



Conquer Mains Challenge - Day 9

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GS 1 & 2

Topics: Salient features of Indian Society, Diversity of India.

Welfare schemes for vulnerable sections of the population by the Centre and States and the performance of these schemes; mechanisms, laws, institutions and bodies constituted for the protection and betterment of these vulnerable sections.

Quantifying the caste quotas

Why in News?

Controversy over reservations is never ending. From a demand for the constitution of a statutory commission for OBCs to the demands for updation of SC/ST list is in full swing.

Introduction:

We have, in the past, observed that our political system wakes up only when the demand for reservation by a particular community turns into a violent protest. The government has never tried to re-examine the whole conundrum of reservation holistically.

Why catering to the demands for expanding the reservation is worrying?

The proportion of individuals identifying themselves as **Other Backward Classes (OBCs)** has **steadily grown over the years**. The National Sample Survey Office data show that in 1999-2000, about 36% of the population fell in the self-identified OBC

category. By 2011-12, this proportion had grown to 44%.

- If combined with about 9% of the Scheduled Tribe (ST) and 20% of the Scheduled Caste (SC) population, ***the total proportion eligible for reservation comprises 73% of the Indian population.***
- If new claimants to the OBC category are added to this group, easily 80% of Indians would be eligible for reservation of some kind.
- ***This would make it impossible for the government to provide effective benefits to this large a group.*** Thus, some choices within these categories will inevitably need to be made.

Why there is a need to reexamine our reservation policy?

1. Changed external conditions:

Since independence, the external conditions which initially led to reservations have changed tremendously. Economic growth has resulted in a decline in poverty numbers from 37% of the population to 22%. Such development should have brought down the number of people seeking reservations, in contrast, rewards to government jobs have grown sharply.

2. Increased popularity:

Wage increases associated with the Sixth Pay Commission and the expected implementation of the Seventh Pay Commission have made government jobs highly attractive. Hence, many groups historically tied to the land are now seeking favourable treatment while seeking entry into non-farm work.

3. Increased competition:

In the last decade, access to government jobs has been declining for all groups. The India Human Development Survey (IHDS) by University of Maryland and National Council of Applied Economic Research shows that although in 2004-05 15.3% of men aged 22-39 with education level of class 12 or more had a regular salaried job in the government or public sector, this proportion fell to 11.7% by 2011-12.

- This is because government jobs have stagnated while educational attainment has increased rapidly. Thus, it is not surprising that more claimants for these scarce jobs are aggressively staking their claims.

4. Ambiguity in the reservation process:

Since the First Backward Classes Commission headed by Kaka Kalelkar submitted its report in 1955, several attempts have been made to identify backward castes, resulting in frequent discordance between these lists. Lack of consistency and clarity has led to ambiguity in the entire process of reservation, leaving communities like Jats, Marathas and Patels dissatisfied.

5. Lack of Data:

The problem is exacerbated by the lack of credible recent data. Since the 1931 Census, the only effort at collecting data on different castes and their socio-economic circumstances was undertaken by the Socio-Economic Caste Census (SECC), 2011. The National Commission for Backward Classes claimed, in a report dated February 2015, that these data are neither available nor usable for the purpose of establishing the economic condition of various castes.

How can we address these problems?

1. Regular Surveys:

Conduct regular surveys to identify the beneficiaries who can claim the benefits under the reservation policy. This can be achieved by including data on caste in census surveys. The present phase in the planning cycle of the 2021 Census is the ideal time for ensuring that comprehensive data about caste and religion for all the groups, including forward castes, backward castes, and SCs and STs, are included in this Census.

2. Reevaluation:

These data should also be used to re-evaluate the eligibility of groups for inclusion in reserved categories every 10 or at least every 20 years. Much of the social stratification in India is linked to the occupational status of the various castes.

- With the changes in the economy, we can expect both the link between caste and occupation to weaken and the economic fortunes of various occupations to change considerably.
- The opportunity for re-examination of the caste-wise economic status would facilitate the setting up of a structure for the redressal of grievances.

3. Ensure wider reach:

We must also find a way of ensuring a churn in the number of individuals eligible for

benefits to ensure that these benefits reach the widest segment of society. Though the creamy layer criteria exist, it has not been very effective.

- With the advent of the Aadhar card, one way of ensuring that the same families do not capture all the benefits is to ensure that each time someone uses their reserved category certificate, their Aadhar number is noted down and linked with the certificate.
- Further, it may be stipulated that the reserved category certificate can be used only once in 20 years, thus allowing for the benefits to reach even the sections that have hitherto been excluded from their ambit.
- This would ensure that the same individual is not permitted to obtain both college education as well as a government job by using the same eligibility criterion, nor can one obtain an initial posting as well as promotion using the same criterion.

Conclusion:

The key to dealing with the quota quagmire lies in shuffling people in and out of the eligibility criteria and ensuring that the benefits are not concentrated among certain groups and/or individuals. All these principles are consistent with the democratic ideals and vision of social justice envisaged in India's Constitution. It may be possible to achieve a consensus across the political spectrum for adopting a non-political and pragmatic approach to reservations. If we expect to phase out the reservation policy 100 years after Independence, the time for finding a long-term solution is clearly upon us, and we need to act now.

Flow of Thoughts:

- Controversy surrounding the demand for reservation.
- Need for re-examining the reservation policy.
- What needs to be done?

GS 2 & 3

Agriculture and Food security, Government policies, Government Budgeting.

Tax agriculture income for the benefit of small farmers

Taxing agricultural income has been an emotive subject in the Indian context.

However, taxing agricultural income at minimal rates of about 5% can help rather than hurt our poor farmers.

Background:

Given the importance of access to finance, the policy in India has been to compel banks to lend to the underserved. However, access to formal finance remains a challenge even after decades of implementation of such policies. This demonstrates that such coercive policies have borne little fruit.

Also, the burgeoning problem of farmer distress in India despite the existence of the priority sector lending programme for more than three decades is a case in point.

Why tax agriculture income?

A large portion of Indian farmers are illiterate or semi-literate and they do not maintain systematic books of accounts regarding their production and income. Hence, assessing their true income or income-earning potential becomes an onerous task for the bank loan officers.

- So, often bank loan officers in India rely on informal networks created by social affiliations in order to elicit information about the borrowers.
- This provides opportunity to only those borrowers who are connected to the loan officers. Only these people obtain optimal credit.
- Besides, loan officers are rotated every three years. This makes matters worse from a borrower's point of view. Various studies have shown that a new loan officer entering a branch after job rotation restricts credit to borrowers who borrowed from the previous loan officer.

How tax on agriculture helps?

- Taxing agricultural income can improve access to finance to a large section of farmers because verified income tax returns can provide a credible signal of the earnings potential of a farmer.
- Such verifiable information can help to separate conscientious and productive farmers from the unscrupulous or unproductive farmers. Such separation can be very useful in not only enabling access to finance but also entered using the cost of credit borne by farmers.
- Taxing also helps banks to carefully eliminate strategic defaulter intending to exploit the lax enforcement standards prevalent in the country.
- Well-directed agricultural loans would not only enhance agricultural productivity, but also hasten the movement of unproductive agricultural workers to the

manufacturing sector.

How taxing helps both small and big farmers?

Suppose both farmers file income tax returns every year. In this case, the big farmer can present his income tax return to the loan officer in order to demonstrate his earning potential. In the case of small farmers, income tax returns can provide a reasonably credible measure of earnings potential because they would neither have the high income nor the incentives to hide such high levels of income.

- With this, now the loan officer too has a credible basis to distinguish between the borrowers. More importantly, the borrower need not depend on a particular loan officer or a particular bank.
- This also improves the bargaining power of the borrowers by enabling them to tap multiple sources for financing.

Concerns:

There could be a concern that the imposition of tax could lead to credit flowing only to big farmers as they have higher income to show. However, researchers have shown that loan officers can easily infer the true income of large borrowers even when tax records do not present a true picture. Hence, large farmers are less credit constrained.

- But, in case of small farmers, the loan officer cannot assess true income without carefully analysing credible evidence. Income tax return can be one such evidence.

Conclusion:

Thus, rather than listening to the powerful lobby of rich farmers, the government should seize the opportunity to benefit the small farmers by taxing agricultural income at minimal rates of about 5%. If this issue is not taken care of immediately, it would lead to low agricultural productivity and high default rates on agricultural loans leading to farmer distress.

Flow of Thoughts:

- Why Tax agricultural income?
- Challenges involved.
- How to resolve them?

- What are the alternatives?

GS 2 & 3

Topics: Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Inclusive growth and issues arising from it.

Autonomy of Banks

Why in News?

Until recently, Indian banks were believed to be performing better compared to their global counterparts. However, recent reported losses of some Indian banks have raised concerns.

Key Highlights:

- NPAs of 38 banks at Rs 829,335 crore in Q1FY18.
- SBI accounts for 23% of total NPAs.
- Top five PSBs holds over 47% of total NPAs.

Global Banks Vs Indian Banks:

Globally bank shares are falling because of an expected fall in bank earnings as interest rates have become negative. In India, however, interest rates are firmly positive and also reported bank profits are soft because provisions are being made for weak

assets. Some of the U.S. banks whose balance sheets were cleaned up are doing better than European banks where only cosmetic liquidity was provided.

What made Indian Banks perform better?

- ***Caps on external debt*** reduced fluctuations in Indian interest rates compared to more open emerging markets (Ems).
- ***Indian restrictions on short-term debt*** have also reduced chances of large cumulative cycles occurring as corporate bankruptcies create NPAs and stressed banks stop lending.

What's affecting Indian Banks?

Is it NPAs?

As hyped, it is definitely not NPAs. Moreover, the asset quality problem affects only a part of the banking system, and only a particular type of loan. Non-performing assets (NPAs) that have stopped producing income are concentrated in public sector bank (PSB) loans to large corporates. Therefore, the problem is limited in size and funds required to restore health are not excessive.

Is it corporate debt?

The sharp rise in emerging markets' (EMs) corporate debt from 45% of gross domestic product (GDP) in 2005 to 74% in 2014 is a major source of global risk. It also rose in India, but is only 14% of GDP. Debt is concentrated in large infrastructure firms, but even so average debt-equity ratios remain at around unity since they are low for other firms.

The story of PSBs in India:

PSBs in India have demonstrated the ability to compete effectively and earn profits in the past. They did unexpectedly well after the 1990s reforms, and even overtook private banks on some parameters.

- They outperformed during and immediately after the global financial crisis. NPAs fell to 2.4% in 2009-10 from 12.8% in 1991. This indicates that, given the situation now, a similar recovery is possible, even as gaps in reforms are closed.

But, why are they not performing well now?

The problems of PSBs now are partly due to ***government interference but also to errors of judgment and to external shocks.***

- The first two led them to participate much more than private banks in infrastructure financing. This had to be followed in order to encourage development. The onus fell more on them after development banks were shut.
- These institutions did not foresee the governance and administrative problems that delayed projects that were expected to be viable under high growth. Interest rate hikes, following the 2011 inflation peaks, also hit PSBs.
- NPAs were expected to come down as the economy revived. But external shocks and domestic political logjams continue to delay recovery. Capital adequacy regulation should ideally be countercyclical with buffers built up in good times.
- But recovery is taking too long. Moreover, loan growth from PSBs is the slowest, possibly because of a larger share of stressed assets.

Why Private Banks performed better during this period?

Private Banks concentrated more on lucrative and less risky retail lending. Hence, their market capitalisation overtook that of listed PSBs in 2011. Also, their diverse strategies reduced risk for the Indian banking sector as a whole.

Three important policy documents laid the groundwork for banking reforms since the 1991 reforms:

1. The report of the **first Narasimham committee** set up in 1991
2. The report of the **second Narasimham committee** set up in 1998.
3. The report of the **Raghuram Rajan committee** that was released in 2009.

Changes that have happened over the years:

- Indian banks now have to meet international capital adequacy standards.
- A smaller portion of their deposits has to be handed over to fund the fiscal deficit.
- Interest rates are determined by the market.
- Branch expansion policies are more liberal.
- New private sector banks offer competition to the public sectors banks.

Way ahead: What needs to be done now?

- **Now, it is necessary to clean up bank balance sheets.** The onus is on the government as the largest shareholder. The Budget has made a contribution towards refinancing PSBs.
- **Refinancing must be accompanied by reforms that build proper incentives.** These should increase PSBs' independence, and force promoters to share risk and potential losses, while making it easier to change management and allow equity infusion to keep viable businesses going.
- **Consider writing-off loans.** If loans are written off, a business can become viable as

fresh equity and new promoters are more likely to come in. Banks with clean balance sheets are more willing to lend.

- ***It is also time for change, for arbitrage-free systems with greater transparency.*** The government can subsidise industry if it is necessary, but this must be done upfront with the correct share of risk allocated to promoters and minimum discretion.
- ***Reduced political interference is also necessary.*** The political system has too often taken taxpayers for a ride, with small benefits masking large hidden costs. They have the right to know what they are paying for. The SC has already asked for information on large defaulters. Stronger boards and improved governance mechanisms can ensure that PSBs make independent decisions on purely commercial grounds.

Conclusion:

Tackling a problem at the root bodes well for the future. And ignoring local detail leads to a blind echoing of global fears. Hence, the time is ripe for appropriate changes. Appropriate structural change makes some monetary stimulus feasible, both to reduce the pain and in response to the global slowdown.

Add- ONs for Mains:

What is Mission Indradhanush?

Mission Indradhanush aimed to revamp the functioning of public sector banks so that PSBs can compete with the Private Sector Banks. The mission is a brainchild of PJ Nayak committee.

It is launched by Ministry of Finance under the Department of Financial Services. The mission is regarded as one of the big steps after the nationalisation of banks in 1970s.

The mission includes the seven key reforms of appointments, board of bureau, capitalisation, de-stressing, empowerment, framework of accountability and governance reforms.

Flow of Thoughts:

- How are Indian Banks performing, PSBs in particular?
- Reasons behind their poor performance.
- Comparison with global banks.
- What needs to be done?
- Government efforts.

Topic: *Issues related to farming.*

Organic Farming:

Why in News?

Globally, experts suggest that organic agriculture is the future. For the western world, it is new-found treasure. For India, it is about going back to the past and picking up ancient practices.

Experts suggest that going organic has a positive impact on both income and profitability of farmers. Those who have tried it, have experienced the benefits beginning from overall farm health to a huge increase in productivity.

What is Organic farming?

Organic farming is an agricultural system that works in harmony with nature. It largely excludes the use of synthetic inputs (such as fertilizers, pesticides, hormones, feed additives etc.) and rely upon crop rotation, crop residues, animal manures, off-farm organic waste, mineral grade rock additives and biological system of nutrient mobilization and plant protection.

It primarily aims at cultivating the land and raising crops in such a way, as to keep the soil alive and in good health by use of organic wastes (crop, animal and farm wastes, aquatic wastes) and other biological materials along with beneficial microbes (biofertilizers) to release nutrients to crops for increased sustainable production in an eco-friendly and pollution-free environment.

Features of Organic farming:

- It relies on traditional techniques such as crop rotation, green manure, compost and biological. It is accomplished by using farm agronomic, biological and mechanical methods in exclusion of all synthetic off farm inputs.
- It protects the long term fertility of soils by maintaining organic Matter levels and encouraging soil biological activity. It often involves **vermiculture and vermicomposting** too.
- The biological processes, driven by **mycorrhiza**, allow the natural production of nutrients in soil throughout growing season.

- Legumes are planted to fix nitrogen into the soil. It allows **nitrogen self-sufficiency through biological nitrogen fixation**.
- It allows effective **recycling** of organic materials .
- Natural insect predators are encouraged which can be specific for certain pests or of broad-range.
- **Crop Rotation** supports a wider range of beneficial insects, soil micro-organisms, and hence, protects species from going extinct.
- A key characteristic of organic farming is the rejection of **genetically engineered plants and animals**.
- Hardier plants are generated through **plant breeding** rather than genetic engineering.

Need of organic farming:

With the increase in population our compulsion would be not only to stabilize agricultural production but to increase it further in sustainable manner. The scientists have realized that the 'Green Revolution' with high input use has reached a plateau and is now sustained with diminishing return of falling dividends. Thus, a natural balance needs to be maintained at all cost for existence of life and property. The obvious choice for that would be more relevant in the present era, when these agrochemicals which are produced from fossil fuel and are not renewable and are diminishing in availability. It may also cost heavily on our foreign exchange in future.

Advantages of organic farming over other forms of farming:

- It improves soil health and fertility.
- It requires careful use of water resources hence lead to conservation of water.
- Good animal husbandry.
- Using natural pesticides (biological control).
- Recycled crop wastes.
- Green manures and legumes.
- Increasing genetic diversity.
- Use of resistant crops increased employment.
- Cost-effective farming.

The success story of a small state- Sikkim:

Sikkim is India's first fully organic State. It means no use of chemical pesticides, fertilisers, or genetically modified crops. What started 14 years ago as a small change in a tiny region, has now become a great example for the entire nation to learn from.

What hinders the growth?

- There is relatively ***lower awareness*** about organic farming in India. According to the International Federation of Organic Agriculture Movement (IFOAM), India stands ninth on the list of countries relying on organic farming.
- While most farmers don't know the harmful impacts of chemical-based farming, others understand them but do not know ***how to bring about the much-needed change***. This is where the importance of farmer education gains momentum.

What needs to be done?

- Organic farming should begin with ***training the most important people*** behind the big picture: the farmers.
- Farmers need to be informed about the ***latest technological and scientific developments*** in this area.
- ***Incorporating organic tools and techniques*** into their daily operations in an efficient and effective manner will require ongoing training.
- Farmers will need to be weaned off quick-fix chemical methods and reintroduced to our ***long lost indigenous knowledge***. They need to be trained afresh on aspects such as soil building, pest management, inter-cropping, and compost and manure preparation.
- ***Agronomists*** must be deployed in the field to monitor the quality of produce and give timely advice to farmers.
- ***Certification programmes*** such as the Indian government's National Centre for Organic Farming (NCOF) and Participatory Guarantee Scheme (PGS) need to be made mandatory.

Support by the government:

Government is promoting organic farming through various schemes/ programmes under National Mission for Sustainable Agriculture (NMSA)/ Paramapragat Krishi Vikas Yojana (PKVY), Rashtriya Krishi Vikas Yojana (RKVY), Mission for Integrated Development of Horticulture (MIDH), National Mission on Oilseeds & Oil Palm (NMOOP), Network Project on Organic Farming of ICAR.

In addition to this, Government is implementing a Cluster based programme to encourage the farmer for promoting organic farming called ParamparagatKrishiVikas Yojana (PKVY).

Conclusion:

Organic agriculture is the best insurance policy that India can have with better performance on productivity, environmental impact, economic viability and social well-being. Focusing only on higher yields at the expense of other sustainability pillars (economics, environment and society) is not the food production system that India needs. What India needs is an integrated system that gives equal importance to all sustainability dimensions across the value chain and thus helps establish a healthy and well-fed society.

Flow of Thoughts:

- What is organic farming?
- Why does India need organic farming?
- Advantages and challenges involved.
- Government initiatives in this context.
- Other reforms necessary.

