Conquer Mains Challenge - Day 6

Posted at: 24/07/2018

GS 1

Related Syllabus: population and associated issues, poverty and developmental issues, urbanization, their problems and their remedies.

Municipal bonds to bolster city finances

Why in News?

The government is encouraging the urban local bodies (ULB) to raise funds by accessing the capital markets through issue of municipal bonds.

Funds for Local bodies:

Financing of the urban infrastructure is to be undertaken by the urban local bodies which apart from their ***own sources***, are given ***funds by way of devolution*** by the states and also by way of ***grants from the Center*** as fixed by the Finance Commission.

The ***total expenditure of the municipal sector*** accounts for about 0.6% of the national GDP in India, whereas it is substantially larger in comparable nations such as Poland (4.5%), Brazil (5%) and South Africa (6%).

Financial burden of cities:

It is estimated that Indian ***cities would collectively need to invest around Rs40***

trillion at constant prices in the two decades to 2031.Some 600 million Indians will be living in cities by then.

City revenue is ***less than 1% of gross domestic product***. And the share of own revenue in city budgets has been declining consistently. The net result is that cities do not have adequate ***financial autonom***y—a flaw that can be traced back to the landmark 74th constitutional amendment that empowered local governments. Cities depend heavily on money passed to them from either the national or the state governments.

The ***inability of cities to meet their growing needs will not only throw the economy off the rails but also create social tensions***.However, Indian cities do not have the financial capability to build this infrastructure. In this context, experts have time and again highlighted the significance of Municipal Bonds.

What are Municipal Bonds?

A municipal bond is ***a bond issued by a local government, or their agencies***. They are very popular among investors in many developed nations, especially in the U.S., where these have attracted investments totalling over $500 billion and are among preferred avenues for household savings.

How popular are they in India?

- With cumulative issuance of less than Rs 2,000 crore since the first issue in 1997, the municipal bonds market in India is virtually non-existent.
- In India, ***the Bangalore Municipal Corporation was the first municipal corporation to issue a municipal bond*** of Rs.125 crore with a State guarantee in 1997. However, the access to capital market commenced in January 1998, when the ***Ahmedabad Municipal Corporation (AMC) issued the first municipal bonds in the country without State government guarantee*** for financing infrastructure projects in the city. AMC raised Rs.100 crore through its public issue.
- Among others, Hyderabad, Nashik, Visakhapatnam, Chennai and Nagpur municipal authorities have issued such bonds.

Why do we need Municipal Bonds?

- There is ***massive capital investment need*** in municipal infrastructure and funds from programmes such as Jawaharlal Nehru National Urban Renewal Mission (JNNURM) can only partly meet the requirement. Municipal bonds can quite obviously play a pivotal, singular role in funding this gap.

- ***Municipal bonds can also simultaneously deepen the long-term infrastructure financing market*** in India as well as redirect retail investments into liquid securities (by city residents) away from real estate and gold.
- By creating opportunities for citizens (as retail investors) to invest in tangible public causes in their cities, these bonds can ***also build strong bonds of trust between municipalities and citizens***; bonds of trust that can galvanise citizen participation in cities at historic scale and to mutual financial benefit.

What should the government do now?

A ***long-term roadmap to financial self-sufficiency of municipalities*** needs to be drawn up covering powers over revenues and borrowings, efficiency of revenue administration (both assessments and collections) and systematic measurement, reporting and review of revenue performance. Such a roadmap will require collaborative effort between the Centre and the states.

There is ***a need to professionalise financial management in municipalities***. The scale of funding required for public expenditure in our cities cannot be met with the human resources (both in terms of numbers and skills and competencies) that they currently possess. The revenue and finance departments of municipalities need to be urgently professionalised and made market-oriented. The Institute of Chartered Accountants of India can play a significant role here.

There needs to be ***a deliberate creation and positioning of the municipal bond brand*** to make it popular among citizens, and a slew of enabling measures to make them attractive.

Enabling measures such as making all municipal bond issuances tax-free, making investments in muni bonds by banks part of their priority sector lending and actively encouraging pension funds and insurance companies to participate in municipal bond issuances need to be put into place by respective regulators. These are presently crucial missing links.

Municipalities need to produce audited balance sheets each financial year and get themselves credit-rated so that they are able to access the municipal bond market in a credible and sustained manner.

An agency that is ready to take some of the risk out of municipal bonds—through market making, credit enhancement and underwriting should be created.

Long term measures:

Bonds are merely a way to collect money today based on revenue to be generated tomorrow. They are ***not a substitute for city revenue***. So,***cities will still have to deal with hard policy issues*** such as collecting local taxes, user charges, stamp duties, etc. Bond investors are unlikely to put money into cities unless they are convinced about their fiscal strength. Some ***policy innovations may be needed*** till a proper market for bond insurance is in place.

Municipal bonds should thus be seen as only one part of a larger package to strengthen city finances. ***Cities need to generate more revenue as well as get more untied funds from the money collected through the new goods and services tax***. And to pull this all together will require city administrations that are empowered. Having directly elected mayors is an idea whose time has arrived.

Flow of Thoughts:

- What are Municipal Bonds.
- Why are they important?
- how can they best be utilized?
- Other reforms necessary for financial development of ULBs.

GS 2

Related Syllabus: India and its neighbourhood- relations. Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.

India's Foreign Policy- Bhutan:

Introduction:

Bhutan was a protectorate of British India and New Delhi inherited this relationship in 1947. The basic framework of India- Bhutan bilateral relations was the Treaty of Friendship and Cooperation signed in 1949 between the two countries, which was revised in February 2007.The India-Bhutan Friendship Treaty not only reflects the contemporary nature of our relationship but also lays the foundation for their future development in the 21st century. ***The Doklam impasse*** has further strengthened the bond between India and Bhutan.

Areas of Cooperation

Diplomatic Cooperation:

- Regular visits between highest level Government functionaries of both the countries have become a tradition. For example, in 2014, our Prime Minister chose Bhutan as his first country to visit after getting elected.
- India sends foreign service officers to Bhutan to maintain good diplomatic relations

Security Cooperation:

- Border relationship between India and Bhutan has remained very peaceful. There are no outstanding border disputes between the two countries.
- Both the countries have conducted joint military operation against insurgents. The most notable was in 2004, the Royal Bhutanese army conducted operations against ULFA (United Liberation Front of Assam)
- The Eastern Army Command and the Eastern Air Command both have integrated protection of Bhutan into their role. The Indian Military Training Team (IMTRAT), headed by a Major General, plays a critical role in training Bhutanese security personnel.
- The Doklam standoff highlighted New Delhi's defence commitment towards Bhutan.

Economic Cooperation:

- The currency of Bhutan is Indian Rupees
- India remains the single largest trading partner of Bhutan
- In 2016 a new trade agreement was signed. This agreement aims at cutting down the documentation related to trade and establishing additional trading points in Bhutan
- India has provided large scale financial assistance to Bhutan for its Five Year Plans
- In the hydropower sector, many hydropower projects in Bhutan has been developed with India's assistance
- India imports around 1540 MW of hydropower from Bhutan
- India has provided a standby credit facility of Rs 1000 crores to help Bhutan overcome the rupee liquidity crunch

Cultural and Educational Cooperation:

- India Bhutan foundation was established in 2003 for improving people to people cooperation in the areas of culture, education and environment protection

- India has provided scholarships for Bhutanese students studying in Undergraduate and Postgraduate courses in Indian institutions

Environment Cooperation:

India is considering to involve Bhutan in National Mission for Sustaining the Himalayas. The project aims at protecting the Himalayan ecosystem that has been endangered by numerous ecological problems.

Areas of Contentions

- The Motor Vehicles Agreement that was signed in 2015 involving Bangladesh, Bhutan, India and Nepal (BBIN) was blocked by Bhutan's upper house citing environmental concerns.
- India has been occasionally complained by Bhutan for meddling in its internal affairs. For Example, India's decision to withdraw its subsidies in cooking gas and kerosene in 2013. The timing of the decision was few weeks before general election in Bhutan and was seen as an attempt to influence the election outcome.
- Bhutan wants to increase its export power tariff to India that is complained for being lesser than its cost of production

China's Role:

- Bhutan was guided by India in its Defence and Foreign affairs. These provisions were removed by the 2007 treaty. This has the potential for China to have inroads in Bhutan's internal affairs and foreign policy.
- Bhutan has problems like high rates of unemployment and national debt. This can be a source for a economically strong China to exert its influence.

Way Forward:

- India needs to keep up its promise with respect to completion of projects on time. Some of the hydropower projects that were delayed due to lack of sufficient funds were to be completed on priority basis.
- India has a very good relationship with Bhutan whereas China has many border disputes with Bhutan. This relationship and goodwill must be maintained to counter China's strategic calculations in Bhutan.
- India needs to augment the connectivity of Bhutan and its North Eastern states for the region's economic development.

India needs to combine the Gross National Happiness of Bhutan with its own economic development to maintain a shared prosperity and relationship between the two countries.

Flow of Thoughts:

- India- Bhutan relations- background.
- Areas of cooperation.
- Challenges therein.
- Importance of secure neighbourhood.

GS 3

Related syllabus: Issues related to direct and indirect farm subsidies and minimum support prices; Public Distribution System- objectives, functioning, limitations, revamping; issues of buffer stocks and food security.

Agriculture Marketing- APMC Act:

What is Marketing?

Marketing and trade, as an activity comes at latter part of the value chain for any commodity and yet it is the most important determinant for all other activities. All the input expenses for labor, materials and capital are rewarded at this stage, which shall include some incentive over and above inputs.

What is Agriculture marketing?

Agriculture marketing means delivering farm product from farmers to the final consumers.

The ***National Commission on Agriculture*** defined agricultural marketing as a process which starts with a decision to produce a saleable farm commodity, and it involves all aspects of market structure of system, both functional and institutional, based on technical and economic considerations and includes pre- and post-harvest operations, assembling, grading, storage, transportation and distribution.

Government Intervention in Agriculture Markets:

Policy interventions in agricultural markets in India have a long history. Till the mid-1960s, it was mainly meant ***to facilitate the smooth functioning of markets and to keep a check on hoarding activities*** that were considered unfriendly to producers and/or consumers.

Subsequently, the country opted for ***a package of direct and indirect interventions in agricultural markets and prices***, initially targeted at procuring and distributing wheat and paddy. This gradually expanded to cover several other crops/products and aspects of domestic trade in agriculture.

The present policy framework for intervention in agricultural markets and prices can be broadly grouped under three categories:

- Regulatory measures.
- Market infrastructure and institutions.
- Agricultural price policy.

Agriculture Produce Marketing Committee Regulation (APMC) Act:

All wholesale markets for agricultural produce in states that have adopted the Agricultural Produce Market Regulation Act (APMRA) are termed as "regulated markets". With ***the exception of Kerala, J & K, and Manipur, all other states have enacted APMC Act***.

Key features:

The Act is implemented and enforced by APMCs established under it.

It mandates that the sale/purchase of agricultural commodities notified under it are to be ***carried out in specified market areas, yards or sub-yards***. These markets are required to have the proper infrastructure for sale of farmers' produce.

Prices in them are to be determined by open auction, conducted in a transparent manner in the presence of an official of the market committee.

Market charges for various agencies, such as commissions for commission agents (arhtiyas); statutory charges, such as market fees and taxes; and produce-handling charges, such as for cleaning of produce, and loading and unloading, are clearly defined, and no other deduction can be made from the sale proceeds of farmers. Market charges, costs, and taxes vary across states and commodities.

Advantages of APMCs:

- Removal of several malpractices and imperfections from agricultural markets.
- Provide transparent marketing conditions.
- Ensures fair deal to farmers to sell their produce.

Need for an overhaul:

The APMC act in recent years have developed certain inefficiencies, and the opponents have strongly argued to revamp the act as per the needs of the current situations.

Shortcomings in Current APMC system:

Monopoly of APMC – Monopoly of any trade (barring few exceptions) is bad, whether it is by some MNC corporation by government or by any APMC. It deprives farmers from better customers, and consumers from original suppliers.

Cartelization – It is quite often seen that agents in an APMC get together to form a cartel and deliberately restraint from higher bidding. Produce is procured at manipulatively discovered price and sold at higher price. Spoils are then shared by participants, leaving farmers in lurch.

Entry Barriers – License fee in these markets are highly prohibitive. In many markets farmers were not allowed to operate. Further, over and above license fee, rent/value for shops is quite high which keeps away competition. At most places only a group of village/urban elite operates in APMC.

Conflict of Interest – APMC play dual role of regulator and Market. Consequently its role as regulator is undermined by vested interest in lucrative trade. They despite of inefficiency won't let go any control. Generally, member and chairman are nominated/elected out of the agents operating in that market.

High commission, taxes and levies- Farmers have to pay commission, marketing fee, APMC cess which pushes up costs. Apart from this many states impose Value Added Tax.

Other Manipulations – Agents have tendency to block a part of payment for unexplained or fictitious reasons. Farmer is sometimes refused payment slip (which acknowledges sale and payment) which is essential for him to get loan.

APMC model act:

Taking these concerns into cognizance, Central Government appointed a working group which recommended a Model APMC act. Salient features are:

- ***Farmer doesn't need to bring his produce to APMC Mandi***. He can directly sell it to whomever he wants. But, if he doesn't bring his produce to Mandi, then he can't stand for election in that APMC marketing committee.
- It allows ***alternate markets*** such as direct purchase centers, private market yards/mandis.
- It ***increased responsibility of APMCs*** on following lines – Full payment should be made on day of sale itself; Quantity brought and prices should be displayed near arrival gate. Its being done electronically in many APMCs; Promote private partnership in management of APMCs; It shall make efforts to build facilities for Processing and other value additions.
- It allows ***Public Private Partnership*** in the 'management and development' of agricultural markets in the country for post-harvest handling, cold storage, pre-cooling facilities, pack houses etc.
- It not only allows, but strongly advocates for ***contract farming***. It also provides for dispute resolution mechanism.
- It mandates establish ***'State Agricultural Produce Marketing Standards Bureau'*** for Grading, Standardization and Quality Certification.
- It provides for ***abolishment of commission agent system***. Payments will be made for facilities such as grading, sorting, and processing.

Why model APMC Act is also considered inappropriate?

The model legislation has given rise to a ***conflict of interest***, as the APMC, which is a major player, is also the regulator/registering authority. There is ***reluctance on part of state governments to reform the APMC legislation***, as it generates huge revenues. Some states have created entry barriers by prescribing either prohibitive license fees for setting up such markets, or the minimum distance between private markets and APMC markets.

The various problems facing the agricultural marketing system were summarised by the Twelfth Plan Working Group on Agricultural Marketing (Planning Commission 2011):

- Too many intermediaries, resulting in high cost of goods and services;
- Inadequate infrastructure for storage, sorting, grading, and post-harvest management;

- Private sector unwilling to invest in logistics or infrastructure under prevailing conditions;
- Price-setting mechanism not transparent;
- Ill-equipped and untrained mandi staff;
- Market information not easily accessible; and
- Essential Commodities Act (ECA) impedes free movement, storage and transport of produce.

Karnataka model:

In this respect, Karnataka stands out from the other states. Its ***Rashtriya e Market Services Pvt. Ltd (ReMS)***, a joint venture with NCDEX Spot Exchange Ltd, is a good working example of what the model APMC envisaged.

What has been done?

- To ensure ease of doing business, it integrated 51 of the 155 main market yards and 354 sub-yards into a single licensing system.
- For improving efficiency and transparency, it introduced automated auction and post-auction facilities (weighing, invoicing, market fee collection and accounting).
- To guarantee quality, assaying facilities were made available in the markets.
- In collaboration with NCDEX, it linked all APMCs in the state electronically, and enabled the discovery of a single state price for every commodity on a single platform.

How has this model helped?

- It gave the ***farmer the power to accept, reject and bid the prices*** for his commodity on the basis of a transparent system.
- It ***increased the revenues of APMCs***.
- It helped in ***effective management*** of its funds and assets, and curbed corruption.
- It ***improved efficiency and transparency***, and also ensued ease of doing business.

The Karnataka model can help resolve the issues of all the stakeholders. The other states need to learn from this model.

Scheme for Promotion of National Agricultural Market:

- In July 2015, the cabinet committee on economic affairs earmarked an amount of Rs.200 crore for the Central Sector Scheme for Promotion of National

Agricultural Market through the Agri-Tech Infrastructure Fund.
- The scheme seeks to integrate 585 regulated markets in the country through a common e-platform and will also allow access for private markets.

Reforms need to be taken to realize national agricultural market:

- Single licence valid across the state.
- A single-point levy of market fee with elimination of multiple fees and taxes.
- Provision for electronic auction as a mode for price discovery for the agricultural produce.

Way ahead:

Agriculture is in the state list of the Constitution, and the unified agricultural market can be executed only in collaboration with the states. The states have already taken the lead in policy innovation, be it labour laws in Rajasthan, land acquisition reforms in Tamil Nadu or land pooling for urbanization in Andhra Pradesh. ***The Karnataka model of agricultural markets reforms should be seen as a similar case—a state innovation that can guide the whole country***.

Flow of Thoughts:

- What are APMCs?
- Features of APMC Act.
- Problems with the current Act and need for reforms.
- Alternatives.

GS 3

Related Syllabus: Biotechnology.

Generic medicines:

Why in News?

There has been substantial growth in the demand for generic medicines in the country in last four years and its market share has gone up to 7% from mere 1.2% in 2014.

What are generic drugs?

A generic drug is ***a medication created to be the same as an already marketed brand-name drug*** in dosage form, safety, strength, route of administration, quality, performance characteristics, and intended use. These similarities help to demonstrate bioequivalence, which means that ***a generic medicine works in the same way and provides the same clinical benefit as its brand-name version***. In other words, you can take a generic medicine as an equal substitute for its brand-name counterpart.

Need for Generic Drugs:

India is the ***largest supplier of generic drugs in the world***. Indian pharmaceutical companies have famously succeeded in pushing down the cost of medication in many countries across the world. Yet, ***too many Indian citizens do not get access to medicines owing to high costs***.

As per the latest National Sample Survey Office survey on healthcare, in 2014, ***medicines emerged as a principal component of total health expenses—72% in rural areas and 68% in urban areas***. For a country with one of the highest per capita out-of-pocket expenditures on health, even a modest drop in drug prices will free hundreds of households from the widespread phenomenon of a medical poverty trap.

Why do generic medicines cost less than brand-name medicines?

New drugs, like other new products, are usually protected by patents that prohibit others from making and selling copies of the same drug. The patent protects the company's investment in the drug's development by giving the company the sole right to sell the drug while the patent is in effect. Because it takes such a long time to bring a new drug to market, this period of exclusivity allows drug companies to recoup the costs associated with bringing a new drug to market.

Generic drugs also tend to cost less than their brand-name counterparts because ***generic drug applicants do not have to repeat animal and clinical (human)***

studies that were required of the brand-name medicines to demonstrate safety and effectiveness.

The reduction in upfront research costs means that, although generic medicines have the same therapeutic effect as their branded counterparts, they are typically sold at substantial discounts.

Challenges before generic medicines can become mainstream:

- The poor regulatory regime has dented perceptions about the quality of generic drugs.
- Since generic products don't advertise—and save costs that way—the good-quality manufacturers are not able to compete with shoddy manufacturers on cost.
- The incentive to cut costs increases as massive government contracts are allocated to the lowest bidder.

There are three fundamental areas of concern:

The first relates to the efficacy of Indian-made drugs. Oftentimes, such drugs have been found to contain less than the required amount of active pharmaceutical ingredient (API), rendering them ineffective.

Next is the lack of data integrity. The poorly managed documentation practices of Indian generic firms featured as the primary criticism flagged by foreign regulatory authorities. The lack of reliable and complete data on the test results of specific drug batches, along with inconsistencies in the records presented, meant that inspection and verification of drug quality was extremely difficult.

Another aspect relates to the hygiene standards of the manufacturing plants. Individuals suffering from illness are especially susceptible to infections, and inspections of generic drug plants reveal pest infestations and dilapidated infrastructure.

How can the government ensure that generics, apart from being cheap, are also safe for the patient?

Experts say the priority of the government should be ***to bring a legal framework to ensure "quality" in generic drug testing***. No more than 1% of generic drugs sold in India undergo quality tests. Generic drugs should work "therapeutically" and the government should ensure "uniform quality", experts say — only then can doctors prescribe them with confidence.

The government has to ***clarify how it will ensure that once a doctor prescribes the generic drug, detailing its medical composition, the pharmacist or chemist will give the most appropriate drug to the patient***. Even on the question of price, studies have shown that it is the retailer's margin that often plays the key role in deciding how much the patient pays for a drug.

Making it incumbent on the doctor to prescribe a generic drug would mean that the prescription will detail the medicine's composition — the salts — leaving the choice of the brand on the patient. However, for such a choice to be effective, the proposed law needs to go beyond the doctor-patient binary and target each link in the pharma industry's chain of corruption.

The generic medicine industry will also have to pull up its socks. Last year, 27 commonly-used medicines in the country failed ***quality tests***. The drugs were found wanting on several counts, including false labelling and inadequate quantity of ingredients. Ensuring quality of drugs is a problem in the absence of adequate regulations and shortage of drug inspectors and lab facilities to check drug quality. The number of drug inspectors — approximately 1,500 now — must be increased.

Way ahead:

Cheaper generics are one of the important factors for reducing healthcare cost. The practice of generic substitution is strongly supported by health authorities in many developed countries where bioequivalence tests are mandatory.

Low-cost medicines, apart from their attribute as a commercial commodity, have far-reaching implications on public health and international human rights. India has unambiguously subscribed to the pro-public health argument, and has articulated its position several times at home and in international forums.

Add- ONs for Mains:

Bioequivalence:In most countries, the generic drug manufacturers have to prove "bio-equivalence", i.e. the generic medicine works the same way, to the same extent and for the same purpose, as the originally patented drug

The regulations in India until April 2017, required bioequivalence testing only during the first four years of a drug becoming available for generic production. After four years, manufacturers only need permission from the state licensing authorities that don't demand the data.

Flow of Thoughts:

- What are Generic Drugs?
- How are they different from branded drugs?
- Significance of Generic Drugs for India.
- What should the government do to promote these drugs?
