CS Mains G.S - III
Part - 2

NOTE: As the question on this topic may not come in the exact form in C. S Main Examination, we have given slightly more information so that candidates can answer a question on this topic even if it is differently framed. Though care has been taken to give accurate information, if there are any inaccuracies, please write to us at rcreddy.testseries@gmail.com . It will be referred to experts and, if need be, correction will be made.

Q1. Reserve Bank of India Act 1934 has been amended by the Finance Act 2016 providing for Monetary Policy Committee. Why? Explain the composition and functions of Monetary Policy Committee.

Reasons for constituting Monetary Policy Committee are

- to ensure decisions with the approval of majority of the members of the Monetary Policy Committee as collective wisdom is superior to an individual's decision, that is, RBI Governor's decision,
- to ensure transparency in decision making as the new procedure provides for recording of reasons for supporting a particular decision and making them public,
- developed countries like the U S A, and the U K have been following this method, and
- for achieving coordination between fiscal policy and monetary policy.

The Monetary Policy Committee consists of six members, three from RBI (the Governor of RBI, Deputy Governor, and an another official of RBI) and three independent experts in economics,banking,etc. nominated by the Government of India on the advice of a search committee.The Governor of RBI presides over the meetings. The experts have a tenure of four years, and are not eligible for reappointment.

Regarding functions, it decides on monetary policy issues such as Repo rate, etc.for achieving inflation target, and growth with the approval of majority of members. In case of a tie, the Governor of RBI exercises his casting vote.

Q2. In 2015 Planning Commission was replaced with NITI Ayog. How is it better than Planning Commission? Is planning irrelevant? Support your view with reasons.

NITI Aayog is better than Planning Commission because it contributes to

Cooperative Federalism, whereas Planning Commission contributed to unitary tendencies in a Federation.

Governing Council of NITI Aayog consists of Chief Ministers and Lieutenant Governors of Union Territories whereas States were not represented in the Planning Commission, though Chief Ministers were represented in National Development Council which used to meet once in a year.

In formulation of policies by NITI Aayog, Chief Ministers are involved whereas they were not involved in formulation of policies by the Planning Commission.

Planning is relevant as long as poor or low income groups exist because market economy or unplanned economy responds to demand (want backed by money) Hence, even in unplanned economies like the U S A indicative planning exists. In India, we require decentralised planning, that is, planning at levels other than national level like State level, District level, Block level and Village level.

Q3. The President of India, recently, gave his assent to The Constitution (One Hundred and twenty second Amendment) Act, considered as a game changing tax reform. Elaborate the advantages of GST reform.

GST is one indirect tax for the whole nation, with a few exceptions like basic customs duty at the central level and alcohol for human consumption at the state level, which will make India one unified common market. The benefits of GST can be summarised as under:

For business and industry

- <u>Tax compliance and transparency</u>: The comprehensive IT system behind the GST regime will enable all tax payer services such as registrations, returns, payments, etc. to be available online, which would make compliance easy and transparent.
- <u>Uniformity of tax structures</u>: GST will ensure that indirect tax rates and structures are common across the country, thereby increasing investor confidence and ease of doing business.
- <u>Removal of cascading effect</u>: A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes.
- <u>Improved competitiveness:</u> Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- <u>Gain to manufacturers and exporters</u>: GST would reduce the cost of locally manufactured goods and services because of low tax compliance costs and removal of cascading effect. This will increase the competitiveness of Indian goods and services in the international market and give boost to our Make in India campaign.

For Central and State Governments

- <u>Simple and easy to administer</u>: Backed with a robust end-to-end IT system, GST would be simpler and easier to administer.
- <u>Higher revenue efficiency:</u> GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

For the consumer

- <u>Lowering of prices:</u> Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers in the form of reduced prices.
- Due to this reduced prices, it creates better competition and level playing fields within the market which leads to better availability of various goods at affordable prices.

Thus GST is a game changing tax reform.

Q4. Though India has one of the strongest banking system in the world, yet not a single bank featured in the top-50 banks list of the world. In the light of this statement, critically examine the recent Union Cabinet's approval of the merger of SBI's associates into SBI.

The recent cabinet decision to merge State Bank of Bikaner and Jaipur, State Bank of Travancore, State Bank of Mysore, State Bank of Hyderabad, State Bank of Patiala and Bharatiya Mahila Bank into the State Bank of India is expected to the strengthen the Indian banking system.

<u>Advantages of the merger of the banks</u>

- This merger will result in **consolidation of assets and liabilities** which will lead to not only in an increased size of the bank but also an administrative uniformity across all the sections of all these banks.

- After merging the total NPAs will be around 7-8 % which is manageable considering the bank size which leads to lower lending rates.
- This merger would put **SBI as one among the top-50 largest banks across the world**. This would improve the brand value of the bank.
- SBI's reach and network will multiply. This leads to **better lending availability and accessibility** especially to the low income groups, leading to goals of better financial inclusion
- **Risk Management** of SBI is very efficient Which can be used for the efficient management of associate banks.
- Dependence of SBI on government's capital infusion is likely to reduce due to better management of capital of all these banks.This will lead to effective spending of government towards more stressed public sector banks.

Concerns on the merger of the banks:

- There are apprehensions among the banking labour unions that the consolidation will lead ?to job losses.?
- With the **growing uncertainty in the global economy**, any small mistake in management of such a large bank like SBI might cause collapse of the banking sector in India.
- Experts argue that consolidation should take place in a positive environment. The present process of consolidation is not driven by the inherent strength of the banking system. It is resorted to escape from the problem of NPAs.

Hence, based on the above considerations the government should take gradual steps for the merger of the banks. In addition to the merger, government should seriously consider the much required reforms in banking sector as mandated under **INDRADANUSH** program and provide required autonomy in management of PSBs as suggested by **PJ Nayak committee**. These reforms will help in a holistic revival and stability of our banking sector.

Q5. "The Indian Micro, Small and Medium Enterprises (MSMEs) sector contributes to an inclusive and sustainable society in myriad ways and assumes a pivotal role in accelerating the growth engine." In the light of above statement explain the significance of Indian MSME sector. Further, enumerate how MUDRA bank shall aid growth in this sector.

MSMEs are important for the national objectives of economic prosperity with social equity and inclusion. The significance of MSME sector is as follows:

- It contributes nearly 8 percent of the country's GDP.
- It contributes 40 percent of the exports earning foreign exchange reserves and stabilising CAD.
- The labour to capital ratio in MSMEs and the overall growth in the sector is much higher than in the large industries. Thus the sector provides large employment opportunities (42 million) second only to agriculture.
- In the times of rising unemployment levels, it provides maximum opportunities for both self-employment and entrepreneurship. Thus reaping the benefits of demographic dividend.
- According to Economic Survey 2015-16, 62% of these are owned by SC/ST/OBC. This exemplifies the inclusive dimension of MSME sector.
- The wider distribution of these MSMEs in rural areas and their development reduces the rural-urban divide.

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Thus, the significance of MSMEs is attributed to their caliber for employment generation, low capital and technology requirement, promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products.

MUDRA Bank

Recently Government has set up a Micro Units Development and Refinance Agency (MUDRA) Bank which would primarily be responsible for –

— Laying down policy guidelines for micro/small financing institution (MFIs).
— Registration, Regulation, Accreditation /rating of MFI entities
— Laying down responsible financing practices to ward off indebtedness and ensure proper client protection principles and methods of recovery.
— Formulating and running a Credit Guarantee scheme for providing guarantees to the loans which are being extended to micro enterprises
— Creating a good architecture of Last Mile Credit Delivery to micro businesses under the scheme of Pradhan Mantri Mudra Yojana.

The above measures would not only help in increasing access of finance to the unbanked but also bring down the cost of finance from the last mile financers to the micro/small enterprises. Further, with priority given to SCs,STs and women entrepreneursby stipulating that at least one each from these groups should be financed for setting up enterprises,MUDRA is a step in right direction towards socio-economic justice.

Q6. Recently, Parliament has recognised 101 more National Waterways. What are the advantages of Inland waterways? Discuss the challenges faced by Government in developing these new national waterways?

The inland waterways transportation has several advantages than other modes of transport -

- It provides cheaper transport option for heavy and bulky cargos because of it capability of transporting large amount of cargo goods.(Economies of scale)
- It is a fuel efficient and environment friendly mode of transportation.
- These waterways require relatively lesser initial investment and less annual cost for maintenance of river channels.
- This also leads to de-congestion of stressed railways and roadways.
- In north-east India, road and rail transport is blocked during rains. It is also difficult to construct roads or railways in these areas. Hence, water transport is more suitable in such region.

To realise the potential of Inland waterways, Parliament has enacted **National Waterways Act, 2016** identifying 101 waterways as national waterways in addition to existing five. However, the Union government is faced with several challenges:

- **Involvement of states:** While the subject of national waterways is on the Union List, water (includes irrigation and canals) is on the State List. Union government must take suitable measure to ensure states cooperation and partnership.
- **Technical feasibility:** Many of the proposed national waterways do not have sufficient water levels throughout the year as majority are rain-fed rivers.
- **Environmental constraints**: There's a potential threat to the environment and bio-diversity of these regions, like in the form of oil spills, dredging, sound pollution (motor boats) etc.
- **Clearances**: Several clearances under various environmental laws such as the Environment Protection Act, 1986, the Wildlife Protection Act, 1972, the Indian Forest

Act, 2006 and the Coastal Regulation Zone Notification would be required which could delay the projects..

- **Inland Waterways Authority of India (IWAI):** Currently the organizational set up and offices of the IWAI are not sufficient enough to undertake the tasks related to 101 waterways. The IWAI should be strengthened with extra manpower and expertise in the field.

Thus, consistent and coherent efforts from all the stakeholders will ensure success of the project.

Q7. What do you understand by Disinvestment? Discuss the merits and demerits of disinvestment. Further, enumerate the salient features of Union government's disinvestment policy.

Disinvestment is a process in which ab public undertaking reduces its portion in equity by disposing its shareholding. The disinvestment emerged along withliberalization. And ever since it has been in debate.

Merits

- The disinvestment process would bring in better corporate governance, exposure to competitive, corporate responsibility, improvement in work environment etc.
- The market participation in capital of PSUs through stock exchanges would enable the market to discover the latent worth of PSUs.
- The Loss making PSUs can be successfully revived by asking the strategic partner to infuse fresh capital and exercising excellent management control over sick PSUs.
- Resources gained through disinvestment can be used to modernise PSUs.
- Disinvestment can help government is closing down its fiscal deficit.
- Disinvestment has now become an indicator of government seriousness of economic reforms and pursuing such policy will earn more credibility at global stage and attract investors.

Demerits

- Selling of profit-making and dividend paying PSU would result in loss of regular source of income to the government.
- There would be chances of 'asset stripping' by the strategic partner. Most of the PSUs have valuable assets in the shape of plant and machinery, land and buildings etc.
- The Government's Policy or disinvestment includes the disposal of both profit making, as well potentially viable PSUs.

The salient features of Union government's Disinvestment Policy are:

(i) Promote **public ownership** of CPSEs as they are the wealth of the Nation.

(ii) **Government will retain majority** shareholding, i.e. at least 51 per cent of the shareholding and management control of the Public Sector Undertakings even while pursuing disinvestment through minority stake sale in listed CPSEs

(iii) **Strategic disinvestment** by way of sale of substantial portion of Government shareholding in identified CPSEs upto 50 per cent or more, along with transfer of management control.

Q8. "Livestock sector has the potential to ensure national food security, alleviate rural poverty and reduce rural-urban disparities." In the light of this statement, elaborate the significance of Livestock sector in socio-economic prosperity of India.

India's livestock sector is one of the largest in the world, contributing 25 per cent of agriculture GDP sector. The potential of livestock sector in contributing to socio-economic development of country is discussed below:

Livestock Products:

- Livestock sector assumes special significance in the present context of sustained rising income and **changes in taste and preference** that have lead to dietary changes reflecting the importance of nutrient-rich products like milk, meat, egg and fish. (changing lifestyles).

- **Dung** as an organic manure and domestic fuel, hides and skin are a regular source of cash income for rural households.

Role in poverty alleviation:

- Income from livestock acts as cushion from crop failures and minimizes distress among farmers. Thus, assuming the role of a financial institution as an insurance against income shocks.

- Livestock are a **natural capital**– a living bank with offspring as interest.

- The distribution patterns of income and employment show that small farm and the landless farmers households benefit more by livestock production.

- Animal husbandry promotes **gender equity**. More than three-fourth of the labour demand in livestock production is met by women. The share of women employment in livestock sector is around 90%.

Other benefits:

- **Synergetic relationship with crop production**: Livestock obtain their feed and fodder requirements from crop residues and by-products, and in turn provide draught power and organic manure for cropping activities.

- **Global market** for animal products is expanding fast, and is an opportunity for India to improve its participation in global market and earn foreign exchange.

Thus, rapid growth of this sector aids pro-poor and inclusive growth of the farm sector.

Q9. What do you understand by 'Financial Inclusion'? Why is it important? Discuss the recent initiatives of the Union Government to improve financial inclusion.

Financial Inclusion is the access to financial services (like savings, transfers, credit, insurance etc.) at affordable costs to all sections of the society, in particular the disadvantaged (Minorities, SCs, STs, women, rural, etc.) and low-income groups.

Benefits of Financial Inclusion:

- Access to formal financial credit will reduce dependence on money lenders who collects usurious interest rates from borrowers
- It creates a platform for inculcating the habit of saving money among the lower income groups.
- Direct cash transfers to beneficiary bank accounts, instead of physical cash payments against subsidies will become possible. This also ensures that the funds actually reach the intended recipients instead of being siphoned off along the way.
- Access to adequate and transparent credit from formal banking channels shall allow entrepreneurship to prosper in rural areas.
- Capital formation in the economy is expected to increase with greater financial inclusion, as people move away from traditional modes of savings in land, buildings, gold, silver, etc.

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Government has taken many steps to bring the unbanked population into the fold of financial markets.

These steps are:

- PM Jan Dhan Yojana with overdraft facility and accident insurance and Rupay Debit card
- Payment Banks and small banks to open bank branches in remote areas and to provide specific financial services suitable to a particular locality
- Thrust on m-banking by PSBs.
- Remuneration to Banking Correspondents has been increased.
- Bank -SHG linkage programme.
- The launch of Direct Benefit Transfer (DBT) through the support of Aadhaar and Bank Account is one of the biggest development that activated and retained people in the newly opened account.
- Unified Payments Interface (UPI), a payment mechanism promotes online money transactions - retail payments for e-commerce, small ticket money transfers for person to person payment, micropayments, utility bill payments etc.

Q10. "The Minimum Support Price (MSP) policy is one of the main reasons for imbalance in the crop diversity and other related issues". In the light of above statement assess the impact of MSP policy.

MSP (Minimum Support Price) announced by the government on the recommendation of CACP which has a profound impact on agriculture productivity:

Positive Impact

- It acts as a assurance to the farmers in cases of bumper crop and profitability.
- MSP policy is one of the reasons for success of Green Revolution and achieving Food security.
- MSP policy acts as an indicator to the farmers as to what crop to be grown. Thus influencing the cropping patterns.

Negative Impact

- Our MSP policy is skewed towards the cereals crops (rice and wheat). This leads to reduced crop diversity.
- This affects the production of vegetables, fruits, pulses, etc. which manifests in persistent price rise of pulses every year.
- Cereal production requires higher amounts of water, fertilizer, electricity etc. Skewed MSP policy leads to increased inputs costs and reduces the profit margin of the farmer. Government subsidy bill too increases.
- Farmers in the attempt to increase yields tend to over use of fertilizers especially urea which leads to soil degradation and salinity of fertile soils (eg. Fertile areas in Punjab, Haryana etc.)
- This skewed policy of pricing has also led to recurrent food inflation and a constant burden on the consumers affecting their nutrient intake.