CIVIL SERVICES EXAMINATION
focus
RAU'S HOUSE JOURNAL

SPECIAL EDITION


EXHAUSTIVE CURATION using C3 Approach

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Practice MCQs

# PRELIMS COMPASS 2021

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# BUDGET 2021-22

# SECTION-1

# BASICS OF BUDGET

The Budget of the Central Government is not merely a statement of receipts and expenditure. Since Independence, it has become a significant statement of government policy. The Budget reflects and shapes, and is, in turn, shaped by the country's economy.

The Budget is prepared by Department of Economic Affairs, under Ministry of Finance.

**LIST OF DOCUMENTS LAID DOWN IN BUDGET**

1. Annual Financial Statement
2. Demand for Grants
3. Finance Bill
4. Statements made under FRBM Act
    a. Macro-economic Framework Statement
    b. Medium Term Fiscal Policy cum Fiscal Policy Strategy Statement
5. Expenditure Budget
6. Receipt Budget
7. Expenditure Budget
8. Memorandum Explaining Provisions of Finance Bill
9. Output Outcome Monitoring Framework
10. Key features of budget
11. Implementation of Budget Announcements 2020-21

**DETAILS**

1. Annual Financial Statements is mandated by Article 112 of the Constitution. It shows the estimated receipts and expenditure of the Government of India for 2021-22 in relation to estimates for 2020-21 as also actual expenditure for the year 2019-20. The receipts and disbursements are shown under three parts in which Government Accounts are kept viz., (i) The Consolidated Fund of India, (ii) The Contingency Fund of India and (iii) The Public Account of India. The Annual Financial Statement distinguishes the expenditure on revenue account from the expenditure on other accounts, as is mandated in the Constitution of India.
2. Demand for Grants is mandated by Article 113 of the Constitution. Article 113 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of India included in the Annual Financial Statement and required to be voted by the Lok Sabha, be submitted in the form of Demands for Grants. The Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement. Generally, one Demand for Grant is presented in respect of each Ministry or Department. However, more than one Demand may be presented for a Ministry or Department depending on the nature of expenditure. With regard to Union Territories without Legislature, a separate Demand is presented for each of such Union Territories.
3. Finance Bill is laid as a money bill for taxation under Article 110 of the Constitution.

# SECTION-2

# CONTEXT OF BUDGET

The Fiscal Year saw an unprecedented crisis in the form of COVID-19 pandemic during the first half of the FY 20-21. Lockdowns and social distancing was mandated worldwide to save human lives. This put unprecedented strain on the economy and demanded heavy lifting and support from the government especially for the poor and marginal.

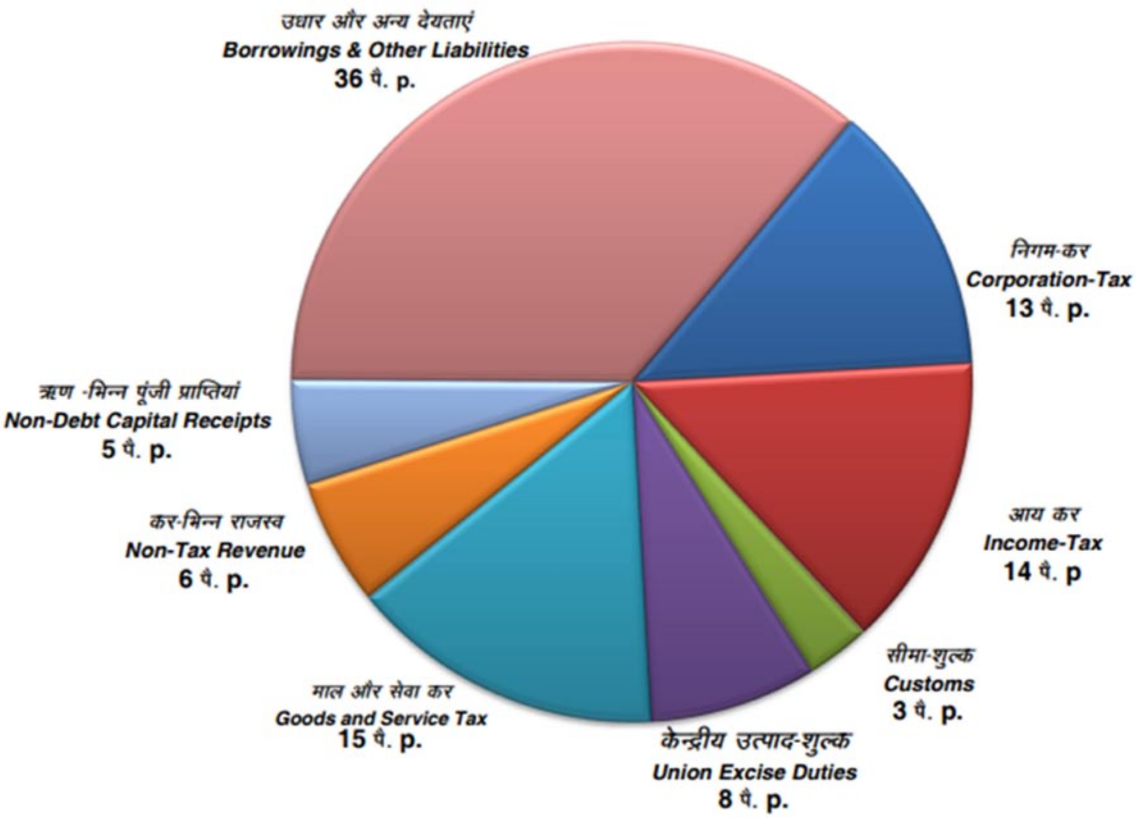
The GDP in the Q1 reduced by 23.9% over the previous year while for the second quarter GDP contracted by 7.5% pushing the country into recession. (Recession is technically defined is when there back to back contraction of an economy for two or more quarters). This was the first recession in India after the LPG Reforms and first after 1980s.

Till date Independent India has seen 5 recessionary years (1958, 1966, 1973 and 1980) with this year being $6^{th}$. On top of it there was need for increased expenditure by government on healthcare, medicines, support to vulnerable people especially migrant workers.

Government released a set of 5 fiscal packages to support the economy (Atmanirbhar Packages). The economy seems to be on a road to recovery.

## ►GOVERNMENT FINANCES

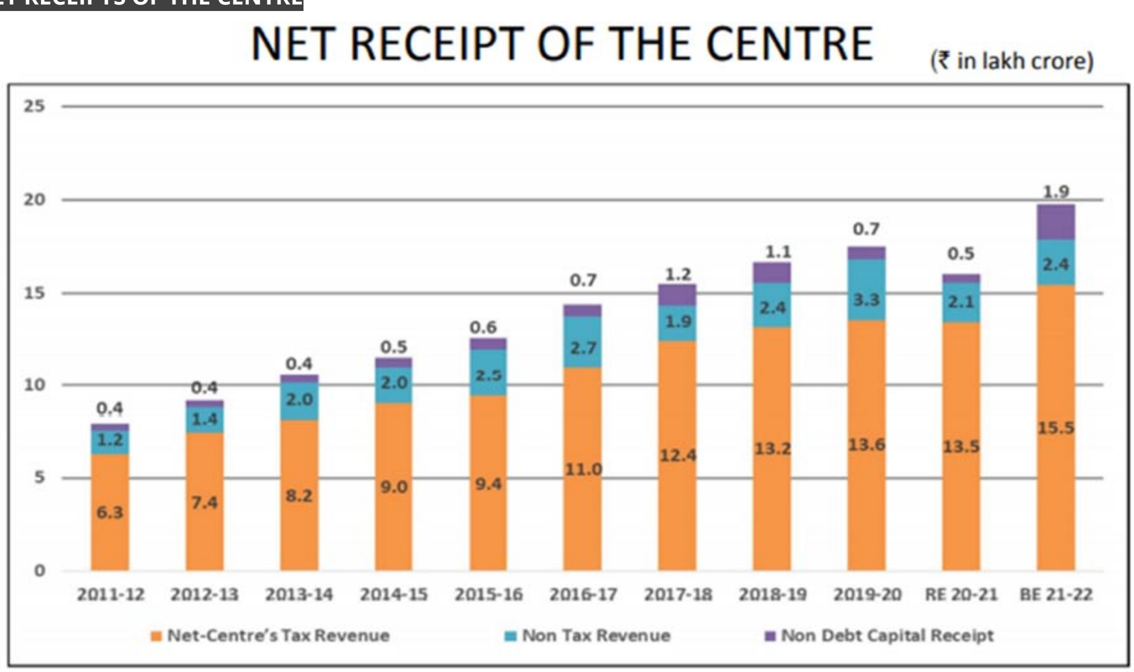
**RECEIPTS OF UNION GOVERNMENT BY SOURCE**




Note:

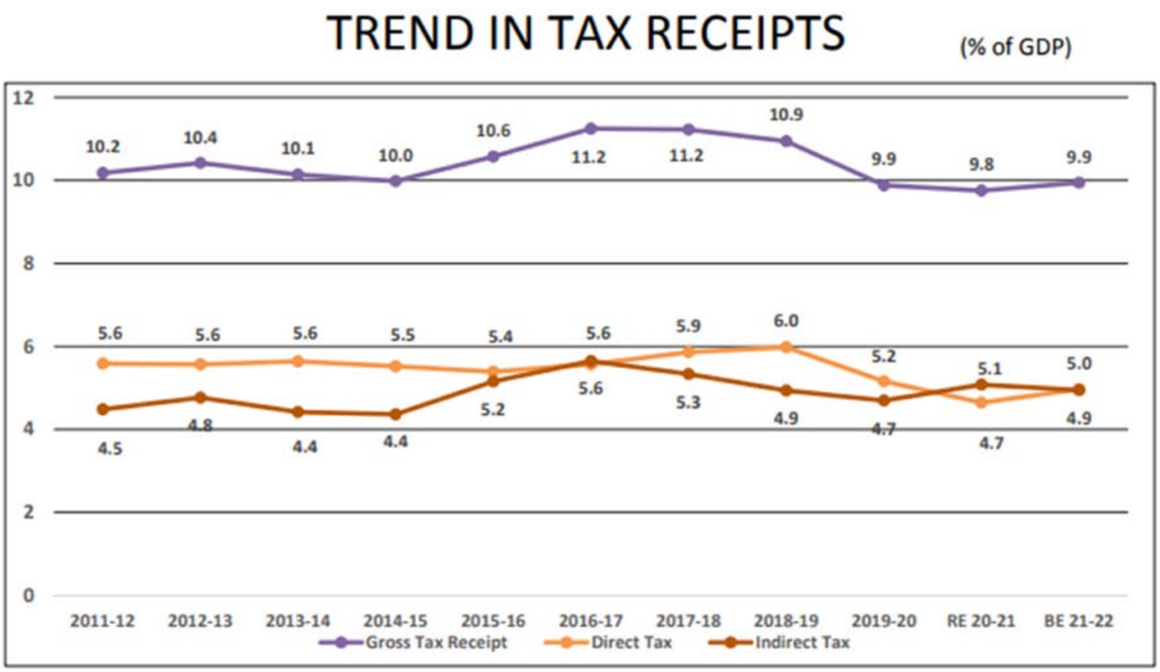
1. Receipts from Goods and Services Tax>Income Tax> Corporation Tax> Excise Duty>Customs
2. Borrowings account for largest share of money comes to Central Government to fund its expenditure.

**NET RECEIPTS OF THE CENTRE**



## TAXATION AND TAX PROPOSALS

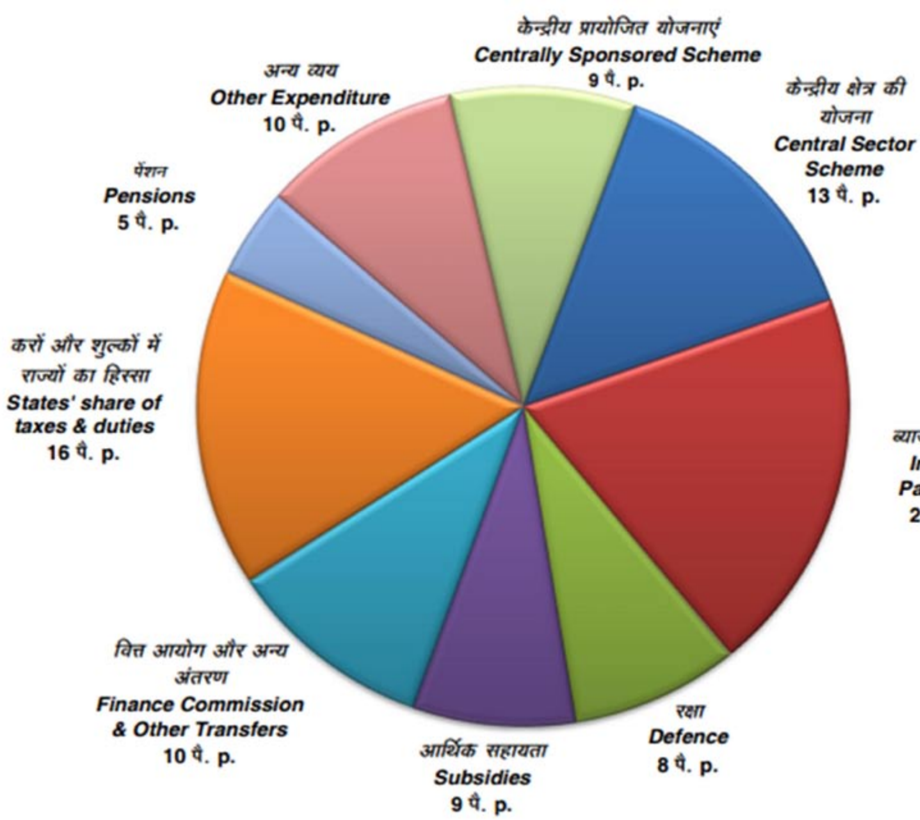
Trends in Government Tax Receipts in the last decade




**Note:**

1. The collections from indirect taxes has been more than direct taxes in last three financial years (20-21). Also, for the next year budget projections anticipate more indirect tax collections than direction tax collections.

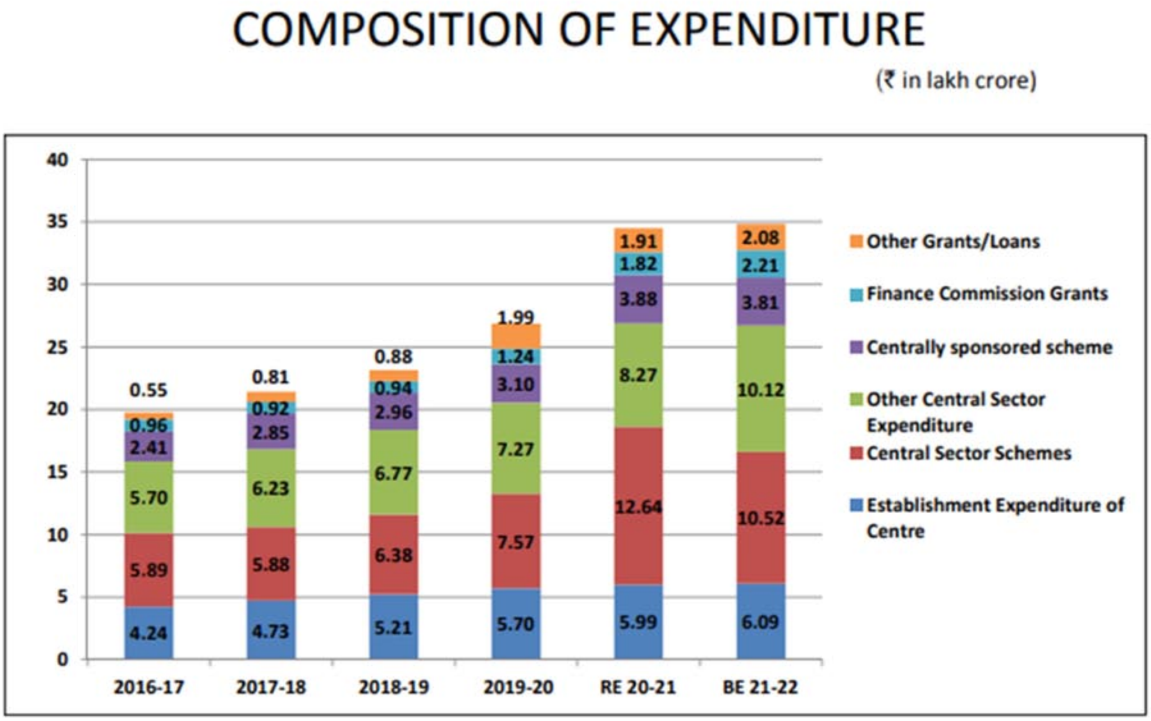
## EXPENDITURE TRENDS OF CENTRE



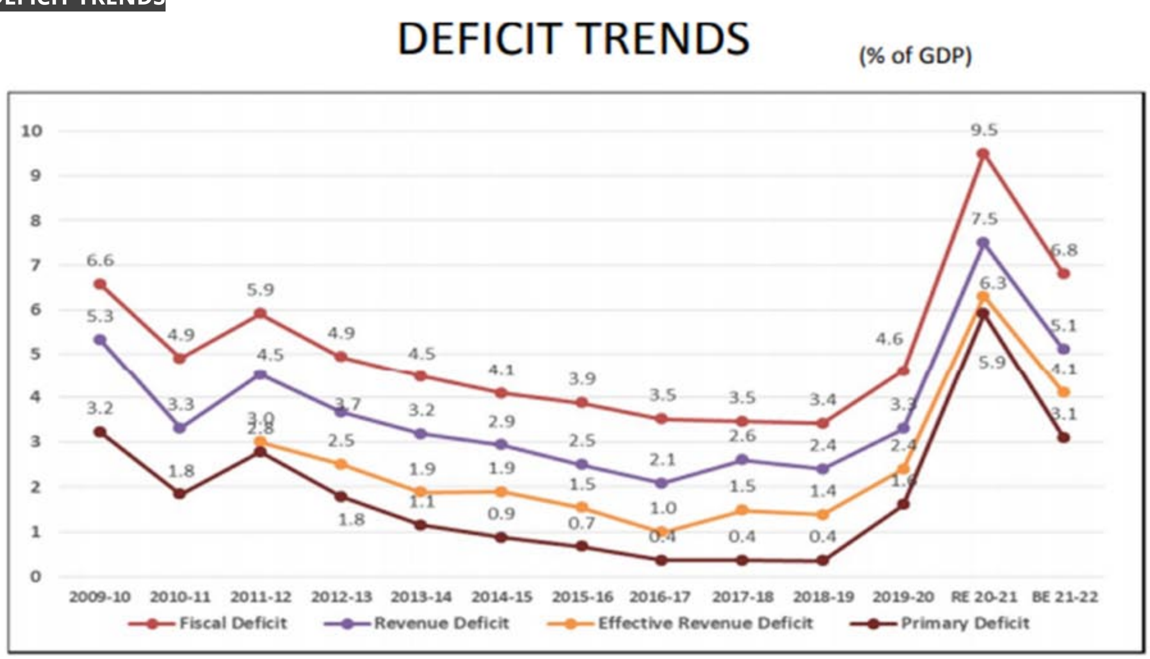
**Note:**

1. Interest payments account for the largest share of Union Government revenues.
2. Expenditure on Central Sector Scheme is more than Centrally Sponsored Schemes
3. Subsidies account for 9% of Central Government Expenditure.

**COMPOSITION OF EXPENDITURE**




**DEFICIT TRENDS**

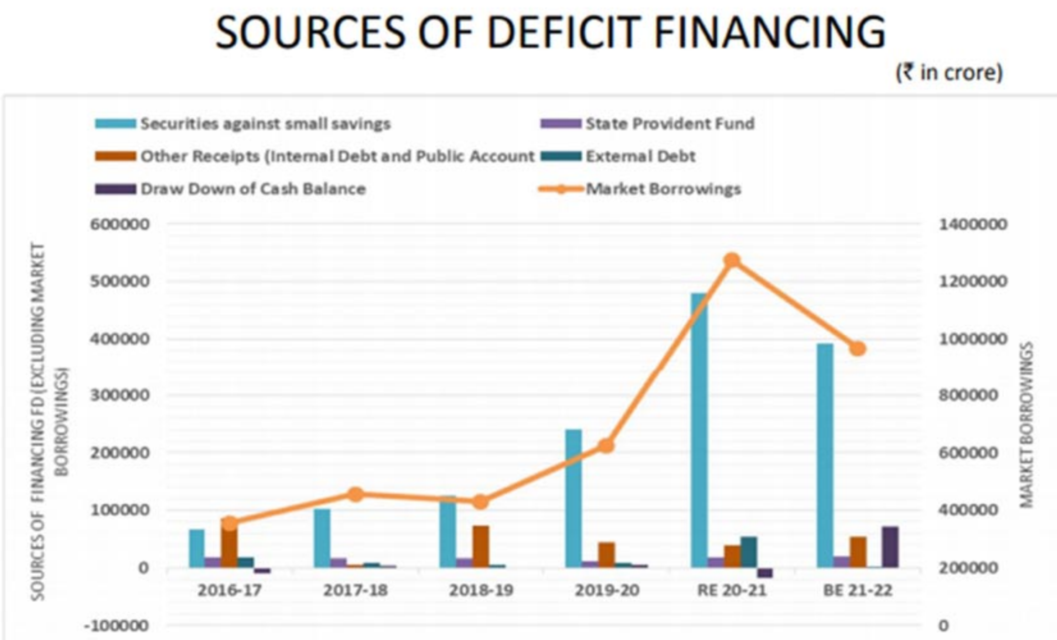



**Note:** FY 20-21 has seen a sharp increase in deficit as government revenue decreased as economic activity halted as a result of COVID-19 pandemic while expenditure had to increase to support healthcare, livelihoods especially of the poor and vulnerable, expenditure also increased because government had to spend to boost economic growth.

**DEFINITIONS OF DEFICIT**

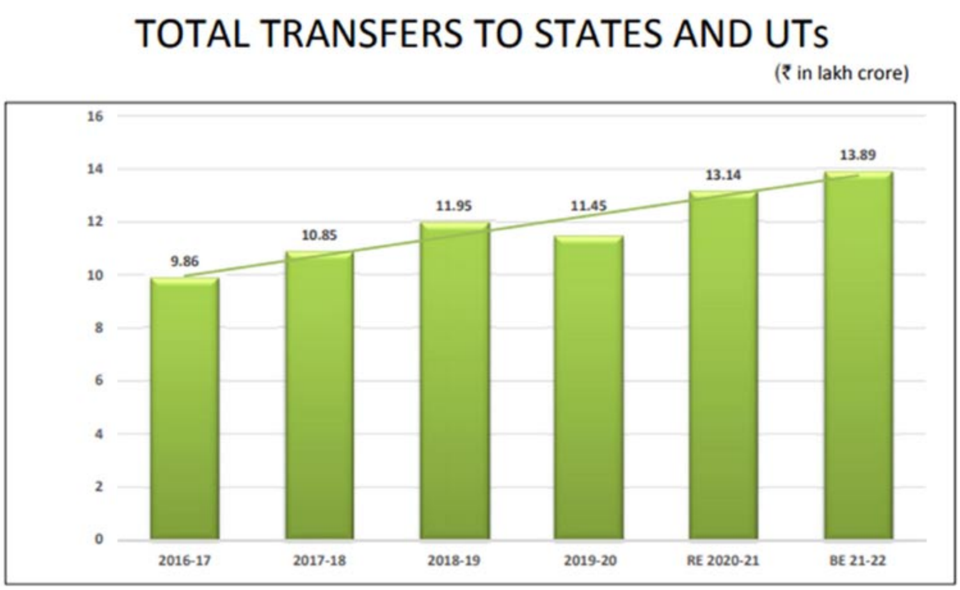
1. **Fiscal Deficit:** It is the difference between the Revenue Receipts plus Non-Debt Capital Receipts (NDCR) and the total expenditure. FD is reflective of the total borrowing requirement of Government.
2. **Revenue Deficit:** It refers to the excess of revenue expenditure over revenue receipts.
3. **Effective Revenue Deficit:** Effective Revenue Deficit is the difference between Revenue Deficit and Grants for Creation of Capital Assets.
4. **Primary Deficit:** Primary Deficit is measured as Fiscal Deficit less interest payments.

## ►SOURCES OF DEFICIT FINANCING




**Trend of Total Transfers from Centre to States**

## ►FISCAL FEDERALISM

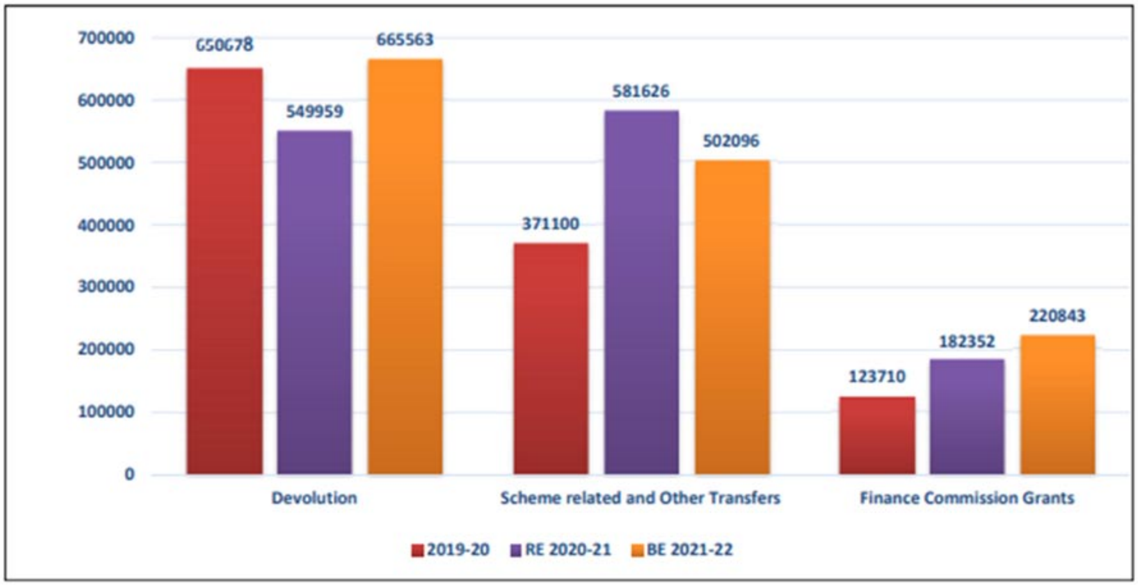


**Note:**

1. Transfers from Union Government to State Governments has been increasing though not continuously. (There was a dip in 2019-20)

## COMPOSITION OF TRANSFERS TO STATES & UTs

(₹ in crore)



# SECTION-3

# MAJOR POLICY ANNOUNCEMENTS IN BUDGET 21-22

**Budget proposals for 2021-22 stand on 6 important pillars:**

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 Governance and Maximum Governance**

## THEME 1: HEALTH AND WELL-BEING

Health received the most focus of this budget with expenditure of health raised due to the COVID-19 pandemic and wide felt need to invest more in public health. Budget proposals aimed at covering three aspects of health preventive, curative and well-being.

## ►PM ATMA NIRBHAR SWASTH BHARAT YOJANA

It is a new Central Sponsored Scheme

**AIMS TO**

- Develop capacities of primary, secondary and tertiary health care systems
- Strengthen existing national institutions and create new institutions
- Cater to detection and cure of new and emerging diseases

## ►CHANGES INTRODUCED IN THE NATIONAL HEALTH MISSION

- Support to rural and urban **Health and Wellness Centres**
- Setting up of Integrated Public Health Labs in all districts and block public health units in 11 States
- Establishing critical care hospital blocks in 602 districts.
- Strengthening of National Center for Disease Control (NCDC) and its regional branches and metropolitan health surveillance units
- Expansion of integrated health information portal
- Operationalising of 17 new Public Health Units and strengthening of 33 existing Public Health Units at Points of Entry, that is at Airports, Seaports and Land Crossings
- Setting of up of new Health Emergency Operations Centers and Mobile Hospitals.
- Setting up of a new **national institution for One Health,** a regional research platform for WHO South East Asia Region, 9 Biosafety laboratories and National Institutes for Virology.

## ►FOCUS ON NUTRITION

- To strengthen nutritional content, delivery, outreach and outcome, the Supplementary Nutrition Program and Poshan Abhiyaan will be merged into Mission Poshan 2.0.
- An intensified strategy to improve nutritional outcomes will be launched in 112 Aspirational Districts.

## ►FOCUS ON UNIVERSAL COVERAGE OF WATER SUPPLY

- WHO has repeatedly stressed the importance of clear water, sanitation and clean environment, as a pre-requisite to achieving universal health. Jal Jeevan Mission launched by the Department of Drinking Water and Sanitation aims to provide piped drinking water to Rural areas. This year Government announced the urban component of the scheme to provide piped drinking water supply in urban areas as well.

**JAL JEEVAN MISSION (URBAN)**

It is a new proposed mission proposed in the budget. It aims to:

- Universal Water Supply in all Urban Local Bodies (all statutory towns) with household tap connections
- Liquid Waste Management in 500 AMRUT cities.
- To be implemented over 5 years.
- Rejuvenation of water bodies to augment sustainable fresh water supply and creating green spaces and sponge cities to reduce floods and enhance amenity through an Urban Aquifer Management plan
- Promote circular economy of water through development of city water balance plan for each city focusing on recycle/reuse of treated sewage, rejuvenation of water bodies and water conservation. 20% of water demand to be met by reused water with development of institutional mechanism.
- A Technology sub-mission for water is proposed to leverage best technologies in the field of water
- IEC Campaign for sensitise people about water conservation
- Pey Jal Sarvekshan to be conducted in cities to ascertain equitable distribution of water, reuse of wastewater and mapping of water bodies with respect to quantity and quality of water through a challenge process.
- 10% of the total expenditure under the scheme will be through PPP mechanisms.
- Reform Agenda: Major reforms are reducing non-revenue water to below 20%; recycle of treated used water to meet at least 20% of total city water demand and 40% for industrial water demand at State level; dual piping system, electric vehicle charging points; Wi-fi infrastructure in new

buildings; unlocking value and improving land use efficiency through adequate urban planning; GIS based master plans of the cities; raising funds through issuance of municipal bonds and rejuvenation of water bodies.

- For Union Territories, there will be 100% central funding. For North Eastern and Hill States, central funding for projects will be 90%. Central funding will be 50% for cities will less than 1 lakh population, one third for cities with 1 lakh to 10 lakh population and 25% for cities with million plus population.

## ►SWACHH BHARAT MISSION (URBAN) 2.0

1) Phase of Swachh Bharat Mission (Urban) 2.0 has been launched.
2) The mission will be launched with focus on fecal sludge management, waste water treatment, source segregation of garbage, reduction in single use plastic, reduction in air pollution by effectively managing waste from construction and demolition activities, and bio-remediation of all legacy dumpsites.
3) Following components under the scheme will be implemented in all statutory towns
   a. Sustainable sanitation
   b. Wastewater treatment, including fecal sludge management in all ULBs with less than 1 lakh population (New component in SBM 2.0)
   c. Solid Waste Management
   d. IEC Campaign and Capacity Building
4) Aims of the phase 2 of SBM are:
   a. All statutory towns will become ODF+ certified.
   b. All statutory towns with less than 1 lakh population will become ODF++ certified
   c. 50% of all statutory towns with less than 1 lakh population will become Water+ certified
   d. All statutory towns will be at least 3-star Garbage Free rated as per MoHUA's Star Rating Protocol for Garbage Free cities
   e. Bio-remediation of all legacy dumpsites.

## ►FOCUS ON CLEAN AIR

- 42 Million+ cities to be provided with financial support to address the issue of air pollution.
- Proposal on Scrapping Policy

## ►SCRAPPING POLICY

- Voluntary vehicle scrapping policy to be introduced to phase out old and unfit vehicles. This will promote fuel-efficient, environment friendly vehicles, reducing pollution levels and oil import bill.
- Vehicles will undergo fitness tests in automated fitness centers after 20 years in case of personal vehicles, and after 15 years in case of commercial vehicles.

## ►VACCINES

- A special one time provision of Rs 35,000 crore has been made in the Budget for COVID-19 vaccine
- Pneumococcal Vaccine, a Made in India product, will be rolled out across the country

# THEME 2: PHYSICAL AND FINANCIAL CAPITAL AND INFRASTRUCTURE

## ►MANUFACTURING SECTOR

1. For employment creation, make in India, export promotion and achieving a dream of $5 trillion economy we need a stronger manufacturing sector.
2. Indian manufacturing has to integrate with global value chains, possess core competencies and possess cutting edge technologies to become more competitive globally.
3. To achieve this, government has announced **Production Linked Incentive scheme** for 13 sectors. They are
   a. Advanced Chemistry Cell Battery
   b. Electronics/Technology Products
   c. Automobiles and Auto Components
   d. Pharmaceutical Drugs
   e. Telecom and Network Products
   f. Textile Products
   g. Food Products
   h. High Efficiency Solar PV Modules
   i. White Goods
   j. Specialty Steel
   k. Mobile Manufacturing
   l. Critical Key Starting Materials and APIs

m. Manufacturing of Medical Devices

4. Benefits of PLI Scheme:
   a. Boost Manufacturing Sector
   b. The schemes have a sunset clause.
   c. Employment Creation
   d. Atract FDI
   e. Boost to MSME Sectors from forward and backward linkages
   f. Create advanced manufacturing facilities

## ►TEXTILES SECTORS

- Announcement for creation of Mega Investment Textile Parks (MITRA)
- These will create world class infrastructure with plug and play facilities to enable create global champions in exports
- 7 such textiles parks will be created over next 3 years.

**BENEFITS**

- Make India textile sector globally competitive
- Attract large investments in the sector
- Boost employment opportunities and exports

## ►INFRASTRUCTURE

- In December 2019, Ministry of Finance released the **National Infrastructure Pipeline** which is first of its kind whole of Government approach to map infrastructure creation across the country in the next 5 years.
- Number of projects in NIP have been now expanded to include 7400 projects.
- NIP is a specific target which government is committed to achieve in the coming years. It will require a major increase in funding from both government and financial sector.
- It will be funded by three specific interventions:
  - Dedicated Financial Institutions to Fund Infrastructure creation
  - Monetisation of Operational Assets
  - Enhancing the spending of Centre and States on Infrastructure creation

## ►DEVELOPMENT FINANCIAL INSTITUTIONS

Government made an announcement to create a developmental finance institution with an initial capital of Rs 20,000 crore. This will be a dedicated facility to finance infrastructure projects in the country. The aim is that the professionally managed DFI will have a lending portfolio of Rs 5 lakh crore in 3 years.

**BENEFITS OF DFI**

- Aimed at long term funding of infrastructure sector
- Reduced Asset Liability mismatches
- Professionally managed with relevant skill sets towards infrastructure lending
- Banks have failed to finance infrastructure sector
- High NPAs in banks and reduced lending capacity
- Vast infrastructure financing needs of the government (Multi-level approach needed)

**CONCERNS**

- In India's developmental journey, India made some DFI's in the past such as HDFC, IDFC, ICICI, IFCI. Some of them were not profitable and government was forced to privatise them. There are concerns if experiments with DFI again will be successful.
- The infrastructure financing needs of India run in Trillions of Dollars, the 20,000 crore capital seems small drop in ocean.
- Need to develop corporate bond market, INVITs & REITs

## ►LAUNCH OF A NATIONAL MONETISATION PIPELINE

The **National Monetisation Pipeline** has been proposed for potential brownfield infrastructure assets. Monetising operating public infrastructure generates finances for funding new infrastructure construction.

An asset monetisation dashboard will be created for tracking progress and to provide visibility to investors.

**STEPS TAKEN FOR MONETISATION ARE AS FOLLOWS:**

a. NHAI and Power Grid have sponsored an INVIT.
b. Railways will monetise the Dedicated Freight Corridors assets for operations and maintenance, after commissioning.

c. Airports uner the Airports Authority of India will be monetised for operations and management concessions.

## ►INCREASE IN CAPITAL BUDGET

Budget 2021-22 has seen a sharp increase in Capital expenditure to Rs 5.54 lakhs which is an increase of 34.5% over capital expenditure in FY 20-21.

Of this, Rs 44,000 crore has been kept with Department of Economic Affairs to be provided for projects/programmes/departments that show good progress on Capital Expenditure and are in need of further funds.

Over and above this, Rs 2 lakh crore is being provided for States and Autonomous Bodies for their capital expenditure.

Arrangements have been created to incentivize States to boost their capital spending.

## ►ROADS SECTOR

- Bharatmala Pariyojana has been going as per plan with 3800 km of roads already constructed.
- Future Economic Corridors announced to augment road infrastructure
  - Tamil Nadu
  - Kerala
  - West Bengal
  - Assam

## ►RAILWAYS

- Railways has announced **National Rail Plan** for India - 2030 with the aim to create a future ready railway system by 2030.
- Dedicated Freight Corridor: The Two DFCs ie Eastern and Western DFC are nearing completion. The government announced three new DFCs namely
  - East Coast Corridor from Kharagpur to Vijayawada
  - East-West Corridor from Bhusawal to Kharagpur to Dankuni
  - North-South Corridor from Itarsi to Vijayawada
    - The Government plans to monetize the DFCs once they are operational and profitable to generate resources to fund future projects.
    - Passenger convenience and safety
      - Introduction of aesthetically designed Vista Dome LHB Coach to give better
      - Indigenously developed automatic train protection system that eliminates train collision due to human error.

## ►URBAN INFRASTRUCTURE

Government plans to increase the share of public transport in urban areas through:

1. Expansion of Metro Rail Network
2. Augmentation of city public bus service

   Expansion of Metro Rail Services

   Currently, about 702 km of conventional metro is operational. Another 1,016 km of metro and Rail Rapid Transport Service (RRTS) is under construction in 27 cities.

   Two new technologies ie 'Metrolite' and 'MetroNeo' will be deployed to provide metro rail services at much less cost with same experience, convenience and safety in Tier-2 cities and peripheral areas of Tier-1 cities.

   Development of Metro Systems in Urban areas is administered by the Ministry of Housing and Urban Affairs (MOHUA).

   Current, metro systems being developed are high capacity required for bigger cities with very high ridership and Peak Hour Peak Direction Traffic (PHPDT). After the success of metro rail in some cities, several cities with lower projection of ridership are also aspiring for rail based mass transit system. To address these two new rail based mass transit systems have been proposed by Ministry of Housing and Urban Affairs.

1. **MetroLite**

   It is a Light Urban Rail Transit System with lesser capacity at much less cost. Operation and maintenance cost of Metrolite is loss much less making it more viable.

   It would act as feeder system to high capacity metro.

   It would operate at grade (level of the land) with dedicated path separating it from road traffic. These are like trams nor metros. However, they will run alongside roads but would have separation from roads unlike Trams which run on roads.

2. **MetroNeo**

This technology is being adopted for the first time in Nashik, Maharashtra.

It consists of electric bus coaches. Rubber tyred metro

It has 25% cost of normal metro

Augmenting City Public Bus Service

A new scheme aimed to this objective is proposed to be launched with an expenditure of Rs 18,000 crores.

It will facilitate deployment of innovative PPP models to enable private sector players to finance, acquire, operate and maintain over 20,000 buses.

**BENEFITS**

- Boost automobile sector
- Enhance ease of mobility for urban residents
- Fillip to economic growth
- Employment opportunities

## ►PORT SECTOR

- PPP mode to be utilised for managing operational services of major ports.
- Subsidy support to promote flagging of merchant ships
- Recycling of Ships Act, 2019 has been enacted and has ratified the Hong Kong International Convention. Government aims to double ship recycling capacity by 2024. 90 ship recycling yards in Alang have become HKC Compliant. Efforts will be made to bring more ships from Europe and Japan to India.

## ►POWER SECTOR

**NATIONAL HYDROGEN ENERGY MISSION**

This is a mission which aims at generating Hydrogen from green power sources. Hydrogen energy generation is also administered by the Ministry of New and Renewable Energy.

**DISTRIBUTION REFORMS:**

**Choice in Distribution Companies**

- High Transmission and Distribution losses, improper billing and lack of prompt collection of electricity bills is leading to high losses in distribution companies. Most of the distribution companies are state owned.
- Also, electricity distribution companies in India are monopolistic in nature ie there is only one electricity distributor in one area. This lack of competition leads to lack of choice for customers and innovation.
- Thus, to instill competition in electricity distribution space government has said that a framework will be introduced to give choice to consumers in distribution space.

**REVAMPED REFORMS – BASED RESULT LINKED POWER DISTRIBUTION SCHEME**

The scheme will provide assistance to DISCOMs for infrastructure creation, including pre-paid smart metering and feeder separation, up gradation of systems etc. tied to financial improvements.

**RENEWABLE ENERGY PROMOTION**

- Capital Infusion into Solar Energy Corporation of India (SECI) and Indian Renewable Energy Development Agency. (SECI and IREDA are PSUs aimed at developing and financing renewable projects in India)
- Phased Manufacturing Plan for solar cells and solar panels (To promote domestic manufacturing of solar cells)
- Increased customs duty on solar lanterns and solar invertors to promote domestic manufacturing (to boost domestic manufacturing of solar components)

## ►PETROLEUM & NATURAL GAS

1. Ujjawala Scheme to extended to cover 1 crore more beneficiaries.
2. 100 more districts to be added to City Gas Distribution Network in next three years.
3. Gas pipeline project in the UT of J&K.
4. Setting up of an Independent Gas Transport System Operator. It will be set up for facilitation and coordination of booking of common carrier capacity in all-natural gas pipelines on a non-discriminatory open access basis.

   **Rationale:** Currently, GAIL is the largest operator and owner of gas pipelines in the country. However, it is also a marketer of gas uses gas for retail and manufacturing of petrochemicals. However, this creates conflict of interest as it also owner of the pipelines and user, it will give preference to its own gas transport over the users of natural gas.

The proposal is to break the GAIL into two entities one for operations of pipelines and the other which is owner of downstream gas marketing and petrochemical industries.

## ►FINANCIAL SECTOR ANNOUNCEMENTS

**SECURITY MARKET REFORMS**

**a.** Consolidate provisions of SEBI Act, 1992; Depositories Act, 1996, Securities Contracts (Regulation) Act, 1956 and Government Securities Act, 2007 into a rationalised **single Securities Markets Code.**

**Rationale**

**b.** Develop **GIFT-IFSC** into a world class fin-tech hub.

**c. Corporate Bond Market**

A well-functioning corporate bond market is necessary to direct funding for productive sectors of the economy especially when banks have failed to lend as they suffer from NPAs and general cautionary attitude to lending.

India's corporate bond market is in its infant stage with limited liquidity and participant interest. To instill greater confidence and to generally enhance secondary market liquidity, a permanent body is to be created that would purchase investment grade debt securities both in stressed and normal times and help in development of bond market.

**d. Gold Exchange**

In budget 2018-19, there is an announcement for establishing regulated gold exchanges in India. SEBI has been notified as the regulator of gold exchange and Warehousing Development and Regulatory Authority will be strengthened to set up a commodity market ecosystem arrangement including Vaulting, Assaying, logistics etc. in addition to warehousing.

**Rationale for Gold Exchanges:**

Problems with Indian Gold Market:

1. Lack of quality assurance
2. Weak Price Discovery (Domestic gold prices are not synchronised with global gold prices)
3. Fragmented liquidity
4. No Central market for trading gold, multiplie local gold rates
5. Current commodity exchanges in India, operate as future exchanges and not spot exchanges.
6. China and UAE have created Gold Exchanges which have developed their gold markets

**BENEFITS OF GOLD EXCHANGE**

1. Efficient Price Discovery (synchronised prices with global gold prices)
2. Assurance of quality of gold
3. Active retail participation, financialisation of gold
4. Promotion of gold leasing and lending
5. Acting as a channel for gold recycling by working through accreditated refineries. Reduced gold imports as people and institutions will be able to sell theit gold easily.

These key infrastructure are vital for the development of the gold ecosystem which are essential to help in effective functioning of the spot exchange on gold include:

1. Standardization of quality and quantity
2. Exchange may be required to launch standardized contracts with various combinations
3. Multiple locations based contract deliveries
4. The participants such as Banks, Bullion dealers, Miners, Refiners, Importers/ Exporters, Jewellers etc., would be required to encourage to participate in the spot market.
5. Regulatory approvals from RBI, Ministry of Finance

**e. Investor Charter** to be introduced for investor protection as a right of all financial investors across financial products.

**f.** Capital Infusion into **Solar Energy Corporation of India (SECI) and Indian Renewable Energy Development Agency**

## ►BANKING RELATED REFORMS

**1. Bad Bank (Asset Reconstruction Companies)**

- Asset Reconstruction companies are created under the SARFAESI Act. They can operate with permission from the Reserve Bank of India.
- ARCs buy distressed assets from banks and other financial institutions at prices they mutually agree.
- ARCs being specialised in handling distressed assets are more competent in handling and managing these assets while banks and other lending institutions lack this specialisation.
- ARC will pay bank in the form of 15% cash and 85% as **'Security Receipts'** as mandated by the SARFAESI Act.

**BENEFITS**

- Banks will recover some capital which is lying idle and move forward to lending
- Banks can focus on core competency
- Balance sheet of banks will be clean
- Professionally manaed NPAs
    - However, considering the huge level of NPAs the ARC will have to be very well capitalised. The exact framework of the ARC has not been released. Considering government's tight fiscal position the government is unlikely to capitalise the ARC. Thus, the ARC will have to be capitalised by the private parties.

### 2. Insurance Sector

- Budget proposes to amend the Insurance Act, 1938 to increase the FDI limit in insurance companies from the current 49% to 74% and allow foreign ownership and control.
- In the new structure, majority of directors on the Board and key management persons would be resident Indians, with at least 50% of directors being independent directors, and specified percentage of profits to be retained as general reserve.

### 3. Recapitalisation of PSBs:

- Rs 20,000 crore has been allocated for recapitalization of PSBs. However, consider that the exact level of NPAs are not known currently due to moratorium on payments and the level of stress in the economy seems little.
- However, since the government fiscal position it self is not very goof (Fiscal deficit: 9.5% of GDP). This seems to be maximum what the government could do.

### 4. Deposit Insurance

- Last year, deposit insurance cover was increased from Rs 1 lakh to Rs 5 lakhs. Deposit Insurance in India is provided by Deposit Insurance and Credit Guarantee Corporation which is statutory body established by the DICGC Act, 1961. It is 100% subsidiary of RBI.

Government has proposed to amend the above act to enable banking depositors to access their funds in a easy and time-bound manner upto the deposit insurance cover, in case if a bank is in stress and unable to fulfill its obligations.

**5.** Minimum loan size eligible for recovery under SARFAESI Act for NBFCs with asset size of more than Rs 100 crore has been reduced from Rs 50 lakh to Rs 20 lakh.

This will help in recovery of loans, improve credit discipline and protect interest of small borrowers.

## ►REFORMS IN CORPORATE GOVERNANCE

**A. REFORMS IN ONE PERSON COMPANIES**

- Change in rules for One Person Companies (OPC)
- Earlier, NRIs were not allowed to incorporate OPCs. Now any Indian Citizen, whether resident in India or otherwise would be allowed to form OPC.
- For being considered as a resident, residency period has been proposed to be reduced to 120 days from 182 days for NRIs.
- Conversion of One Person Company into a Public company or Private company shall be permitted anytime. (Earlier there was two year period before which such conversion can take place)
- Limitations on Paid up capital & turnover are being removed so that there are no restrictions on growth of OPC

**About One Person Companies:**

One Person Companies is a framework to promote micro-entrepreneurship and self-employment in India under Companies Act, 2013.

OPC requires one member (member refers to someone who subscribes to Memorandum/has their name in the Register of members/holds shares of the company with their name in the records of depository) and one nominee, who becomes the member of the company in case of death or any other incapacity of the original member.

**B. MCA21 3.0**

Ministry of Corporate Affairs will launch a data analytics driven MCA21 Version 3.0. This will have additional modules on

- **E-adjudication**
- **E-scrutiny**
- **E-consultation:** facilitate AI driven sentiment analysis, consolidation and categorisation of stakeholders' inputs.
- **Compliance Management System:** Help ministry identify non-compliant companies, issuing e-notices, generating alerts for internal users of MCA.
- **MCA Lab:** Being set up to evaluate the effectiveness of Compliance Management System, e-consultation module, enforcement module etc. and suggest enhancements. It will help the ministry in ensuring correctness of results produced by the above modules in view of dynamic corporate ecosystem. It will consist of corporate law experts.
- **MCA21** is the first Mission Mode e-governance project of Government of India

## ►DIVESTMENT AND STRATEGIC SALE

- Government has announced the divestment of CPSEs such as BPCL, Air India, Shipping Corporation of India etc. These will be completed in the coming years.
- Government announced the privatization of two Public Sector Banks and One General Insurance Company in 2021-22. The necessary amendments in laws will be made. IPO of LIC will also be introduced.
- NITI Aayog to identify the next set of companies that would be taken for strategic disinvestment.
- States will be incentivized to divest their PSUs. Centre will work out an incentive package of Central Funds for States.
- Non-core assets which largely consists of surplus land with government ministries/departments and CPSEs. Government plans to create a Special Purpose Vehicle in the form company which will undertake monetizing of land.
- A revised mechanism will be introduced for closure of sick or loss making CPSEs.

**OBJECTIVES OF DIVESTMENT/STRATEGIC DIVESTMENT POLICY**

- Minimising presence of CPSEs including financial institutions and creating new investment space for private sector
- Post divestment, economic growth of CPSEs/financial institutions will be through infusion of private capital, technology and best management practices. Will contribute to economic growth and new jobs
- Disinvestment proceeds to finance various social sector and developmental programs of government.

Various sectors will be classified as strategic and non-strategic sectors. Following sectors have been classified as strategic sectors by government:

1. Atomic Energy, Space and Defence
2. Transport and Telecommunications
3. Power, petroleum, coal and other minerals
4. Banking, insurance and financial services

In sectors which have been identified as strategic, there will be bare minimum presence of Public Sector Enterprises. Remaining CPSES in the strategic sectors will be privatised or merged or subsidiarised with other CPSEs or closed.

a. Policy of strategic management of public sector enterprises
b. Incentives for States for divesting their Public Sector Companies
c. Monetisation of non-core assets
d. New mechanism for closure of sick or loss making CPSEs

## ►GOVERNMENT FINANCIAL REFORMS

1) **TREASURY SINGLE ACCOUNT (TSA)** system allows Autonomous bodies directly draw funds from the Government's account at the time of actual expenditure. This system will be universally extended.

**ABOUT TREASURY SINGLE ACCOUNT**

Treasury Single Account is a recommendation of Expenditure Management Commission. Under the existing system, when funds are allocated to various bodies they are not utilized but keep on lying idle in bank accounts for long periods of time. Since, India runs a fiscal deficit these idle funds result in interest cost.

TSA has been defined by IMF as, a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments.

It is established for the following benefits:

1. Just in time release of funds to Autonomous bodies
2. Minimise float with Autonomous bodies
3. Maintaining autonomy of Autonomous bodies
4. Lower cost of borrowing as money will not keep lying idle in accounts of various bodies
5. Efficiency of fund flows
6. Money is spent as and when needed.

**CHALLENGES**

1. Needs much bigger capacity and manpower from RBI.
2. Training of manpower

2) **RATIONALISATION OF CENTRALLY SPONSORED SCHEMES (CSS)**

**RATIONALE**

- Shiv Raj Singh Chauhan Panel recommended to reduce CSS
- States government have to share some expenditure out of their untied funds. This leaves them with smaller untied funds to pursue their own developmental models.
- Most CSSs cover topics which are under State List in the Constitution
- Many CSSs have very small budgets which if spread across the country is insufficient for something meaningful.

**WAY FORWARD**

- States to be more space in spending the funds of the scheme as per local conditions and frame their own guidelines.
- Schemes with less funding than a certain threshold to be closed.
- Funds for the schemes directly transferred to States so that they can frame their own schemes.
- CSSs to have a sunset date
- Consultation with States before launching a new scheme.

3) **COOPERATIVES**

- Steps will be taken to develop multi-state cooperatives. A separate administrative structure will be created for Ease of Doing Business by Cooperatives.

# THEME 3: INCLUSIVE DEVELOPMENT FOR ASPIRATIONAL INDIA

## ►AGRICULTURE

1. One of the concerns of the farmers agitation with the three farm laws has been that government procurement at MSP prices will end post the implementation of these laws. However, government has released data of procurement of important crops over the last decade. The data reveals that procurement has meaningfully expanded over the past decades.

   MSPs have been increased so that farmers earn at least 1.5 times the cost of production. Procurement has also increased substantially as shown by the graph below.

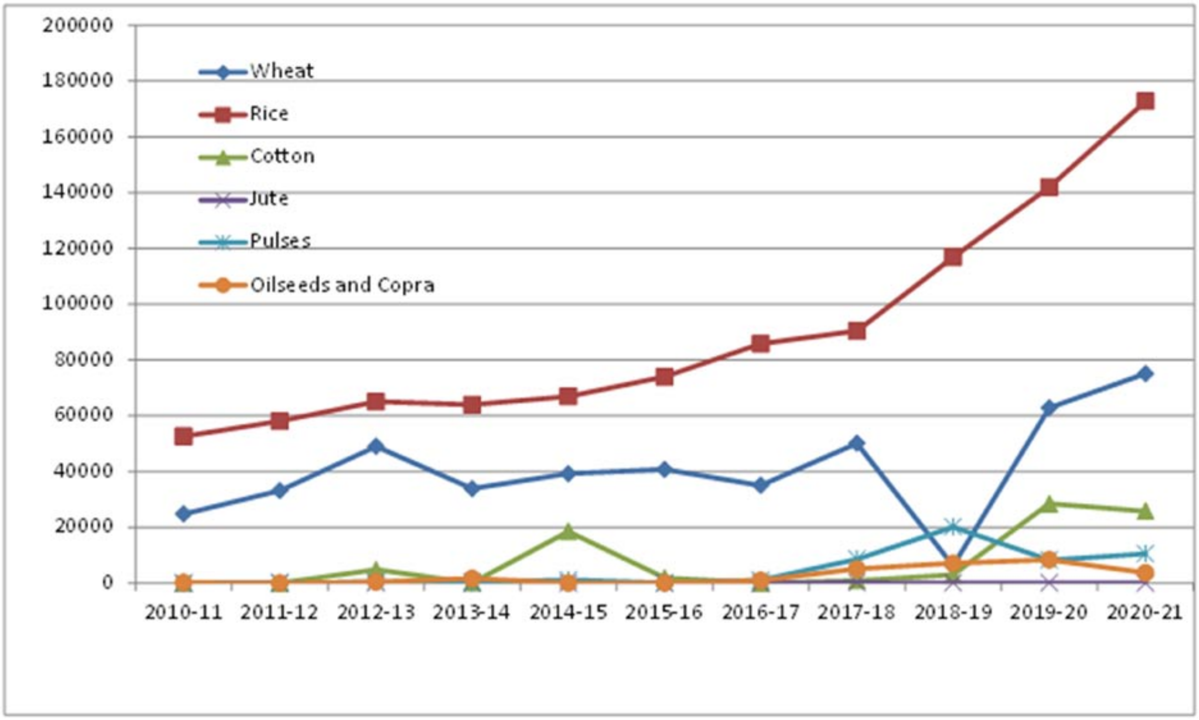



*Table showing trend in Government procurement for Rice, Wheat, Cotton, Jute and Copra/Oilseeds in last 10 years.*

2. SVAMITVA Scheme has been launched which aims to give a record of rights to property owners in villages. Property cards have been given to 1.80 lakh property owners under the scheme. This scheme has been extended to cover all States/UTs.
3. Agriculture credit target has been increased to Rs 16.5 Lakh crores in FY22. The focus will be increased credit flow to animal husbandry, dairy and fisheries. These funds are used to subsidise short agricultural loans to farmers. (Ex. KCC)
4. Allocation for **Rural Infrastructure Development Fund (RIDF)** increased to Rs 40,000 crore from Rs 30,000 crore earlier. RIDF is a fund established under NABARD. It is funded by the shortfall of commercial banks to fulfill their priority sector commitments. Funds from the fund are provided to State Governments and State Development Agencies, NGOs and SHGs at bank rate for a term of 7 years. The fund is eligible to be used for following activities:
   a) Agriculture and Related Sector
   b) Social Sector
   c) Rural Connectivity
5. Corpus of Micro Irrigation Fund increased to Rs 10,000 crore from earlier Rs 5,000 crore. The Micro-irrigation Fund has been established under NABARD with the objective of to facilitate State Govts. efforts in mobilizing additional resources for expanding coverage under micro irrigation and incentivizing its adoption beyond provisions of PMKSY-PDMC.
6. Scope of 'Operation Green Scheme' to be enlarged to cover 22 perishable products. Currently, Operation Green scheme covers only POT vegetables (Potato, Onion, Tomato). It is a scheme under Ministry of Food Processing to promote FPOs, agri-logistics, processing facilities and professional management with the aim to reduce price volatility, round the year availability and stabilizing supply.
7. **E-Nam:** 1000 more mandis to be integrated with E-NAM Platform.
8. Agriculture Infrastructure Fund extended to APMC Mandis

   The budget has made Agricultural Produce Marketing Committees (APMCs) eligible beneficiaries to receive financing from the Rs 1 lakh crore Agricultural Infrastructure Fund to enhance infrastructure at regulated markets.

**RATIONALE**

- APMCs are state controlled markets set up to provide market linkages to farmers. They provide space for auction to ensure that farmers receive best prices for their produce.

- However, these APMC mandis require up gradation and investment in modern infrastructure such as warehousing, cold storage facilities, modern assaying and grading facilities etc.
- With the access of low cost credit under AIFs, APMC mandis can set-up post harvest infrastructure for benefit of farmers for better price realisation of quality produce, ability to store and sell and minimise post harvest losses.

**ABOUT AGRICULTURAL INFRASTRUCTURE FUND (AIF)**

- It is a medium - long term debt financing facility for investment in viable projects for post-harvest management infrastructure and community farming assets through interest subvention and credit guarantee.
- Under the scheme, Rs. 1 Lakh Crore will be provided by banks and financial institutions as loans with interest subvention of 3% per annum and credit guarantee coverage under CGTMSE for loans up to Rs. 2 Crore.
- Beneficiaries include farmers, FPOs, PACS, Marketing Cooperative Societies, SHGs, Joint Liability Groups (JLG), Multipurpose Cooperative Societies, Agri-entrepreneurs, Start-ups, and Central/State agency or Local Body sponsored Public-Private Partnership Projects, and now APMC mandis.

## ►FISHERIES SECTOR

Fisheries sector has been fastest growing sector in the entire agricultural value chain growing at 10% CAGR over the last decade. It is also healthy earner of foreign exchange for India.

To further give a boost to fish production and processing in the countries, budget announced:

a) Creation of fishing harbours at 5 locations (Vishakhapatnam, Kochi, Chennai, Paradip and Petuaghat). Inland fishing harbors and fish-landing centers will also be developed along the banks of rivers and waterways.

b) To promote Seaweed farming a Multipurpose Seaweed Park will be developed in Tamil Nadu.

## ►MIGRANT WORKERS AND LABOURERS

1. One Nation One Ration Card Scheme to be rolled out across India.

- Till now 32 States and UTs have been covered under the scheme. Remaining 4 will be integrated shortly.

2. Portal to collect information about Unorganised Labour, migrant workers, Gig economy workers. This will help collect data and design policies for them.
3. **Four Labour Codes** to be implemented.

**Ministry of Labour and Employment has consolidated the fragmented labour regulations in the country into 4 comprehensive labour codes. They are:**

1. Code on Social Security, 2020
2. Code on Wages, 2019
3. Occupational Safety, Health and Working Conditions Code, 2020
4. Code on Industrial Relations, 2020

**SALIENT FEATURES OF 4 LABOUR CODES ARE:**

1. Social Security Benefits will be extended to gig and platform workers
2. Minimum wages to apply to all categories of workers. All workers to be covered by the Employees State Insurance Corporation.
3. Women allowed to work in all categories including night shifts with adequate protection
4. Compliance Burden on employers to be reduced with single registration and licensing, and online returns.

## ►FINANCIAL INCLUSION

1. **Stand UP India Scheme** to be made more attractive by reducing margin money requirement from 25% to 15%. Also loans for activities allied to agriculture can also be taken under the scheme.

2. More than double the allocation for MSME sector as compared to last year.

# THEME 4: REINVIGORATING HUMAN CAPITAL

## ►EDUCATION

The new education policy has been released which proposes to transform the educational system of the country for the future. This policy will be operationalized.

## ►SCHOOL EDUCATION

1. 15,000 Schools to be qualitatively strengthened by operationalizing all components of NEP in them. These schools will emerge as exemplar schools in their regions, handholding and mentoring other schools to achieve the ideals of the New Education Policy.
2. 100 new Sainik Schools to be opened

   These schools will be run in partnership with NGOs/Private Schools/State Owned Schools etc. Sainik schools provide schooling opportunities in 'CBSE Plus' type of educational environment by involving. All 100 schools will be affiliated to Sainik School Society

   Aim of establishing Sainik Schools is to prepare children academically, physically and mentally for entry into the National Defence Academy and to develop qualities of body, mind and character which will enable the young boys to become good and useful citizens

   At present, there are 33 Sainik Schools functional. From the academic season, 2021-22 female students are also eligible for admission to Sainik schools from Class VI.

## ►HIGHER EDUCATION

1. **Higher Education Commission of India** announced earlier and also New Education Policy will be operationalized and legislated.

   HECI will replace the current higher education regulatory framework headed by UGC. It is proposed to regulate the entire higher education sector except Legal and Architecture.

   It will have 4 separate wings for standard-setting, accreditation, regulation and funding.
2. Many Indian cities have research institutions, universities and colleges. However, these institutions do not collaborate much. To promote greater synergy and promote an ecosystem, 9 such cities will be chosen where umbrella structures will be created for these institutions to collaborate, while also retaining their internal autonomy. A **Glue Grant** has been created for this.

## ►SCHEDULED CASTES AND SCHEDULED TRIBES WELFARE

1. 750 **Eklavya Model Residential Schools (EMRS)** to be established in tribal areas. The unit cost provided for establishing such schools will be increased to Rs. 38 crores from earlier Rs 20 crore and Rs 48 crore for establishing EMRS in hilly areas.

**ABOUT EMRS**

- They established to impart quality education to ST children in remote areas. These schools focus not only on academic education but on all round development.
- Each school has a capacity of 480 students catering to students from class VI to XII.
- Every block with more than 50% tribal population and at least 20,000 tribal persons to have a EMRS.
- Eklavya schools will be on par with Navodaya Vidyalaya and will have special facilities for preserving local art and culture besides providing training in sports and skill development.
- **Ministry of Tribal Affairs** is nodal ministry for the scheme.

2. **Revamped Post Matric Scholarship Scheme for Scheduled Caste Students**

   It is a scholarship scheme to be provided to Scheduled Caste students who plan to take onwards education after class X. The scheme is implemented by the **Ministry of Social Justice and Empowerment.**

## ►SKILL DEVELOPMENT

1. **National Apprenticeship Promotion Scheme (NAPS)**: To realign the scheme for providing:
   i. Post-education apprenticeship

ii. Training of graduates and diploma holders in Engineering

NAPS is a scheme under Ministry of Skill Development and Entrepreneurship which provides incentives to enterprises to engage apprentices by sharing of stipend to maximum limit of Rs 1500 and sharing of basic training cost by Rs 7500 per apprentice. Earlier only ITI Pass outs, ITI Dual mode trainees, PM Kaushal Vikas Yojana pass outs and freshers were eligible to be engaged as apprentices under the scheme. Now, post-education apprenticeship and apprenticeship for diploma and degree holders in engineering is also allowed under the scheme.

2. Proposal to amend **the Apprenticeship Act** with a view to enhance apprenticeship opportunities.
3. India and UAE are working to benchmark skill qualifications, assessment and certification, accompanied by deployment of certified workforce.
4. Japan and India are working on **Training Inter Training Program (TITP)** to transfer Japanese industrial and vocational skills.

## THEME 5: INNOVATION AND R&D

- **National Research Foundation:** National Research Foundation will spend Rs 50,000 crore over the 5 years. The foundation will ensure that research ecosystem the country is strengthened with focus on identified national priority thrust areas.
- **Scheme to promote digital transactions**
- **National Language Translation Mission:** This scheme will enable wealth of governance and policy related knowledge on the internet being made available in major Indian languages.
- **New Space India Limited** which is a PSU under Department of Space created to market products and services from Indian Space program to global customers and integrate Indian industry in the space related high technology manufacturing will launch **Amazonia Satellite from Brazil.**
- **Gaganyaan Mission** of ISRO which plans to be India's first Human Spaceflight is undergoing planning. Four Indian astronauts are being trained in Russia on **Generic Space Flight Aspects.** First unmanned launch is slated for December 2021.
- **Deep Ocean Mission** will be launch which will aim to harness living and non-living resources on offer by the Ocean. **It will cover deep ocean survey exploration and projects for conservation of deep sea bio-diversity. Ministry of Earth Science in the Nodal Ministry for the scheme.**

## THEME 6: MINIMUM GOVERNMENT, MAXIMUM GOVERNANCE

- **Rationalisation of Tribunals:** Steps will taken to rationalize and make tribunals for effective to make justice delivery faster and accessible.
- **National Commission for Allied Healthcare Professionals:** This bill will be introduced for better regulation of 56 allied healthcare professions.

  **Also, to bring greater transparency, efficiency and governance reforms in Nursing profession,** National Nursing and Midwifery Commission Bill will be introduced.
- **Concialiation Mechanism:** Government and CPSEs deal with lot of vendors and companies. Many time disputes with government lead to payments to these companies stalled for many days running into years. This strains the financial viability of these firms. To ensure that time bound payments, ease of doing business with government a Conciliation Mechanism will be set up for quick resolution of contractual disputes. This will increase confidence of investors and contractors.
- **Census:** Census Operations in FY 21-22 will the largest census in Indian History and also the largest census.
- **Goa Independence Celebrations**

  Goa liberation movement was a movement which fought to end Portoguese colonial rule over Goa. Indian armed forces undertook Operation Vijay to free territories of Goa, Daman and Diu. This is 50$^{th}$ Anniversary of this event. To celebrate the Liberation of Goa a special provision has been made.
- **Dedicated scheme for Tea Workers**

# FISCAL DEVELOPMENTS

## ►FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT, 2003

An act enacted by Parliament to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long term macro-economic stability.

Government set up a committee under Dr. N K Singh for the comprehensive review of the FRBM Act. On the recommendations of the committee amendments were done in the act.

**SALIENT FEATURES OF PRESENT FRBM LEGISLATION**

1. **Documents to be laid by Government along with budget in Parliament:**
   a. **Medium Term Fiscal Policy Statement**: Three year rolling target for prescribed fiscal targets.
   b. **Fiscal Policy Strategy Statement**: Policies of the Central Government for the coming fiscal year
   c. **Macro-Economic Framework Statement**: Assessment of the growth prospects of the economy with specification of underlying assumptions.
   d. **Medium Term Expenditure Framework Statement**: (Presented in the next session after budget session): Three-year rolling target for prescribed expenditure indicators
2. **Fiscal Management Principles:**

(A) Central Government to take measures to reduce fiscal deficit to 3% of GDP by March 2021.

(B) Central Government to endeavor to ensure that
   a. General Government Debt (Central + States combined) does not exceed 60% of GDP by end of 2024-25
   b. Central Government Debt does not exceed 40% of GDP by end of 2024-25

(C) Central Government to prescribe annual targets for reduction of fiscal deficit. However, there was an escape clause introduced in the act which permitted deviation from this target.

Exceeding annual fiscal deficit target due to ground or grounds of national security, act of war, national calamity, collapse of agriculture severely affecting farm output and incomes, structural reforms in the economy with unanticipated fiscal implications, decline in real output growth of a quarter by at least three per cent. points below its average of the previous four quarters, may be allowed for the purposes of this section.

**ANALYSIS**

Due to the COVID-19 pandemic government failed to achieve the glide path to 3% fiscal deficit prescribed by the FRBM Act. Central government fiscal deficit for FY20-21 is projected to by 9.5% of GDP, for the next financial year fiscal deficit is expected to be 6.8% of GDP.

Government announced that gradual fiscal consolidation will take place going forward. Fiscal deficit will reduce to 4.5% of GDP by 2025-26.

**THIS CONSOLIDATION IS TO BE ACHIEVED BY:**

1. Improving tax buoyancy and compliance
2. Increased receipts from monetization of assets, including CPSEs and land

## ►CONTINGENCY FUND OF INDIA

The government proposes to increase the size of the Contingency Fund of India from Rs 500 crore to Rs 3000 crore.

**ABOUT CONTINGENCY FUND OF INDIA**

- The Contingency Fund of India established under Article 267 (1) of the Constitution is in the nature of an imprest (money maintained for a specific purpose) which is placed at the disposal of the President to enable him/her to make advances to meet urgent unforeseen expenditure, pending authorization by the Parliament.
- Approval of the legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained to ensure that the corpus of the Contingency Fund remains intact.
- The Ministry of Finance operates this Fund on behalf of the President of India.

## ►FINANCE COMMISSION RELATED ANNOUNCEMENTS

1. As per the recommendations of 15th Finance Commission, normal ceiling of net borrowing for the states has been raised to 4% of Gross State Development Product (GSDP) for FY 2021-22.

2. A portion of this ceiling will be earmarked to be spent on incremental capital expenditure. Additional borrowing ceiling of 0.5% of GSDP will also be provided when states meet certain conditions.
3. States are expected to reach a fiscal deficit of 3% of GSDP by 2023-24, as per recommendation of 15th FC.
4. Centre will transfer 41% of its net devolvable funds to States on the recommendations of 15th FC. This is a continuation of 14th FC recommendation of 42% of devolution. The 1% reduction is due to the conversion of State of Jammu and Kashmir into two UTs of J&K and UT of Ladakh which will be provided from centres fund.
5. 15th FC has proposed for revenue deficit grants for 17 States.

## ►INTRODUCTION OF TRANSPARENCY INTO OFF-BUDGET FINANCING

- In the budget of July 2019-20, Government introduced a statement on **Extra-Budgetary Resources** which disclosed borrowings of Government agencies that went to fund Government schemes, and whose repayment burden was on Government.
- This statement later also included government loans to Food Corporation of India for operationalizing MSP based cereal procurement.
- This year Government has decided to discontinue NSSF loan to FCI for food subsidy.

**FCI FINANCES**

- FCI procures good grains at MSP. In it added the cost of transportation, storage. FCI then sells these food crops to states at Central Issue Price. (Rs 2 for Wheat and Rs 3 for Rice). This leads to large deficit in the finances of FCI which it claims as subsidy from the Central Government.
- Over the years, Central Government with the aim to reduce its reported fiscal deficit only partially funded the food subsidy with budgetary provisioning and allowed FCI to fund its deficit from the National Small Savings Fund (NSSF).
- CAG highlighted this issue of off-budget financing. As it led to lack of transparency and trust in government finances.
- However, in a bid to increase budgetary transparency, Government has decided to finance the food subsidy of FCI by budgetary allocations.

## ►TAX PROPOSALS

- Tax policy focused on stable and predictable tax regime. Certain reforms were introduced to make the tax policy easier and tax payer friendly.
- A new cess called as Agriculture Infrastructure and Development Cess was introduced.

**AGRICULTURE INFRASTRUCTURE AND DEVELOPMENT CESS**

- The cess will be imposed on customs side on the following items: Gold, Silver, Alcoholic Beverages, Crude Palm Oil, Crude Soyabean and Sunflower Oil, Apples, Coal, Lignite and peat specified fertilisers, peas, Kabuli Chana, cotton etc.
- On the excise front, AIDC of Rs 2.5 per litre will be imposed on Petrol and Rs 4 per litre of diesel. However, the Basic Excise Duty and Special Additional Excise Duty rates have been reduced on petrol and diesel so that overall there will be no additional burden on consumers. Unbranded petrol and diesel will attract BED of Rs. 1.4 and Rs. 1.8 per litre respectively while SAED on them will be Rs. 11 and Rs. 8 per litre respectively.
- The Cess will be utilized for improving agricultural infrastructure and processing facilities.

**CUSTOMS TAX ADMINISTRATION**

1. Turant Customs Initiative: It is an initiative of Central Board of Indirect Taxes and Customs to provide a 'Faceless, Contactless and Paperless' Customs administration.
2. New Rules of Origin Rules for checking the misuse of Free Trade Agreements.
3. Central Board of Indirect Taxes and Customs (CBIC) has released Customs (Administration of Rules of Origin under Trade Agreements) Rules,2020

(CAROTAR,2020) which aim to check the abuse of FTAs.

**RULES OF ORIGIN**

- Rules of origin are the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports.
- Most FTAs have provisions which allow for preferential import treatment for certain goods and services imported in India which are manufactured or based out of the countries with which India has these Free Trade Agreements signed. This is to promote manufacturing and economic growth in our partner countries.
- However, certain traders and countries misuse these agreements and export their products to India.

**For ex.**

- India has FTA with ASEAN. ASEAN has FTA with China. Now an trader in ASEAN can import a Chinese product and export to India when no value addition in it is being done in ASEAN countries. This is a violation of the provisions of FTA.
- Thus, mechanisms should be developed to check this.