Government of India through a resolution dated 1st June, 2005 set up the National Statistical Commission (NSC).
2. The National Statistical office has four divisions.
3. The Ministry of Statistics and Programme Implementation (MOSPI) came into existence as an Independent Ministry on 15th October, 1999.

Select the correct answer using the codes given below

(a) 1 and 2 *(b)* 2 and 3
(c) Only 2 *(d)* All of these

47. The main cause of cyclical unemployment is that

(a) firms engage in race, gender and sex discrimination in their hiring practices
(b) some individuals do not have marketable job skills
(c) the level of overall economic activity fluctuates
(d) workers often voluntarily quit a job look for a better job

48. If the Cash Reserve ratio is lowered by the RBI, its impact upon credit creation will be to

(a) decrease it *(b)* increase it
(c) no impact *(d)* None of these

49. Which of the following is true about money market in India?

1. The most active segment of money market is overight call market.
2. The money market instruments have maturity of less than 1 year.
3. The money market instruments in India are regulated by RBI and SBI.

Select the correct answer using the codes given below

(a) 1 and 2 *(b)* Only 2
(c) 2 and 3 *(d)* All of these

50. With regard to proposed GST, which of the following is correct?

1. Taxes on items containing alcohol and petroleum product are kept out of GST.
2. Entertainment tax, luxury tax and taxes on gambling are part of GST.

Select the correct answer using the codes given below

(a) Only 1 *(b)* Only 2
(c) Both 1 and 2 *(d)* Neither 1 nor 2

Answers

1. (c)	2. (a)	3. (b)	4. (b)	5. (c)	6. (c)	7. (c)	8. (c)	9. (d)	10. (d)
11. (c)	12. (d)	13. (c)	14. (c)	15. (c)	16. (b)	17. (d)	18. (a)	19. (c)	20. (a)
21. (d)	22. (d)	23. (d)	24. (b)	25. (a)	26. (c)	27. (d)	28. (d)	29. (d)	30. (a)
31. (a)	32. (c)	33. (c)	34. (c)	35. (c)	36. (d)	37. (a)	38. (c)	39. (a)	40. (c)
41. (a)	42. (b)	43. (d)	44. (d)	45. (d)	46. (d)	47. (b)	48. (b)	49. (d)	50. (c)

Practice Set 2

ANALYSE YOURSELF

1. To obtain full benefits of demographic dividend, what should India do?

(a) Promoting skill development
(b) Introducing more social security schemes
(c) Reducing infant mortality rate
(d) Privatisation of higher education

2. Which of the following would cause consumption to rise?

(a) The GDP Deflator rises
(b) A greater proportion of the population is between age 20 and 30
(c) Transitory income increases
(d) Income is taken from poor people and given to rich people

3. With reference to India, consider the following statements.

1. WPI is available on a monthly basis only.
2. As compare to Consumer Price Index for the Industrial Worker (CPI-IW), the WPI gives less weightage to food articles.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

4. Consider the following

1. Finance and non-finance.
2. Telecommunication.
3. Computer software and hardware.
4. Hospital and diagnostic centres and services.
5. Construction activities.

Which of the services sector given above are included in the Top 5 Services Sector of the Indian economy?

(a) 1, 2, 4 and 5 (b) 1, 3, 4 and 5
(c) 1, 2, 3 and 4 (d) All of these

5. Consider the following statements

1. Pradhan Mantri Shram Yogi Maan Dhan Yojana is similar to PM Kisan Maan Dhan Yojana
2. PM Shram Yogi Maan Dhan Yojana launched for unorganised sector workers with monthly income upto ₹ 15,000 per month.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

6. Value added tax is

(a) an advolerum tax on domestic, final consumption collected at all stages between production and point of final sale
(b) an advolerum tax on final consumption collected at the manufacturing level
(c) tax on final consumption collected at the consumption rate
(d) a special tax levied by the states on products from other states

7. Consider the following statements

1. EXIM Bank was set-up in 1982.
2. It provides financial assistance to importers and exporters of India as well as of other countries.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2 (c) Both 1 and 2 (d) Neither 1 nor 2

8. Which one of the following schemes and programmes are mainly aimed to bring inclusive growth in India?

(a) Swabhiman (b) MNREGA
(c) Right to Information (d) Both 'a' and 'b'

9. Consider the following statements

1. Pradhan Mantri Kisan Maan Dhan Yojana launched in 2019.
2. Under PM Kisan Maan Dhan Yojana, there is a pension scheme for small and marginal farmers.

Which of the statement(s) given above is/are correct ?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

10. RBI issues currency notes against which of the following?

(a) Gold (b) Foreign reserve
(c) Government of India Security (d) All of these

11. Under which scheme, Union Government proposed to set-up an IT based student Financial Aid System to ensure that no student misses out on higher education due to lack of fund?

(a) Pradhan Mantri Vidya Laxmi Scheme
(b) Vidya Kanya Laxmi Scheme
(c) Suknya Vidyadhan Yojana
(d) Sukanya Vidya Laxmi Scheme

12. Consider the following regarding the Asian Development Bank

1. ADB was established in 22nd August, 1966 on the recommendations of economic commission for Asia and Far East.
2. The Aim of this bank is to accelerate economic and social development in Asia and Pacific region.
3. Its headquarter is located in Manila.

Which of the statements given above are correct?

(a) 1 and 2 (b) 2 and 3 (c) 1 and 3 (d) All of these

13. Consider the following statements India continues to be dependent on imports to meet the requirement of oilseeds in the country because

1. farmers prefer to grow food grains with highly remunerative support prices.
2. most of the cultivation of oilseed crops continues to be dependent on rainfall.

3. oils from the seeds of free origin and rice bran have remained unexploited.
4. It is far cheaper to import oil seeds than to cultivate the oil seed crops.

Which of the statements given above are correct?

(a) 1 and 2 (b) 1, 2 and 3 (c) 3 and 4 (d) All of these

14. GST would subsume which of the following taxes

1. Excise duty
2. Customs duty
3. Sales tax
4. Service tax

Select the correct answer using the codes given below

(a) 1 and 4 (b) 1, 2 and 4 (c) 1, 3 and 4 (d) All of these

15. Consider the following statements
In India, stamp duties on financial transactions are

1. Collect and Appropriated the State Government.
2. Levied by the Union Government.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

16. The problem of international liquidity is related to the non-availability of

(a) goods and services
(b) gold and silver
(c) dollars and other hard currencies
(d) exportable surplus

17. Consider the following statements

1. Poverty Reduction and Growth Facility (PRGF) has been established by the International Development Association (IDA) to provide further assistance to low income countries facing high level of indebtedness.
2. Singapore Regional Training Institute (STI) is one of the institute that provides training in Macro Economic analysis and policy and related subject as a part of programme of the IMF institute.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

18. The principal functions of Asian Development Bank is/are

1. to make loans and equity investments for the economic and social advancement of its developing member countries.
2. to provide technical assistance for the preparation and execution of development projects and programmes and advisory services.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 and 2

19. Which one of the following statements is correct with reference to FEMA in India?

(a) The Foreign Exchange Regulating Act (FERA) was replaced by Foreign Exchange Management Act (FEMA) in the year 2001
(b) FERA was given a sunset clause of 1 year till 31st May, 2002 to enable Enforcement Directorate to complete the investigation of pending issues
(c) Under FEMA, violation of foreign exchange rules has ceased to be a criminal offence
(d) As per the new dispensation, Enforcement Directorate can arrest and prosecute the people for the violation of foreign exchange rule

20. Consider the following statements
The price of any currency in international market is decided by the

1. world bank.
2. demand for goods and services provided by the country concerned.
3. stability of the government of the concerned country.

Which of the statements given above are correct?

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

21. Consider the following statements

1. Gini co-efficient is the area between the line of perfect equality and Lorenz curve.
2. Lorenz curve is a percentage of the area between the line of perfect equality and the line of perfect inequality.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

22. The recently announced Paramparagat Krishi Vikas Yojana aims to boost

(a) organic Farming
(b) drip Irrigation
(c) horticulture Crops
(d) vegetable Production

23. Consider the following norms of the Mid-day Meal Scheme

1. To provide a minimum of 550 calories of food.
2. To provide a minimum 12 gram of protein.
3. To provide an adequate quantities of micronutrients like iron, folic acid, vitamin-A.
4. To provide an adequate quantities of essential fatty acids and medicine for the common cold and diarrhoea.

Which of the norms given above are correct?

(a) 1, 3 and 4 (b) 1, 2 and 3
(c) 1, 2 and 4 (d) All of these

24. An increase in the bank rate generally indicates that the

(a) Market rate of interest is likely to fall
(b) Central house is no longer making loans to commercial banks
(c) Central Bank is following an easy money policy
(d) Central Bank is following a tight money policy

25. Consider the following statements regarding PMJDY.

1. Pradhan Mantri Jan Dhan Yojana (PMJDY) launched in 2015.
2. It is a scheme for comprehensive financial inclusion launched by Prime Minister of India.
3. PMJDY provides accidental insurance cover of ₹ 2 Lakh.

Codes

(a) 1 and 2 (b) 2 and 3
(c) Only 3 (d) All of these

26. Aadhar has huge potential for improving operations and delivery of services. Its potential application in various significant public services delivery and social sector programme is immense.
In this context, consider the following statements

1. The UID database can be used for the authentication of beneficiaries under the public distribution system.
2. It will help in enhancing the efficiency of social audit of programmes.
3. Enable greater commitment towards government financing of public health and primary health care.

Which of the statement(s) given above is/are correct?
(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of these

27. Consider the following statements

1. Gini co-efficient is commonly used to measure the inequality of wealth.
2. The Gini co-efficient with a value of 1 expressing total equality and a value of 0 expressing maximum inequality.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

28. Which one of the following services of the Services sector in the Indian economy contributed the highest percentage in the Gross Domestic Product at the Factor Cost in the last 10 years?
(a) Hotels and restaurants (b) Railways transport
(c) Banking and insurance (d) Trade

29. Consider the following statements

1. Asian Development Bank (ADB) is a regional development bank established in 1966.
2. Asian Development Bank (ADB) admits the members of the United Nations Economic and Social Commission for Asia and the Pacific.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

30. Consider the following statements

1. The World Intellectual Property Organisation (WIPO) is a specialised agency of United Nations System of Organisation.
2. WIPO has its headquarters at Rome.
3. The Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement is binding on all WTO members.
4. Least developed country members of WTO are not required to apply the provisions of TRIPS Agreement for a period of 20 years from the general date of application of the agreement.

Which of the statements given above are correct?
(a) 1 and 3 (b) 2, 3 and 4
(c) 1, 2 and 4 (d) All of these

31. Which among the following sectors is the largest receiver of Foreign Direct Investment in India?
(a) Services (b) Telecom
(c) Automobile (d) Pharmaceuticals

32. Which one of the following schemes of Union Government has entered into Guinness Book of World Record?
(a) MGNREGA
(b) Swachh Bharat Abhiyan
(c) Indira Awaas Yojana
(d) Prime Minister Jan Dhan Yojana

33. WTO allows departures from the MFN (Most Favoured Nations) under the following headings

1. Imports from poor countries are allowed at lower or zero tariffs (Generalised system of preference).
2. Preferential and free trade arrangement among countries of a region and others are allowed at concessional rates.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

34. The economist who was associated with the WTO draft document?
(a) A K Sen (b) T N Srinivasan
(c) J N Bhagwati (d) Avinash Dixit

35. Consider the following statements

1. Product patents provide for absolute protection of the product exhausting all the process that may lead to the product.
2. Process patents provide protection in respect of the technology and the process or method of manufacture.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

36. Name the scheme that will replace the existing Swavalamban Scheme with effect from 1st June, 2015
(a) National Pension Scheme
(b) Atal Pension Yojana
(c) Pradhan Mantri Vradha Pension Scheme
(d) All of the above

37. Consider the following regarding the special products under WTO.

1. It was decided at the Doha Development round of WTO negotiations that SPs would attract lower levels of tariff reduction commitment than other agricultural products.
2. The rationale is that higher levels of protection on SP will allow developing countries to sustain and develop domestic production of these products.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

38. The negotiations in WTO in Agriculture sector include

1. Substantial and effective reductions in overall trade-distorting domestic support by developed countries.
2. An operational and effective special safeguard mechanism.

Which of the statement(s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

39. Consider the following regarding the functions of the World Bank

1. The debtor nation has to repay either in reserve currencies or in the currency in which the loan is sanctioned.
2. Generally, bank grants loan for a particular project only submitted to the bank by the member country.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

40. Identify the correct statement regarding Pradhan Mantri Vaya Vandana Yojana (PMVVY)

(a) PMVVY is a Pension Scheme under the Ministry of Finance, exclusively for the senior citizens aged 60 years and above.
(b) It provides social security to protect senior citizens against a future fall in their interest income due to uncertain market conditions.
(c) Life Insurance Corporation of India is the implementing agency.
(d) All of these

41. Consider the following regarding the Asian Clearing Union

1. It was constituted to eliminate the difficulty of payments for trade in local currencies so as to solve the scarcity problem of foreign exchange.
2. The headquarters of ACU is in Tehran (Iran).

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

42. Consider the following statements about Payment Banks

1. They can accept demand deposits.
2. They will have a wide network of access points particularly in remote areas.
3. They can provide small loans.

Which of the statements given above is/are correct?

(a) 2 only (b) 1 and 2 only (c) 2 and 3 only (d) 1, 2 and 3

43. Why are indirect taxes considered regressive taxing mechanisms?

1. They are income irrespective.
2. They are lower than direct taxes.

Select the correct answer using the codes given below

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

44. Consider the following statements

1. ASEAN was constituted on August 1967.
2. Indonesia, Philippines, Malaysia, Singapore and Thailand are the founding members of the ASEAN.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

45. Economic liberalisation in India started with

(a) substantial changes in industrial licensing policy
(b) the convertibility of Indian rupee
(c) doing away with procedural formalities for foreign direct investment
(d) significant reduction in tax rates

46. Consider the following statements
The Indian rupee is fully convertible

1. In respect of current account of balance of payment.
2. In respect of capital account of balance of payment.
3. Into gold.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 3
(c) 1 and 2 (d) All of these

47. The growth rate of per-capita income at current prices is higher than that of per-capita income at constant prices, because the latter takes into account the rate of

(a) growth of population (b) increase in price level
(c) growth of money supply (d) increase in the wage rate

48. Consider the following statements

1. The Government of India launched the Surakshit Matritva Aashwasan (SUMAN) Scheme.
2. Pregnant women, mothers upto 6th month after delivery and all sick newborns will be able to free healthcare benefits under SUMAN Scheme.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

49. With reference to Indian economy consider the following statements.

1. The lead bank scheme was started towards the close of 1980.
2. The lead bank scheme was aimed to bring a balanced regional development in the country.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

50. The function of the Central Banks are

1. Bankers to the bank.
2. Custodian of foreign exchange.
3. Controller of credit.
4. Bank of issue.
5. Banker, agent and financial, advisor of government
6. Financial advisor of private banks.

Select the correct answer using the codes given below

(a) 1, 2, 3 and 6 (b) 2, 3, 4 and 5
(c) 1, 2, 3, 4 and 5 (d) All of these

Answers

1. (a)	2. (b)	3. (b)	4. (c)	5. (c)	6. (a)	7. (c)	8. (d)	9. (c)	10. (d)
11. (a)	12. (d)	13. (b)	14. (c)	15. (c)	16. (c)	17. (b)	18. (c)	19. (c)	20. (b)
21. (a)	22. (a)	23. (b)	24. (d)	25. (b)	26. (d)	27. (a)	28. (d)	29. (c)	30. (a)
31. (b)	32. (d)	33. (c)	34. (c)	35. (c)	36. (b)	37. (c)	38. (c)	39. (c)	40. (d)
41. (c)	42. (b)	43. (a)	44. (c)	45. (a)	46. (a)	47. (b)	48. (c)	49. (b)	50. (c)

Practice Set 3

ANALYSE YOURSELF

1. Consider the following measures

1. Repo rate.
2. Cash reserve requirement.
3. Reverse repo rate.

Which of the measures given above is/are major instruments used in the Liquidity Adjustment Facility (LAF)?

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) Only 2

2. Which one among the following is true about the repo rate in the Indian Economy ?

(a) It is the rate at which banks borrow funds from the RBI
(b) It is the rate at which banks park their funds with the Central Bank
(c) It is the percentage difference in the prices of repurchase of the bills from the original prices
(d) Both 'a' and 'c'

3. The Regional Comprehensive Economic Partnership (RCEP), is a proposed free trade agreement between the members of

(a) SAARC (b) ASEAN
(c) BRICS (d) European Union

4. Arrange the following in chronological order.

1. Nationalisation of Reserve Bank of India.
2. Foundation of Punjab National Bank.
3. Nationalisation of State Bank of India.
4. Establishment of NABARD.

Codes

(a) 1, 2, 3, 4 (b) 1, 2, 4, 3 (c) 2, 1, 4, 3 (d) 2, 1,3, 4

5. When the ratio of indirect taxes to total taxation revenue is very high it leads to

1. rise in the price level.
2. higher taxation burden on the rich.
3. higher taxation burden on the poor.
4. fall in tax revenues.

Select the correct answer using the codes given below

(a) 1 and 2 (b) 1 and 3 (c)1, 2 and 4 (d) 1, 3 and 4

6. Consider the following statements

1. The Livestock Census in India is conducted every 5 years.
2. The Livestock Census is conducted by the respective State Government.

Which of the statement(s) given above is/are correct ?

(a) Both 1 and 2 (b) Neither 1 nor 2
(c) Only 1 (d) Only 2

7. Which of the following is not viewed as a national debt ?

(a) Life insurance policies
(b) Provident fund
(c) Long-term government bond
(d) National saving certificate

8. Under which of the following circumstances may 'Capital gains' arises?

1. When there is an increase in the sales of a product.
2. When there is a natural increase in the value of the property owned.
3. When you purchase a painting and there is a growth in it's value due to increase in it's popularity.

Select the correct answer using the codes given below

(a) Only 1 (b) 2 and 3 (c) Only 2 (d) All of these

9. Consider the following statements in context with the free market economy

1. The role of market forces and competition is eliminated by law.
2. There is a high degree of competition in both commodity and factor markets.
3. Private gains are the main motivating and guiding force for carrying out economic activities.

Which of the statements given above are correct?

(a) 1 and 2 (b) 2 and 3 (c) All of these (d) None of these

10. The unique features of national level commodity exchanges include.

1. They provide online platforms or screen based trading.
2. Investors have the option of taking delivery in physical quantity.
3. Global depository receipts is a unique feature of commodity exchange.

Which of the statements given above are correct ?

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of these

11. Which of the following pair (s) is/are correctly matched?

1. Swabhiman	:	Financial Inclusion
2. Swavalamban	:	Financial Assistance
3. Swadhar	:	To provide holistic and integrated services to women

Codes

(a) 1 and 2 (b) 2 and 3 (c) Only 1 (d) All of these

12. India continues to be dependent on import to meet the requirement of oilseeds in the country because

1. farmers prefer to grow food grains with highly remunerative support price.
2. most of the cultivation of oilseed crops depend on rainfall.
3. oil from seeds of free origin and rice bran have remained unexploited.

Which of the statements given above are correct?

(a) 1 and 2 (b) 1 and 3 (c) All of these (d) None of these

13. Mercosur, is a free trade agreement between several countries on which of the following continents?

(a) Africa (b) South America
(c) North America (d) Asia

14. Consider the following statements

1. S and P CNX Nifty is one of several leading stock market indices.
2. Nifty is owned and managed as a joint venture company between National Stock Exchange and Credit Rating and Information Services of India Limited.

Which of the statement(s) given above is/are correct ?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

15. Consider the following statements

1. Most of the employment in India is in urban areas.
2. Agricultural sector in India suffers from disguised unemployment.

Which of the statement(s) given above is/are incorrect?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

16. Which of the following is used for the measurement of distribution of income?

(a) Laffer Curve (b) Engel's Law
(c) Gini-Lorenz Curve (d) Philip Curve

17. Consider the following statements

1. All proceeds from the disinvestment of Central Public Sector Enterprises flow into the National Investment Fund (NIF).
2. 75% of the annual income of the NIF is used to fund Social Sector schemes.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

18. Which of the following scheme is designed and launched to improve the living standard of urban poor?

1. Accredited Social Health Activist (ASHA).
2. Janani Suraksha Yojana (JSY).
3. Valmiki Ambedkar Malin Basti AwaasYojna(VAMBAY).

Select the correct answer using the codes given below

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of these

19. Consider the following statements

1. Phillips curve is an inverse relationship between the rate of unemployment and the rate of inflation in an economy.
2. Engel's law observes that, as income rises the proportion of income spent on food falls even if the actual expenditure on food rises.

Which of the statement(s) given above is/are correct ?

(a) Only 1 (b) Only 2 (c) Both 1 and 2 (d) Neither 1 nor 2

20. Which of the commodities are distributed under PDS

1. Sugar 2. Pulses 3. Kerosene

Select the correct answer using the codes given below

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of these

21. Examine the following statements in the context Special Products (SP) and Special Safeguard Mechanism (SSM) of the WTO.

1. Special products are limited to agricultural products only.
2. Special products are available to both developed countries and developing countries.
3. SSM are used to defend against volatility in international commodity prices.

Which of the statements given above are correct?

(a) 2 and 3 (b) 1 and 2
(c) 1 and 3 (d) All of these

22. Consider the following statements

1. Gilt-edged market means a market for bullions.
2. Gilt-edged securities can be issued by both National Governments and private firms.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

23. In the states of India, the State Financial Corporations have given assistance mainly to develop

1. agricultural farms.
2. cottage industry.
3. large-scale industries.
4. medium and small-scale industries.

Select the correct answer using the codes given below

(a) Only 1 (b) 2 and 4 (c) Only 2 (d) Only 4

24. In India, rural incomes are generally lower than the urban incomes, which of the following reasons account for this?

1. A large number of farmers are illiterate and know little about scientific agriculture.
2. Prices of primary products are lower than those of manufactured products.
3. Investment in agriculture has been low when compared to investment in industry.

Select the correct answer using the codes given below

(a) 2 and 3 (b) 1 and 2
(c) 1 and 3 (d) All of these

25. Which one of the following countries got the presidency of the BRICS New Development Bank for the first 6 years?

(a) India (b) China
(c) South Africa (d) Russia

26. Regional Rural banks

1. have limited area of operation.
2. have free access to liberal refinance facilities from NABARD.
3. are required to lend only to weaker sections.

Select the correct answer using the codes given below.

(a) 1 and 3 (b) 2 and 3
(c) 1 and 2 (d) All of these

27. Why is the increasing share of direct taxes relative to indirect taxes considered a good thing?

1. Direct taxes are easier to collect.
2. Direct taxes are paid by well-off while indirect taxes are paid by everybody.
3. Economic activity can be promoted by lowering the indirect taxes.

Select the correct answer using the codes given below

(a) Only 3 (b) 1 and 2
(c) Only 2 (d) All of these

28. Examine the following statements in the context of Zero Based Budgeting (ZBB).

1. ZBB was first taken up in India in the Union Budget in 1987.
2. ZBB is based on prioritising all governing expenditure.
3. There is a cost benefit analysis of all schemes and the most important ones are kept alive if they are working well.

Which of the statements given above are correct?

(a) 1 and 3 (b) 1 and 2 (c) 2 and 3 (d) All of these

29. What are the purposes, for which the Government of India disinvests its stake in the Public Sector Enterprises?

1. To generate funds to increase the spending on Social Sector Schemes.
2. To bring market discipline to the PSEs.
3. To bridge the fiscal deficit of the Union Budget.

Select the correct answer using the codes given below

(a) Only 2 (b) 1 and 3 (c) 1 and 2 (d) All of these

30. Why does the Government of India allow the private sector to raise External Commercial Borrowings (ECB)?

1. It helps to diversify the risk.
2. It helps with the Balance of Payments.
3. Interest rates available outside India are more attractive.

Select the correct answer using the codes given below

(a) 1 and 3 (b) 1 and 2 (c) Only 3 (d) All of these

31. Consider the following statements.

1. Deflation is a decrease in the general price level of goods and services.
2. Deflation is the negative inflation rate which falls below zero per cent.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

32. Consider the following statements in the context of an asset reconstruction company.

1. Asset reconstruction companies buy bad loans from banks and try to restructure them.
2. ARCIL is the first asset reconstruction company in India.

Which of the statement(s) given above is/are correct?

(a) Only 2 (b) Only 1
(c) Neither 1 nor 2 (d) Both 1 and 2

33. Consider the following statements regarding Atal Innovation Mission.

1. The government has set up the Atal Innovation Mission at NITI Aayog in March, 2019.
2. It encourages the school to provide exposure to science and technology to students.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

34. Which of the following statement(s) is/are true regarding the dispute settlement mechanism of the WTO?

1. The losing nation must make changes in its law, if it is found to have violated a WTO provision.
2. If a nation does not follow the orders of the WTO after the completion of the dispute settlement process then a penalty can be imposed on that country.

Select the correct answer using the codes given below

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

35. Examine the following statements regarding the GATT and WTO.

1. India was not a founding member of GATT, but it later joined, when the WTO was formed.
2. GATT was the precursor organisation to the WTO.
3. Uruguay round led to the creation of WTO.

Which of the statements given above are correct?

(a) 1 and 2 (b) 2 and 3 (c) All of these (d) None of these

36. The Small Industries Development Bank of India (SIDBI) has been implementing two special schemes for women viz;

1. Mahila Udyam Nidhi
2. Mahila Vikas Nidhi
3. Mahila Samridh Nidhi
4. Women Vikas Kosh

Select the correct answer using the codes given below

(a) 1 and 2 (b) 2 and 3 (c) 3 and 4 (d) 2 and 4

37. Which of the following statement(s) is/are true regarding the market economy status under the WTO?

1. Market economy means that it is recognised that market forces of demand and supply are operating in a particular country.
2. India has granted the market economy status to China recently.

Select the correct answer using the codes given below

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

38. Consider the following statements in the context of Co-operative Banks in India.

1. Co-operative Banks operate on no profit no loss basis.
2. Co-operative Banks are allowed to operate only in the agriculture sector.
3. NABARD is a Co-operative Bank.

Which of the statement(s) given above is/are correct?

(a) 1 and 3 (b) Only 1 (c) 1 and 2 (d) All of these

39. Which of the following steps will stop the depreciating the rupee, which has been happening recently?

1. Stopping the flow of FIIs into India.
2. Buying up of foreign currency by the RBI.
3. Reducing the CRR and other interest rates.

Select the correct answer using the codes given below

(a) 2 and 3 (b) 1 and 3
(c) 1 and 2 (d) None of these

40. Which among the following are true for Central Sales tax?

1. It is levied on interstate trade.
2. It is also levied in the Union Territories.
3. It is levied in the SEZ.

Select the correct answer using the codes given below

(a) 1 and 2 (b) Only 1
(c) 2 and 3 (d) All of these

41. Development expenditure of the Central Government does not include

1. Defence expenditure.
2. Expenditure on economic services.
3. Expenditure on social and community services.
4. Grant to states.

Select the correct answer using the codes given below
(a) Only 1 (b) 1 and 3 (c) 1, 2 and 4 (d) Only 3

42. Which of the following is true regarding the geographical indication provisions of the WTO?

1. GI is given only to a region or community for a particular manufactured product.
2. GI remains valid for unlimited time as the geographical region is permanent in nature.
3. India's GI registry is situated in Pune.

Select the correct answer using the codes given below
(a) 1 and 3 (b) 2 and 3
(c) 1 and 2 (d) None of these

43. Consider the following statement(s) in the context of development banks in India.

1. Development banks are those, which provide long-term capital for developmental purposes.
2. The first development bank constituted in India 1948 was IDBI.

Which of the statement(s) given above is/are correct?
(a) Only 2 (b) Only 1
(c) Neither 1 nor 2 (d) Both 1 and 2

44. Consider the following regarding International Development Association (IDA).

1. IDA is an associate institution of World Bank known as soft loan window of World Bank.
2. The resources of IDA include subscribed capital by member countries, general replenishments by developed countries, net income transferred by IBRD.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

45. Consider the following regarding the Financial Stability Board

1. The Financial Stability Board, successor to the financial stability forum was established in 2009.
2. It comprises senior representatives of national financial authorities (Central Banks, regulatory and supervisory authorities and Ministry of Finance), international financial institutions etc.

Which of the statement(s) given above is/are correct ?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

46. Consider the following regarding International Development Association (IDA).

1. It was created in 1960.
2. It is responsible for providing long-term, interest free loans to the world's poorest countries.
3. IDA provides grants and credits with repayment periods of 35 to 40 years.

Which of the statement(s) given above are correct?
(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) All of these

47. Consider the following statements the functions of commercial banks in India include

1. Purchase and sale of shares and securities on behalf of customers.
2. Acting as executers and trustees of wills.

Which of the statement(s) given above is/are correct ?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

48. Consider the following statements.

1. Green box subsidies relate to research and development and infrastructure like universities, roads in rural areas etc.
2. Green box subsidies don't distort trade.

Which of the statement(s) given above is/are correct ?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

49. Consider the following regarding the objectives of International Finance Corporation (IFC).

1. To provide loans to private sector.
2. To co-ordinate capital and management.
3. To induce capitalist countries to invest in developing countries.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) 1 and 3
(c) 2 and 3 (d) All of these

50. Which of the following is the specialised agency of the UN?

1. International Bank for reconstruction and development.
2. International Finance Corporation.
3. International Fund for Agricultural Development.
4. International Monetary Fund.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) Only 4 (d) All of these

Answers

1. (b)	2. (d)	3. (b)	4. (d)	5. (b)	6. (c)	7. (d)	8. (b)	9. (b)	10. (a)
11. (d)	12. (c)	13. (b)	14. (c)	15. (b)	16. (c)	17. (c)	18. (c)	19. (c)	20. (b)
21. (c)	22. (d)	23. (d)	24. (d)	25. (a)	26. (c)	27. (d)	28. (b)	29. (c)	30. (a)
31. (c)	32. (d)	33. (c)	34. (a)	35. (b)	36. (a)	37. (a)	38. (b)	39. (d)	40. (a)
41. (a)	42. (d)	43. (b)	44. (c)	45. (c)	46. (d)	47. (c)	48. (c)	49. (c)	50. (d)

Practice Set 4

ANALYSE YOURSELF

1. Consider the following regarding Trade Related Investment Measures (TRIMs)

1. Trade related investment measures stipulate that all member nations must provide the same treatment to foreign investors as to the domestic investors.
2. The agreement makes it obligatory for member countries to attract and invite foreign investment.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

2. Consider the following regarding the objectives of G-20 forum

1. Sustainable exchange rate regime supported by consistent exchange rate and monetary policy.
2. Widespread implementation of codes and standards including transparency data dissemination and financial sector policy.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

3. Which of the following pair(s) is/are correctly matched?

1. Ayushman Bharat Yojana - 2018
2. Van Bandhu Kalyan Yojana - 2015
3. National Urban Health Mission - 2013

Codes

(a) 1 and 2 (b) 2 and 3
(c) Only 2 (d) 1, 2 and 3

4. With reference to the public sector undertakings in India, consider the following statements

1. Minerals and Metals Trading Corporation of India Limited is the largest non-oil importer of the country.
2. Project and Equipment Corporation of India Limited is under the Ministry of Industry.
3. One of the objectives of Export Credit Guarantee Corporation of India Limited is to enforce quality control and compulsory preshipment inspection of various exportable commodities.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) 1 and 2
(c) 2 and 3 (d) Only 3

5. Which of the following statements(s) is/are true regarding Green Revolution?

1. Pulses weren't targeted under Green Revolution.
2. Then high yielding crops were dwarfed in stature.

Select the correct answer using the codes given below

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

6. Consider the following statements

1. World Bank established IFC (International Finance Corporation) in 1956.
2. This corporation provides loan to private industries of developing nations without any government guarantee and also promotes the additional capital investment in these countries.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

7. Prime Minister Narendra Modi launched the 'Deen Dayal Upadhyaya Gram Jyoti Yojana' (DDUGJY) in Patna . The benefits of the scheme will be:

1. All villages and households shall be electrified
2. Increase in agriculture yield
3. Improvement in Health, Education, Banking (ATM) services
4. Improvement in accessibility to radio, telephone, television, internet and mobile.

Select the correct answer using the codes given below

(a) Only 1 (b) 1 and 2 (c) 1,2 and 3 (d) 1, 2 , 3 and 4

8. The terms "Marginal Standing Facility Rate" and "Net Demand and Time Liabilities," sometimes appearing in news, are used in relation to

(a) banking operations (b) communication networking
(c) military strategies
(d) supply and demand of agricultural products

9. Which of the following bodies is preparing to launch an 'inclusive economies' initiative to combat economic inequality?

(a) APEC (b) European Union (c) SAARC (d) ASEAN

10. India is regarded as a country with 'demographic dividend'. This is due to

(a) its high population in the age group below 15 years
(b) its high population in the age group of 15-65 years
(c) its high population in the age group above 65 years
(d) its high total population

11. Arrange the following in the chronological order.

1. Kennedy round of negotiations.
2. Uruguay round of negotiations.
3. Tokyo round of negotiations.

Codes

(a) 1, 2, 3 (b) 3, 1, 2 (c) 1, 3, 2 (d) 2, 1, 3

12. Consider the following statements

1. Annual Survey of Industries (ASI) extends to the entire country.
2. ASI covers all factories registered under Sections 2m (i) and 2m (ii) of the Factories Act, 1948.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

13. Which of the following is/are feature(s) of Foreign Trade Policy (2015-2020)?
(a) India to be made a significant participants in world trade by 2020.
(b) Merchandise Exports from India Scheme (MEIS) to promote specific services for specific markets FTP.
(c) All existing service related schemes has been replaced with Service Exports from India Scheme (SEIS).
(d) All of the above

14. Arrange the following items which are assigned weight in calculating wholesale price index in India.
1. Primary articles
2. Fuel power light and lubricants
3. Food products
4. Chemicals and chemical products

Codes
(a) 1, 2, 3, 4 (b) 1, 2, 4, 3 (c) 4, 3, 2, 1 (d) 1, 3, 2, 4

15. Which of the following statements is/are correct ?
1. The government has launched the National Broadband Mission on 17th December, 2019.
2. The National Broadband Mission aims to provide broadband access to all villages by 2022.

Codes
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) None of these

16. Consider the following statements-
1. "Saubhagya" scheme was launched by the Prime Minister Narendra Modi to ensure electrification of all willing households in the country in rural as well as urban areas.
2. Poor households would be provided electricity connections free of cost.
3. Other households would also be provided electricity connections under the scheme on payment of ₹ 500 only which shall be recovered by the DISCOMs.

Which of the above statements is/are correct?
(a) 1, 2 and 3 (b) Only 3
(c) Both 2 and 3 (d) Both 1 and 2

17. Most international agencies which fund development programmes on inter-governmental bilateral agreements mainly provide.
1. Technical assistance.
2. Soft loans which are required to be paid back with interest.
3. Grants not required to be paid back.

Select the correct answer using the codes given below
(a) 2 and 3 (b) 1 and 3 (c) 1 and 2 (d) 2 and 3

18. Consider the following statements
1. The headquarters of the FAO is in Rome.
2. The FAO is an agency of United Nations Organisation.
3. It came into existence 16th October, 1945.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) 1 and 2
(c) 2 and 3 (d) All of these

19. Which of the following organisations were set-up under the Bretton Woods agreement?
(a) World Bank (b) IMF
(c) Both 'a' and 'b' (d) None of these

20. Consider the following statement(s) regarding Financial Action Task Force
1. It is an inter-governmental body responsible for setting global standards for anti-money laundering and combating financing of terrorism.
2. India has become 34th country member of FATF.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

21. Which of the following statements are correct?
1. RBI follows a proportional reserve system.
2. RBI follows a minimum reserve system.
3. RBI needs to maintain a gold reserve of atleast 115 crore.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

22. Consider the following regarding the objectives of UNCTAD
1. To promote the international trade especially with a view to accelerating the economic development of underdeveloped countries.
2. To determine policies and principles for international trade and economic development.
3. To assist economic and social council of United Nations Organisations (UNO).

Which of the statements given above are correct?
(a) 1 and 2 (b) 2 and 3 (c) 1 and 3 (d) All of these

23. With respect to NITI Aayog which of the following statements are true?
1. Sindhushree Khullar is the first CEO of NITI Aayog.
2. Arvind Panagariya is the first Vice-Chairman of the NITI Aayog.
3. Economist Bibek Debroy and V K Saraswat are full time members.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

24. Which of the following is most likely to cause current account deficit in India?
1. Reduced excise duties on sports utility vehicles .
2. Reduced duties on gold.
3. Ban on export of onions.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

25. Foreign Direct Investment (FDI) is investment directly into production in a country by a company located in another country then which one of the following mode(s) is/are correct about the FDI?
(a) Buying a company in the target country
(b) Expanding operations of an existing business in that country

(c) Investing in the shares and stocks of a company in the target country
(d) Both 'a' and 'b'

26. Consider the following items
1. Gems and jewellery
2. Chemicals and related products
3. Engineering goods
4. Textiles

Which of the items given above are the top 4 items in India's manufactured exports?
(a) 1, 2 and 3 (b) 1, 2 and 4
(c) 2, 3 and 4 (d) All of these

27. According to Reserve Bank of India, arrange the following in increasing order of preferences to measure inflation.
1. Wholesale price index 2. Producer price index
3. Consumer price index

Codes
(a) 3, 2, 1 (b) 2, 3, 1 (c) 1, 3, 2 (d) 1, 2, 3

28. Consider the following statements about Goods and Services Tax (GST) Bill of India.
1. GST consists of 3 component such as Central GST, State GST and Local GST.
2. Central GST and State GST will apply to all transactions of goods and services.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

29. Consider the following statements
1. The Union Ministry of Human Resource and Development (MHRD) has launched DIKSHA portal in September, 2017.
2. MHRD has launched a massive open online courses platform popularly known as SWAYAM on July, 2017.
3. Swamitva Yojana is aimed to fill the above gap to provide ownership rights to people in the villages.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) 1, 2 and 3 (d) None of these

30. Consider the following statements
1. India's Trade Policy Review (TPR) is carried out every 4 years.
2. WTO has a mechanism for regular review of the Trade Policies of member countries.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

31. Global Competitiveness report is released by which of the following organisations?
(a) World Trade Organisation (b) European Union
(c) World Bank (d) World Economic Forum

32. Which of the following activities fall under the purview of Banking Ombudsman?
1. Internet banking
2. Credit cards
3. Debit cards
4. Harassment by loan recovery agencies

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) All of these

33. Which one of the following statement(s) is correct about the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) of the World Trade Organisation (WTO)?
(a) The patent right is covered under the TRIPS of the WTO
(b) Geographical Indication (GI) certification is enforceable under the TRIPS of the WTO
(c) Copyright is the important component of the TRIPS of WTO
(d) Both 'a' and 'b'

34. Kisan Credit Card was launched by Indian Government to facilitate the short-term loan and cash delivery to farmers. Which one of the following agencies is not included in the operation of the Kisan Credit Cards?
(a) Scheduled Commercial banks
(b) Co-operative banks
(c) Regional Rural banks
(d) NABARD

35. Who among the following are major players in the government securities market?
1. Commercial Banks 2. Insurance Companies
3. Individual Households
4. Co-operative and Regional Rural Banks

Select the correct answer using the codes given below
(a) 1, 2 and 4 (b) 1, 3 and 4
(c) 1, 2 and 3 (d) All of these

36. Indian Currency Printing Institutions are located in which of the following places?
1. Nasik 2. Hoshangabad 3. Hyderabad
4. Aurangabad 5. Devas

Select the correct answer using the codes given below
(a) 1, 2 and 4 (b) 1, 2, 3 and 4
(c) 1, 2, 3 and 5 (d) All of these

37. Which of the following statements regarding the Viability Gap Funding (VGF) scheme is incorrect?
(a) Under VGF, the Central Government meets up to 20% of capital cost of a project being implemented in Public Private Partnership (PPP) mode
(b) The scheme is administered by the Ministry of Finance
(c) Sectors eligible for VGF are infrastructure, health and education
(d) VGF is a force multiplier, enabling government to leverage its resources more effectively

38. Since independence, both development and non-development expenditure have increased with more increase the latter. Non-development expenditure involves
1. interest payments 2. subsidies
3. defence 4. irrigation

Select the correct answer using the codes given below
(a) 1 and 2 (b) Only 1
(c) 1, 2 and 3 (d) 2, 3 and 4

39. Which of the following statements(s) is/are the advantages of barter system?

1. It is possible to trade without double coincidence of wants.
2. It promoted division of labour.

Select the correct answer using the codes given below

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

40. What will be the primary benefit of Inflation Indexed Bonds?

(a) Curbing the fiscal deficit
(b) Decreasing the excessive gold consumption
(c) Reducing NPA of banks
(d) Reducing inflation

41. Consider the following statements about the National Development Council (NDC) of India

1. It discusses the progress of national plan.
2. Suggest the ways to achieve goals of the national plan.
3. It gives guidelines to formulate the national plan.
4. It suggests plan allocations for the different sectors and states.

Which of the statements given above are correct?

(a) 2, 3 and 4 (b) 1, 2 and 3 (c) 1, 3 and 4 (d) All of these

42. Consider the following statements

1. NABARD is an apex institution handling matters concerning policy, planning and operating the field of credit for agriculture and other' developmental activities in rural India.
2. NABARD operates through its head office at Delhi.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

43. Which among the following services are currently providing by post offices?

1. Saving account 2. Recurring deposits
3. Fixed deposits
4. Public Provident Fund Account

Select the correct answer using the codes given below

(a) 1, 2 and 3 (b) 2, 3 and 4
(c) 1, 3 and 4 (d) All of these

44. Both Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII) are related to investment in a country. Which one of the following statement best represent an important difference between the two?

(a) FII helps bring better management skills and technology, while FDI brings only capital
(b) FII helps in increasing capital availability in general, while FDI only targets specific sectors
(c) FDI flows only into the secondary market, while FII targets primary market
(d) FII is considered to be more stable than FDI

45. Consider the following liquid assets

(a) Demand deposits with the banks
(b) Time deposits with the banks
(c) Savings deposits with the banks
(d) Currency

The correct sequence of these assets in the decreasing order of liquidity is

(a) 1, 4, 3, 2 (b) 4, 3, 2, 1
(c) 2, 3, 1, 4 (d) 4, 1, 3, 2

46. Consider the following statements

1. Regarding the procurement of foodgrains, Government of India follows a procurement target rather than an open ended procurement policy.
2. Government of India announces minimum support prices only for cereals.
3. For distribution under Targeted Public Distribution System (TPDS), wheat and rice are issued by the Government of India at uniform Central issue prices to the States/Union Territories.

Which of the statement(s) given above is/are correct?

(a) 1 and 2 (b) Only 2
(c) 1 and 3 (d) Only 3

47. With reference to agriculture sector of India, consider the following statements

1. Rural Infrastructure Development Fund disperses loans to the states to complete the minor irrigation projects.
2. Rural Infrastructure Development Fund is managed by the public sector Commercial Banks.

Which of the statement(s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

48. An ad valorem duty is a tax on the basis of

(a) the value added
(b) the units of the commodity
(c) the advertisement expenditure
(d) the price of a commodity

49. Poverty in less developed countries is largely due to

(a) lack of cultural activities
(b) voluntary idleness
(c) income Inequality
(d) lack of the intelligence of the people

50. The modern economy of India is not characterised by

(a) production for market
(b) development for money economy
(c) capital intensive mode of production
(d) self-sufficient village system

Answers

1. (c)	2. (c)	3. (d)	4. (a)	5. (c)	6. (c)	7. (c)	8. (a)	9. (a)	10. (b)
11. (a)	12. (b)	13. (d)	14. (b)	15. (c)	16. (a)	17. (d)	18. (d)	19. (c)	20. (c)
21. (b)	22. (d)	23. (d)	24. (d)	25. (d)	26. (d)	27. (c)	28. (b)	29. (c)	30. (c)
31. (d)	32. (d)	33. (d)	34. (d)	35. (b)	36. (c)	37. (c)	38. (c)	39. (b)	40. (b)
41. (b)	42. (a)	43. (d)	44. (b)	45. (d)	46. (c)	47. (a)	48. (d)	49. (c)	50. (c)

Practice Set 5

ANALYSE YOURSELF

1. Which among the following is/are the member countries of the Eurasian Economic Union (EEU)?

1. Belarus
2. Russia
3. Kazakhstan
4. China

Select the correct answer using the codes given below

(a) 1 and 3 (b) 1, 3 and 4
(c) 1, 2 and 3 (d) All of these

2. Consider the following statements

1. Scheduled Banks are those banks which are included in the second Scheduld of the Reserve Bank Act, 1934.
2. There are 10 Non-scheduled Commercial Banks operating in the country.
3. Co-operative banks are organised and managed on the principle of co-operation, self-help and mutual help.

Which of the statement(s) given above is/are correct?

(a) 1 and 3 (b) Only 2
(c) 2 and 3 (d) All of these

3. Consider the following statements

1. Aadhaar is the first on-scale Digital ID service of the world.
2. Aadhaar is the largest biometric programme in the world.
3. Age group of 18 to 40 is eligible for Atal Pension Yojana.

Which of the statement(s) given above is/are correct ?

(a) 1 and 2 (b) 2 and 3
(c) 1, 2 and 3 (d) None of these

4. Consider the following statements

1. The state is called the Laissez faire state in the Market Economy. The French word Laissez faire means 'Let do'.
2. Command economy do not create wealth sustainably and are not conducive for innovation and efficiency.
3. The Bombay plan was made by J L Nehru.

Which of the statement(s) given above are correct?

(a) 1 and 2 (b) 2 and 3
(c) All of these (d) None of these

5. In context of the present ceiling on investment for categorisation of various enterprises as Micro, Small and Medium Enterprises (MSMEs).

1. A micro-enterprise is an enterprise where the investment in equipment does not exceed ₹ 1 crore.
2. A small enterprise is an enterprise where the investment in equipment is more than ₹ 1 crore, but does not exceed ₹ 10 crore.
3. A medium enterprise is an enterprise where the investment in equipment is more than ₹ 10 crore but does not exceed ₹ 20 crore.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Only 3 (d) All of these

6. Correct statements regarding Pradhan Mantri LPG Panchayat -

(a) Pradhan Mantri LPG Panchayat' will focus on spreading awareness among LPG users about the proper use and benefits of LPG.
(b) This Panchayat will act as an interactive forum for Pradhan Mantri Ujjwala Yojana beneficiaries, officials, LPG distributors and NGOs (Non-Governmental Organisations).
(c) Under one Panchayat, around 100 LPG customers will be clubbed.
(d) All are true

7. Consider the following statements

1. The INC established National Planning commission under the chairmanship of JL Nehru.
2. A Plan of Economic Development of India was put forward by leading businessmen and industrialists in 1944 was also called as the 'Bombay plan'.
3. Indicative plan is operated under and planned economy, but not command economy.

Which of the statement(s) given above is/are correct?

(a) Only 2
(b) 1 and 3
(c) 2 and 3
(d) All of the above

8. Arrange the events in chronological order regarding Indian economy.

1. 1st phase of nationalisation of 16 banks.
2. Establishment of Narashimhan committee on the Banking system.
3. Enactment of FEMA Act in India.
4. Establishment of EXIM Bank in India.

Codes

(a) 1, 3, 4, 2 (b) 1, 4, 2, 3
(c) 1, 3, 2, 4 (d) 1, 4, 3, 2

9. Which one of the following is the composition of Liquidity aggregate-2 (L2) other than Liquidity aggregate-1 (L1) in the Indian Monetary system?

(a) Term deposits with Term Lending Institutions and Refinancing Institutions
(b) Term Borrowing by Refinancing Institutions
(c) Certificates of Deposit issued by Refinancing Institutions
(d) All of the above

10. The Central Nodal Agency for implementing the price support operations for commercial crops is

(a) NAFED (b) NABARD
(c) TRIFED (d) FCI

11. Which of the following are the provisions of SARFAESI Act which enables banks to reduce their Non-Performing Assets (NPAs) ?

1. Enforcement of Security Interest by secured creditor (Banks and Financial Institutions).
2. Transfer of non-performing assets to asset reconstruction company, which will then dispose of those assets and realise the proceeds.
3. To provide a legal framework for securitisation of assets.
4. Assisting banks in making the credibility track record of customers under Credit Information Bureau of India Limited (CIBIL).

Select the correct answer using the codes given below

(a) 1 and 2 (b) 1, 2 and 3
(c) 2, 3 and 4 (d) All of these

12. The Laffer curve is the graphical representation of

(a) the relationship between tax rates and absolute revenue these rates generate for the government
(b) the inverse relationship between the rate of unemployment and the rate of inflation in an economy
(c) the inequality in income distribution
(d) the relationship between environmental quality and economic development

13. Consider the following statements

1. Bulk of employment in India is in rural areas.
2. The disguised unemployment in agricultural sector is perennial.
3. Industrialisation has rendered several people jobless in India.

Which of the statements given above are correct?

(a) 1 and 2 (b) 1 and 3
(c) 2 and 3 (d) All of these

14. The non-votable charges or 'charged expenditure' included in the Union Budget include

1. salary and allowances of the Presiding Officers of the Houses of Parliament.
2. salary and allowances of the Judges of the Supreme Court and High Courts.
3. salary and allowances of the CAG.
4. pension of the retired Judges of the Supreme Court.
5. pension of the retired Judges of High Courts.

Which of the statements given abvoe are correct?

(a) 1 and 2
(b) 1, 2 and 3
(c) 1, 2, 3 and 4
(d) All of the above

15. MODVAT is different from VAT in the sense that

1. under MODVAT, tax is levied only on value addition while under VAT, excise is imposed on final value and then rebate is given on inputs.
2. MODVAT is only at the production stage while VAT extends both to production and distribution stage.
3. under MODVAT excise is levied on final value and then rebate is given on inputs while under VAT, tax is levied only on value addition.
4. MODVAT implies rationalisation of excise duty only while VAT implies rationalisation of excise, sales and turnover taxes etc.

Which of the statements given above are correct?

(a) 2, 3 and 4 (b) 1, 2 and 3
(c) 2 and 3 (d) 3 and 4

16. With regards to Scheduled Commercial banks consider the following statements about Regional Rural Banks (RRBs) in India.

1. RRBs are limited to a specific region comprising one or more districts of a State.
2. RRBs grant direct loans and advances only to small and marginal farmers.
3. The lending rate of the RRBs are always less than the prevailing rates of Indian Commercial banks.
4. RRBs are functioned under the Supervision of Security Exchange Board of India.

Which of the statement(s) given above are correct?

(a) 3 and 4 (b) 1, 2 and 3
(c) 2 and 3 (d) All of these

17. Consider the following statements

1. Integrated Rural Development Programme (IRDP) was launched to lift the target groups above the below poverty line.
2. The IRDP was started as an initiative of the Lead Bank scheme to create additional employment opportunities in rural areas.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

18. Banks of India are required to maintain a certain ratio between their risky assets and capital which is known as

(a) Capital Adequacy Ratio (CAR)
(b) Statutory Liquidity Ratio (SLR)
(c) Reserve Bank of India (RBI)
(d) Capital to Risk Weighted Assets Ratio (CRAR)

19. A financial intermediary is stronger than an individual investor due to

(a) economies of scale
(b) asymmetry of information
(c) portfolio diversification
(d) All of the above

20. Consider the following statements

1. Swabhiman scheme provides banking facilities in remote rural areas.
2. Swavalamban scheme provides subsidy on NPS accounts for the unorganised sector.

Which of the statement(s) given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

21. Which among the following statements is true about the HRIDAY scheme?

(a) It is a scheme for conserving and preserving the heritage characters of 12 cities
(b) It is a scheme for conserving the ancient medicines of India
(c) It is a scheme for conserving the wetlands
(d) It is a scheme for rehabilitation of tribal people

22. Consider the following statements
1. Certificates of deposits are the very important instrument of the Indian money market.
2. Certificates of deposits are generally issued by the Union Government with collaboration with certain states.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither1 nor 2

23. Which one of the following is correct about the Commercial Papers (CPs) in the Indian money market?
(a) It is issued by Indian Commercial banks
(b) It is issued by the Central Government
(c) It is issued by the companies with a net worth more than ₹ 4 crore
(d) It is issued by the companies with a net worth less than ₹ 50 lakh

24. Consider the following about the Banking Financial Supervision (BFS) in India.
1. The RBI performs financial supervision function under the guidance of the Board for Financial Supervision (BFS).
2. Primary objective of BFS is to undertake consolidate supervision of the financial sector comprising commercial banks, financial institutions and non-banking finance companies.

Select the correct answer using the codes given below
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

25. The G-7 countries include
1. France 2. Germany
3. Canada 4. Italy
5. Netherlands 6. UK
7. US 8. Russia
9. Japan

Select the correct answer using the codes given below
(a) 1, 2, 3, 4, 5, 6, 8 and 9 (b) 1, 2, 4, 5, 6, 7, 8 and 9
(c) 1, 2, 3, 4, 6, 7 and 9 (d) 1, 2, 3, 4, 5, 6, 7 and 9

26. Choose the correct statements
1. The Reserve Bank of India (RBI) announced that Masala bonds will be treated as External Commercial Borrowings (ECB).
2. Considering Masala bonds as ECBs will free up more investments by FPIs (Foreign Portfolio Investors).
3. Masala bonds are rupee-denominated overseas bonds.

Which of the above statement(s) is/are correct?
(a) 1 , 2 and 3 (b) Only 3
(c) Both 2 and 3 (d) Both 1 and 2

27. Consider the following kinds of credit controls
1. Minimum margins for lending against specific securities.
2. Ceiling on the amount of credit for certain purposes.
3. Discriminatory rate of interest charged on certain types of advances.

Which of the credit controls given above are used by RBI as a selective credit control measures?
(a) 1 and 2 (b) 1 and 3
(c) 2 and 3 (d) All of these

28. With reference to Indian Capital Market, consider the following statements
1. CRISIL was set-up in the eighth Five Year Plan.
2. CRISIL rates the debt instruments of the public sectors.

Which of the statement(s) given above is/are correct?
(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

29. Consider the following about the Lead Banks role in the Lead Bank scheme.
1. To co-ordinate the co-operative banks. Commercial banks and other financial institutions in their allotted districts.
2. To survey and identify the unbanked districts and take initiatives to open bank branches.
3. To estimate the deposits potential and the credit gaps and fill the vacuum in the districts.

Which of the roles given above is/are correct?
(a) Only 1 (b) 1 and 3
(c) 2 and 3 (d) All of these

30. Which of the following union ministries have jointly launched a new scheme "SAATHI"?
(a) Ministries of Finance and Defense
(b) Ministries of Power and Science & Technology
(c) Ministries of Minority Affairs and Human Resource Development
(d) Ministries of Power and Textiles

31. Which one of the following committee was constituted by the RBI to study issues and concerns in the micro-finance sector?
(a) M Narasimhan committee
(b) S Janikiraman committee
(c) Chakravarti committee
(d) YH Malegam committee

32. Consider the following statements
1. Money supply measures M_0, M_1 and M_3 are widely used in India.
2. Money supply measures M_2 and M_4 are rarely used in India.

Which of the statement(s) given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

33. Which of the following are among the taxes levied exclusively by the Central Government and are mentioned in the Union list of the seventh Schedule of the Constitution of India?
1. Corporation tax.
2. Taxes on advertisement in the newspapers.
3. Taxes on agricultural income.
4. Taxes on consumption or sale of electricity.

Select the correct answer using the codes given below
(a) Only 2
(b) Only 4
(c) 1 and 2
(d) 3 and 4

34. Consider the following statements

1. The Direct Taxes code proposes a Corporate rate tax of 30% as against the current effective rate of 33.2%.
2. The direct taxes code incorporates taxation mechanisms to deal with the international issue of 'transfer pricing'.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

35. The government has powers under the Essential Commodities Act, 1955 (EC Act) to declare a commodity as an essential commodity to ensure its availability to people at fair price. The commodities covered under the act include

1. paper
2. hank Yarn
3. fertilizers
4. petroleum and petroleum products
5. cotton and jute seeds

Select the correct answer using the codes given below

(a) 1, 2 and 3 (b) 1, 3 and 4
(c) 3, 4 and 5 (d) 2, 3, 4 and 5

36. Global capital flows to developing countries increased significantly during the 90s. In view of the East Asian financial crisis and Latin American experience, which type of inflow is good for the host country?

(a) Commercial loans
(b) Foreign Direct investment
(c) Foreign Portfolio investment
(d) External Commercial borrowings

37. Why is Reserve Bank of India (RBI) also known as Bankers' Bank and lender of last resort?

(a) Reserve Bank of India maintains the security of the commercial banks and appointment of its officials
(b) Commercial banks need to keep some amount in the custody of the RBI and can borrow from the RBI at the times of need and stringency
(c) RBI acts as an agent of the government to regulate the day-to-day functions of the commercial banks and maintain the liquidity of the banks
(d) Both 'a' and 'c'

38. Which one of the following agencies of the Indian Government publishes the narrow Money (M_1) and Broad money (M_3) on fortnightly basis?

(a) State Bank of India
(b) Security Exchange Board of India
(c) Reserve Bank of India
(d) Central Statistical Organisation

39. Which of the following situations does not result due to the depreciation of the rupee with respect to foreign currencies?

(a) Exports become competitive in the global market
(b) Import substitution becomes impossible
(c) Costlier imports results into higher prices propelling further depreciation
(d) Both 'a' and 'b'

40. Consider the following types of income

1. Personal income
2. Private income
3. Disposable income
4. National income

The correct sequence in descending order of their magnitude is

(a) 4, 2, 3, 1 (b) 2, 4, 3, 1
(c) 4, 2, 1, 3 (d) 2, 4, 1, 3

41. Micro-finance of the provision of financial services to people of low income groups. This includes both the consumers and the self-employed.
The service/services rendered under micro-finance is/are

1. credit facilities
2. saving facilities
3. insurance facilities
4. fund transfer facilities

Select the correct answer using the codes given below

(a) Only 1 (b) 1 and 4
(c) 2 and 3 (d) All of these

42. Economic development may be defined as a process whereby the real per-capita income of a country increases

(a) subject to the condition that the number below an absolute poverty line does not increase
(b) over a long period of time
(c) object to the condition that the stribution of income does not become more unequal
(d) All of the above

43. Consider the following objectives

1. To restrict the expansion of bank credit.
2. To augment the investment of the banks in Government securities.
3. To ensure solvency of banks.

Which of the objectives given above are the main objectives of the Statutary-Liquidity Requirements (SLRs)?

(a) 1 and 2 (b) 1 and 3
(c) 2 and 3 (d) All of these

44. Consider the following components

1. New Broad Money (NM_3).
2. New Narrow Money.
3. All Deposits with the post office savings banks.
4. National Savings Certificates.

Which of the components given above is/are correct included in the Liquidity Aggregates (L1) *in the Indian economy?*

(a) 2 and 4 (b) 2 and 3
(c) 1 and 3 (d) All of these

45. Consider the following statements

1. Housing Development Finance Corporation Limited (HDFC) is a National Level Housing Finance institution set-up in 1977.
2. HDFC was established as a subsidiary company of the ICICI.

Which of the statement(s) given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

46. Consider the following statements

1. A Commercial bank is a type of financial intermediatory because it mediates between the savers and borrowers.
2. Commercial bank and assist companies in raising funds in the capital markets (both equity and debt).
3. Investment bank is also known as the merchant bank.

Which of the statement(s) give above is/are correct?

(a) Only 2
(b) 1 and 3
(c) Only 1
(d) All of the above

47. Which of the following states is/are have 100% bank accounts in every household?

1. Gujarat
2. Kerala
3. Madhya Pradesh
4. Goa

Select the correct answer using the codes given below

(a) 2 and 4
(b) 2 and 3
(c) 2, 3 and 4
(d) All of the above

48. With reference to the institution of Banking Ombudsman in India, which one of the statements is not correct?

(a) The Banking Ombudsman is appointed by the Reserve Bank of India
(b) The Banking Ombudsman can consider complaints from non-resident Indians having accounts in India
(c) The orders passed by the Banking Ombudsman are final and binding on the parties concerned
(d) The service provided by the Banking Ombudsman is free of any fee

49. Changes in the prices of goods in India is measured by which of the following index numbers ?

(a) Wholesale Price Index (WPI)
(b) Consumer Price Index (CPI)
(c) Both 'a' and 'b'
(d) None of the above

50. Which of the following remedies are adopted to control price rise in the economy?

(a) Monetary measures
(b) Fiscal measures
(c) Administered price mechanism
(d) All of the above

Answers

1. (c)	2. (c)	3. (c)	4. (a)	5. (d)	6. (d)	7. (d)	8. (b)	9. (d)	10. (a)
11. (b)	12. (a)	13. (a)	14. (d)	15. (a)	16. (b)	17. (c)	18. (d)	19. (d)	20. (c)
21. (a)	22. (a)	23. (c)	24. (c)	25. (c)	26. (a)	27. (d)	28. (b)	29. (d)	30. (d)
31. (d)	32. (c)	33. (c)	34. (c)	35. (d)	36. (b)	37. (b)	38. (c)	39. (b)	40. (c)
41. (d)	42. (d)	43. (d)	44. (c)	45. (c)	46. (b)	47. (d)	48. (c)	49. (c)	50. (d)

PREVIOUS YEARS' QUESTIONS

SOLVED PAPERS

Set 1

1. The money multiplier in an economy increases with which one of the following? **[IAS 2021]**

(a) Increase in the Cash Reserve Ratio in the banks
(b) Increase in the Statutory Liquidity Ratio in the banks
(c) Increase in the banking habit of the people
(d) Increase in the population of the country

Exp. (c) Money multiplier is defined as ratio of the stock of money to the stock of high powered money in an economy. Clearly, its value is greater than 1.

$$\frac{M}{H} = \frac{1 + cdr}{edr + rdr}$$

Where, M = Stock of money,

H = High-powered money stock

cdr = Currency Deposit Ratio, rdr = Reserve Deposit Ratio

A high (or low) value of CRR (Cash Reserve Ratio) or SLR (Statutory Liquidity Ratio) helps to increase (or decrease) the value of Reserve Deposit Ratio, thus diminishing (or increasing) value of money multiplier. Increase in banking habit of the population and also increases money multiplier.

2. With reference to Indian economy, demand-pull inflation can be caused/ increased by which of the following? **[IAS 2021]**

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing wages
4. Higher purchasing power
5. Rising interest rates

Select the correct answer using the codes given below

(a) 1, 2 and 4 (b) 3, 4 and 5
(c) 1, 2, 3 and 5 (d) 1, 2, 3, 4 and 5

Exp. (a) Demand-pull inflation is the tendency for prices to increase due to increasing aggregate demand, or the amount of goods and services the entire population buys. This type of inflation is usually associated with a strong economy. Following are some of the factors which cause/increase demand-pull inflation

- Expansionary Policies: When the government spends more freely, money in the market is increased. It leads to increase demand for the goods and fuels demand-pull inflation.
- Fiscal Stimulus: It increases the money in the market which leads to increase demand for the goods and fuels demand-pull inflation.
- Higher Purchasing Power: When consumers earn higher income, they feel confident and spend more. This leads to more demand and fuels demand-pull inflation.

Hence, option (a) is the correct answer.

3. With reference to India, consider the following statements. **[IAS 2021]**

1. Retail investors through demat account can invest in Treasury Bills and Government of India Debt Bonds in primary market.
2. The Negotiated Dealing System-Order Matching is a government securities trading platform of the Reserve Bank of India.
3. The Central Depository Services Ltd. is jointly promoted by the Reserve Bank of India and the Bombay Stock Exchange.

Which of the statements given above is/are correct?

(a) Only 1 (b) 1 and 2 (c) Only 3 (d) 2 and 3

Exp. (b) In February, 2021, RBI allowed retail investors to directly purchase government bonds by opening gilt accounts with RBI. RBI has provided retail investors with online access to the government securities market (primary and secondary) through the RBI (Retail Direct). Previously, retail investors can purchase government bonds by registering themselves on stock exchanges for non-competitive bids.

Negotiated Dealing System-Order Matching (NDS-OM) is a screen based electronic anonymous order matching system for secondary market trading in Government securities owned by RBI.

The Central Depository Services Ltd. was jointly promoted by Bombay Stock Exchange alongwith banks like SBI, BOI, etc.

Hence, option (b) is the correct answer.

4. In India, the Central banks function as the lender of last resort usually refers to which of the following? **[IAS 2021]**

1. Lending to trade and industry bodies when they fail to borrow from other sources.
2. Providing liquidity to the banks having a temporary crisis.
3. Lending to governments of finance budgetary deficits.

Select the correct answer using the codes given below.

(a) 1 and 2 (b) Only 2 (c) 2 and 3 (d) Only 3

Exp. (b) In India, the central bank (RBI) function as the lender of last resort by providing liquidity to the banks having a temporary crisis. It is the apex bank which controls the entire banking system of the country. It has the sole authority to issue notes. It also acts as a banker to the government and controls the supply of money in the country. Central bank provides financial assistance to commercial banks by rediscounting eligible bills of exchange. When commercial banks do not get loan facilities from any other sources, they approach the Central Bank as a last resort. The central bank advances loans to such banks against approved securities.

5. Consider the following statements **[IAS 2021]**

1. The Governor of the Reserve Bank of India (RBI) is appointed by the Central Government.
2. Certain provisions in the Constitution of India give the Central Government the right to issue directions to the RBI in public interest.
3. The Governor of the RBI draws his power from the RBI Act.

Which of the above statements are correct?

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. (c) In the given statements, (1) and (3) are correct. According to Section 8 of RBI Act 1934, a Governor and (not more than four) Deputy Governors would to be appointed by the Central Government.

According to Section 7 of RBI Act 1934 the Governor and in his absence the Deputy Governor nominated by him in this behalf, shall also have powers of general superintendence and direction of the affairs and the business of the Bank and may exercise all powers and do all acts and things which may be exercised or done by the Bank.

The Constitution of India does not give any right to central government to issue directions to the RBI in public interests.

6. With reference to casual workers employed in India, consider the following statements **[IAS 2021]**

1. All casual workers are entitled for Employees Provident Fund coverage.
2. All casual workers are entitled for regular working hours and overtime payment.
3. The government can by a notification specify that an establishment or industry shall pay wages only through its bank account.

Which of the above statements are correct?

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. (d) All the given statements are correct. Holding that an employer cannot differentiate between contractual and permanent employees, the Supreme Court in Pawan Hans Limited & Ors. vs Aviation Karmachari Sanghatana has ruled that all casual workers are also entitled to social security benefits under the Employees' Provident Funds and Miscellaneous Provisions Act.

The amendment in the Act also enables the appropriate government to specify the industrial or other establishment, by notification in the Official Gazette, which shall pay to every person employed in such industrial or other establishment, the wages only by cheque or by crediting it in his bank account. Also all casual workers are entitled for regular working hours and overtime payment.

7. Which among the following steps is most likely to be taken at the time of an economic recession? **[IAS 2021]**

(a) Cut in tax rates accompanied by increase in interest rate
(b) Increase in expenditure on public projects
(c) Increase in tax rates accompanied by reduction of interest rate
(d) Reduction of expenditure on public projects

Exp. (b) During the period of economic recession government increases the expenditure of public projects. Recession is a slowdown or a massive contraction in economic activities. A significant fall in spending generally leads to recession. Such a slowdown in economic activities may last for some quarters thereby completely hampering the growth of an economy.

In such a situation, economic indicators such as GDP, corporate profits, employments, etc., fall. Increase in expenditure on public projects will have a multiplier effect on the pace of economic growth of the country. It has the expansionary effect on the growth of national income, employment opportunities, etc.

8. Consider the following statements : Other things remaining unchanged, market demand for a good might increase if **[IAS 2021]**

1. price of its substitute, increases
2. price of its complement increases
3. the good is an inferior good and income of the consumers increases
4. its price falls

Which of the above statements are correct?

(a) 1 and 4 only (b) 2, 3 and 4
(c) 1, 3 and 4 (d) 1, 2 and 3

Exp. (a) The demand of a good increases when the price of its substitute increases or when its price fall.

9. With reference to 'Urban Cooperative Banks' in India, consider the following statements. **[IAS 2021]**

1. They are supervised and regulated by local boards set up by the State Governments.
2. They can issue equity shares and preference shares.
3. They were brought under the purview of the Banking Regulation Act, 1949 through an Amendment in 1966.

Which of the statements given above is/ are correct?

(a) Only 1 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. (b) In the given statements, (2) and (3) are correct.

The recent Banking Regulation (Amendment) Act, 2020 enables the RBI to get all the powers, including those hitherto exclusively with the registrar of cooperative societies. However, powers of registrar continue to be with him but the powers of RBI override those of registrar.

UCBs are permitted to raise equity share capital, preference shares and debt instruments.

The applicability of banking laws to cooperatives societies since 1st March, 1966 ushered in 'duality of control' over UCBs between the Registrar of Cooperative Societies/ Central Registrar of Cooperative Societies and the Reserve Bank of India.

10. Indian Government Bond Yields are influenced by which of the following? **[IAS 2021]**

1. Actions of the United States Federal Reserve
2. Actions of the Reserve Bank of India
3. Inflation and short term interest rates

Select the correct answer using the codes given below.

(a) 1 and 2 (b) Only 2
(c) Only 3 (d) 1, 2 and 3

Exp. (d) Bond yield is the return an investor realises on a bond. The bond yield can be defined in different ways. Setting the bond yield equal to its coupon rate is the simplest definition. The current yield is a function of the bond's price and its coupon or interest payment, which will be more accurate than the coupon yield if the price of the bond is different than its face value.

Bonds yields in India are affected by

- There are a number of economic factors that impact treasury yields, such as interest rates, inflation and economic growth.
- The major factors affecting the yield are the monetary policy of the Reserve Bank of India, especially the course of interest rates, fiscal position of the government, global markets, economy and the inflation.
- Actions of United States Federal Reserve. The rate of interest provided by them is the main deciding factor.

Hence, option (d) is the correct answer.

11. Consider the following **[IAS 2021]**

1. Foreign currency convertible bonds.
2. Foreign institutional investment with certain conditions.
3. Global depository receipts.
4. Non-resident external deposits.

Which of the above can be included in Foreign Direct Investments?

(a) I, 2 and 3 (b) Only 3
(c) 2 and 4 (d) 1 and 4

Exp. (b) Foreign Currency Convertible Bonds (FCCB), Foreign Institutional Investment with certain conditions (subject to the overall limit of 24%), and Global Depository Receipts (GDR) are the instruments for the Foreign Direct Investment (FDI) in India. FDI is generally considered long term investment from the foreign investors. Global depository receipts is not a part of FDI.

12. Consider the following statements. **[IAS 2021]**

The effect of devaluation of a currency is that it necessarily

1. improves the competitiveness of the domestic exports in the foreign markets.
2. increases the foreign value of domestic currency.
3. improves the trade balance.

Which of the above statements is/are correct?

(a) Only 1 (b) 1 and 2
(c) Only 3 (d) 2 and 3

Exp. (a) In macro-economics and modern monetary policy, devaluation is an official lowering of the value of a country's currency within a fixed exchange-rate system, in which a monetary authority formally sets a lower exchange rate of the national currency in relation to a foreign reference currency or currency basket.

A key effect of devaluation is that it makes the domestic currency cheaper relative to other currencies. There are two implications of a devaluation. First, devaluation makes the country's exports relatively less expensive for foreigners. Second, the devaluation makes foreign products relatively more expensive for domestic consumers, thus discouraging imports. This may help to increase the country's exports and decrease imports. Hence, option (a) is the correct answer.

13. Which one of the following effects of creation of black money in India has been the main cause of worry to the Government of India? **[IAS 2021]**

(a) Diversion of resources to the purchase of real estate and investment in luxury housing
(b) Investment in unproductive activities and purchase of precious stones, jewellery, gold, etc.
(c) Large donations to political parties and growth of regionalism
(d) Loss of revenue to the State Exchequer due to tax evasion

Exp. (d) Loss of revenue to the State Exchequer due to tax evasion is the effect of black money in India. It is the major cause of worry to the Government of India. Black money includes all funds earned through illegal activity and otherwise legal income that is not recorded for tax purposes.

Black money proceeds are usually received in cash from underground economic activity and are not taxed. Recipients of black money hide it, spend it only in the underground economy, or attempt to give it the appearance of legitimacy through money laundering.

14. Which one of the following is likely to be the most inflationary in its effects? **[IAS 2021]**

(a) Repayment of public debt
(b) Borrowing from the public to finance a budget deficit
(c) Borrowing from the banks to finance a budget deficit
(d) Creation of new money to finance a budget deficit

Exp. (d) Creation of new money to finance a budget deficit is likely to be the most inflationary in its effect. Borrowing from public and banks will lead to a decrease in the money supply in market as in both the options money in hand is reduced for public and money to lend is reduced for banks. Creation of new money to finance a budget deficit is likely to be the most inflationary in its effect Creation of new money will lead to an increase in total money supply in the market.

15. If another global financial crisis happens in the near future, which of the following actions/policies are most likely to give some immunity to India ? **[IAS 2020]**

1. Not depending on short-term foreign borrowings.
2. Opening up to more foreign banks.
3. Maintaining full capital account convertibility.

Select the correct answer using the code given below:

(a) 1only (b) 1 and 2 only
(c) 3 only (d) 1, 2 and 3

Exp. ***(a)*** If another global financial crisis happens in the near future, not depending on short-term foreign borrowings among the given options will most likely give some immunity to India. Because the Short-term debts have to be returned at a shorter interval. This renders an economy vulnerable if the economy is already facing economic crisis as it has an obligation to return the debt as well as interest payments. This problem was faced by Mexico and Argentina when they were undergoing financial crises.

Opening up to the foreign banks and depending upon them is not a good idea during crisis. It was corroborated by World Bank's Research that in many cases (like during Global Financial Crisis 2007-08), foreign banks reduced their lending during crises. Hence, statement 2 is not correct.

Capital account convertibility denotes that there is no restriction on conversion of the domestic currency into a foreign currency. As capital flows are sensitive to any macro-economic instability any deterioration in fiscal conditions, inflation management, balance of payments, or any other economic crisis may cause a cessation or reversal of capital flows. This might make the economy vulnerable if it already suffering from economic crisis. Hence, statement 3 is not correct.

Therefore, option (a) is correct.

16. If you withdraw ₹ 1,00,000 in cash from your Demand Deposit Account at your bank, the immediate effect on aggregate money supply in the economy will be **[IAS 2020]**

(a) to reduce it by ₹ 1,00,000.

(b) to increase it by ₹ 1,00,000.

(c) to increase it by more than ₹ 1,00,000.

(d) to leave it unchanged.

Exp. (d) Money supply refers to the "total stock of money available for use" in the economy. The two absolute basic components of money supply are:

- **Currency with Public (C)** This consists of currency notes in circulation issued by RBI, rupee notes and coins in circulation.
- **Demand Deposits of public with Banks (D)** It can be withdrawal by public anytime.

Without getting into the technicalities of M1, M2 etc., at a very basic level, we can express money supply as: $M = C + D$ Now, taking out ₹ 1 lakh from 'D' would increase 'C' with public. This simply means that 'the immediate' effect would be "a no change in the aggregate money supply' in the economy. If we carry out the same analysis technically also using measures of money supply like M1, M2, M3 and M4, the result would be same.

Therefore, the correct answer is option (d).

17. With reference to Foreign Direct Investment in India, which one of the following is considered its major characteristic? **[IAS 2020]**

(a) It is the investment through capital instruments essentially in a listed company.

(b) It is a largely non-debt creating capital flow.

(c) It is the investment which involves debt-servicing.

(d) It is the investment made institutional investors Government securities.

Exp. (b) RBI defined Foreign Direct Investment (FDI) as a type of investment done through capital instrument by person residing outside India.

In listed company, 10% or more of the post issue capital on fully diluted basis is considered as FDI. It is also done in unlisted Indian company.

In case of FDI, there is no debt paying obligations as it is mostly invested in the equities. Its inflow doesn't create any repayment burden.

As FDI generally doesn't create any debt so debt servicing (regular payment of interest and portion of principle amount) is not needed in case of FDI.

FDI is not restricted to investment in the Government securities.

Therefore, option (b) is an appropriate answer.

18. With reference to the international trade of India at present, which of the following statements is/are correct ? **[IAS 2020]**

1. India's merchandise exports are less than its merchandise imports.
2. India's imports of iron and steel, chemicals, fertilisers and machinery have decreased in recent years.
3. India's exports of services are more than its imports of services.
4. India suffers from an overall trade/current account deficit.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 2 and 4 only

(c) 3 only

(d) 1, 3 and 4 only

Exp. (d) India's merchandise exports are lesser than the merchandise imports. In 2019, exports stood at $ 3.25 billion, whereas imports were at $ 4.9 billion. India's exports of services are more than its imports of services. The services export currently stood at USD 2.04 billion whereas it's import was at USD 1.24 billion. India's current trade deficit is $ 6.77 billion in the year 2020. The imports of iron and steel, chemicals and fertilisers and machinery have increased in the recent years. Hence only 1, 3 and 4 are correct.

19. The term 'West Texas Intermediate', sometimes found in news, refers to a grade of **[IAS 2020]**

(a) crude oil

(b) Bullion

(c) rare earth elements

(d) Uranium

Exp. (a) The term 'West Texas Intermediate' refers to a grade of crude oil and one of the three benchmarks in oil pricing alongwith Brent crude and Dubai crude. This grade of crude oil has low density and it contains sulphur. It is also known as light sweet oil.

20. In the context of the Indian economy, non-financial debt includes which of the following? **[IAS 2020]**

1. Housing loans owed by households
2. Amounts outstanding on credit cards
3. Treasury bills

Select the correct answer using the code given below:

(a) 1 only (b) 1 and 2 only

(c) 3 only (d) 1, 2 and 3

Exp. (d) Non-financial debt consists of credit instruments issued by government entities, households and businesses that are not included in the financial sector. Examples of non-financial debt includes industrial or commercial loans, treasury bills and credit card balances. Hence, all the three are correct.

21. In India, why are some nuclear reactors kept under "IAEA Safeguards" while others are riot? **[IAS 2020]**

(a) Some use uranium and others use thorium.
(b) Some use imported uranium and others use domestic supplies.
(c) Some are operated by foreign enterprises and others are operated by domestic enterprises.
(d) Some are state-owned and others are privately-owned.

Exp. ***(b)*** A total of 26 nuclear reactors of India are under the safeguard of IAEA. The decision to put the reactors under the safeguard of IAEA is based on the source of uranium used in them. As India is not a signatory to the Nuclear Non-Proliferation Treaty, the reactors that are under IAEA's safeguard use imported uranium for civil peaceful purposes. The reactors that are not safeguard use domestic uranium anywhere India wants. Hence, option (b) is correct.

22. With reference to Trade-Related Investment Measures (TRIMS), which of the following statements is/are correct ? **[IAS 2020]**

1. Quantitative restrictions on imports by foreign investors are prohibited.
2. They apply to investment measures related to trade in both goods and services.
3. They are not concerned with the regulation of foreign investment.

Select the correct answer using the code given below:

(a) 1 and 2 only
(b) 2 only
(c) 1 and 3 only
(d) 1, 2 and 3

Exp. ***(c)*** The agreement on Trade Related Investment Measures (TRIMS) is a mechanism within WTO which seeks to promote foreign investment and to remove quantitative restrictions.

Under TRIMS mechanism, WTO members are not allowed to impose measures that discriminate against foreign products or that leads to quantitative restrictions. Hence, statement 1 is correct.

In Article 1 of TRIMS mechanism, the coverage of agreement has been defined. It states that it applies to investment measures related to trade in goods only. Hence, statement 2 is incorrect.

The agreement also is not concerned with the regulation of foreign investments. It focuses only on those investment measures that discriminate between imported and exported products. Hence, statement 3 is correct.

23. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? **[IAS 2020]**

1. Cut and optimise the statutory liquidity ratio.
2. Increase the marginal standing facility rate.
3. Cut the bank rate and repo rate

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 2 only
(c) 1 and 3 only (d) 1, 2 and 3

Exp. ***(b)*** An expansionist monetary policy includes reducing taxes or increasing government spending. It aims to increase money supply to boost the economy. An expansionist policy from RBI will include the following:

- Reducing statutory liquidity ratio.
- Reducing the marginal standing facility rate.
- Reducing bank rate and repo rate.

Hence, statement 2 is incorrect.

24. With reference to the Indian economy after the 1991 economic liberalisation, consider the following statements: **[IAS 2020]**

1. Worker productivity (₹ per worker at 2004-05 prices) increased in urban areas while it decreased in rural areas.
2. The percentage share of rural areas in the workforce steadily increased.
3. In rural areas, the growth in non-farm economy increased.
4. The growth rate in rural employment decreased.

Which of the statements given above is/are correct?

(a) 1 and 2 only (b) 3 and 4 only
(c) 3 only (d) 1, 2 and 4 only

Exp. ***(c)*** The new economic reforms in India were announced in the year 1991. In this policy liberalisation, privatisation and globalisation were emphasised. The controlled economy was replaced by a liberal economy, modernisation of agriculture was emphasised, private sector was encouraged and FDI was promoted. These reforms led to the following:

- Increase in both rural as well as urban productivity of worker (₹ per worker).
- Increase in percentage share of urban areas in workforce.
- Increase in non-farm economy in rural areas.
- Increased growth rate in rural employment as rural workers shifted to low paid construction jobs.

Hence, only statement 3 is correct.

25. In India, under cyber insurance for individuals, which of the following benefits are generally covered, in addition to payment for the loss of funds and other benefits? **[IAS 2020]**

1. Cost of restoration of the computer system in case of malware disrupting access to one's computer.
2. Cost of a new computer if some miscreant wilfully damages it, if proved so.
3. Cost of hiring a specialised consultant to minimise the loss in case of cyber extortion.
4. Cost of defence in the Court of Law if any third party files a suit.

Select the correct answer using the code given below :

(a) 1, 2 and 4 only
(b) 1, 3 and 4 only
(c) 2 and 3 only
(d) 1, 2, 3 and 4

Exp. ***(b)*** Cyber insurance is designed to guard businesses from potential effects of cyber attacks and helps the organisation in mitigating the risk exposure after a cyber attack.

In India, cyber insurance covers the following:

- Cost of restoration of a computer system if a malware is not allowing access to one's computer affected by attack.
- Costs covering the hiring of a specialised consultant to minimise the loss in case of extortion.
- Cost of defence in the court if a party files a suit.
- Cost of data recovery and replacement.
- Cost of deceptive fund trasfer.

Hence, only 1, 3 and 4 are correct.

26. In India, which of the following can be considered as public investment in agriculture? **[IAS 2020]**

1. Fixing minimum support price for agricultural produce of all crops.
2. Computerisation of primary agricultural credit societies.
3. Social capital development.
4. Free electricity supply to farmers.
5. Waiver of agricultural loans by the banking system.
6. Setting up of cold storage facilities by the governments.

Select the correct answer using the code given below:

(a) 1, 2 and 5 only (b) 1, 3, 4 and 5 only
(c) 2, 3 and 6 only (d) 1, 2, 3, 4, 5 and 6

Exp. ***(c)*** When government make investment in agriculture to create durable social, infrastructural and capital assets with an objective of increasing agricultural productivity, it is called as Public investment in agriculture.

Fixing Minimum Support Price for agricultural produce of all crops, free electricity supply to farmers and waiver of agricultural loans by the banking system doesn't constitute public investment in agriculture as it doesn't create durable infrastructural assets.

They can be taken as a form of consumption requirements of stakeholders associated with agriculture.

The computerisation of Primary Agricultural Credit Societies enhances the productivity of agriculture by bringing transparency in land holding, loan disbursal etc. Social capital development is in nature of improving the human resource associated with agriculture, for instance Agri-education makes farmers aware about the various inputs required to enhance productivity of their yield. Setting up of cold storage facilities by the governments helps reduce post- harvest losses besides giving them better prices for their produce. So, statement 2, 3 and 6 are correct.

Therefore, option (c) is correct.

27. What is the importance of the term "Interest Coverage Ratio" of a firm in India ? **[IAS 2020]**

1. It helps in understanding the present risk of a firm that a bank is going to give loan to.
2. It helps in evaluating the emerging risk of a firm that a bank is going to give loan to.
3. The higher a borrowing firm's level of Interest Coverage Ratio, the worse is its ability to service its debt.

Select the correct answer using the code given below:

(a) 1 and 2 only (b) 2 only
(c) 1 and 3 only (d) 1, 2 and 3

Exp. ***(a)*** The interest coverage ratio measures how many times a company can cover its current interest payment with its available earnings. It is an important liquidity indicator of any firm and indicates their ability to pay back the interest on loan raised from various sources.

It helps in understanding the present risk of a firm that a bank is going to give loan to and the ability of the borrower to repay a loan besides evaluating the emerging risk of a firm that a bank is going to give loan to. This parameter is used by creditors to evaluate the ability of borrower to repay a loan. Hence, statement 1 and 2 is correct.

The higher the level of Interest coverage ratio the better is the ability of a borrower to service its debt. This ratio is calculated by dividing a company's Earnings Before Interest and Taxes (EBIT) by the company's interest expenses for the same period. Recently, RBI has advised banking sector to be cautious in lending to the telecom sectors which has interest coverage ratio of less than 1. Hence, statement 3 is incorrect.

Therefore, option (a) is correct.

28. Which of the following factors/policies were affecting the price of rice in India in the recent past? **[IAS 2020]**

1. Minimum Support Price 2. Government's trading
3. Government's stockpiling 4. Consumer subsidies

Select the correct answer using the code given below:

(a) 1, 2 and 4 only (b) 1, 3 and 4 only
(c) 2 and 3 only (d) 1, 2, 3 and 4

Exp. ***(d)*** All of the given factors/policies were affecting the price of rice in India in the recent past.

Minimum Support Price (MSP) increases the overall price of rice in market by setting up benchmark rate, traders have to buy it either at MSP or at prices which are comparable to MSP. Government through FCI carries out open market operation in which there is auction of the excess stockpile. It also intervenes when market prices soar to stabilise them. It also impacts the price rise of rice.

Stockpiling is done by government to moderate the prices in case of inflation besides ensuring remunerative prices to farmers. It also affects the price of rice.

Consumer subsidies provided by the government through Fair Price Shops results into reducing the overall demand of rice in open market which in turn affects the prices of rice.

Therefore, option (d) is correct.

29. Consider the following statements: **[IAS 2020]**

1. The value of Indo-Sri Lanka trade has consistently increased in the last decade.
2. "Textile and textile articles" constitute an important item of trade between India and Bangladesh.
3. In the, last five years, Nepal has been the largest trading partner of India in South Asia.

Which of the statements given above is/are correct?

(a) 1 and 2 only (b) 2 only
(c) 3 only (d) 1, 2 and 3

Exp. ***(b)*** The trade between India and Sri Lanka was valued at USD 4.5 billion during 2016-17 as compared to USD 6.05 billion during 2015-16, registering a sharp decline of 25 %.

Further the value of trade between these two nations has been fluctuating in past decade. Hence, statement 1 is not correct. Textiles contributed 31.3% of Indian exports to Bangladesh in 2016.While for Bangladesh it constitutes the largest component of export to India (60% of total export). Hence, statement 2 is correct.

As per trade statistics of 2016-17, Bangladesh is the largest trading partner of India in South Asia, followed by Nepal, Sri Lanka, Pakistan, Bhutan, Afghanistan and Maldives. Hence, statement 3 is not correct.

Therefore, option (b) is correct.

30. Under the Kisan Credit Card scheme, short-term credit support is given to farmers for which of the following purposes? **[IAS 2020]**

1. Working capital for maintenance of farm assets.
2. Purchase of combine harvesters, tractors and mini trucks.
3. Consumption requirements of farms households.
4. Post-harvest expenses.
5. Construction of family house and setting up of village cold storage facility.

Select the correct answer using the code given below:

(a) 1, 2 and 5 only (b) 1, 3 and 4 only
(c) 2, 3, 4 and 5 only (d) 1, 2, 3, 4 and 5

Exp. ***(b)*** Kisan Credit Card scheme (started in 1998) aims at providing adequate and timely credit for the comprehensive credit requirements of farmers under single window for their cultivation and other needs as indicated below:

- Working capital for maintenance of farm assets, activities allied to agriculture, like dairy animals, inland fishery and also working capital required for floriculture, horticulture etc.
- Consumption requirements of farmer household
- To meet the short-term credit requirements for cultivation of crops
- Post-harvest expenses
- Produce Marketing loan
- Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals, floriculture, horticulture etc.
- Short term credit requirements of rearing of animals, birds, fish, shrimp, other aquatic organisms, capture of fish.

Therefore, correct answer is option (b).

31. Consider the following statements: **[IAS 2020]**

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

Which of the statements given above is/are correct?

(a) 1 and 2 only (b) 2 only
(c) 3 only (d) 1, 2 and 3

Exp. ***(a)*** Both WPI and CPI are measurement of inflation in India. Wholesale Price Index (WPI) which is released by the Office of Economic Advisor, Ministry of Commerce and Industry tracks the price of a basket of wholesale goods. The Consumer Price Index (CPI) which is released for distinguished groups of population measure price changes from the perspective of a retail buyer.

Parameters for Comparison	Wholesale Price Index (WPI)	Consumer Price Index (CPI)
Targeted group	Whole sellers and Businesses	Retail users and general public
Publishing agency	Office of Economic Advisor (Ministry of Commerce and Industry	Central Statistics Office (Ministry of Statistics and Programme Implementation)
Weightage of food	18.8%	50%
Number of indices	One	Four separate categories
Measures prices of	Goods only	Goods and services both
Base year	2011-12	2012
Utility	For producers	CPI (combined) is used as measure for inflation by RBI since 2014.

Therefore, option (a) is correct.

32. With reference to the Indian economy, consider the following statements: **[IAS 2020]**

1. 'Commercial Paper' is a short-term unsecured promissory note.
2. 'Certificate of Deposit' is a long-term instrument issued by the Reserve Bank of India to a corporation.
3. 'Call Money' is a short-term finance used for interbank transactions.
4. 'Zero-Coupon Bonds' are the interest bearing short-term bonds issued by the Scheduled Commercial Banks to corporations.

Which of the statements given above is/are correct ?

(a) 1 and 2 only (b) 4 only
(c) 1 and 3 only (d) 2, 3 and 4 only

Exp. ***(c)*** Commercial Paper (CP) is a money market instrument for financing working capital requirements of companies. It is an unsecured instrument issued in the form of promissory note which can be issued for period ranging from 15 days to one year. Hence, statement 1 is correct.

Certificate of Deposit are short-term money market instruments issued by Commercial Banks and Special Financial Institutions which are freely transferable between parties. Its maturity period ranges from 91 days to one year. These can be issued to individuals, co-operatives and companies. Hence, statement 2 is incorrect.

Call money is money market instruments used by the banks to meet their temporary requirement of cash. They borrow and lend money from each other normally on a daily basis. It has a maturity period of one day to fifteen days and used by banks for adjusting to their short-term liquidity imbalances.

Hence, statement 3 is correct
Zero Coupon Bond is type of bond which is issued at a discount to its face value, at which it will be redeemed. There are no intermittent payments of interest and they are generally issued for long tenure. These bonds have been traditionally issued by government, but banks are also allowed to issue them since last few years. Hence, statement 4 is incorrect.
Therefore, option (c) is correct.

33. 'Gold Tranche' (Reserve Tranche) refers to **[IAS 2020]**
(a) a loan system of the World Bank.
(b) one of the operations of a Central Bank.
(c) a credit system granted by WTO to its members.
(d) a credit system granted by IMF to its members.

Exp. (d) Gold Tranche (Reserve Tranche) refers to credit system granted by IMF to its members. The reserve tranche is arrangement with IMF which is an emergency account that IMF members can access at any time without agreeing to conditions or paying a service fee.
It is contributed by member countries in terms of its quota contribution. It is accessible to them without fees or economic reform conditions. Therefore, option (d) is correct.

34. Atal Innovation Mission is setup under the **[IAS 2019]**
(a) Department of Science and Technology
(b) Ministry of Labour and Employment
(c) NITI Aayog
(d) Ministry of Skill Development and Entrepreneurship

Exp. (c) The Atal Innovation Mission (AIM) is a flagship initiative setup by NITI Aayog to promote innovation and entrepreneurship across the length and breadth of the country. Atal Innovation Mission including Self-Employment and Talent Utilisation (SETU) is government of India's endeavour to promote a culture of innovation and entrepreneurship. Its objective is to serve as a platform for promotion of worldclass innovation Hubs particularly in technology driven areas.

35. The Global Competitiveness Report is published by the
(a) International Monetary Fund **[IAS 2019]**
(b) United Nations Conference on Trade and Development
(c) World Economic Forum
(d) World Bank

Exp. (c) The Global Competitiveness Report is an annual report published by the World Economic Forum since 2004. It ranks countries based on Global Competitiveness Index and assess their ability to provide high levels of prosperity to their citizens.

36. In a given year in India, official poverty lines are higher in some states than in others because **[IAS 2019]**
(a) poverty rates vary from state to state
(b) price levels vary from state to state
(c) gross state product varies from state to state
(d) quality of public distribution varies from state to state

Exp. (b) The levels of poverty vary from state to state because there are interstate price variations. The Planning Commission estimates poverty in the country on the basis of consumer expenditure surveys conducted by NSSO (National Sample Survey Office). So, price difference is bound to create variations in poverty lines of states across India.

37. Consider the following statements. **[IAS 2019]**
1. Purchasing Power Parity (PPP) exchange rates are calculated by comparing the prices of the same basket of goods and services in different countries.
2. In terms of PPP dollars, India is the sixth largest economy in the world.

Which of the statements given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. (a) Purchasing Power Parity (PPP) exchange rate is the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.
According to this concept, two currencies are in equilibrium, known as the currencies being at par, when a basket of goods is priced the same in both countries, taking into account the exchange rates. In terms of PPP dollars, India is the third largest economy in the world.

38. Among the agricultural commodities imported by India, which one of the following accounts for the highest imports in terms of value in the last five years? **[IAS 2019]**
(a) Spices (b) Fresh fruits (c) Pulses (d) Vegetable oils

Exp. (d) In terms of value of imports, vegetable oils constitute the highest imported commodity in last five years.
India imports huge amount of various types of vegetable oil from many countries. India relies on imports for almost 70% of its vegetable oil consumption.

39. Which one of the following is not the most likely measure the government/RBI takes to stop the slide of Indian rupee? **[IAS 2019]**
(a) Curbing imports of non-essential goods and promoting exports.
(b) Encouraging Indian borrowers to issue rupee denominated Masala Bonds.
(c) Easing conditions relating to external commercial borrowing.
(d) Following an expansionary monetary policy.

Exp. (d) *In order to stop the slide of Indian rupee, following measures can be taken*
- Curb imports and promote exports.
- Mandatory hedging conditions for infrastructure loans External Commercial Borrowing (ECB) route needs to be reviewed.
- Removal of 20% exposure limit on investments by foreign portfolio investors in debt to a single corporate group.
- Permit manufacturing sector to access ECBs upto $ 50 million with residual maturity of one year instead of three years.
- Exempt Masala Bonds from withholding tax.

By following an expansionary monetary policy economy can be stimulated. It increases money supply, lowers the interest rate and increases the aggregate demand. It cannot stop the slide of rupee but lowers the value of the currency and decreases exchange rate.

40. Consider the following statements.
The Reserve Bank of India's recent directives relating to 'Storage of Payment System Data', popularly known as Data Diktat, command the payment system providers that **[IAS 2019]**

1. they shall ensure that the entire data relating to payment systems operated by them are stored in a system only in India.
2. they shall ensure that the systems are owned and operated by public sector enterprises.
3. they shall submit the consolidated system audit report to the Comptroller and Auditor General of India by the end of the calendar year.

Which of the statements given above is/are correct?
(a) Only 1 (b) 1 and 2
(c) Only 3 (d) 1, 2 and 3

Exp. *(a) In April 2018, RBI issued following directives related to 'Storage of Payment System Data', popularly known as Data Diktat:*

- All system providers shall ensure that the entire data relating to payment systems operated by them are stored in a system only in India. This data should include full end-to-end transaction details/information collected/carried/processed as part of the message/payment instruction. For the foreign transaction, if any, data can also be stored in foreign country, if required.
- System providers shall ensure compliance of data storage within a period of six months and report compliance of same to RBI.
- System providers shall submit the System Audit Report (SAR) on completion of monitoring of data storage. The audit should be conducted by CERT-IN empaneled auditors. The SAR duly approved by Board of System Providers should be submitted to RBI.

41. The money multiplier in an economy increases with which one of the following? **[IAS 2019]**
(a) Increase in the Cash Reserve Ratio.
(b) Increase in the banking habit of the population.
(c) Increase in the Statutory Liquidity Ratio.
(d) Increase in the population of the country.

Exp. *(b)* Money multiplier is defined as ratio of the stock of money to the stock of high powered money in an economy. Clearly, its value is greater than 1.

$$\frac{M}{H} = \frac{1 + cdr}{edr + rdr}$$

Where, M = Stock of money, H = High-powered money stock

cdr = Currency Deposit Ratio, rdr = Reserve Deposit Ratio
A high (or low) value of CRR (Cash Reserve Ratio) or SLR (Statutory Liquidity Ratio) helps to increase (or decrease) the value of Reserve Deposit Ratio, thus diminishing (or increasing) value of money multiplier. Increase in banking habit of the population and also increases money multiplier.

42. The Service Area Approach was implemented under the purview of **[IAS 2019]**
(a) Integrated Rural Development Programme.
(b) Lead Bank Scheme.
(c) Mahatma Gandhi National Rural Employment Guarantee Scheme.
(d) National Skill Development Mission.

Exp. *(b)* Service Area Approach is an alternative and improved method of Lead Bank Scheme for deployment of bank credit for rural development. According to it, every village in the country would have an access to banking facilities. The concerned bank should meet banking needs of service area by creating link between bank credit-production and productivity and income expansion.

43. Consider the following statements. **[IAS 2019]**

1. Most of India's external debt is owed by governmental entities.
2. All of India's external debt is denominated in US dollars.

Which of the statements given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. *(d)* Both options and incorrect. External debt is the money that borrowers in a country owe to foreign lenders. At the end of March 2018, India's external debt was placed at US $ 529.7 billion. Most of it was owed by private businesses which borrowed at attractive rates from foreign lenders. External debt may be denominated in either the rupee or a foreign currency like US dollar, most of India's external debt is linked to the dollar.

44. Which of the following is not included in the assets of a commercial bank in India? **[IAS 2019]**
(a) Advances
(b) Deposits
(c) Investments
(d) Money at call and short notice

Exp. *(b)* Assets of commercial banks include cash in hand and with RBI, money at call and short notice, investments, loans, advances and bills discounted and purchased. Liabilities of commercial banks include paid-up capital and reserves, time deposits, demand deposits and borrowing. Deposits are a liability on a commercial bank, since it must return its lenders the amount it owes them.

45. In the context of India, which of the following factors is/are contributor/contributors to reducing the risk of a currency crisis? **[IAS 2019]**

1. The foreign currency earnings of India's IT sector.
2. Increasing the government expenditure.
3. Remittances from Indians abroad.

Select the correct answer by using the codes given below.
(a) Only 1 (b) 1 and 3
(c) Only 2 (d) 1, 2 and 3

Exp. ***(b)*** Currency crisis refers to decline in value of a country's currency. The decline in value creates instabilities in exchange rates. The foreign exchange earnings and remittances arrest downfall of currency and will bring foreign currency. This will contribute in reducing the risk of a currency crisis. Increasing the government expenditure will not reduce the risk of currency crisis.

46. Which of the following is issued by registered Foreign Institutional Investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? **[IAS 2019]**

(a) Certificate of Deposit
(b) Commercial Paper
(c) Promissory Note
(d) Participatory Note

Exp. ***(d)*** A Participatory Note, commonly known as P-note or PN, is an instrument issued by a registered Foreign Institutional Investor (FII) to an overseas investors who wishes to invest in Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India (SEBI).

47. Consider the following statements. **[IAS 2019]**

1. The United Nations Convention Against Corruption (UNCAC) has a 'Protocol against the Smuggling of Migrants by Land, Sea and Air'.
2. The UNCAC is the first-ever legally binding global anti-corruption instrument.
3. A highlight of the United Nations Convention against Transnational Organised Crime (UNTOC) is the inclusion of a specific chapter aimed at returning assets to their rightful owners from whom they had been taken illicitly.
4. The United Nations Office on Drugs and Crime (UNODC) is mandated by its member states to assist in the implementation of both UNTOC and UNCAC.

Which of the statements given above are correct?

(a) 1 and 3 (b) 2, 3 and 4 (c) 2 and 4 (d) 1, 2, 3 and 4

Exp. ***(b)*** The protocol against the smuggling of migrants by land, sea and air is protocol to United Nations Convention Against Transnational Organised Crime (UNTOC). The convention UNTOC is supplemented by three protocols, which target specific areas and manifestations of organised crime. The United Nations Convention Against Corruption (UNCAC) is the only legally binding universal anti-corruption instrument. The vast majority of UN member states are parties to the convention. A highlight of UN Convention Against Corruption is the inclusion of a specific chapter on asset recovery which aimed at returning assets to their rightful owners including countries from which they had been taken illicitly. UN Office on Drugs and Crime (UNODC) is available to provide assistance in implementation of both UNTOC and UNCAC.

48. Consider the following statements. **[IAS 2019]**

As per the Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018

1. if rules for fixed-term employment are implemented, it becomes easier for the firms/companies to lay off workers.
2. no notice of termination of employment shall be necessary in the case of temporary workman.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(c)*** According to the Industrial Employment (Standing Orders) Central (Amendment) Rules, 2018, the government has notified fixed-term employment for all sectors. Fixed term employment for all sectors will make it easier for companies to hire-and-fire workers along with reducing role of middlemen. Also, no notice of termination of employment shall be necessary in the case of temporary workman whether monthly rated, weekly rated or piece rated and probationers or badli workmen.

49. With reference to Asian Infrastructure Investment Bank (AIIB), consider the following statements. **[IAS 2019]**

1. AIIB has more than 80 member nations.
2. India is the largest shareholder in AIIB.
3. AIIB does not have any members from outside Asia.

Which of the statements given above is/are correct?

(a) Only 1 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. ***(a)*** Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to improve social and economic outcomes in Asia. Its headquarter is in Beijing, China. The bank was proposed by China in 2013 and the initiative was launched at a ceremony in Beijing in October 2014. It has now 97 approved members (As of April, 2019) worldwide. China has single largest voting share at 26.6%. It has various non-Asian members.

50. What was the purpose of Inter-Creditor Agreement signed by Indian banks and financial institutions recently? **[IAS 2019]**

(a) To lessen the Government of India's perennial burden of fiscal deficit and current account deficit.
(b) To support the infrastructure projects of Central and State Governments.
(c) To act as independent regulator in case of applications for loans of ₹ 50 crore or more.
(d) To aim at faster resolution of stressed assets of ₹ 50 crore or more which are under consortium lending.

Exp. ***(d)*** The agreement, known as Inter-Creditor Agreement (ICA) was framed under the aegis of the Indian Banks Association and follows the recommendations of the Sunil Mehta Committee on stressed asset resolution. ICA is an agreement among banks that have dues from a borrower in the stress. Banks and Financial institutions have signed Inter-Creditor Agreement (ICA) aimed at faster resolution of stressed assets of ₹ 50 crore or more which are under consortium lending. It has been signed by 22 public sector banks, 19 private sector banks and 32 foreign banks and 12 major financial intermediaries like LIC, HUDCO etc. This is a part of project 'Sashakt'.

51. The Chairmen of public sector banks are selected by the **[IAS 2019]**

(a) Banks Board Bureau (b) Reserve Bank of India
(c) Union Ministry of Finance
(d) Management of concerned bank

Exp. ***(a)*** The government has set up an autonomous Banks Board Bureau (BBB) for selection of heads of Public Sector Banks (PSBs) and financial institutions and help banks in developing strategies and capital raising plans. BBB was part of Indradhanush Plan of government. It is housed in RBI's central office in Mumbai. It works towards governance reforms in PSBs as recommended by PJ Nayak Committee.

52. Consider the following statements. **[IAS 2019]**

1. Petroleum and Natural Gas Regulatory Board (PNGRB) is the first regulatory body set up by the Government of India.
2. One of the tasks of PNGRB is to ensure competitive markets for gas.
3. Appeals against the decisions of PNGRB go before the Appellate Tribunals for Electricity.

Which of the statements given above are correct?

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. ***(b)*** The Petroleum and Natural Gas Regulatory Board (PNGRB) was constituted under the Petroleum and Natural Gas Regulatory Board Act, 2006. The Act provide for the establishment of Petroleum and Natural Gas Regulatory Board (PNGRB) to protect interests of consumers and entities engaged in specified activities relating to petroleum, petroleum products and natural gas and to promote competitive markets. Tribunal established under Electricity Act, 2003 is the Appellate Tribunal for purposes of Petroleum and Natural Gas Regulatory Board Act, 2006.

53. Which one of the following is not a sub-index of the World Bank's 'Ease of Doing Business Index'? **[IAS 2019]**

(a) Maintenance of law and order
(b) Paying taxes
(c) Registering property
(d) Dealing with construction permits

Exp. ***(a)*** Ease of Doing Business is an Index created by Bulgarian economist Simeon Djankov. It is released by World Bank ranks 190 countries based on 10 sub-indices across lifecycle of a business, from starting a business to resolving insolvency. *These ten sub-indices are:*

(i) Starting a business (ii) Dealing with construction permits
(iii) Getting electricity (iv) Registering property
(v) Getting credit (vi) Protecting investors
(vii) Paying taxes (viii) Trading across borders
(ix) Enforcing contracts (x) Resolving insolvency

Each of these sub-indices carry equal weightage. In case of India, Delhi and Mumbai are only two cities surveyed by World Bank for this rankings.

54. In India, 'Extended Producer Responsibility' was introduced as an important feature in which of the following? **[IAS 2019]**

(a) The Bio-medical Waste (Management and Handling) Rules, 1998
(b) The Recycled Plastic (Manufacturing and Usage) Rules, 1999
(c) The e-Waste (Management and Handling) Rules, 2011
(d) The Food Safety and Standard Regulations, 2011

Exp. ***(c)*** E-waste (Management and Handling) Rules, 2011 place main responsibility of e-waste management on producers of the electrical and electronic equipment by introducing concept of 'Extended Producer Responsibility' (EPR). EPR is a responsibility of any producer of electrical or electronic equipment for their products beyond manufacturing until environmentally sound management of their end of life products.

55. The economic cost of foodgrains to the Food Corporation of India is Minimum Support Price and bonus (if any) paid to the farmers plus **[IAS 2019]**

(a) transportation cost only.
(b) interest cost only.
(c) procurement incidentals and distribution cost.
(d) procurement incidentals and charges for godowns.

Exp. ***(c)*** Economic cost of foodgrains to the Food Corporation of India has three main components i.e. procurement cost, procurement price and distribution cost.
The procurement incidentals (costs) are the initial costs incurred during procurement of foodgrains in the markets/yards/centres. It includes statutory charges, labour charges, amount paid to the state agencies for establishment, storage and interest for stocks etc.
FCI buys foodgrains from farmers at pre-announced MSP. The distribution costs include freight, handling, storage, interest and transit charges and establishment cost.

56. Consider the following. **[IAS 2018]**

1. Areca nut
2. Barley
3. Coffee
4. Finger millet
5. Groundnut
6. Sesamum
7. Turmeric

The Cabinet Committee on Economic Affairs has announced the Minimum Support Price for which of the above?

(a) 1, 2, 3 and 7
(b) 2, 4, 5 and 6
(c) 1, 3, 4, 5 and 6
(d) 1, 2, 3, 4, 5, 6 and 7

Exp. ***(b)*** Minimum Support Price (MSP) is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices. The minimum support prices are announced by the Cabinet Committee of Economic Affairs at the beginning of the sowing season for certain crops on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACPs).
In total MSP is announced for 26 commodities i.e. 7 cereal, 8 oil seeds, 5 pulses and 6 other crops. Areca nut and coffee are out of MSP ambit.

57. With reference to the governance of the public sector banking in India, conside the following statements.

1. Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.
2. To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected. **[IAS 2018]**

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(b)*** Most of the public sectors banks in India are suffering from the issues of bad loans (NPAs) and poor management practices, so to set in order some of these banks (SBI associates banks) government decided to merge them with SBI. This step will allow the government to infuse capital in PSBs in an easy manner and under a bigger professionally managed bank these small banks can improve their efficiency as well.

58. Consider the following items. **[IAS 2018]**

1. Cereal grains hulled
2. Chicken eggs cooked
3. Fish processed and canned
4. Newspapers containing advertising material

Which of the above items is/are exempted under GST (Goods and Services Tax)?

(a) Only 1 (b) 2 and 3
(c) 1 and 4 (d) 1, 2, 3 and 4

Exp. ***(c)*** Certain goods are kept under nil or 0% GST rate to benefit the masses. Previously, GST council imposed 5% rate of GST on hulled grains. However, later on 11th June 2017, the rate of GST applicable on hulled grains is 0%. (Nil rate) falls under GST HSN (Harmonised System of Nomenclature) code number 1104.
Chicken eggs cooked and fish processed and canned are under 5% GST rate. Newspapers containing advertising material are under 0% GST rate.

59. Consider the following countries. **[IAS 2018]**

1. Australia 2. Canada 3. China
4. India 5. Japan 6. USA

Which of the above are among the 'free-trade partners' of ASEAN ?

(a) 1, 2, 4 and 6 (b) 3, 4, 5 and 6
(c) 1, 3, 4 and 5 (d) 2, 3, 4 and 6

Exp. ***(c)*** Apart from the ASEAN Free Trade Area (AFTA) between ASEAN member states, the regional trade bloc has signed several FTAs with some of the major economies in the Asia-Pacific region. These include the ASEAN-Australia-New Zealand FTA, the ASEAN-China FTA, the ASEAN-India FTA, the ASEAN-Korea FTA, and the ASEAN-Japan Comprehensive Economic Partnership.
Alongwith these FTAs, ASEAN and other Asia pacific countries are moving towards Regional Comprehensive Economic Partnership (RCEP), which is a proposed Free Trade Agreement (FTA) between the ten member states of the Association of South East Asian Nations (ASEAN) and the six states with which ASEAN has existing free trade agreements (Australia, China, India, Japan, South Korea and New Zealand).

60. With the reference to the Pradhan Mantri Kaushal Vikas Yojana, consider the following statements. **[IAS 2018]**

1. It is flagship scheme of the Ministry of Labour and Employment.
2. It, among other things, will also impart training in soft skills, entrepreneurship, financial and Digital Literacy.
3. It aims to align the competencies of the unregulated workforce of the country to the National Skill Qualification Framework.

Which of the statements given above is/are correct?

(a) 1 and 3 (b) Only 2
(c) 2 and 3 (d) 1, 2 and 3

Exp. ***(c)*** Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is the flagship scheme of the Ministry of Skill Development and Entrepreneurship (MSDE). The objective of this Skill Certification Scheme is to enable a large number of Indian youth to take up industry-relevant skill training that will help them in securing a better livelihood.
The Short Term Training imparted at PMKVY Training Centres (TCs) is expected to benefit candidates of Indian nationality who are either school/college dropouts or unemployed. Apart from providing training according to the National Skills Qualification Framework (NSQF), TCs shall also impart training in Soft Skills, Entrepreneurship, Financial and Digital Education.

61. In 1920, which of the following changed its name to Swarajya Sabha? **[IAS 2018]**

(a) All India Home Rule League
(b) Hindu Mahasabha
(c) South Indian Liberal Federation
(d) The Servants of India Society

Exp. ***(a)*** The Indian Home Rule movement was a movement in British India on the lines of Irish Home Rule movement and other home rule movements. The movement lasted around two years between 1916–1918 and is believed to have set the stage for the independence movement under the leadership of Annie Besant all over India whereas B. G. Tilak participation was limited to Western India only. In 1920, All India Home Rule League changed its name to Swarajya Sabha.

62. The Partnership for Action on Green Economy (PAGE), a UN mechanism to assist countries transition towards greener and more inclusive economies, emerged at **[IAS 2018]**

(a) The Earth Summit on Sustainable Development 2002, Johannesburg.
(b) The United Nations Conference on Sustainable Development 2012, Rio de Janeiro.
(c) The United Nations Framework Convention on Climate Change 2015, Paris.
(d) The World Sustainable Development Summit 2016, New Delhi.

Exp. ***(b)*** The Partnership for Action on Green Economy (PAGE) was launched in 2013 as a response to the call at Rio+20 in 2012 in Rio de Janeiro to support those countries wishing to embark on greener and more inclusive growth trajectories. The Partnership for Action on Green Economy (PAGE) seeks to put sustainability at the heart of economic policy making. The partnership supports nations and regions in reframing economic policies and practices around sustainability to foster economic growth, create income and jobs, reduce poverty and inequality, and strengthen the ecological foundations of their economies. PAGE is a direct response to the Rio+20 Declaration, The Future We Want, which called upon the United Nations System and the international community to provide assistance to interested countries in developing, adopting and implementing green economy policies and strategies.

63. Which one of the following statements correctly describes the meaning of legal tender money? **[IAS 2018]**

(a) The money which is tendered in courts of law to defray the fee of legal cases.
(b) The money which a creditor is under compulsion to accept in settlement of his claims.
(c) The bank money in the form of cheques, drafts, bill of exchange, etc.
(d) The metallic money in circulation in a country.

Exp. ***(b)*** Legal tender is any official medium of payment recognised by law that can be used to extinguish a public or private debt, or meet a financial obligation. The national currency is legal tender in practically every country. A creditor is obligated to accept legal tender towards repayment of a debt.

64. If a commodity is provided free to the public by government, then **[IAS 2018]**
(a) the opportunity cost is zero.
(b) the opportunity cost is ignored.
(c) the opportunity cost is transferred from the consumers of the product to the tax paying public.
(d) the opportunity cost is transferred from the consumers of the product to the government.

Exp. ***(c)*** In microeconomic theory, the opportunity cost, also known as alternative cost, is the value (not a benefit) of the choice of a best alternative cost while making a decision. A choice needs to be made between several mutually exclusive alternatives; assuming the best choice is made, it is the "cost" incurred by not enjoying the benefit that would have been had by taking the second best available choice.
Opportunity cost = return of most lucrative option not chosen – return of chosen option According to the above explanation when a commodity is provided free to the public by the government then the opportunity cost is transferred to the people who have paid for this commodity i.e tax paying individuals.

65. Increase in absolute and per capita real GNP do not connote a higher level of economic development, if
(a) industrial output fails to keep pace with agricultural output
(b) agricultural output fails to keep pace with industrial output
(c) poverty and unemployment increases
(d) imports grow faster than exports **[IAS 2018]**

Exp. ***(c)*** GNP is quantitative but development means a qualitative change which is always value positive. This means that development cannot take place unless there is an increment or addition to the existing conditions. Development occurs when positive growth takes place. Yet, positive growth does not always lead to development. This happens when poverty and unemployment increases.

66. Consider the following statements: Human capital formation as a concept is better explained in terms of a process which enables **[IAS 2018]**
1. Individuals of a country to accumulate more capital.
2. Increasing the knowledge, skills level and capacities of the people of the country.
3. Accumulation of tangible wealth.
4. Accumulation of intangible wealth.

Which of the statements given above is/are correct?
(a) 1 and 2 (b) Only 2
(c) 2 and 4 (d) 1, 3 and 4

Exp. ***(c)*** Human capital is a collection of intangible collective resources possessed by individuals and groups within a given population. These resources include all the knowledge, talents, skills, abilities, experience, intelligence, training, judgement and wisdom possessed individually and collectively, the cumulative total of which represents a form of wealth available to nations and organisations to accomplish their goals. Thus, statements 1 and 3 are incorrect.
Statements 2 and 4 are correct.

67. Despite being a high saving economy, capital formation may not result in significant increase in output due to
(a) weak administrative machinery **[IAS 2018]**
(b) Illiteracy
(c) high population density
(d) high capital-output ratio

Exp. ***(d)*** Capital Output Ratio (COR) is the amount of capital needed to produce one unit of output. A higher COR value is not preferred because it indicates that the entity's production is inefficient, e.g. suppose that investment in an economy is 32% (of GDP) and the economic growth corresponding to this level of investment is 8%. Capital Output Ratio is 32/8 or 4. In other words, to produce one unit of output, 4 unit of capital is needed. Thus, in case of high Capital Output Ratio, despite high savings, capital formation may not result in significant increase in output.

68. Consider the following statements. **[IAS 2018]**
1. The Reserve Bank of India manages and services Government of India securities but not any State Government securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the State Governments.
3. Treasury bills offers are issued at a discount from the par value.

Which of the statements given above is/are correct?
(a) 1 and 2 (b) Only 3
(c) 2 and 3 (d) 1, 2 and 3

Exp. ***(c)*** RBI manages securities of both Central and State Governments. Thus, this statement is incorrect.
Treasury bills are only issued by Central Government. Thus, this statement is incorrect.
Treasary bills are money market and short-term debt instruments issued by the Government. of India and presently issued in three tenors, namely 91, 182 and 364 days. Treasury bills are zero coupon securities and pay no interest. Rather, they are issued at a discount (at a reduced amount) and redeemed (given back money) at the face value at maturity.

69. Consider the following statements. **[IAS 2018]**
1. Capital Adequacy Ratio (CAR) is the amount that the banks have to maintain in the form of their own funds to offset any loss that bank incur if the account holder fail to repay any dues.
2. CAR is decided by each individual bank.

Which of the statements given above is/are correct?
(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(a)*** Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by Central Banks and bank regulators to prevent Commercial Banks from taking excess leverage and becoming insolvent in the process.

Capital Adequacy Ratio

$$= \frac{\text{Tier I + Tier II + Tier III (Capital funds))}}{\text{Risk weighted assets}}$$

70. The identity platform Aadhar provides open Application Programming Interfaces (APIs). What does it imply?

1. It is integrated into an electronic device. **[IAS 2018]**
2. Online authentication using iris is possible.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(c)*** Aadhaar authentication provides several ways in which an Aadhaar holder can authenticate himself using the system. At a high level, authentication can be done using demographics data and/or biometric data and/or OTP. Face authentication is currently not supported. It is proposed to start from July, 2018. The API can be integrated into any electronic device. Thus, both statements 1 and 2 are correct.

71. Consider the following statements **[IAS 2018]**

1. The Food Safety and Standards Act, 2006 replaced the Prevention of Food Adulteration Act, 1954.
2. The Food Safety and Standard Authority of India (FSSAI) is under the charge of Director General of Health Services in the Union Ministry of Health and Family Welfare.

Which of the following statements is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(a)*** Statement 1 is correct. Food Safety and Standards Act, 2006 replaced Prevention of Food Adulteration Act, 1954. FSSAI has beencreated for laying down science based standards for articles of food and to regulate their manufacture storage, distribution, sale and import to ensure availability of safe and wholesome food for human consumption.
Statement 2 is incorrect: FSSAI is not under Director General of Health Services. It is an independent authority under Ministry of Health and Family Welfare.

72. With reference to the provisions made under the National Food Security Act, 2013, consider the following statements. **[IAS 2018]**

1. The families coming under the category of Below Poverty Line (BPL) only are eligible to receive subsidised food grains.
2. The eldest woman in a household, of age 18 years or above, shall be the head of the household for the purpose of issuance of a ration card.
3. Pregnant women and lactating mothers are entitled to a take-home ration' of 1600 calories per day during pregnancy and for six months thereafter.

Which of the following statements given above is/are correct?

(a) 1 and 2 (b) Only 2
(c) 1 and 3 (d) Only 3

Exp. ***(b)*** Some of salient features of NFSA (National Food Security Act) 2013 are

- **Coverage and Entitlement under Targeted Public Distribution System** (TPDS) Upto 75% of the rural population and 50% of the urban population will be covered under TPDS, with uniform entitlement of 5 kg per person per month. Not restricted to only BPL families.
- **Subsidised Prices under TPDS and their Revision** Foodgrains under TPDS will be made available at subsidised prices of ₹ 3/2/1 per kg for rice, wheat and coarse grains for a period of three years from the date of commencement of the act.
- **Maternity Benefit** Pregnant women and lactating mothers will also be entitled to receive maternity benefit of not less than ₹ 6,000.
- **Women Empowerment** Eldest woman of the household of age 18 years or above to be the head of the household for the purpose of issuance of ration cards.

73. India enacted the Geographical Indications of Goods (Registration and Protection) Act, 1999 in order to comply with the obligations to **[IAS 2018]**

(a) ILO (b) IMF
(c) UNCTAD (d) WTO

Exp. ***(d)*** Article 22 of the TRIPS Agreements (WTO Agreement) defines Geographical Indication as "indications which identify a good as originating in the territory of a member or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin". Consequently sui-geneis legislation for the protection of geographical indication was enacted in 1999. When India joinned as a member state of the TRIPS as a member state agreement.

74. As per the NSSO 70th round situation assessment survey of technical households, consider the following statements **[IAS 2018]**

1. Rajasthan has the highest percentage share of agricultural households among its rural households.
2. Out of the total agricultural households in the country, a little over 60 percentage belongs to OBCs.
3. In Kerala, a little over 60 percent agricultural households reported to have maximum income from sources other than agricultural activities.

Which of the statements given above is/ are correct?

(a) 2 and 3 (b) Only 2
(c) 1 and 3 (d) 1, 2 and 3

Exp. ***(c)*** The results of the survey are based on the Central sample Caudated by NSSO, consisting of 4,529 villages spread over rural areas of all states and union territories.

A total number of 35,200 households were surveyed in first visit and 34,907 of them could be re-surveyed in second visit.

Some salient findings of the survey regarding situation of agricultural households in the country are as follows

- During the agricultural year July 2012- June 2013, rural India had an estimated total of 90.2 million agricultural households, which constituted about 57.8 percent of the total estimated rural households of the country during the same period.

- Uttar Pradesh, with an estimate of 18.05 million agricultural households, accounted for about 20 percent of all agricultural households in the country.
- Rajasthan had highest percentage of agricultural households (78.4 percent) among its rural households and Kerala had the least percentage share of agricultural households (27.3 percent) in its rural households.
- Out of the total estimated agricultural households in the country, about 45 percent belonged to Other Backward Classes (OBCs).

75. Which of the following best describes the term 'Merchant Discount Rate'? **[IAS 2018]**

(a) The incentive by a bank given to a merchant for accepting payments through debit cards for financial transactions for purchasing goods and services
(b) The amount paid by bank to their customers when they pay by debit cards for financial transactions for purchasing goods and services
(c) The charge to a merchant by a bank for accepting payments from his customers through the bank's debit card.
(d) The incentive given by the Government to merchants for promoting digital payments by their customers through POS (Point of Sale) machines and debit cards.

Exp. ***(c)*** MDR is a fee charged from a merchant by a bank for accepting payments from customers through credit and debit cards in their establishments. MDR compensates the card issuing bank, the lender which puts the POS terminal and payment gateways such as Mastercard or Visa for their services. MDR charges are usually shared in pre-agreed proportion between the bank and a merchant and is expressed in percentage of transaction amount.

76. With reference to India's decision to levy an equalisation tax of 6% on online advertisement services offered by non-resident entities, which of the following statement is/are correct? **[IAS 2018]**

1. It is introduced as a part of Income Tax Act.
2. Non resident entities that offer advertisement services in India can claim a tax credit in their home country under the Double Taxation Avoidance commission.

Select the correct answer using the code given below.

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

Exp. ***(d)*** Equalisation Levy is a tax outside on business transaction for online marketing in which any Indian pays a sum of more than ₹ 1 lakh to non-residents entities such Google and Facebook, etc. Since, equalisation levy is outside the scope of tax treaties entered into by India with other countries, the foreign company cannot claim a tax credit in its home country.

77. Consider the following Statements. **[IAS 2018]**

1. The Fiscal Responsibility and Budget Management Review (FRBM) Committee report has recommended a debt to GDP ratio of 60% for the general (combined) Government by 2023, comprising 40% for the Central Government and 20% for the State Government.
2. The Central Government has domestic liabilities of 21% of GDP as compared to 49% of GDP of the State Government.
3. As per the Constitution of India, it is mandatory for the state to take Central Government's consent for raising any loans if the former owes any liabilities to the latter.

Which of the given statement is/ are correct?

(a) Only 1 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. ***(c)*** Statement 1 is correct. According to the FRBM committee review committee report headed by NV. Singh. The combined debt to GDP ratio of the central and states should be brought down to 60 percent by 2023 (comprising of 40 per cent for the centre and 20 percent for states) as against the existing 49.4 percent, and 21 per cent respectively.
Statement 2 is incorrect. The Union Government, which has larger domestic liabilities of 49.23% of GDP as compared to that of the states (21% of GDP) Statement 3 is correct. Under Article 293, a state may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the state by the Government of India or by its predecessor government, or in respect of which a guarantee has been given by the Government of India or by its predecessor government.

78. Consider the following statements **[IAS 2018]**

1. The quality of imported edible oil is more than the domestic production of edible oils in the last five years.
2. The government does not impose any custom duty on all the imported edible oils as a special case.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(a)*** Statement 1 is correct. The quantity of imported edible oil has been in the range of 11 - 15 metric tonnes, while domestic production have been in the range of 5-8 metric tonnes.
Statement 2 is incorrect. As government imposes customs duty on imported oil. At present, the import duty on crude soyabean oil is 3.0 percent, crude sunflower oil 25 percent and crude rapeseed oil 25 percent.

79. The term 'Domestic Content Requirement' is sometimes seen in the news with reference to **[IAS 2017]**

(a) Developing solar power production in our country
(b) Granting licences to foreign TV channels in our country
(c) Exporting our food products to other countries.
(d) Permitting foreign educational institutions to set-up their campuses in our country

Exp. ***(a)*** The World Trade Organisation's appellate body has declared Domestic Content Requirements (DCRs) in India's Jawaharlal Nehru National Solar Mission (JNNSM) as illegal.
The WTO disputes panel also ruled that India's subsidies for solar power contravene WTO trade rules and India must remove the subsidies or face trade sanction. In 2013, the US brought a complaint before the WTO arguing that the Domestic Content Requirement imposed under India's national solar programme is in violation of the global trading rules.

Specifically, it said, India has violated its 'national treatment' obligation by unfavourably discriminating against imported solar cells and modules.

80. Who among the following can join the National Pension System (NPS)? **[IAS 2017]**

(a) Resident Indian citizens only
(b) Persons of age from 21 to 55 only
(c) All state government employees joining the services after the date of notification by the respective state governments
(d) All central government employees including those of armed forces joining the services on or after 1st April, 2004.

Exp. *(c)* Any citizen of India, whether resident or non-resident, Individuals who are aged between 18 – 60 years age can join the National Pension Scheme. The National Pension System (NPS) is a voluntary defined contribution pension system administered and regulated by the Pension Fund Regulatory and Development Authority (PFRDA), created by an Act of the Parliament of India.

The NPS started with the decision of the Government of India to stop defined benefit pensions for all its employees who joined after January 1, 2004. NPS is an attempt by the government to create a pensioned society in India.

81. Consider the following statements: **[IAS 2017]**

1. The standard mark of Bureau of Indian Standards (BIS) is mandatory for automotive tyres and tubes.
2. AGMARK is a quality certification mark issued by the Food and Agriculture Organisation (FAO).

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. *(a)* AGMARK is a certification mark employed on agricultural products in India, assuring that they conform to a set of standards approved by the Directorate of Marketing and Inspection, an agency of the government of India.

The AGMARK is legally enforced in India by the agricultural produce (grading and marking) Act of 1937 (and amended in 1986). The present AGMARK standards cover quality guidelines for 213 different commodities spanning a variety of pulses, cereals, essential oils, vegetable oils, fruits and vegetables and semi-processed products like vermicelli.

82. What is/are the advantage/advantages of implementing the 'National Agriculture Market' scheme? **[IAS 2017]**

1. It is a pan-India electronic trading portal for agricultural commodities.
2. It provides the farmers access to nationwide market, with prices commensurate with the quality of their produce.

Select the correct answer using the code given below :

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. *(c)* National Agriculture Market (NAM) is a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities. Its a national e-market platform for transparent sale transactions and price discovery initially in regulated markets. The NAM portal provides a single window service for all APMC related information and services.

This includes commodity arrivals & prices, buy & sell trade offers, provision to respond to trade offers, among other services. While material flow (agriculture produce) continues to happen through mandis, an online market reduces transaction costs and information asymmetry.

83. With reference to the 'National Intellectual Property Rights Policy', consider the following statements : **[IAS 2017]**

1. It reiterates India's commitment to the Doha Development Agenda and the TRIPS Agreement.
2. Department of Industrial Policy and Promotion is the nodal agency for regulating intellectual property rights in India.

Which of the above statements is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. *(c)* The Policy recognises that India has a well-established TRIPS compliant legislative, administrative and judicial framework to safeguard IPRs, which meet its international obligations and reiterates India's commitment to the Doha Development Agenda and the TRIPS agreement. The National IPR Policy aims to create and exploit synergies between all forms of Intellectual Property (IP), concerned statutes and agencies. It sets in place an institutional mechanism for implementation, monitoring and review. It aims to incorporate and adapt global best practices to the Indian scenario.

This policy shall weave in the strengths of the Government, research and development organisations, educational institutions, corporate entities including MSMEs, startups and other stakeholders in the creation of an innovation-conducive environment, which stimulates creativity and innovation across sectors, as also facilitates a stable, transparent and service-oriented IPR administration in the country.

84. With reference of 'Quality Council of India (QCI)', consider the following statements : **[IAS 2017]**

1. QCI was set-up jointly by the government of India and the Indian Industry.
2. Chairman of QCI is appointed by the Prime Minister on the recommendations of the industry to the government .

Which of the above statements is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

Exp. *(c)* The Quality Council of India (QCI) is a pioneering experiment of the government of India in setting up organisations in partnership with the Indian industry. The work was coordinated by the then Department of Industries (Department of Industrial Policy and Promotion) and the recommendations were submitted to the Cabinet in 1996.

Key recommendations included the need for establishing an organisations jointly by the government and the industry and the need for the organisations to be self-sustaining and be away from the government. Both statements are explanatory and correct.

85. What is the purpose of setting up of Small Finance Banks (SFBs) in India? **[IAS 2017]**

1. To supply credit to small business units

2. To supply credit to small and marginal farmers
3. To encourage young entrepreneurs to set-up business particularly in rural areas.

Select the correct answer using the code given below :

(a) 1 and 2 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. (a) The objective of Small Finance Banks is to further financial inclusion by providing: Basic banking facilities to the unbanked and thereby boosting saving habits and supply of credit to small business units, small and marginal farmers, micro and small industries and other unorganised sector entities, through high technology-low cost operations.

For the first three years, 25% of branches should be in unbanked rural areas.

Of the loans issued by Small Banks, 75% should be to the so-called priority sector which includes agriculture and small businesses. And half the loan portfolio of the banks should be loans and advances of up to ₹ 25 lakh to micro finance businesses.

86. Which of the following is a most likely consequence of implementing the 'Unified Payments Interface (UPI)'? **[IAS 2017]**

(a) Mobile wallets will not be necessary for online payments.
(b) Digital currency will totally replace the physical currency in about two decades.
(c) FDI inflows will drastically increase.
(d) Direct transfer of subsides to poor people will become very effective.

Exp. (a) Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing and merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.

The key objective of a unified system is to offer a complete architecture to facilitate next generation online immediate payments leveraging trends such as increasing smartphone adoption, Indian language interfaces, and universal access to Internet and data.

It cannot replace physical currency in two decades and has no clear relation with FDI and Direct Benefit Transfer.

87. Which of the following statements is/are correct regarding the Monetary Policy Commitee (MPC)? **[IAS 2017]**

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below :

(a) Only 1 (b) 1 and 2 (c) Only 3 (d) 2 and 3

Exp. (a) Statement 1 The MPC would be entrusted with fixing the benchmark policy rate (Repo Rate).

Statement 2 The MPC is a 6 member body who shall hold office for a period of four years.

Statement 3 The Governor of the RBI is the ex-officio chairperson of the MPC.

88. Which of the following are the objectives of 'National Nutrition Mission'? **[IAS 2017]**

1. To create awareness relating to malnutrition among pregnant women and lactating mothers.
2. To reduce the incidence of anaemia among young children, adolescent girls and women.
3. To promote the consumption of millets, coarse cereals and unpolished rice.
4. To promote the consumption of poultry eggs.

Select the correct answer using the code given below :

(a) 1 and 2 (b) 1, 2 and 3
(c) 1, 2 and 4 (d) 3 and 4

Exp. (a) The key objectives of National Nutrition Mission are as under :

- To create awareness relating to malnutrition amongst pregnant women, lactating mothers, promote healthy lactating practices and importance of balanced nutrition;
- To improve maternal and child under-nutrition in 200 high burdened districts and to prevent and reduce the under-nutrition prevalent among children below 3 years;

To reduce incidence of anaemia among young children, adolescent girls and women.

89. Which of the following has/have occurred in India after its liberalisation of economic policies in 1991? **[IAS 2017]**

1. Share of agriculture in GDP increased enormously.
2. Share of India's exports in world trade increased.
3. FDI inflows increased.
4. India's foreign exchange reserves increased enormously.

Select the correct answer using the codes given below :

(a) 1 and 4 (b) 2, 3 and 4
(c) 2 and 3 (d) 1, 2, 3 and 4

Exp. (b)

1. In 1991, Agriculture was contributing 32% to GDP but now it has declined to 18%.
2. Share of exports has gone up from below 1% to above 1%.
3. FDI has gone up because of opening of economy.
4. From $3 billion in 1991, now we have comfortable $350 billion forex.

90. Consider the following statements : **[IAS 2017]**

1. National Payments Corporation of India (NPCI) helps in promoting the financial inclusion in the country.
2. NPCI has launched RuPay, a card payment scheme.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. (c) The core objective was to consolidate and integrate the multiple systems with varying service levels into nation-wide uniform and standard business process for all retail payment systems. The other objective was to facilitate an affordable payment mechanism to benefit the common man across the country and help financial inclusion.

RuPay, a new card payment scheme launched by the National Payments Corporation of India (NPCI).

91. What is/are the most likely advantages of implementing 'Goods and Services Tax (GST)'? **[IAS 2017]**

1. It will replace multiple taxes collected by multiple authorities and will thus create a single market in India.
2. It will drastically reduce the 'Current Account Deficit' of India and will enable it to increase its foreign exchange reserves.
3. It will enormously increase the growth and size of economy of India and will enable it to overtake China in the near future.

Select the correct answer using the code given below :

(a) Only 1 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. *(a)*

1. Indeed one nation one market is the main theme on which GST is based.
2. GST may improve effeciency, may reduce domestic cost of manufacturing and thereby will help export, but idea of drastic reduction is not correct.
3. China is also competing the proceess of integrating indirect taxes at same time, so the competitive effect will be nullified. Hence overtaking China will require much more reforms.

92. Consider the following statements : **[IAS 2017]**

1. India has ratified the Trade Facilitation Agreement (TFA) of WTO.
2. TFA is a part of WTO's Bali Ministerial Package of 2013.
3. TFA came into force in January, 2016.

Which of the statements given above is/are correct?

(a) 1 and 2 (b) 1 and 3
(c) 2 and 3 (d) 1, 2 and 3

Exp. *(a)* WTO members concluded negotiations at the 2013 Bali Ministerial Conference on the landmark Trade Facilitation Agreement (TFA), which entered into force on February 22, 2017 following its ratification by two-thirds of the WTO membership.

India has ratified the Trade Facilitation Agreement (TFA) of the World Trade Agreement (WTO) and the instrument of Acceptance for Trade Facilitation Agreement was handed over to WTO Director-General by India on April 22, 2016.

93. What is the purpose 'Vidyanjali Yojana'? **[IAS 2017]**

1. To enable the famous foreign educational institutions to open their compuses in India.
2. To increase the quality of education provided in government schools by taking help from the private sector and the community.
3. To encourage voluntary monetary contributions from private individuals and organisationss so as to improve the infrastructure facilities for primary and secondary schools.

Select the correct answer using the code given below :

(a) Only 2 (b) Only 3 (c) 1 and 2 (d) 2 and 3

Exp. *(a)* Statement 1 and 3 are not described as being a part of Vidyanjali initiative. The programme is designed to involve volunteers from different walks of life to strengthen the co-scholastic activities in government schools.

Vidyanjali, which is being implemented under the overall aegis of the Sarva Shiksha Abhiyan, will enhance the community involvement in government run elementary schools and effectively engage children in reading, creative writing, public speaking, play acting, preparing story books etc.

94. What is the aim of the programme 'Unnat Bharat Abhiyan'? **[IAS 2017]**

(a) Achieving 100% literacy by promoting collaboration between voluntary organisationss and government's education system and local communities.
(b) Connecting institutions of higher education with local communities to address development challenges through appropriate technologies.
(c) Strengthening India's scientific research institutions in order to make India a scientific and technological power.
(d) Developing human capital by allocating special funds for health care and education of rural and urban poor, and organizing skill development programmes and vocational training for them.

Exp. (b) Connecting institutions of higher education with local communities to address development challenges through appropriate technologies.

The Ministry of Human Resource Development (MHRD) has launched a programme called Unnat Bharat Abhiyan with an aim to connect institutions of higher education, including Indian Institutes of Technology (IITs), National Institutes of Technology (NITs) and Indian Institutes of Science Education & Research (IISERs) etc. with local communities to address the development challenges through appropriate technologies.

95. Consider the following statements : **[IAS 2017]**

1. Tax revenue as a percent of GDP of India has steadily increased in the last decade.
2. Fiscal deficit as a percent or GDP of India has steadily increased in the last decade.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. *(d)* Tax revenue to GDP ratio (2007-11.89%,2008-10.75%, 2009-9.64%, 2010-10.19%, 2011-8.98%, 2012-10.79%), In the recent budget (2016-2017) total tax revenue was calculated to be 11.3% of GDP ,this data shows that tax revenue in India has not increased in the last decade So, the 1st statement is wrong. Fiscal deficit in India was around 6% in 2008-09 in the wake of global financial crisis after that it came down to 4.5% in 2013-14 and in the recent budget it was calculated to be 3.2%. So the 2nd statement is also wrong.

96. With reference to 'National Investment and Infrastructure Fund', which of the following statements is/are correct? **[IAS 2017]**

1. It is an organ of NITI Aayog.
2. It has a corpus of ₹ 4,00,000 crore at present.

Select the correct answer using the code given below :

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. *(d)*

1. National Investment and Infrastructure Fund (NIIF) is a fund created by the government of India for enhancing infrastructure financing in the country. This is different from the National Investment Fund. It is not an organ of NITI Aayog.
2. The proposed corpus of NIIF is ₹ 40,000 crore (around USD 6 Billion).

97. The Global Infrastructure Facility is a/an **[IAS 2017]**

(a) ASEAN initiative to upgrade infrastructure in Asia and financed by credit from the Asian Development Bank.
(b) World Bank collaboration that facilitates the preparation and structuring of complex infrastructure Public-Private Partnerships (PPPs) to enable unbilisation of private sector and institutional investor capital.
(c) Collaboration among the major banks of the world working with OECD and focused an expanding the set of infrastructure projects that have the potential to mobilise private investment.
(d) UNCTAD funded initiative that seeks to finance and facilitate infrastructure development in the world.

Exp. (b) The World Bank (WB) has launched the GIF to specifically cater to the infrastructure needs of the emerging economies and developing countries. The GIF will channel money towards bankable infrastructure project in such countries. GIF also places importance on sustainable development. Its key focus will be on climate friendly infrastructure investments and projects that will boost trade. The GIF will collaborate with other international and multilateral agencies which provide loans and financial assistance to countries across the globe. It will also help these agencies with its expertise in financing, supervising and implementing projects.

98. Which of the following statements best describes the term 'Scheme for Sustainable Structuring of Stressed Assets (S4A)', recently seen in the news? **[IAS 2017]**

(a) It is a Procedure for considering ecological costs of developmental schemes formulated by the government.
(b) It is a scheme of RBI for reworking the financial structure of big corporate entities facing genuine difficulties.
(c) It is a disinvestment plan of the government regarding Central Public Sector undertakings.
(d) It is a disinvestment plan of the government regarding Private Sector undertakings.

Exp. (b) Reserve Bank of India (RBI), after due consultation with banks introduced a scheme to weigh down bad loans and their stressed corporate clients and at the same time, ease the pressure on company balance sheets. With this motive RBI has introduced, on June 13, 2016 the Scheme for Sustainable Structuring of Stressed Assets (S4A Scheme) to offer adequate deep financial restructuring opportunities to large borrowers .

PREVIOUS YEARS' QUESTIONS
SOLVED PAPERS
Set 2

1. With reference to 'Financial Stability and Development Council', consider the following statements **[IAS 2016]**
1. It is an organ of NITI Aayog.
2. It is headed by the Union Finance Minister.
3. It monitors macroprudential supervision of the economy.

Which of the statements given above is/are correct?
(a) 1 and 2 (b) Only 3
(c) Only 2 and 3 (d) 1, 2 and 3

Exp. (c) The Central Government is at consensus to establish Financial Stability and Development Council (FSDC) to strengthen and institutionalise the mechanism for maintaining financial stability and development.

FSDC will perform following roles
- To engage in macroprudential supervision of the economy, including the functioning of large financial conglomerates and address inter-regulatory coordination issues.
- To focus on financial literacy and financial inclusion.
- To periodically look into issue relating to financial development.

The Council would have one Sub-Committee which would be headed by Governor, RBI. The Secretariat of the Council would be in the Department of Economic Affairs, Ministry of Finance.

2. The term 'Base Erosion and Profit Shifting' is sometimes seen in the news in the context of **[IAS 2016]**
(a) mining operation by multinational companies in resource-rich but backward areas.
(b) curbing of the tax evasion by multinational companies.
(c) exploitation of genetic resources of a country by multinational companies.
(d) lack of consideration of environmental costs in the planning and implementation of developmental projects.

Exp. (b) Base Erosion and Profit Shifting (BEPS) is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises. Engaging developing countries in the international tax agenda is important to ensure that they receive support to address their specific needs.

The inclusive framework brings together over 100 countries and jurisdictions to collaborate on the implementation of the OECD/ G20 BEPS Package.

BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity. Although some of the schemes used are illegal, most are not. This undermines the fairness and integrity of tax systems because businesses that operate across borders can use BEPS to gain a competitive advantage over enterprises that operate at a domestic level. Moreover, when taxpayers see multinational corporations legally avoiding income tax, it undermines voluntary compliance by all taxpayers.

3. With reference to 'Bitcoins', sometimes seen in the news, which of the following statements is/are correct? **[IAS 2016]**
1. Bitcoins are tracked by the Central Banks of the countries.
2. Anyone with a Bitcoins address can send and receive Bitcoins from anyone else with a Bitcoin address.
3. Online payments can be sent without either side knowing the identity of the other.

Select the correct answer using the codes given below
(a) 1 and 2 (b) 2 and 3
(c) Only 3 (d) 1, 2 and 3

Exp. (b) Bitcoin is digital currency which was founded in 2008. It is designed for secure financial transactions that require no central authority, no banks and no government regulators. Bitcoin would let transacting parties remain anonymous, keep transactions very secure, and eliminate middlemen fees.

What drove its initial development was its purely digital existence, away from the control of government regulators. The values of other currencies can rise and fall when a Central Bank decides to print more paper money. But since Bitcoin is digital and there is a limited number of them, the expectation is that it won't be prone to such devaluation.

4. What is/are the purpose/purposes of Government's 'Sovereign Gold Bond Scheme' and 'Gold Monetisation Scheme? **[IAS 2016]**
1. To bring the idle gold lying with Indian households into the economy.
2. To promote FDI in the gold and jewellery sector.
3. To reduce India's dependence on gold imports.

Select the correct answer using the codes given below
(a) Only 1
(b) 2 and 3
(c) 1 and 3
(d) 1, 2 and 3

Exp. (c) Prime Minister Narendra Modi on 5th November, 2015 launched 3 gold related schemes. The schemes are - Gold Monetisation Scheme, Sovereign Gold Bond Scheme and Indian Gold Coins.
The primary purpose of the schemes is to reduce dependence

on imported gold, recycle the unutilised gold in the country and most significantly, streamline the gold business within the country.

At present, India is the largest consumer of gold within the world. Gold Monetisation Scheme, which would replace both the present Gold Deposit and Gold Metal Loan Schemes, is intended to mobilise gold held by households and institutions of the country.

The purpose of the Sovereign Gold Bond Scheme is to reduce the demand for physical gold and to shift part of the estimated three hundred tonnes of physical bars and coins purchased per annum for investment into Demat (Dematerialised) gold bonds.

5. There has been a persistent deficit budget year after year. Which action/actions of the following can be taken by the government to reduce the deficit? **[IAS 2016]**

1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalising subsidies
4. Reducing import duty

Select the correct answer using the codes given below

(a) Only 1 (b) 2 and 3
(c) 1, 2 and 3 (d) 1, 2, 3 and 4

Exp. ***(c)*** A deficit is the amount by which a sum falls short of some reference amount. In economics, a deficit is an excess of expenditures over revenue in a given time period; in more specific cases it may refer to:

Balance of Payments (BOP) deficit, when the Balance of Payments is negative.

Government budget deficit that is deficit spending.

Primary deficit -the pure deficit derived after deducting the interest payments and structural and cyclical deficit, parts of the public sector deficit.

Income deficit (the difference between family income and the poverty threshold). Trade deficit (when the value of imports exceed the value of exports).

Introduction of new schemes would entail more spending and it goes just opposite to what we are trying to do, i.e. reduce deficit. Import duty is a tax collected on imports and some exports by the customs authorities of a country. It is usually based on the value of the goods that are imported. There are two distinct goals to import duties: to raise income for Local Government, and to give a market advantage to locally grown or produced goods that are not subject to import duties.

6. The establishment of 'Payment Banks' is being allowed in India to promote financial inclusion. Which of the following statements is/are correct in this context? **[IAS 2016]**

1. Mobile telephone companies and supermarket chains that are owned and controlled by residents are eligible to be promoters of Payment Banks.
2. Payment Banks can issue both credit cards and debit cards.
3. Payment Banks cannot undertake lending activities.

Select the correct answer using the codes given below

(a) 1 and 2 (b) 1 and 3
(c) Only 2 (d) 1, 2 and 3

Exp. ***(b)*** On 23rd September, 2013, Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, headed by Nachiket Mor, was formed by the RBI. On 7th January, 2014, the Nachiket Mor Committee submitted its final report. Among its various recommendations, it recommended the formation of a new category of bank called Payment Bank. On 17th July, 2014, the RBI released the draft guidelines for Payment Banks, seeking comments for interested entities and the general public. On 27th November, RBI released the final guidelines for Payment Banksw.

The key aspirants to payment banking business include telecom firms, prepaid payment instruments / payment solution providers, retail chains, large business correspondents and business conglomerates. Out of them, Telecom firms have an advantage over others mainly because they already have a distribution network in rural areas. Most of the pre-paid payment instruments / payment solution providers are tech savvy and already working in the field of mobile payments.

Scope of activities of Payment Banks

- Payment Banks can accept demand deposits. This implies that customers can open savings accounts as well as current accounts; but NO time deposits (such as FDs).
- An account balance cannot exceed ₹ 1 lakh for an individual customer.
- Payment Banks can issue ATM/ debit cards but not credit cards.
- Payment Banks can not give loans.
- Payments and remittance services through various channels.
- A Payment Bank can become Banking Correspondent (BC) of another bank and offer all products / services which a BC can offer.
- Payment Banks can distribute non-risk sharing financial products like mutual fund units and insurance products, etc.
- The revenue of these banks would come mainly from the transaction fees.

7. With reference of 'IFC Masala Bonds', sometimes seen in the news, which of the statements given below is/are correct? **[IAS 2016]**

1. The International Finance Corporation, which offers these bonds, is an arm of the World Bank.
2. They are the rupee-denominated bonds and are a source of debt financing for the public and private sector.

Select the correct answer using the codes given below

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp. ***(c)*** Masala bonds are rupee denominated overseas bonds. Masala bonds will help to internationalise the Indian rupee and also deepen the Indian financial system(Public and Private Sector).

By issuing bonds in rupees, an Indian company is shielded against the risk of currency fluctuation, typically associated with borrowing in foreign currency. Besides helping diversify funding sources, the cost of borrowing could also turn out to be lower than domestic markets.

In 2013, the first masala bonds were issued by the International Finance Corporation (IFC), an arm of the World

Bank. IFC then named them Masala bonds to give a local flavour by calling to mind Indian culture and cuisine.

The Reserve Bank of India has issued guidelines allowing Indian companies, non-banking finance companies (HDFC, Indiabulls Housing Finance are examples of such companies) and infrastructure investment trusts and real investment trusts (investment vehicles that pool money from various investors and invest in infrastructure and real estate sectors) to issue rupee-denominated bond overseas.

Masala bond will help the Indian corporates to reduce its interest cost burden on the debt amount on its balance sheet. The more of foreign funds can be used for infrastructural development in the country. Overall, the development of a Masala bond market would be positive for Indian firms, opening up potentially significant new sources of funding over External Commercial Borrowings (ECBs).

8. Which of the following is/are included in the capital budget of the Government of India? **[IAS 2016]**

1. Expenditure on acquisition of assets like roads, buildings, machinery, etc
2. Loans received from foreign governments
3. Loans and advances granted to the States and Union Territories

Select the correct answer using the codes given below

(a) Only 1 (b) 2 and 3
(c) 1 and 3 (d) 1, 2 and 3

Exp. (d) Capital budgeting, or investment appraisal, is the planning process used to determine whether an organisation's long-term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are worth the funding of cash through the firm's capitalisation structure (debt, equity or retained earnings). It is the process of allocating resources for major capital or investment expenditures. One of the primary goals of capital budgeting investments is to increase the value of the firm to the shareholders.

Capital budget includes capital receipts and payments of the government. Loans from public, foreign governments and RBI form a major part of the government's capital receipts. Capital expenditure is the expenditure on development of machinery, equipment, building, health facilities, education, etc. Fiscal deficit is incurred when the government's total expenditure exceeds its total revenue.

9. Which of the following best describes the term 'import cover', sometimes seen in the news? **[IAS 2016]**

(a) It is the ratio of value of imports to the Gross Domestic Product of a country.
(b) It is the total value of imports of a country in a year.
(c) It is the ratio between the value of exports and that of imports between two countries.
(d) It is the number of months of imports that could be paid for by a country's international reserves.

Exp. (d) The stock of foreign exchange reserves in terms of months of retrained imports of goods as at end of year. It measures the number of months of money available in the national bank to cover the cost of imports.

It is an operational definition of import cover. An import coverage ratio is the share (or percentage) of a country's own imports that is subject to a particular non-tariff barrier, or any one of a specified group of non-tariff barriers.

They are calculated by attaching actual values to bilateral trade flows between various exporters and the importing country. Import cover is an important indicator of the stability of the currency. During the currency crisis of 2013, when foreign exchange reserves fell to around $275 billion, import cover dipped to around seven months. According to currency explits, eight to ten months of import cover is essential for the stability of the currency.

10. With reference to Indian economy, consider the following statements **[IAS 2015]**

1. The rate of growth of Real Gross Domestic product has steadily increased in the last decade.
2. The Gross Domestic Product at market prices (in rupees) has steadily increased in the last decade.

Which of the statements given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp (b) Real Gross Domestic Product (Real GDP) is a macro-economic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). This adjustment transforms the money-value measure, nominal GDP, into an index for quantity of total output.

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by Purchasing Power Parity (PPP). GDP is the sum of consumer spending, investment made by industry, excess of exports over imports, and government spending. The GDP at market price of India has steadily increased in the last decades. Hence, option *(b)* is correct.

11. There has been a persistent deficit budget year after year. Which of the following actions can be taken by the government to reduce the deficit? **[IAS 2015]**

1. Reducing revenue expenditure
2. Introducing new welfare schemes
3. Rationalising subsidies
4. Expanding industries

Select the correct answer using the codes given below.

(a) 1 and 3
(b) 2 and 3
(c) Only 1
(d) 1, 2, 3 and 4

Exp (a) A budget deficit is caused when a government spends more than its collects revenue. Government revenue includes all amounts of money (i.e., taxes and/or fees) received from sources outside the government entity. A subsidy is a form of financial aid or support, generally with the aim of promoting economic and social policy.

So by the reducing revenue expenditure and rationalising subsidies, the government can reduce the deficit. Introducing new welfare scheme and expenditure industries are the major government expenditure.

Hence, option *(a)* is correct

12. The Fair and Remunerative Price (FRP) of sugarcane is approved by the **[IAS 2015]**

(a) Cabinet Committee on Economic Affairs

(b) Commission for Agricultural Costs and Prices
(c) Directorate of Marketing and Inspection, Ministry of Agriculture
(d) Agricultural Produce Market Committee

Exp *(a)* With the Amendment of the sugarcane (Control) Order, 1966 on 22nd October, 2009, the concept of Statutory Minimum Price (SMP) of sugarcane was replaced with the Fair and Remunerative Price (FRP) of sugarcane for 2009-10 and subsequent sugar seasons.

The cane price announced by the Central Government is decided on the basis of the recommendations of the Commission for Agricultural Costs and Prices (CACP) after consulting the State Governments and associations of sugar industry, and approved by the Cabinet Committee on Economic Affairs.

13. A decrease in tax to GDP ratio of a country indicates which of the following? **[IAS 2015]**

1. Slowing economic growth rate.
2. Less equitable distribution of national income.

Select the correct answer using the codes given below

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

Exp *(b)* A decrease in tax to GDP ratio of a country means less equitable distribution of national income. The ratio of tax collection against the national Gross Domestic Product (GDP) is tax to GDP ratio. This ratio is the total government tax collections divided by the country's GDP. An economic slowdown occurs when the rate of economic growth slows in an economy. Countries usually measure economic growth in terms of GDP, which is the total value of goods and services produced in an economy during a specific period of time. Hence, option *(b)* is correct.

14. With reference to Indian economy, consider the following : **[IAS 2015]**

1. Bank rate
2. Open market operations
3. Public debt
4. Public revenue

Which of the above is/are component(s) of Monetary policy?

(a) Only 1
(b) 2, 3 and 4
(c) 1 and 2
(d) 1, 3 and 4

Exp *(c)* An Open Market Operation (OMO) is an activity to buy or sell government bonds on the open market by a Central bank (Reserve Bank of India). A Central bank uses them as the primary means of implementing Monetary policy.

Bank rate is the rate of interest which a Central bank charges on the loans and advances to a Commercial bank. Whenever a bank has a shortage of funds, they can typically borrow from the Central bank based on the monetary policy of the country. Both OMO and Bank Rate are the components of Monetary policy. Public revenue and public debt are the part of public finance. Under the theory of public revenue , we study alternative sources of state income. Theory of public debt deals with all the loans and other liabilities of the government. Hence, option *(c)* is correct.

15. With reference to inflation in India, which of the following statements is correct? **[IAS 2015]**

(a) Controlling the inflation in India is the responsibility of the government of India only
(b) The Reserve Bank of India has no role in controlling the inflation
(c) Decreased money circulation helps in controlling the inflation
(d) Increased money circulation helps in controlling the inflation

Exp *(d)* In economics, inflation refers to the rise in general price level of goods and services in a country over a period of time. The term 'inflation' originally referred to increases in the amount of money in circulation and some economists still use the word in this way. So, decreased money circulation helps in controlling the inflation. However, most economists today use the term 'inflation' to refer to a rise in the price level. Controlling the inflation in India is major responsibility of Indian Government and the Reserve Bank of India (RBI).

16. The substitution of steel for wooden ploughs in agricultural production is an example of **[IAS 2015]**

(a) labour-augmenting technological progress
(b) capital-augmenting technological progress
(c) capital-reducing technological progress
(d) None of the above

Exp *(b)* Capital augmenting technological progress results in more productive use of existing capital goods. The best example for capital augmentation technology is the substitution of steel for wooden ploughs in agricultural production.

17. In the 'Index of Eight Core industries', which one of the following is given the highest weight? **[IAS 2015]**

(a) Coal production
(b) Electricity generation
(c) Fertilizer production
(d) Steel production

Exp *(b)* The Eight Core industries comprise nearly 38% of the weight of items included in the Index of Industrial Production (IIP).

Core Industry	Weight
Coal Production	4.38%
Crude Oil	5.22%
Natural Gas	1.71%
Refinery Products	0.93%
Fertilizer Production	1.25%
Steel Production	6.68%
Cement	2.41%
Electricity Generation	10.32%

18. With reference to 'Indian Ocean Rim Association for Regional Co-operation (IOR-ARC)', consider the following statements **[IAS 2015]**

1. It was established very recently in response to incidents of piracy and accidents of oil spills.
2. It is an alliance meant for maritime security only.

Which of the statements given above is/are correct?

(a) Only 1
(b) Only 2
(c) Both 1 and 2
(d) Neither 1 nor 2

Exp *(d)* Objectives of IOR-ARC is to promote the sustained growth and balanced development of the region and of the Member States, and to create common ground for regional economic co-operation.

6 *priority areas are as following:*

1. Maritime Safety and Security
2. Trade and Investment Facilitation
3. Fisheries Management
4. Disaster Risk Management
5. Academic, Science and Technology
6. Tourism and Cultural Exchanges

Hence, option *(d)* is correct

Providing security is not the only objective of IOR-ARC. It also works in the field on economic co-operation, including trade, tourism, education, ICT etc. Therefore, statement 2 is incorrect. It is not a recently formed organisation, but dates back to 1997. So, statement 1 is also false.

19. 'Basel III Accord' or simply 'Basel III', often seen in the news, seeks to **[IAS 2015]**

(a) develop national strategies for the conservation and sustainable use of biological diversity
(b) improve banking sector's ability to deal with financial and economic stress and improve risk management
(c) reduce the Green House Gas emission but places a heavier burden on developed countries
(d) transfer technology from developed countries to poor countries to enable them to replace the use of chlorofluorocarbons in refrigeration with harmless chemicals

Exp *(b)* According to Basel Committee on Banking Supervision, "Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector". Basel III or Basel 3 released in December, 2010 is the third in the series of Basel Accords. These accords deal with risk management aspects for the banking sector.

20. India is a member of which among the following? **[IAS 2015]**

1. Asia-Pacific Economic Co-operation
2. Association of South-East Asian Nations
3. East Asia Summit

Select the correct answer using the codes given below

(a) 1 and 2
(b) Only 3
(c) 1, 2 and 3
(d) India is a member of none of them

Exp *(b)* At present, India is not a member of Asia-Pacific Economics Co-operation (APEC). It does not belong to the Association of South-East Asian Nations (ASEAN) group as well. The East Asia Summit (EAS) is a forum held annually by leaders of, initially, 16 countries (included India) in the East Asian region. Membership expanded to 18 countries including the United States and Russia at the 6th EAS in 2011.

Hence, option *(b)* is correct.

21. Consider the following statements **[IAS 2015]**

1. The Accelerated Irrigation Benefits programme was launched during 1996-97 to provide loan assistance to poor farmers.
2. The Command Area Development programme was launched in 1974-75 for the development of water use efficiency.

Which of the statement given above is/are correct?

(a) Only 1 (b) Only 2
(c) Both 1 and 2 (d) Neither 1 nor 2

Exp *(b)* Accelerated Irrigation Benefits Programme (AIBP) was launched by government of India during 1996-97 to assist states for early and time bound completion of major and medium irrigation projects and extension, renovation and modernisation of completed major medium projects. Under the programme, Central assistance to the states was in the form of loan.

The Command Area Development Programme (CADP) started in 1974-75 as a Centrally-sponsored scheme, envisaged execution of on- farm development works like field channels, land levelling, field drains and conjunctive use of ground and surface water; the introduction of Warabandi, or the rotational system of water distribution to ensure equitable and timely supply of water to each holding; and evolving and propagating crop patterns and water management practices appropriate to each command area.

Hence, option *(b)* is correct

22. Which of the following brings out the 'Consumer Price Index Number for Industrial Workers'? **[IAS 2015]**

(a) The Reserve Bank of India
(b) The Department of Economic Affairs
(c) The Labour Bureau
(d) The Department of Personnel and Training

Exp *(c)* The Labour Bureau brings out the Consumer Price Index Number for industrial workers. The new series on base 2001=100 has been released on 9th March, 2006 with January, 2006 index which has replaced the earlier (1982=100) series. Labour Bureau is the competent authority under the Minimum Wages Act, 1948 to ascertain, from time-to-time, the Consumer Price Index Numbers applicable to employees employed in the Scheduled employments in respect of all the undertakings in the Central Sphere and the Union Territories.

23. Which one of the following issues the 'Global Economic Prospects' report periodically? **[IAS 2015]**

(a) The Asian Development Bank
(b) The European Bank for Reconstruction and Development
(c) The US Federal Reserve Bank
(d) The World Bank

Exp *(d)* The World Bank issues the Global Economic Prospects' report. The World Bank's twice-yearly (January and June) Global Economic Prospects examines growth trends for the global economy and how they affect developing countries. The reports include 3 years forecasts for the global economy and long-term global scenarios which look 10 years into the future. Topical annexes in this online publication cover financial markets, trade, commodities and inflation.

24. **When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen?** **[IAS 2015]**

(a) India's GDP growth rate increases drastically
(b) Foreign Institutional Investors may bring more capital into our country
(c) Schedule Commercial Banks may cut their lending rates
(d) It may drastically reduce the liquidity to the banking system

Exp *(c)* Statutory Liquidity Ratio (SLR) is the amount of money that is invested in certain specified securities predominantly Central and State Government securities. This percentage is of the percentage of the total bank deposits available as far as the particular bank is concerned.
The SLR is maintained in order to control the expansion of Bank Credit. By changing the level of SLR, Reserve Bank of India can increase or decrease bank credit expansion. When the RBI reduces the SLR by 50 basis points, then scheduled Commercial banks may cut their lending rates.

25. **The problem of international liquidity is related to the non-availability of** **[IAS 2015]**

(a) goods and services
(b) gold and silver
(c) dollars and other hard currencies
(d) exportable surplus

Exp *(c)* The Concept of International Liquidity is associated with international payments. These payments arise out of international trade in goods and services and also in connection with capital movements between one country and another.
International liquidity is foreign currency like dollars, sterling or gold in the reserve of any country.
It is very useful to pay the amount of imported goods and reduce balance of payment deficit. Every country should increase exports for reducing international liquidity shortage.

26. **Convertibility of rupee implies** **[IAS 2015]**

(a) being able to convert rupee notes into gold
(b) allowing the value of rupee to be fixed by market forces
(c) freely permitting the conversion of rupee to other currencies and *vice- versa*
(d) developing an international market for currencies in India

Exp *(c)* Convertibility of a currency means, currency of a country can be freely converted into foreign exchange at market determined rate of exchange that is, exchange rate as determined by demand for and supply of a currency.
Convertibility of rupee means that those who have foreign exchange (e.g. US Dollars, Pound Sterlings etc) can get them converted into rupees and *vice-versa* at the market determined rate of exchange.

27. **Which one of the following best describes the main objective of 'Seed Village concept'?** **[IAS 2015]**

(a) Encouraging the farmers to use their own farm seeds and discouraging them to buy the seeds from others
(b) Involving the farmers for training in quality seed production and thereby to make available quality seeds to others at appropriate time and affordable cost
(c) Earmarking some villages exclusively for the production of certified seeds
(d) Identifying the entrepreneurs in villages and providing them technology and finance to set-up seed companies

Exp *(b)* A village, wherein trained group of farmers are involved in production of seeds of various crops and cater to the needs of themselves, fellow farmers of the village and farmers of neighbouring villages in appropriate time and at affordable cost is called 'a seed village'.

28. **If the interest rate is decreased in an economy, it will** **[IAS 2014]**

(a) decrease the consumption expenditure in the economy
(b) increase the tax collection of the government
(c) increase the investment expenditure in the economy
(d) increase the total savings in the economy

Exp *(c)* A decreased interest rate would lead to cheaper loans, which would further help in increasing the investment expenditure by private players, as the loans would be cheaper. Thus, decreasing the interest rate in an economy would lead to an upward shift in the investment expenditure of the economy.

29. **Which of the following organisations brings out the publication known as 'World Economic Outlook'?** **[IAS 2014]**

(a) The International Monetary Fund
(b) The United Nations Development Programme
(c) The World Economic Forum
(d) The World Bank

Exp *(a)* World Economic Outlook (WEO) is a survey conducts and published by the International Monetary Fund. It is published twice and partly updated 3 times a year. WEO forecasts include the macro-economic indicators such as GDP, inflation, current account and fiscal balance of more than 180 countries around the globe.

30. **With reference to Union budget, which of the following is/are covered under non-plan expenditure?** **[IAS 2014]**

1. Defence expenditure
2. Interest payments
3. Salaries and pensions
4. Subsidies

Select the correct answer using the codes given below

(a) Only 1 (b) 2 and 3
(c) All of these (d) None of these

Exp *(c)* Plan expenditure includes money given to union's own Five Year Plans and money given to states Five Year Plans and any expenditure other than that of plan expenditure, comes under non-plan expenditure.
So, all the 4 options mentioned in the question above comes under non-plan expenditure.
Hence, the correct answer is *(c)*.

31. **What does venture capital mean?** **[IAS 2014]**

(a) A short-term capital provided to industries
(b) A long-term start-up capital provided to new entrepreneurs
(c) Funds provided to industries at times of incurring losses
(d) Funds provided for replacement and renovation of industries

Exp *(d)* Money provided by investors to start up firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns. This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt.

32. The main objective of the Twelfth Five Year Plan is **[IAS 2014]**

(a) inclusive growth and poverty reductions
(b) inclusive and sustainable growth
(c) sustainable and inclusive growth to reduce unemployment
(d) faster, sustainable and more inclusive growth

Exp ***(d)*** Planning Commission Government in plans mentions the objective of Twelfth Five Year Plan as faster, more inclusive and sustainable growth.

33. The terms 'Marginal Standing Facility (MSF) Rate' and 'Net Demand and Time Liabilities (NDTL)', sometimes appearing in news, are used in relation to **[IAS 2014]**

(a) banking operations
(b) communication networking
(c) military strategies
(d) supply and demand of agricultural products

Exp ***(a)*** MSF is the rate at which banks can borrow overnight from RBI. This was introduced in the Monetary Policy of RBI for the year 2011-2012. The MSF is pegged 100 bps or a % above the repo rate. Banks can borrow funds through MSF when there is a considerable shortfall of liquidity.
This measure has been introduced by RBI to regulate short-term asset liability mismatches more effectively been introduced by RBI to regulate short-term asset liability mismatches more effectively.
NDTL, on the other hand, refers to the sum of demand and time liabilities of banks with public and other banks. The deposits with the bank are its liabilities, which are payable on demand. It includes current deposits, demand liabilities, demand drafts etc.

34. With reference to the usefulness of the by products of sugar industry, which of the following statement(s) is/are correct? **[IAS 2013]**

1. Bagasse can be used as biomass fuel for the generation of energy.
2. Molasses can be used as one of the feed stocks for the production of synthetic chemical fertilizers.
3. Molasses can be used tor the production of ethanol.

Select the correct answer using the codes given below

(a) Only 1
(b) 2 and 3
(c) 1 and 3
(d) All of the above

Exp ***(c)*** Bagasse is the fibrous material, which is left over after juice is extracted from sugarcane. It is a good source of energy and usually produces enough electricity to power all of the mill's operations. Molasses are organic substances and can be used as organic fertilizer and not synthetic fertilizer. Sugarcane ethanol is produced by the fermentation of sugarcane and molasses. It is emerging as a leading additive to petrol based fuels in the transportation sector.

35. When the annual Union Budget is not passed by the Lok Sabha? **[IAS 2012]**

(a) The budget is modified and presented again
(b) The budget is referred to the Rajya Sabha for suggestions
(c) The Union Finance Minister is asked to resign
(d) The Prime Minister submits the resignation of Council of Ministers

Exp ***(a)*** This is perhaps the most contentious question given this time. Option *(d)*, though favoured by many, is not tenable as the only single way for the resignation of Prime Minister and Union Council of Ministers is a defeat in the Lok Sabha through the no-confidence motion. Unless that is passed, it is deemed that the Council of Ministers enjoy the confidence of the house.
Referring to Rajya Sabha may seem correct, but the significance of Rajya Sabha is very low in financial matters.
The correct answer is option *(a)*. The logic behind this is that if the budget has not been passed owing to some policy disagreements by legislators over taxation or expenditure and the government intend to modify them and bring in a modified budget acceptable to all, it is completely valid for the government to withdrew the budget and pass a modified 1.

36. A rapid increase in the rate of inflation is sometimes attributed to the 'base effect'. What is 'base effect'? **[IAS 2012]**

(a) It is the impact of drastic deficiency in supply due to failure of crops
(b) It is the impact of the surge in demand due to rapid economic growth
(c) It is the impact of the price levels of previous year on the calculation of inflation rate
(d) None of the above

Exp ***(c)*** Base effect is the impact of the price level of previous years on the calculation of inflation rate. If inflation is calculated from a base year, in which price index is assigned the number 100. So, if price index in 2010 was 100 and the price index in 2011 rose to 110, then inflation rate would be 10%. If the price index rose to 115 in 2012, then we will say prices have risen by 5% over the previous year, but in reality, prices have increased by 15% since 2010. So, high inflation in 2011 makes inflation rate in 2012 look relatively small and doesn't really provide an accurate picture. This distortion is the base effect.

37. India is regarded as a country with 'demographic dividend'. This is due to **[IAS 2012]**

(a) its high population in the age group below 15 years
(b) its high population in the age group of 15-64 years
(c) its high population in the age group above 65 years
(d) its high total population

Exp ***(b)*** India has a majority population in the age brake 15-64 years and hence, benefits from demographic dividend.

38. Regarding 'carbon credits', which one of the following statements is not correct? **[IAS 2012]**

(a) The carbon credit system was ratified in conjunction with the Kyoto Protocol
(b) Carbon credits are awarded to countries of group that have reduced greenhouse gases below their emission quota
(c) The goal of the carbon credit system is to limit the increase of carbon dioxide emission

(d) Carbon credits are traded at a price fixed from time-to-time by the United Nations Environment Programme

Exp ***(d)*** Carbon credits are not traded at fixed prices under the aegis of the UN Environment Programme.

39. Consider the following actions which the government can take. **[IAS 2012]**

1. Devaluing the domestic currency.
2. Reduction in the export subsidy.
3. Adopting suitable policies which attract greater FDI and more funds from FIIs.

Which of the above action/actions can help in reducing the current account deficit?

(a) 1 and
(b) 2 and 3
(c) Only 3
(d) 1 and 3

Exp ***(d)*** All options are seemingly correct. Devaluation of currency helps to overcome large current account deficits as they help boost exports. Reduction in export subsidy may not necessarily mean that exports are not performing well and may also means by withdrawing the subsidies fiscal deficit is being reined and consequently, improving the economic outlook. FDI and FII strictly come under capital account, but their promotion do bridge the current account deficit not directly, but through make up for balance of payments.
Since, there are differing views over the context of the question, it remains to be seen how the UPSC evaluates the question. Hence, the correct option might be *(d)*.

40. Which one of the following statements appropriately describes the 'fiscal stimulus'? **[IAS 2012]**

(a) It is a massive investment by the government in manufacturing sector to ensure the supply of goods to meet the demand surge caused by rapid economic growth
(b) It is an intense affirmative action of the government to boost economic activity in the country
(c) It is government's intensive action of financial institutions to ensure disbursement of loans to agriculture and allied sectors to promote greater food production and contain food inflation
(d) It is an extreme affirmative action by the government to pursue its policy of financial inclusion

Exp ***(b)*** Fiscal stimulus involves affirmative action like tax breaks, boosting public investments etc to overcome the downward effect of business contraction.

41. India has experienced persistent and high food inflation in the recent past. What could be the reasons? **[IAS 2012]**

1. Due to a gradual switch over to the cultivation of commercial crops, the area under the cultivation of food grains has steadily decreased in the last 5 years by about 30%.
2. As a consequence of increasing incomes, the consumption patterns of the people have undergone a significant change.
3. The food supply chain has structural constraints.

Which of the statements given above are correct?

(a) 1 and 2
(b) 2 and 3
(c) 1 and 3
(d) All of the above

Exp ***(b)*** Statement 1 is partially correct as there is infact a decline in the area of cultivation of food crops, but is not as drastic as 30%. Indeed, the acreage of pulses and other coarse cereals have marginally increased whereas that of rice and wheat have decline. In any case, the decline of 30% is incorrect.

42. Both Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII) are related to investment in a country. Which one of the following statements best represents an important difference between the two? **[IAS 2012]**

(a) FII helps bring better management skills and technology, while FDI only brings in capital
(b) FII helps in increasing capital availability in general, while FDI only targets specific sectors
(c) FDI flows only into the secondary market, while FII targets primary market
(d) FII is considered to be more stable than FDI

Exp ***(b)*** FII is like hot money, it pours in very quickly and leaves off also very quickly whereas FDI is more stable and long-term. So, in short-term, FII helps in increasing capital availability. But attracting FDI is a tough work and since they are long-term, therefore FDI targets only specific sectors of economy.

43. Which one of the following is not a feature of 'Value Added Tax' (VAT)'? **[IAS 2012]**

(a) It is a multi-point destination based system of taxation
(b) It is a tax levied on value addition at each stage of transaction in the production-distribution chain
(c) It is a tax on the final consumption of goods or services and must ultimately be borne by the consumer
(d) It is basically a subject of the Central Government and the State Governments are only a facilitator for its successful implementation

Exp ***(d)*** Option *(a)* may seem correct as VAT is value based and not destination based. But one has to carefully read the statement. It says VAT is multi-point destination based system of taxation, which is understood as multiple chains of consumers paying their respective tax portions according to value addition.
VAT is a subject of legislation for the states and the state sales tax is actually a VAT, which is major source of revenue for the State Governments.

44. A 'closed economy' is an economy in which **[IAS 2012]**

(a) the money supply is fully controlled
(b) deficit financing takes place
(c) only exports take place
(d) neither exports nor imports take place

Exp ***(d)*** Closed economy involve no export nor import as the country is deemed to be self-sufficient. Some say, North

Korea is an example of closed economy, although the government over their do purchase arms from other countries clandestinely.

45. With reference to India, consider the following Central Acts **[IAS 2012]**

1. Import and Export (Control) Act, 1947.
2. Mining and Mineral Development (Regulation) Act, 1957.
3. Customs Act, 1962.
4. Indian Forest Act, 1927.

Which of the above acts have relevance to/ bearing on the biodiversity conservation in the country?

(a) 1 and 3 (b) 2, 3 and 4
(c) All of these (d) None of these

Exp ***(c)*** All 4 acts are related to biodiversity. Import and export of GMOs or exotic species is prohibited whereas certain medicinal plants are subjected to high custom duties to regulate their trade. Mines regulation and forest conservation anyway involve provisions related to biodiversity conservation.

46. Karl Marx explained the process of class struggle with the help of which one of the following theories? **[IAS 2012]**

(a) Empirical liberalism
(b) Existentialism
(c) Darwin's theory of evolution
(d) Dialectical materialism

Exp ***(d)*** Dialectical materialism is the major theme of Marxism.