



Compound conundrum

GS III: Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Bottom line: While the waiver of the interest on interest is welcome, MSMEs need more help.

1. The Centre's scheme to bear the difference between the compound interest and simple interest on retail and MSME loans availed by borrowers whose aggregate outstanding borrowings were less than ₹2 crores between March 1 and August 31, has come not a day too soon.
2. In spelling out the norms for lenders to identify eligible beneficiaries and then ensure that the extra 'interest on interest' be refunded by November 5, the government has clearly been spurred by the Supreme Court's admonition to expedite relief to small borrowers.

Festive respite

Banks will credit compound interest levied on loans up to ₹2 crore between March 1 and August 31 back to borrowers by November 5

LOANS COVERED:

- Home
- Education
- Consumer durables
- Automobiles
- Credit card dues
- Loans to micro, small and medium enterprises

CONDITION: Aggregate of all outstanding loans must not exceed ₹2 crore

- Eligible borrowers will get benefit irrespective of whether they availed the moratorium or not
- Lenders have been asked to set up grievance redressal system for the scheme within a week
- The government will reimburse banks and NBFCs after they credit loan accounts and submit claims



Assessment of Relief:

1. The move, however, has understandably evoked both relief and some disquiet. Retail borrowers, especially those who continued to meet their EMI commitments notwithstanding the disruptions caused by the pandemic and lockdowns, stand to marginally benefit from the government's payment and will be a relieved lot.
2. On the other hand, MSMEs may find the assistance far too small to make a material difference, given the scale of economic hardship they have had to endure — from demand destruction to material and labour shortages and regulatory woes.
3. Given that these businesses provide substantial direct and indirect employment and also generate valuable tax revenue, it would have made far



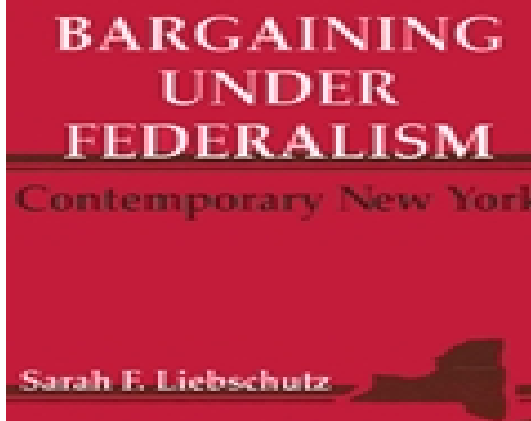
greater economic sense for the government to have categorised them separately.

4. The additional fiscal impact should be seen against the benefit that would accrue were even a reasonable number of these enterprises to remain viable and resume their contribution to the national economy.

GST and the complexity of political negotiations

GS II: Functions and Responsibilities of the Union and the States, Issues and Challenges Pertaining to the Federal Structure

Bottom line: The greater the degree of party centralisation, the higher the possibility of federal centralisation. This explains why the Congress-ruled States did not make a noise during the one-party dominant phase, and the Bharatiya Janata Party-ruled States do not do so today. Party linkages between different levels of government are crucial to both the making and the maintenance of federal compacts.



The GST Bargain: Over the last couple of months, the Centre and States have not been on the same page over issues connected with the Goods and Services Tax (GST). As a result, Centre-State relations have plumbed the depths. This tussle, between the Centre and the States, is, however, common and all federations witness bargaining in some form or other.

Called one of the most significant fiscal reforms since Independence, the GST replaced numerous central and state taxes with one single destination-based tax. The Constitutional Amendment overhauled Centre-State relations, with States giving up almost all their powers to tax. In exchange for this bargain, the Centre assured them full compensation, for five years, for all losses arising due to the transition to the GST. A GST Council, made up of the Central and State Finance Ministers, was established and empowered to make recommendations about various issues related to the GST.



Federal bargain under strain

This grand federal bargain was severely tested this year following the general economic slowdown and the COVID-19 pandemic induced disruption. Tax collections plummeted which in turn have led to a massive revenue shortfall. In turn, this has also reduced the available resources in the compensation fund. The crisis and the unequal relationship created an incentive for the Centre to blur the lines. The Centre it appeared was no longer committed to the agreement and wanted to overturn parts of the deal that were “unfavourable” to it, creating an immense strain on the fragile consensus.

The GST Council strategy

1. The Centre was averse to providing succour, and when it did, it came with strings attached. For instance, in May 2020, it linked the increase in the fiscal deficit of States from 2% to 3% to reforms in four areas including universalisation of a ‘One Nation-One Ration Card’, electricity distribution, ease of doing business, and urban local body revenues.
2. Similarly, on compensation, the initial noises were that it was not obligated to make good compensation losses. Most States preferred that the Centre should borrow the entire shortfall and then lend it to States, while the Centre wanted the States to borrow the money directly.
3. The GST Council meetings during this period did not help reduce the trust deficit and break the deadlock but only added fuel to the fire.
4. The disinclination to use the Council was deliberate and intended to prevent “unionised bargaining” by the States. At the same time, by working outside the Council, the Centre was able to exploit asymmetries and divisions between States.
5. The friction not only shook the foundations of the GST, with at least one State threatening to go to court over the issue but also exposed the hollowness of the Centre’s hype around cooperative federalism.

Fiscal federalism puzzle

1. The puzzle is why the States agreed to move authority in determining Budget spending (Fiscal Responsibility and Budget Management Act earlier) and setting tax rates (value-added tax, or VAT, first and GST now) and in the process shrink their discretionary space to manage their financial affairs.



2. The shift is counter-intuitive, especially since we expect States to protect their autonomy vigorously, and in fact, attempt to enlarge their scope. Economic and fiscal federalism scholarship offers us reasonably sound economic and normative reasons for this shift, which include efficiency, equity, stabilisation, economic growth, and balanced development, among others.
3. However, this logic does not make political sense and does not help understand the current new low in the relations between the Centre and States.

Political linkages matter

1. The nature of the party system and party linkages matters in Centre-State relations.
2. In the period of Congress dominance, States had few issues when economic management was centralised in the name of development. Their concerns and grievances, if any, were taken up through intra-party channels. The Congress-ruled States went along with the central government given that the locus of power in the party was not at the State level but the Centre.
3. Dissent against centralisation appeared only when non-Congress parties consolidated their position.
4. The period towards the end of the one-party dominance was especially fractious, and government-Opposition relations increasingly coloured Centre-State relations. To check its competitors, the Congress used (and misused) every available means, including, the use of Article 356, the institution of the Governor and discretionary central grants among others to continue its dominance.

Coalition Era and Federalism

1. In sharp contrast to the one-party dominant phase, the coalition era inaugurated a seemingly more cordial period of Centre-State relations based on a recognition of mutual interests.
2. In federal coalitions, States and their interests were made to feel that they were being represented. Ironically, it was during this period, when State-based parties called the shots that much of the authority migration began.
3. Former Finance Minister Yashwant Sinha in his memoirs underlines how the Centre chose to remain out of the limelight, and an empowered group of State



Finance Ministers helped bring about VAT, the precursor to GST. The GST reforms also followed the same pattern.

4. This decision-making process gave States both the confidence and ownership of reforms and the new institutions being put in place. State-based parties probably assumed that they would continue to influence national-level decision-making through the new institutions or through coalitions.
5. Party linkages between levels give State-level politicians greater space. In a polity-wide disciplined party, acceding to the central government's demands may secure the career prospects of State-level leaders. Similarly, for State-based parties, there is access to resources and the possibility of influencing national-level decisions through federal coalitions.

Conclusion:

The greater the degree of party centralisation, the higher the possibility of federal centralisation. This explains why the Congress-ruled States did not make a noise during the one-party dominant phase, and the Bharatiya Janata Party-ruled States do not do so today. Party linkages between different levels of government are crucial to both the making and the maintenance of federal compacts.

The GST agreement also illustrates the complexity of political negotiations. The bargain quite naturally could not have foreseen 2020. More importantly, the nature of the relationship between the actors involved has changed. From a period in which State-based parties had heft, we now have a one-party formation calling the shots.

Mains Focus:

1. GST is good for business and economy not for federalism. Discuss in the light of COVID led disruptions in fiscal federalism.
2. What is bargain federalism?



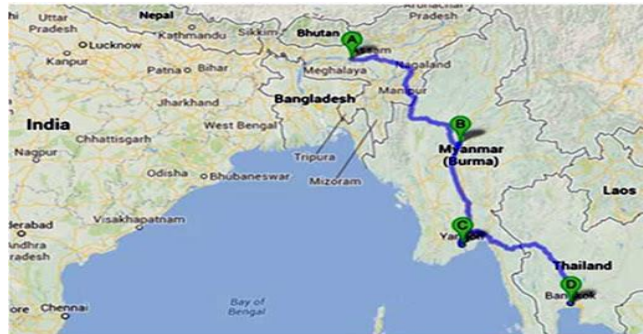
India's outreach to Myanmar

GS II: India and its Neighborhood- Relations.

Context: The recent visit Indian convoy to Myanmar reflected India's multidimensional interests in the country and the deepening of ties between Delhi and Naypyidaw. Coming a few weeks before Myanmar's general election, the visit underscored two lines of thinking that drive India's Myanmar policy: engagement with key political actors and balancing neighbours.

India in Myanmar

1. The political logic that has shaped India's Myanmar policy since the 1990s has been to support democratisation driven from within the country.
2. India is cognizant of the geopolitical dimension of Myanmar's democratisation. Myanmar's political transition created challenges for Naypyidaw and limited its ties with the West.



Recent initiatives

1. Some initiatives announced during the joint visit suggest Delhi is taking steps to leverage its political, diplomatic, and security ties with Myanmar.
2. The inauguration of the liaison office of the Embassy of India in Naypyidaw may seem a routine diplomatic activity. However, establishing a permanent presence in the capital where only a few countries have set up such offices does matter. Interestingly, China was the first country to establish a liaison office in Naypyidaw in 2017.
3. India has also proposed to build a petroleum refinery in Myanmar that would involve an investment of \$6 billion. This is another indication of Myanmar's growing significance in India's strategic calculus, particularly in energy security. It also shows India's evolving competitive dynamic with China in the sector at a time when tensions between the two have intensified.
4. Another area of cooperation that has expanded involves the border areas. The joint visit reiterated the "mutual commitment not to allow respective territories to be used for activities inimical to each other."



5. Last, for Delhi, the balancing act between Bangladesh and Myanmar remains one of the keys to its overall approach to the Rohingya issue. Delhi has reiterated its support for “ensuring the safe, sustainable and speedy return of displaced persons” to Myanmar.

Conclusion:

For India, Myanmar is key in linking South Asia to Southeast Asia and the eastern periphery becomes the focal point for New Delhi’s regional outreach.

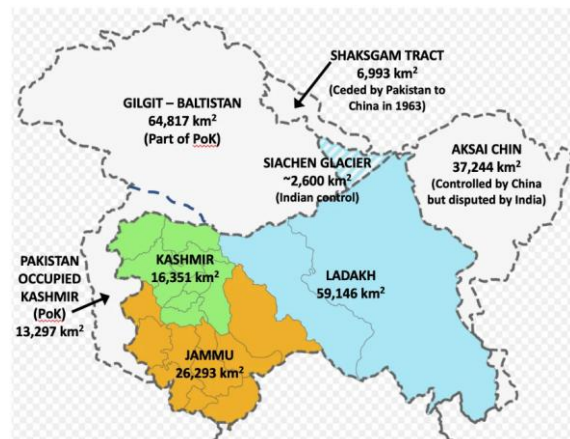
Mains Focus:

1. Act East Policy, Development of North East, ASEAN connection
2. IMT Trilateral Highway
3. Kaladan Multimodal Project
4. Security: Rohingya Issue

The Gilgit-Baltistan game plan

GS II: India and its Neighborhood-Relations, Effect of Policies and Politics of Developed and Developing Countries on India’s interests

Bottom line: Reports indicate that the Pakistan government is on the verge of declaring Gilgit-Baltistan a province of Pakistan. If Islamabad integrates the region into Pakistan, that would serve its own interests as well as China’s



Historical background

Technically speaking Gilgit-Baltistan was a part of the State of Jammu and Kashmir (J&K) at the time of Partition although Dogra rule sat very lightly on this region. Much of it, particularly Gilgit, because of its strategic importance in the context of the Great Game in Central Asia, had been leased to the British by the Maharaja and was under the direct control of the British government until the lapse of suzerainty. Gilgit had its own British-officered local army, the Gilgit



Scouts, which switched allegiance to Pakistan within a week of the Maharaja's accession to India.

Hesitation of Pak

From the beginning, Gilgit-Baltistan was governed as a separate entity by Pakistan and not as a part of Pakistan occupied Kashmir (PoK). Islamabad had hesitated to declare it a province of Pakistan because of its claim that J&K is disputed territory and its future must be decided by a plebiscite among all its inhabitants.

Why change status now?

There are several reasons why Islamabad has now decided to formally integrate Gilgit-Baltistan into Pakistan.

1. First, the revocation of Article 370 by India and the bifurcation of the State into two Union Territories have sent a clear message that the Kashmir dispute is not only dead but also buried as far as New Delhi is concerned. Pakistan's imminent move, transforming Gilgit-Baltistan's de facto status into a de jure one, is a clear riposte to the Indian decision.
2. Second, public opinion in Gilgit-Baltistan has long been in favour of full integration into Pakistan as a province.
3. Third, China has been encouraging Islamabad to turn Gilgit-Baltistan into a province. The China-Pakistan Economic Corridor (CPEC) runs through Gilgit-Baltistan and China has invested heavily in the region. In view of India's continuing claim to the area, Beijing is interested in delinking Gilgit-Baltistan formally from Kashmir so that its investment does not remain hostage to the possibility of another round of India-Pakistan hostilities over Kashmir.
4. China also wants to repay India in its own coin following New Delhi's decision to separate Ladakh from J&K. Beijing views the Indian move as the first step towards India attempting to enforce its claim on Aksai Chin, currently under Chinese occupation.
5. In addition to CPEC, China considers Gilgit-Baltistan very important because of its strategic location. It is contiguous to Ladakh as well as Xinjiang and could act as a staging post against India if a major conflict erupts in Ladakh.
6. There is already a substantial Chinese civilian presence in Gilgit-Baltistan related to CPEC projects. China is interested in stationing military personnel



as well. Delinking the region from the Kashmir dispute would make it easier for the international community to accept Chinese presence in Gilgit-Baltistan.

Implications for India

This move will lead to an increased footprint of China in Gilgit, thus increasing India's two-front dilemma.

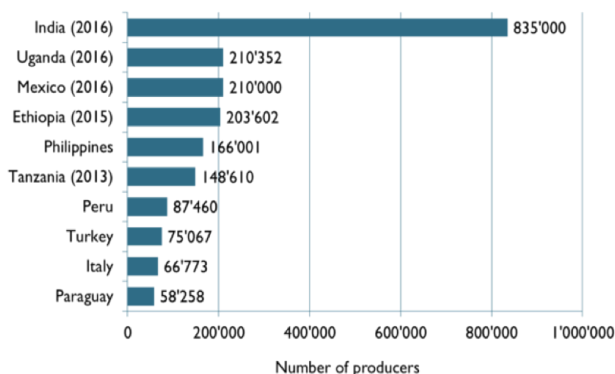
Conclusion:

India must calibrate its response carefully because merely by turning up the rhetorical heat, it may play into Chinese and Pakistani hands and escalate the situation. Rhetoric must always be determined by a meticulous assessment of capability.

Natural and Organic farming: How Indian states are stepping up the act

GS III: Technology Missions for Agriculture; Conservation

The ten countries with the largest numbers of organic producers 2017
Source: FiBL survey 2019



Bottom line: Organic farming is in a nascent stage in India. Some states have taken the lead in improving organic farming coverage, but a major part of the area is concentrated only in a handful of states. The area under organic cultivation is 2% of the net sown area in the country.

Natural vs Organic Farming

Chemical-free agriculture, popularly known as organic agriculture, has been gaining traction in India for quite some time now. The NITI Aayog prefers calling it 'natural farming'. Most civil society members and farmers use 'organic' and 'natural' farming terms interchangeably.



People often use the term natural farming, if most farm inputs used are managed from the farm system or from nearby local ecosystems. Under organic farming, externally purchased farm inputs like biofertilizers and vermin-compost are also used on the farm.

Organic/natural farming is native to India. The farmers of ancient India were known to have evolved nature-friendly farming systems and practices such as mixed farming, mixed cropping and crop rotation.

Organic Farming Coverage:

1. A few states have taken the lead in improving organic farming coverage, as a major part of this area is concentrated only in a handful of states. Madhya Pradesh tops the list with 0.76 million ha of the area under organic cultivation — that is over 27 per cent of India's total organic cultivation area.
2. The top three states — Madhya Pradesh, Rajasthan and Maharashtra — account for about half the area under organic cultivation.
3. Sikkim is the only Indian state to have become fully organic so far. A majority of the states have only a small part of their net sown area under organic farming.
4. Even the top three states that account for the largest area under organic cultivation — Madhya Pradesh, Rajasthan and Maharashtra — have only around 4.9, 2.0 and 1.6 per cent of their net sown area under organic farming respectively.
5. Even though India has a very small organic area under cultivation, in terms of the number of organic farmers it is being ranked first. India has over 1.9 million organic farmers as of March 2020, which is 1.3 percent of 146 million agricultural landholders.

Policy initiatives do not mean greater organic coverage

1. Low organic farming coverage prevails in several states, despite at least 20 of them having a policy or a scheme with regard to organic farming. Apart from the states with 100 percent organic ambition, there are only a select few that have set specific measurable targets.
2. Some states have had a policy for several years but have not been able to cover a large area in absolute terms under organic cultivation. For example, Karnataka and Kerala have had an organic policy since 2004 and 2010



respectively, but have only 1.1 and 2.7 per cent of their net sown area organically cultivated.

3. Currently, only around 12 states have their own state organic certification agencies accredited by Agricultural and Processed Food Products Export Development Authority (APEDA).
4. Some states have either developed or are still in the process of forming organic brands such as MP Organic, Organic Rajasthan, Nasik Organic, Bastar Naturals, Kerala Naturals etc.

Organic coverage largely under NPOP

India introduced the organic farming policy in 2005. The 2.78 million ha covered under organic farming in India is about two per cent of the 140.1 million ha net sown area in the country. Of this, 1.94 million ha is under the National Programme for Organic Production (NPOP). This shows that the NPOP scheme covers about 70 per cent of the organic area of the country. India's top organic state Madhya Pradesh has about 90 per cent of its organic area under NPOP.

Natural Farming

States coming forward

States such as Andhra Pradesh, Himachal Pradesh, Gujarat, Haryana, Karnataka and Kerala are promoting natural farming. Andhra Pradesh is the frontrunner among all states in implementing the natural farming programme at a mass scale. Karnataka recently initiated implementation of zero budget natural farming (ZBNF) on a pilot basis in 2,000 hectares in each of the 10 agro-climatic zones of the state.

A push from the Centre

Prime Minister Narendra Modi has been talking about the need to reduce chemical fertilizers and promotion of organic and natural farming at various forums, including the United Nations convention.

As per 17th Lok Sabha standing committee on agriculture report dated March 2020, The Ministry of Agriculture and Farmers Welfare (MoAFW) proposed 'Bhartiya Prakritik Krishi Paddhati' (BPKP) as a new submission under Paramparagat Krishi Vikas Yojana (PKVY).



Paramparagat Krishi Vikas Yojna is a sub-component of Soil Health Management Scheme under National Mission of Sustainable Agriculture and aims to develop sustainable models of organic farming through a mix of traditional wisdom and modern science.

What does existing research say?

A survey of ICAR's National Academy of Agricultural Research Management, Hyderabad, of ZBNF in Karnataka and Andhra Pradesh, found that ZBNF reduced farming cost, increased farmer income and had ecological and social benefits. ZBNF yield results were mixed: While some crops showed higher ZBNF yield, others showed a decrease.

A research survey by Abdul Nazir Sab State Institute of Rural Development, Mysore, Karnataka, found positive impacts of ZBNF on farmers. It concluded that ZBNF was farmer-friendly, cost-effective, gave optimal yield and with no decline over time. It also did not require farmers to take crop loans because of reduced input costs, freed farmers from the debt trap and instilled confidence in them.

A research survey of ZBNF farmers by Amrita Bhoomi Centre, Karnataka, and El Colegio de la Frontera Sur, Mexico, showed positive results with regard to yield, soil conservation, seed diversity, pest attacks, quality of farm produce, seed autonomy, household food autonomy, income, production cost and health, ending debt cycles and stopping farmer suicides in Karnataka.

Institutional support to Natural and Organic Farming

Indian states essentially depend on the Union government's schemes to promote organic and natural farming. Some states also utilise funds from other schemes such as Rashtriya Krishi Vikas Yojana and the Mission for Integrated Development of Horticulture to do the job.

A few states, on the other hand, walked the extra mile and started initiatives of their own. Chhattisgarh, for example, recently took initiatives to promote rural livelihoods along with organic farming. The new Godhan Nyay scheme was launched by the Chhattisgarh government in July 2020. The scheme aims to increase the income of farmers and cattle ranchers, promote organic compost,



reduce chemical fertiliser usage and improve soil health. It also proposes to purchase cattle dung at Rs 2 per kilogram, convert it to vermicompost and make it available to farmers at Rs 8 per kg.

States such as Odisha and Karnataka have started initiatives such as procurement of organic produce and linkages with PDS, ICDS and other schemes

Why Need natural and Organic Farming

Chemical-based agriculture faces sustainability issues and causes damage to people and the planet's health. Promotion of organic and natural farming will lead to a win-win situation for people and the planet and will contribute to helping achieve the United Nations Sustainable Development Goals.

Ecological Benefits:

1. Maintain long term soil productivity and soil microbiota through use of Farmyard Manure.
2. Preserves agro-biodiversity of India, which have solutions for future food security challenges
3. Ensures water security along with food and livelihood security, making trinity sustainable in the long term
4. Low carbon footprints from Agriculture
5. Natural and Organic farming is Benign to Biodiversity

Economic Benefits:

1. Higher-income for farmers and low off-farm inputs
2. No debt trap for farmers
3. Robust and resilient rural and farm economy
4. Reduced burden on Government is a form of various subsidies like fertilizers and electricity subsidy

Social Benefits:

1. Improved living standards in rural areas
2. Recognition of traditional agricultural wisdom will boost the self-confidence of farmer



Conclusion:

The current agrarian crisis, agro-biodiversity loss, natural resource degradation and changing climate have aggravated the situation, raising questions on the sustainability of this kind of agriculture.

Organic and natural farming presents a new opportunity. However, funds allocated to organic agriculture were minuscule: Combined budget allocated to flagship schemes such as Paramparagat Krishi Vikas Yojana, Organic Value Chain Development for North East Region and National Project on Organic Farming was less than Rs 700 crore for 2020-21.

In contrast, central subsidies for chemical fertilisers were Rs 70,000-Rs 80,000 crore annually.

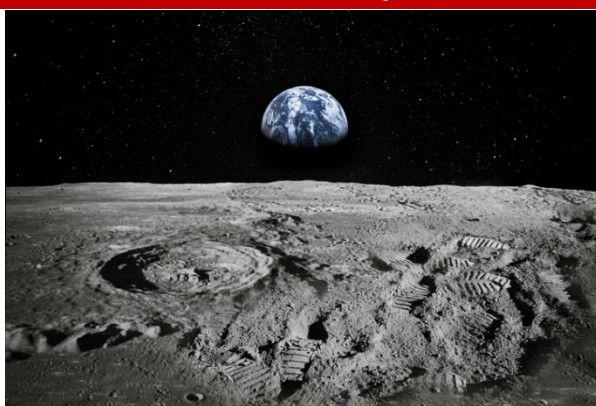
The central and state governments need to make a paradigm shift and create an ecosystem for farmers to support organic and natural farming. This can help to achieve several of the United Nations-mandated sustainable development goals by helping with food and nutrition security, tackling climate change, rural development, employment generation, increasing farm income, conserving natural resources, improving biodiversity and health.

Water on the Moon: a discovery, an estimate, and why it matters

GS III: Awareness in the fields of IT, Space, Computers, Robotics, Nano-technology, Bio-technology and issues relating to Intellectual Property Rights.

Discovery: The Moon has water at places where none had been detected before and has potentially more water than previously believed in regions

where it was already understood to exist. In two separate studies in Nature Astronomy, scientists have reported findings with potentially huge implications for sustaining humans on the Moon in the future. One study reports the detection of water on the Moon's sunlit surface for the first time. The other estimates that





the Moon's dark, shadowy regions, which potentially contain ice, are more widespread than thought.

Why is the discovery of water important?

Apart from being a marker of potential life, water is a precious resource in deep space. For astronauts landing on the Moon, water is necessary not only to sustain life but also for purposes such as generating rocket fuel. NASA's Artemis programme plans to send the first woman and the next man to the Moon in 2024 and hopes to establish a "sustainable human presence" there by the end of the decade. If space explorers can use the Moon's resources, it means they need to carry less water from Earth.

India's Contribution: Chandrayaan-1

Previous Moon studies, including by the Indian Space Research Organisation's (ISRO) Chandrayaan-1 mission, have provided evidence for the existence of water. In 2009, the Moon Mineralogy Mapper (M3) instrument aboard Chandrayaan-1 found water molecules in the polar regions. A paper in Nature Geoscience In August 2013 analysed M3 data to report the detection of magmatic water (water originating from the deep interiors) on the Moon's surface.

However, what was not established in such studies was whether the detected molecules were water as we know it (H₂O) or in the form of hydroxyl (OH).

What is different in the new discovery?

This time, it is confirmed H₂O molecules, discovered in Clavius Crater in the Moon's southern hemisphere by SOFIA. And it is the first time water has been detected on the sunlit side, showing it is not restricted to the shadowy regions. SOFIA is a modified Boeing 747SP jetliner that flies at altitudes up to 45,000 feet.