18th July, 2024

1. Intergenerational equity as tax devolution criterion
GS 3 (Economy)

- **Why in News:** The discussion on the devolution of Union tax revenue to States has recently gained attention in political and economic spheres. A crucial point in this discussion is the need to balance intragenerational and intergenerational equity within the horizontal distribution formula set by the Finance Commission (FC) every five years.

Intergenerational equity as tax devolution criterion

The devolution of Union tax revenue to States is a topic that has been in discussion in the political sphere in recent times. However, it is an evergreen subject of discussion for economists. One of the points in this discussion is the factors in the horizontal distribution of States' share in Union tax revenue among States. The Finance Commission (FC) decides the horizontal distribution formula once every five years. Despite repeated quinquennial revisits to this distribution formula, conceptually, it is predictable that equity is prioritised over efficiency. Equity in the distribution formula is about intragenerational equity, that is, to redistribute tax revenue among States. The undesirable consequence of this is the accentuation of intergenerational inequity within States. The argument is that intergenerational equity should be a factor in India's horizontal distribution formula for tax devolution.

Intergenerational fiscal equity

In general, intergenerational equity is the principle of providing equal opportunities and outcomes to every generation. Intergenerational equity ensures that the decisions or actions of current generations should not burden the future generation. From a public finance point of view, it refers to a situation where every generation pays for the public services it receives and does not burden the future generation through borrowings.

For any government, there are only two ways to raise its revenue: tax or borrowing. If, in a period, the tax revenue equals the current expenditure of the government, then the current taxpayers pay for the public services they receive. If the government finances the current expenditure through borrowings, it means the future generation is going to pay higher taxes to repay this borrowing and interest. In other words, borrowing to meet the current expenditure of the government amounts to intergenerational inequity.

There is an argument in fiscal economics called Ricardian Equivalence Theory that whenever the government resorts to borrowing to finance current expenditure, households react through higher savings and thus enable the future generation to pay higher taxes as well as keep aggregate demand in the economy constant over different periods. This theory assumes that the current generation pays tax less than the value of the current public services it receives, and thus saves. Whereas in our present federal situation this is not the case. Households in developed States pay taxes that are not entirely used within the specific States, thus compelling such States to borrow more or curtail current expenditure. On the contrary, households in developing States pay taxes much less than the value of current expenditure and fill the gap by receiving higher financial transfers from the Union government.

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The Finance Commission needs to have a relook at the indicators in rewarding State fiscal efficiency

Versus intragenerational equity

To give the broader picture, let us divide some of the major States into high-income and low-income – Tamil Nadu, Kerala, Karnataka, Maharashtra, Gujarat, and Haryana as high-income States and Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, Odisha and Jharkhand as low-income States. Let us analyse only the 14th FC period (2015-20). The own tax revenue financed up to 59.3% of revenue expenditure in high-income States, while in low-income States, their own tax revenue was financing only 35.9%. The Revenue Expenditure to GSDP ratio for high-income States was 10.9%, which is lower than the similar ratio of 18.3% for low-income States. Thus, while high-income States curtailed their revenue expenditure and began financing a substantial part of it through their own tax revenues, the low-income States not only had higher Revenue Expenditure to GSDP but also financed only a smaller portion of it through their own tax revenues. Nearly 57.7% of revenue expenditure in low-income States was financed by Union financial transfers, and only 27.6% of revenue expenditure was financed by Union financial transfers in high-income States.

We can see three aspects of federal finances. First, low-income States finance a smaller portion of their revenue expenditure with their own tax revenue and also receive larger amounts of Union financial transfers. Second, high-income States finance a substantial portion of their revenue expenditure with their own tax revenue but receive too little Union financial transfers. Third, we can also deduce that the high-income States had to incur a deficit of 13.1%, and the low-income States ended up with a deficit of only 6.4% of revenue expenditure. Thus, the high-income States raise higher amounts of their own tax revenue and curtail their own revenue expenditure, yet incur higher deficits because of lower Union financial transfers compared to low-income States.

People of a State know the level of direct and indirect taxes they pay and expect an equivalent value of services from the government. So, the public services provided to the people of a State by both the State and the Union government should match this expectation. Any other fiscal behaviour would only result in burdening the high-income States with higher tax payments for both present and future generations. We understand the need for intragenerational equity across States in a federal system as it provides a larger unified market for everyone. Balancing both intragenerational and intergenerational equity is important, and it reiterates the need to balance equity and efficiency in the distribution formula for tax devolution to States. This squarely falls under the purview of the FC to have a fair mechanism to address the conflicting equity issues

Address conflicting equities

Usually, FCs use indicators such as per capita income, population, and area in the distribution formula. These indicators reflect the differences between States in terms of demand for public services (population and area) and the size of public revenue available (per capita income). These indicators carry a larger weight and assure equity in the distribution of Union financial transfers among States. Variables such as tax effort and fiscal discipline carry smaller weight in the distribution formula to reward the fiscal efficiency of States.

You may find that the equity variables are proxy variables, and that they do not reflect the actual fiscal situations in States. The efficiency indicators are fiscal variables from the State budget. The Union financial transfers make an impact only on the Budget and alter the fiscal behaviour of States. Therefore, it is appropriate to include more fiscal variables in the tax devolution criterion such that the Union financial transfers change the fiscal behaviour of the States in the desired direction.

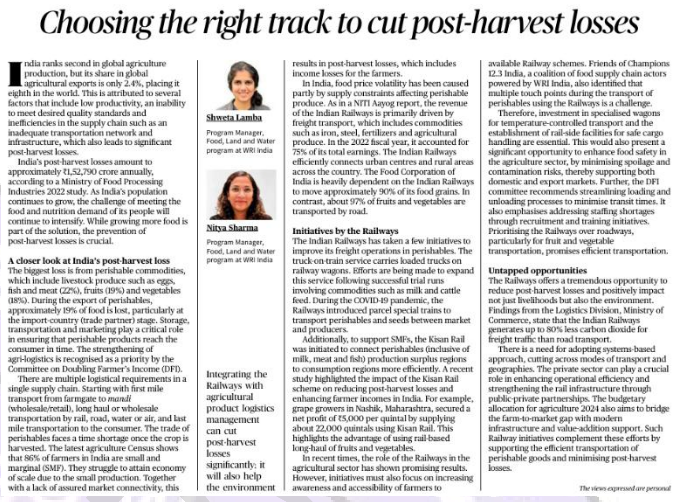
Every State has a Fiscal Responsibility Act restricting the quantum of deficit and public debt. However, reduced Union financial transfers to some States compel them to breach this legal limit. Therefore, the FC should assign a larger weight to fiscal indicators and incentivise tax effort and expenditure efficiency through larger Union financial transfers. This will automatically ensure intergenerational fiscal equity and sustainable debt management by States.

- **Intergenerational Fiscal Equity:**
  - **Principle and Importance:** Intergenerational equity involves ensuring that current generations do not burden future generations with debt. It emphasizes that every generation should pay for the public services it receives.
  - **Revenue Raising Methods:** Governments can raise revenue through taxes or borrowing. Using borrowings to finance current expenditure leads to future generations bearing the tax burden to repay these borrowings.
  - **Ricardian Equivalence Theory:** This theory suggests that households save more when governments borrow to finance current expenditure, preparing for higher future taxes. However, this does not hold in India's federal structure, where developed states often subsidize less developed ones.
- **Intragenerational Equity:**
  - **Revenue Expenditure Analysis:** During the 14th FC period (2015-20), high-income states financed a larger portion of their revenue expenditure through their own taxes compared to low-income states. High-income states managed 59.3% while low-income states only managed 35.9%.
  - **Union Financial Transfers:** Low-income states received 57.7% of their revenue expenditure from Union transfers, while high-income states received only 27.6%.
  - **Deficit Implications:** High-income states faced higher deficits due to lower Union transfers despite higher own tax revenues and curtailed expenditures.
- **Balancing Equity in Tax Devolution:**
  - **Current Indicators:** The FC uses per capita income, population, and area to distribute Union financial transfers, emphasizing equity. However, these indicators do not fully reflect the fiscal realities of states.
  - **Fiscal Variables:** Incorporating fiscal indicators like tax effort and fiscal discipline in the distribution formula can promote efficient fiscal behavior and ensure a fairer allocation of resources.
  - **Sustainable Debt Management:** Assigning larger weights to fiscal indicators can incentivize states to maintain fiscal discipline, ensuring intergenerational equity and sustainable debt levels.

2. Choosing the right track to cut post-harvest losses
GS 3 (Agriculture)

- **Why in News:** India, despite ranking second in global agriculture production, holds only a 2.4% share in global agricultural exports. Significant post-harvest losses and supply chain inefficiencies are major factors contributing to this gap. Addressing post-harvest losses is crucial for meeting the food and nutrition demands of a growing population.

- **Challenges in India's Post-Harvest Losses:**
  - **High Losses in Perishables:** The biggest losses occur in perishable commodities like livestock produce (22%), fruits (19%), and vegetables (18%). Storage, transportation, and marketing inefficiencies exacerbate these losses.
  - **Supply Chain Inefficiencies:** India's fragmented supply chain, involving multiple logistical requirements from farmgate to consumer, faces significant challenges. Small and marginal farmers (86% of the farmer population) struggle with economies of scale and assured market connectivity.



Choosing the right track to cut post-harvest losses

India ranks second in global agriculture production, but its share in global agricultural exports is only 2.4%, placing it eighth in the world. This is attributed to several factors that include low productivity, an inability to meet desired quality standards and inefficiencies in the supply chain such as an inadequate transportation network and infrastructure, which also leads to significant post-harvest losses.

India's post-harvest losses amount to approximately ₹1,52,790 crore annually, according to a Ministry of Food Processing Industries 2022 study. As India's population continues to grow, the challenge of meeting the food and nutrition demand of its people will continue to intensify. While growing more food is part of the solution, the prevention of post-harvest losses is crucial.

A closer look at India's post-harvest loss

The biggest loss is from perishable commodities, which include livestock produce such as eggs, fish and meat (22%), fruits (19%) and vegetables (18%). During the export of perishables, approximately 19% of food is lost, particularly at the import-country (trade partner) stage. Storage, transportation and marketing play a critical role in ensuring that perishable products reach the consumer in time. The strengthening of agri-logistics is recognised as a priority by the Committee on Doubling Farmer's Income (DFI).

There are multiple logistical requirements in a single supply chain. Starting with first mile transport from farmgate to *mandi* (wholesale/retail), long haul or wholesale transportation by rail, road, water or air, and last mile transportation to the consumer. The trade of perishables faces a time shortage once the crop is harvested. The latest agriculture Census shows that 86% of farmers in India are small and marginal (SMF). They struggle to attain economy of scale due to the small production. Together with a lack of assured market connectivity, this results in post-harvest losses, which includes income losses for the farmers.

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Integrating the Railways with agricultural product logistics management can cut post-harvest losses significantly; it will also help the environment

In India, food price volatility has been caused partly by supply constraints affecting perishable produce. As in a NITI Aayog report, the revenue of the Indian Railways is primarily driven by freight transport, which includes commodities such as iron, steel, fertilizers and agricultural produce. In the 2022 fiscal year, it accounted for 75% of its total earnings. The Indian Railways efficiently connects urban centres and rural areas across the country. The Food Corporation of India is heavily dependent on the Indian Railways to move approximately 90% of its food grains. In contrast, about 97% of fruits and vegetables are transported by road.

Initiatives by the Railways

The Indian Railways has taken a few initiatives to improve its freight operations in perishables. The truck-on-train service carries loaded trucks on railway wagons. Efforts are being made to expand this service following successful trial runs involving commodities such as milk and cattle feed. During the COVID-19 pandemic, the Railways introduced parcel special trains to transport perishables and seeds between market and producers.

Additionally, to support SMFs, the Kisan Rail was initiated to connect perishables (inclusive of milk, meat and fish) production surplus regions to consumption regions more efficiently. A recent study highlighted the impact of the Kisan Rail scheme on reducing post-harvest losses and enhancing farmer incomes in India. For example, grape growers in Nashik, Maharashtra, secured a net profit of ₹5,000 per quintal by supplying about 22,000 quintals using Kisan Rail. This highlights the advantage of using rail-based long-haul of fruits and vegetables.

In recent times, the role of the Railways in the agricultural sector has shown promising results. However, initiatives must also focus on increasing awareness and accessibility of farmers to available Railway schemes. Friends of Champions 12.3 India, a coalition of food supply chain actors powered by WRI India, also identified that multiple touch points during the transport of perishables using the Railways is a challenge.

Therefore, investment in specialised wagons for temperature-controlled transport and the establishment of rail-side facilities for safe cargo handling are essential. This would also present a significant opportunity to enhance food safety in the agriculture sector, by minimising spoilage and contamination risks, thereby supporting both domestic and export markets. Further, the DFI committee recommends streamlining loading and unloading processes to minimise transit times. It also emphasises addressing staffing shortages through recruitment and training initiatives. Prioritising the Railways over roadways, particularly for fruit and vegetable transportation, promises efficient transportation.

Untapped opportunities

The Railways offers a tremendous opportunity to reduce post-harvest losses and positively impact not just livelihoods but also the environment. Findings from the Logistics Division, Ministry of Commerce, state that the Indian Railways generates up to 80% less carbon dioxide for freight traffic than road transport.

There is a need for adopting systems-based approach, cutting across modes of transport and geographies. The private sector can play a crucial role in enhancing operational efficiency and strengthening the rail infrastructure through public-private partnerships. The budgetary allocation for agriculture 2024 also aims to bridge the farm-to-market gap with modern infrastructure and value-addition support. Such Railway initiatives complement these efforts by supporting the efficient transportation of perishable goods and minimising post-harvest losses.

The views expressed are personal

  - **Food Price Volatility:** Supply constraints and inefficiencies in the supply chain contribute to food price volatility, affecting both farmers and consumers.
- **Railways' Initiatives to Reduce Losses:**
  - **Truck-on-Train Service:** This service transports loaded trucks on railway wagons, with successful trial runs for commodities like milk and cattle feed. The Indian Railways is expanding this service.
  - **Parcel Special Trains:** Introduced during the COVID-19 pandemic, these trains transport perishables and seeds between markets and producers.
  - **Kisan Rail:** This initiative connects surplus production regions with consumption regions, reducing post-harvest losses and enhancing farmer incomes. For instance, grape growers in Nashik, Maharashtra, secured a net profit of ?5,000 per quintal using Kisan Rail.
- **Future Directions and Untapped Opportunities:**
  - **Specialized Wagons and Rail-Side Facilities:** Investment in temperature-controlled transport and safe cargo handling facilities are essential to minimize spoilage and contamination risks, supporting both domestic and export markets.
  - **Streamlining Operations:** Recommendations include streamlining loading and unloading processes and addressing staffing shortages through recruitment and training.
  - **Environmental and Economic Benefits:** The Indian Railways generates up to 80% less carbon dioxide for freight traffic than road transport. Public-private partnerships can enhance operational efficiency and strengthen rail infrastructure.

3. INS Teg
Recent events of importance

- **Why in News:** The Indian warship INS Teg has rescued nine sailors, including eight Indians and one Sri Lankan, who were on board the Comoros-flagged oil tanker, MT Falcon Prestige, that had capsized recently off the Oman coast.
- **About INS Teg:**
  - INS Teg (F45) is the **first of three guided missile frigates** of the **modified INS Talwar-class** that **India commissioned Russian shipyard Yantar to build** under **Project-17 A** (the other two are **INS Tarkash** and **INS Trikand**).

Nine of 13 crew members of capsized oil tanker rescued by Navy off Oman coast

Dinakar Peri
NEW DELHI

Indian Navy's mission-deployed warship *INS Teg*, assisting in a search-and-rescue (SAR) operation after the Comoros-flagged oil tanker *MV Prestige Falcon* capsized off the Oman coast, rescued nine crew members – eight Indians and one Sri Lankan, the Navy said late on Wednesday.

The tanker has a 16-member crew – 13 Indians and three Sri Lankans.

The vessel had capsized about 25 nautical miles southeast of Ras Madrakah in Oman on July 15 and rescue efforts in coordination with Oman authorities have been in progress since the morning of July 16.

The warship *INS Teg* engaging in a search for a capsized oil tanker off the Oman coast on Wednesday. X @INDIANNAVY

The efforts by Indian and Omani assets are being undertaken in challenging weather conditions as the area is experiencing rough sea and strong winds, the Navy said on Wednesday.

The Indian Navy's long-range maritime reconnaissance aircraft P8I is also assisting in the search for survivors.

"Stealth frigate *INS Teg* deployed in the region and undergoing Operational Turnround (OTR), was sailed at short notice to render SAR assistance. SAR efforts are progressing in coordination with Omani authorities and assets, in rough seas and strong winds," a defence source said on Wednesday.

"Indian Navy's P8I is also assisting in search for survivors."

Another source said that the vessel transmitted a distress call around 10 p.m. on July 14 off the coast of Oman. According to marine traffic portals, the vessel departed the Al Hamriyah port in the UAE on July 9 and was headed to the Aden port in Yemen and was scheduled to arrive there on July 18.

Indian naval ships on deployment in the Gulf of Aden and the region regularly visit Oman ports for OTR, and P-8I long range maritime patrol aircraft have also been visiting Oman for the purpose, extending their reach and endurance.

  - INS Teg was commissioned into Navy service on 27 April 2012.
  - The Talwar-class guided missile frigates are modified Krivak III-class frigates built by Russia.

        - These ships **use stealth technologies** and a special hull design to ensure a reduced radar cross-section.
        - **Much of the equipment** on the ship is **Russian-made**, but a significant **number of systems of Indian origin** have also been **incorporated**.
    - The **main difference between Teg and the earlier Talwar-class ships** is the **use of BrahMos missiles** in place of the Klub-N missiles.
    - **Features of INS Teg:**
        - It is a 3,970-tonne frigate and is **armed with** eight 290-km **BrahMos supersonic cruise missiles.**
        - It is 125-metre-long and can **operate an anti-submarine or early-warning helicopter from its deck.**
        - It can reach a top speed of 30 knots (56 km/h; 35 mph).
        - It has an operating range of 4,500 nautical miles (8334 km).
        - The **stealth frigate,** with its unique design, **ensures a reduction in its radar cross-section, infrared, magnetic, and acoustic signatures,** as well as radiated underwater noise, to heighten its stealth capabilities.

4. Govt's U-Win portal to redraw immunisation map
GS 2 (Governance)

- **Why in News:** U-Win, a digital platform set to launch on August 15, aims to transform maternal and child healthcare across India. By digitizing vaccination records, it will replace the current manual system used by ASHA and other healthcare workers, streamlining record-keeping and marking a significant shift in primary healthcare delivery.

A digital vaccine card for every child: Govt's U-Win portal to redraw immunisation map

ANONNA DUTT
NEW DELHI, JULY 17

SITTING IN a porta cabin at Tindli village in Madhya Pradesh's Jabalpur district, ASHA worker Reena Patel uses her smartphone to fill in details of a month-old baby on U-Win, the government's new childhood vaccination management portal.

Part of a quiet digital revolution that is set to change the way maternal and child healthcare is delivered across the country, U-Win is likely to be launched on August 15. It is expected to be a gamechanger for primary healthcare, marking a transition from the existing vaccination cards that ASHA and other healthcare workers update manually to a completely digital platform that will maintain records

CONTINUED ON PAGE 2

HOW DOES U-WIN WORK

- Children between 0-5 years will be registered on U-Win. Vaccines given at birth are also recorded.
- A list of children, who are scheduled to receive their vaccine doses, is generated through U-Win.
- The e-record helps children get vaccinated in different places without carrying a booklet. The portal sends SMS alerts to parents.
- The portal also records birth weight and details of physical deformities, if any. This can be used for other government programmes.

- **Universal Immunization Programme (UIP)**
    - **About**
        - UIP is one of the largest public health programmes targeting close of 2.67 crore newborns and 2.9 crore pregnant women annually.
        - It is one of the most cost-effective public health interventions and largely responsible for reduction of vaccine preventable under-5 mortality rate.
        - A child is said to be fully immunized if child receives all due vaccine as per national immunization schedule within 1st year age of child.
    - **Vaccines covered**
        - Under UIP, immunization is providing free of cost against 12 vaccine preventable diseases:
            - Nationally against 9 diseases - Diphtheria, Pertussis, Tetanus, Polio, Measles, Rubella, severe form of Childhood Tuberculosis, Hepatitis B and Meningitis & Pneumonia caused by Hemophilus Influenza type B.
            - Sub-nationally against 3 diseases - Rotavirus diarrhoea, Pneumococcal Pneumonia and Japanese Encephalitis.
        - **Two major milestones of UIP**
            - The two major milestones of UIP have been the elimination of polio in 2014 and maternal and neonatal tetanus elimination in 2015.
- **U-Win**
    - **About**
        - The U-WIN portal is a replication of the Covid-19 vaccine management system Co-WIN.
        - It aims to maintain an electronic registry of routine immunizations.
            - Currently, U-WIN is in pilot mode across all states and Union Territories, except for West Bengal.

- It captures every vaccination event for pregnant women and children under the Universal Immunization Programme (UIP).
- It will ensure timely administration of vaccine doses by digitally recording every vaccination event under the Universal Immunisation Programme among all pregnant women and children aged 0-5 years.

- **How Does U-Win Work?**
  - Children between 0-5 years will be registered on U-Win. Vaccines given at birth are also recorded.
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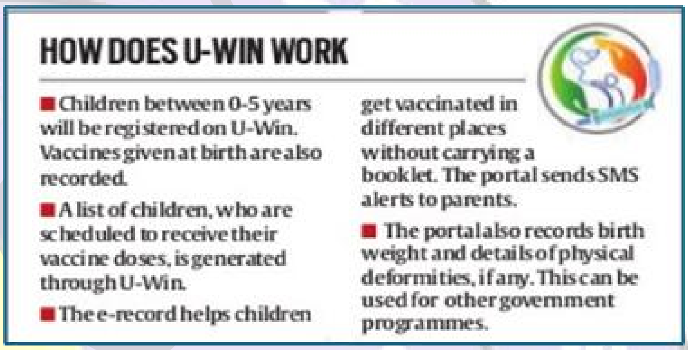

HOW DOES U-WIN WORK

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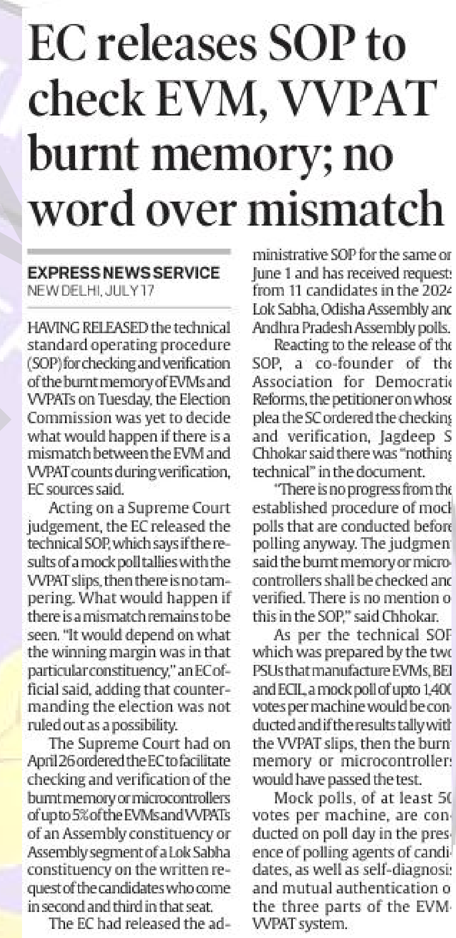
- **Features**
  - The platform generates a uniform QR-based, digitally verifiable e-vaccination certificate, similar to Covid vaccination certificate.
    - This can be accessed anytime by the citizens through a single click.
  - It will update vaccination status, and delivery outcome, among others, in real time.
  - Citizens can self-register for vaccinations via the U-WIN web portal or its Android mobile application, select preferred vaccination centres, and schedule appointments.
  - Automated SMS alerts inform citizens about registration confirmations, administered doses, and upcoming dose reminders, ensuring timely and age-appropriate vaccinations.
  - It also facilitates the creation of Ayushman Bharat Health Account (ABHA) IDs for comprehensive health record maintenance.
  - It also supports the frontline workers to digitally record all vaccination events for children and pregnant women for complete, accurate and easy record maintenance.
- **Benefits**
  - This **real-time registration of children and the digital vaccination record** on U-Win will help in reducing the number of "zero-dose" children (those who do not receive their first doses of vaccines for diphtheria, pertussis, and tetanus).
  - This will be **beneficial for migrant workers,** who can get their children vaccinated at any centre in the country and without the hassle of carrying their child's vaccination cards.
  - The U-Win portal is one of the important steps towards **halving the number of zero-dose children by 2030.**
  - Besides details of children and pregnant women who are due for vaccinations, the U-Win portal will have a record of health centres and community health workers.

- **Status of childhood immunization in India**
  - As per the recently released WHO and UNICEF estimates of national immunisation coverage (WUENIC), there was a slight dip in childhood immunisation in 2023 compared to 2022.
  - There was a two-percentage point dip (from 95% in 2022 to 93% in 2023) in the coverage of the diphtheria, pertussis, and tetanus (DPT) vaccine. The 2023 global average was 89%.
    - Coverage of the DPT vaccine is used as a proxy for the number of zero-dose children — those who have not received any routine immunisation.
  - WUENIC shows that there were 1.6 million zero-dose children in India in 2023, up from 1.1 million in 2022, but much less than 2.73 million seen in 2021.
  - The data also show that the coverage of the **third dose of the DPT vaccine — used as a proxy for under-vaccination** — stood at 91% in 2023, a two-percentage point dip from the previous year, but much higher than the 2023 global average of 84%.

- In absolute terms, **04 million children remained under-vaccinated in 2023, slightly lower than the 2.11 million children in 2019**.

5. <u>EC releases technical instructions to check EVM, VVPAT burnt memory</u>
<u>Recent events of importance</u>

- **Why in News:**
  - The Election Commission of India (ECI) released a technical standard operating procedure (SOP) for the verification of burnt memory or microcontrollers in Electronic Voting Machines (EVMs) and Voter Verified Paper Audit Trail (VVPAT) devices.
  - The SOP has been released in accordance with a verdict delivered by the Supreme Court. It aims to ensure the integrity and transparency of the election process by addressing the issue of verifying votes accurately through both electronic and paper means.
- **Burnt memory of EVMs and VVPAT units**
  - The burnt memory of EVMs (Electronic Voting Machines) and VVPATs (Voter Verified Paper Audit Trails) refers to the non-volatile memory in these devices where data is stored permanently, even when the device is powered off.
  - This memory contains critical information such as:
    - **EVMs:** Votes cast during the election, the configuration of the machine, and other operational details.
    - **VVPATs:** Printed records of the votes cast, which serve as a verifiable paper trail for the electronic votes.



EC releases SOP to check EVM, VVPAT burnt memory; no word over mismatch

EXPRESS NEWS SERVICE
NEW DELHI, JULY 17

HAVING RELEASED the technical standard operating procedure (SOP) for checking and verification of the burnt memory of EVMs and VVPATs on Tuesday, the Election Commission was yet to decide what would happen if there is a mismatch between the EVM and VVPAT counts during verification, EC sources said.

Acting on a Supreme Court judgement, the EC released the technical SOP, which says if the results of a mock poll tallies with the VVPAT slips, then there is no tampering. What would happen if there is a mismatch remains to be seen. "It would depend on what the winning margin was in that particular constituency," an EC official said, adding that countermanding the election was not ruled out as a possibility.

The Supreme Court had on April 26 ordered the EC to facilitate checking and verification of the burnt memory or microcontrollers of up to 5% of the EVMs and VVPATs of an Assembly constituency or Assembly segment of a Lok Sabha constituency on the written request of the candidates who come in second and third in that seat.

The EC had released the administrative SOP for the same on June 1 and has received requests from 11 candidates in the 2024 Lok Sabha, Odisha Assembly and Andhra Pradesh Assembly polls.

Reacting to the release of the SOP, a co-founder of the Association for Democratic Reforms, the petitioner on whose plea the SC ordered the checking and verification, Jagdeep S Chhokar said there was "nothing technical" in the document.

"There is no progress from the established procedure of mock polls that are conducted before polling anyway. The judgment said the burnt memory or microcontrollers shall be checked and verified. There is no mention of this in the SOP," said Chhokar.

As per the technical SOP which was prepared by the two PSUs that manufacture EVMs, BEL and ECIL, a mock poll of upto 1,400 votes per machine would be conducted and if the results tally with the VVPAT slips, then the burnt memory or microcontrollers would have passed the test.

Mock polls, of at least 50 votes per machine, are conducted on poll day in the presence of polling agents of candidates, as well as self-diagnosis and mutual authentication of the three parts of the EVM-VVPAT system.

- **Background**
  - **SC Verdict**
    - In its judgment on April 26, 2024, the Supreme Court upheld the use of Electronic Voting Machines (EVMs) and Voter Verified Paper Audit Trails (VVPATs) during the Lok Sabha elections.
    - It rejected the plea for a return to paper ballots and 100% counting of VVPAT slips.
    - However, the Court allowed second- and third-placed candidates to **request verification of the burnt memories of EVMs and VVPATs for up to 5% of machines** in an Assembly constituency or a Lok Sabha constituency segment.
      - This verification is to be conducted by engineers from the EVM manufacturers after the election results are announced.
      - Candidates or their representatives can identify the EVMs for verification by polling station or serial number and have the option to be present during the verification process.
      - Requests for verification must be made within seven days of result declaration. The costs for verification are to be notified by the Election Commission of India (ECI) and paid by the requesting candidate, but will be refunded if tampering is found.
  - **Administrative SOP released**
    - Earlier, on June 1, the ECI released the administrative SOP for checking and verification of the burnt memory of EVMs and VVPATs.
      - An Administrative SOP outlines standard procedures for organizational tasks to ensure consistency and compliance, detailing responsibilities and documentation.

        - A Technical SOP specifies technical processes and operations, providing step-by-step instructions to maintain quality and safety standards.
    - Thereafter, eight candidates who had contested the Lok Sabha election, and three candidates for the State Assembly elections in Odisha and Andhra Pradesh, had applied for verification of the burnt memory.

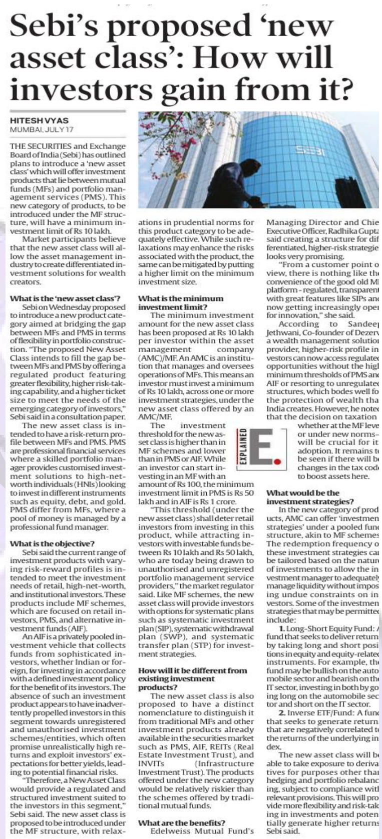
- **Key Highlights of the SOP**
  - **Verification Process**
    - The SOP outlines a detailed procedure for verifying the integrity of the microcontrollers in EVMs and VVPATs.
    - The Election Commission of India (ECI) stated that there are various technical methods to verify the accuracy of firmware burned into a microcontroller within research or secure manufacturing settings.
    - Verification can be publicly conducted by using numerous random test vectors as inputs and evaluating the intended outcomes.
  - **Mock poll of up to 1,400 votes per machine**
    - A mock poll of up to 1,400 votes per machine would be conducted in the presence of the candidates or their representatives.
      - Mock polls, of at least 50 votes per machine, are conducted on poll day in the presence of polling agents of candidates, as well as self-diagnosis and mutual authentication of the three parts of the EVM-VVPAT system.
    - If the result of the machines and VVPAT slips are found to be the same, it would be concluded that the burnt memory or microcontrollers have not been tampered with
  - **Certain powers assigned to candidates**
    - The candidates can select the polling stations, the EVMs, the BUs, CUs and VVPATs that they want checked.
    - The checking would be done by trained engineers from the EVM manufacturers, Bharat Electronics Ltd (BEL) and Electronics Corporation of India Ltd (ECIL).
- **When will this process of checking start?**
  - Verification of EVMs and VVPATs will begin only after confirming from the High Courts that no Election Petitions have been filed for the relevant constituencies.
  - Election Petitions can be filed by any candidate or voter within 45 days of the results, which were announced on June 4, making July 19 the deadline.
    - A total of 11 applications have been received, covering 118 polling stations or sets of EVMs and VVPATs.
- **Criticism of the technical SOP**
  - The SOP is silent on what would happen if there is a mismatch between the EVM and VVPAT counts during verification.
  - Experts said that there is no progress from the established procedure of mock polls that are conducted before polling anyway.
  - The judgment said the burnt memory or microcontrollers shall be checked and verified. There is no mention of this in the SOP.

6. SEBI's Proposal on New Asset Class
GS 3 (Economy)

- **Why in News:** The Securities and Exchange Board of India (SEBI) has proposed a new asset class aimed at bridging the gap between mutual funds and portfolio management services (PMS). This aims to cater to investors with investible funds ranging from Rs 10 lakh to Rs 50 lakh.
- **About Securities and Exchange Board of India (SEBI):**
  - The SEBI is a statutory regulatory body established by the Government of India in 1992. It was given statutory powers through the **SEBI Act, 1992**.

- **Objective**: To regulate the securities market in India and protect the interests of investors in securities.

- **Why Was SEBI Formed?**
  - SEBI was established to **keep a check on unfair and malpractices and protect the investors from such malpractices**.
  - The organization was created to meet the requirements of the following three groups:
    - **Issuers**: SEBI works toward providing a marketplace to the investors where they can efficiently and fairly raise their funds.
    - **Intermediaries**: SEBI works towards providing a professional and competitive market to the intermediaries
    - **Investors**: SEBI protects and supplies accurate information to investors.



Sebi's proposed 'new asset class': How will investors gain from it?

HITESH VYAS
MUMBAI, JULY 17

THE SECURITIES and Exchange Board of India (Sebi) has outlined plans to introduce a 'new asset class' which will offer investment products that lie between mutual funds (MFs) and portfolio management services (PMS). This new category of products, to be introduced under the MF structure, will have a minimum investment limit of Rs 10 lakh.

Market participants believe that the new asset class will allow the asset management industry to create differentiated investment solutions for wealth creators.

What is the 'new asset class'?

Sebi on Wednesday proposed to introduce a new product category aimed at bridging the gap between MFs and PMS in terms of flexibility in portfolio construction. "The proposed New Asset Class intends to fill the gap between MFs and PMS by offering a regulated product featuring greater flexibility, higher risk-taking capability, and a higher ticket size to meet the needs of the emerging category of investors," Sebi said in a consultation paper.

The new asset class is intended to have a risk-return profile between MFs and PMS. PMS are professional financial services where a skilled portfolio manager provides customised investment solutions to high-net-worth individuals (HNIs) looking to invest in different instruments such as equity, debt, and gold. PMS differ from MFs, where a pool of money is managed by a professional fund manager.

What is the objective?

Sebi said the current range of investment products with varying risk-reward profiles is intended to meet the investment needs of retail, high-net-worth, and institutional investors. These products include MF schemes, which are focused on retail investors, PMS, and alternative investment funds (AIF).

An AIF is a privately pooled investment vehicle that collects funds from sophisticated investors, whether Indian or foreign, for investing in accordance with a defined investment policy for the benefit of its investors. The absence of such an investment product appears to have inadvertently propelled investors in this segment towards unregistered and unauthorised investment schemes/entities, which often promise unrealistically high returns and exploit investors' expectations for better yields, leading to potential financial risks.

"Therefore, a New Asset Class would provide a regulated and structured investment suited to the investors in this segment," Sebi said. The new asset class is proposed to be introduced under the MF structure, with relaxations in prudential norms for this product category to be adequately effective. While such relaxations may enhance the risks associated with the product, the same can be mitigated by putting a higher limit on the minimum investment size.

What is the minimum investment limit?

The minimum investment amount for the new asset class has been proposed at Rs 10 lakh per investor within the asset management company (AMC)/MF. An AMC is an institution that manages and oversees operations of MFs. This means an investor must invest a minimum of Rs 10 lakh, across one or more investment strategies, under the new asset class offered by an AMC/MF.

The investment threshold for the new asset class is higher than in MF schemes and lower than in PMS or AIF. While an investor can start investing in an MF with an amount of Rs 100, the minimum investment limit in PMS is Rs 50 lakh and in AIF is Rs 1 crore.

EXPLAINED E.

"This threshold (under the new asset class) shall deter retail investors from investing in this product, while attracting investors with investable funds between Rs 10 lakh and Rs 50 lakh, who are today being drawn to unauthorised and unregistered portfolio management service providers," the market regulator said. Like MF schemes, the new asset class will provide investors with options for systematic plans such as systematic investment plan (SIP), systematic withdrawal plan (SWP), and systematic transfer plan (STP) for investment strategies.

How will it be different from existing investment products?

The new asset class is also proposed to have a distinct nomenclature to distinguish it from traditional MFs and other investment products already available in the securities market such as PMS, AIF, REITs (Real Estate Investment Trust), and INVITs (Infrastructure Investment Trust). The products offered under the new category would be relatively riskier than the schemes offered by traditional mutual funds.

What are the benefits?

Edelweiss Mutual Fund's Managing Director and Chie Executive Officer, Radhika Gupt said creating a structure for dif ferentiated, higher-risk strategie looks very promising.

"From a customer point o view, there is nothing like th convenience of the good old M platform - regulated, transparent with great features like SIPs an now getting increasingly ope for innovation," she said.

According to Sandee Jethwani, Co-founder of Dezer a wealth management solutio provider, higher-risk profile in vestors can now access regulate opportunities without the hig minimum thresholds of PMS an AIF or resorting to unregulate structures, which bodes well fo the protection of wealth tha India creates. However, he note that the decision on taxation whether at the MF leve or under new norms- will be crucial for it adoption. It remains t be seen if there will b changes in the tax cod to boost assets here.

EXPLAINED E.

What would be the investment strategies?

In the new category of prod ucts, AMC can offer 'investmen strategies' under a pooled fun structure, akin to MF schemes The redemption frequency o these investment strategies ca be tailored based on the natur of investments to allow the in vestment manager to adequatel manage liquidity without impos ing undue constraints on in vestors. Some of the investmen strategies that may be permitte include:

1. Long-Short Equity Fund: fund that seeks to deliver return by taking long and short posi tions in equity and equity-relate instruments. For example, th fund may be bullish on the auto mobile sector and bearish on th IT sector, investing in both by go ing long on the automobile sec tor and short on the IT sector.

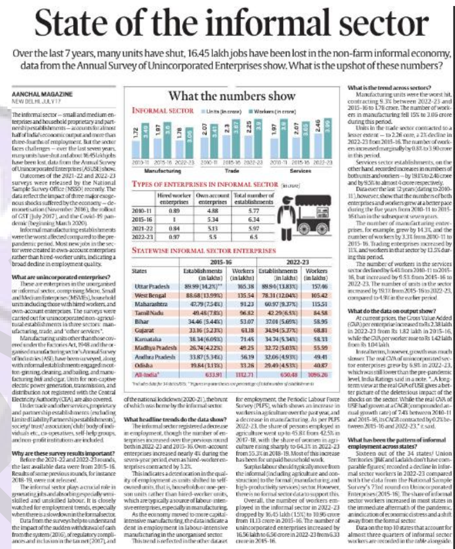
2. Inverse ETF/Fund: A fun that seeks to generate return that are negatively correlated t the returns of the underlying in dex.

The new asset class will b able to take exposure to deriva tives for purposes other tha hedging and portfolio rebalanc ing, subject to compliance wit relevant provisions. This will pro vide more flexibility and risk-tak ing in investments and poten tially generate higher return Sebi said.

- **Powers of SEBI:**
  - **Quasi-judicial powers:**
    - In case of frauds and unethical practices pertaining to the securities market, **SEBI has the power to pass judgments**.
    - The said power facilitates to maintain transparency, accountability and fairness in the securities market.
  - **Quasi-executive powers:**
    - SEBI has the power to examine the Book of Accounts and other vital documents to identify or gather evidence against violations.
    - If it finds one violating the regulations, the **regulatory body has the power to impose rules, pass judgements and take legal actions against violators**.
  - **Quasi-legislative powers:**
    - To protect the interest of investors, the **authoritative body has been entrusted with the power to formulate suitable rules and regulations**.
    - Such rules tend to encompass the listing obligations, insider trading regulations and essential disclosure requirements.
    - The body formulates such rules and regulation to get rid of malpractices that are prevalent in the securities market.

- **SEBI's Proposal on New Asset Class:**
  - The Securities and Exchange Board of India (SEBI) has proposed a new asset class designed to bridge the gap between mutual funds and portfolio management services (PMS).
  - This new asset class targets investors with a higher risk appetite, offering potentially higher returns.
  - **Need for the New Asset Class:**
    - SEBI identified a gap in the current investment spectrum.
    - Mutual funds cater to retail investors with varying risk appetites, while PMS and alternative investment funds (AIFs) serve sophisticated, high-net-worth investors.
    - The new asset class aims to provide an intermediate investment option that combines higher returns with higher risk.
  - **Investment Strategies:**
    - The proposed asset class will include SEBI-approved strategies such as Long-Short Equity Funds and Inverse ETFs/Funds:
    - **Long-Short Equity Funds**: Involve taking both long and short positions in equity and equity-related instruments.
    - **Inverse ETFs/Funds**: Aim to generate returns that are negatively correlated with the underlying index.

- **Global Availability:**
  - Globally, these strategies are already available
  - For instance, the US, regulated by the SEC, offers long-short equity funds with hedge fund-like strategies and the liquidity of mutual funds.
  - Similarly, Australia has various inverse ETF products that allow investors to hedge against market downturns or speculate on market declines.



State of the informal sector

Over the last 7 years, many units have shut, 16.45 lakh jobs have been lost in the non-farm informal economy, data from the Annual Survey of Unincorporated Enterprises show. What is the upshot of these numbers?

AANCHAL MAGAZINE
NEW DELHI, JULY 17

What the numbers show

INFORMAL SECTOR

	Units (in crore)	Workers (in crore)
Manufacturing 2010-11	1.72	3.40
Manufacturing 2015-16	1.97	3.6
Manufacturing 2022-23	1.78	3.06
Trade 2010-11	2.07	3.41
Trade 2015-16	2.3	3.87
Trade 2022-23	2.25	3.9
Services 2010-11	1.97	3.9
Services 2015-16	2.07	3.65
Services 2022-23	2.46	3.99

TYPES OF ENTERPRISES IN INFORMAL SECTOR (in crore)

	Hired worker enterprises	Own account enterprises	Total number of establishments
2010-11	0.89	4.88	5.77
2015-16	1	5.34	6.34
2021-22	0.84	5.13	5.97
2022-23	0.97	5.5	6.5

STATEWISE INFORMAL SECTOR ENTERPRISES

	2015-16		2022-23	
States	Establishments (in lakhs)	Workers (in lakhs)	Establishments (in lakhs)	Workers (in lakhs)
Uttar Pradesh	89.99 (14.2%)**	165.38	89.94 (13.83%)	157.46
West Bengal	88.68 (13.99%)	135.54	78.31 (12.04%)	105.42
Maharashtra	47.79 (7.54%)	91.23	60.97 (9.37%)	115.51
Tamil Nadu	49.48 (7.8%)	96.82	42.29 (6.5%)	84.58
Bihar	34.46 (5.44%)	53.07	37.01 (5.69%)	58.95
Gujarat	33.16 (5.23%)	61.18	34.94 (5.37%)	68.81
Karnataka	38.34 (6.05%)	71.45	34.74 (5.34%)	58.33
Madhya Pradesh	26.74 (4.22%)	49.25	32.72 (5.03%)	55.59
Andhra Pradesh	33.87 (5.34%)	56.19	32.06 (4.93%)	49.41
Odisha	19.84 (3.13%)	33.26	29.40 (4.53%)	40.87
All-India*	633.91	1112.71	650.48	1096.26

What is the trend across sectors?

What do the data on output show?

What headline trends do the data show?

- **Investment Threshold:**
  - The minimum investment requirement for this new asset class is Rs 10 lakh per investor.
  - This threshold is set to discourage retail investors while attracting those with an investible surplus ranging from Rs 10 lakh to Rs 50 lakh.
  - Investors can use options like Systematic Investment Plans (SIP), Systematic Withdrawal Plans (SWP), and Systematic Transfer Plans (STP) for investing in this new asset class.
  - The total invested amount should not drop below Rs 10 lakh due to withdrawals or systematic transactions.
- **Eligibility for Launch:**
  - Mutual funds with an average AUM exceeding Rs 10,000 crore over three years or those managed by experienced CIOs and fund managers are eligible to launch this new asset class.
- **Proposed Relaxations**
  - **Debt Securities**: Limited to 10 percent of NAV, extendable to 12 percent with approval, and up to 20 percent with further approval.
    Credit Risk-Based Limits: Ranges from 10 percent for AAA-rated securities to 6 percent for A and below, each extendable by 2 to 5 percent with approval.

- **Conclusion:** SEBI's proposed new asset class seeks to provide a regulated, flexible investment option for investors, addressing the gaps between mutual funds and PMS. By attracting sophisticated investors and curbing unauthorized investments, this initiative aims to enhance investment options and manage risks effectively.

7. The State of India's Informal Economy
GS 3 (Economy)

- **Why in News:** According to the Annual Survey of Unincorporated Enterprises (ASUSE), the informal sector in India faces many challenges. Over the last seven years, many small and medium enterprises have shut and about 16.45 lakh jobs have been lost.
- **Meaning of the Informal Sector of the Economy:**
  - The term **unorganised/ informal sector** is used interchangeably in the India context.
  - **It consists of** small and medium enterprises and household proprietary and partnership establishments.
  - The unorganised sector contributes **over 44%** to the country's gross value added (GVA) and employs **nearly 75% of the workforce** employed in non-agricultural enterprises.
    - This means the sector accounts for almost half of India's economic output and more than three-fourths of employment.
  - The share of the unorganised sector is highest in **agriculture** as the holdings are small and fragmented. This is followed by trade, construction, real estate, professional services, etc.
- **About the ASUSE:**
  - The ASUSE was released for the 2021-22 and 2022-23 by the Union Ministry of Statistics and Programme Implementation (**MoSPI**).

- It carried out surveys for **unincorporated** non-agricultural establishments in three sectors: manufacturing, trade, and other services.
    - **Unincorporated enterprises** are enterprises in the unorganised/ informal sector, comprising MSMEs, household units including those with hired workers, and own-account enterprises.
- **Manufacturing units** other than those covered under the Factories Act 1948 and the organised manufacturing sector covered by the Annual Survey of Industries (ASI), have been surveyed.
- **Under trade and other services**, proprietary and partnership establishments (excluding LLPs), co-operatives, self-help groups, non-profit institutions, etc., are included.

- **Highlights of the ASUSE:**
    - **The number of workers** employed in the informal sector in 2022-23 has dropped by 16.45 lakh or about 1.5 per cent to 10.96 crore compared to 11.13 crore in 2015-16.
    - **The number of unincorporated enterprises** increased by 16.56 lakh from to 6.50 crore in 2022-23 from 6.33 crore in 2015-16.
    - **The real GVA of unincorporated sector** enterprises grew by 6.9% in 2022-23, which was still lower than the pre-pandemic level.
- **What is the Significance of the ASUSE Data?**
    - **A crucial employment indicator:** This is because the informal sector is closely watched for its employment generation capacity and absorption of the labour force (especially semi-skilled and unskilled labour).
    - **Highlights the impact of 3 shocks on the informal sector:**
        - The data available for the first time since 2015-16, provides an understanding of the impact of the 3 major exogenous shocks on the growth of unincorporated enterprises and the employment in these enterprises.
        - These shocks are **demonetisation** in November 2016, rollout of the **Goods and Service Tax** in July 2017, and the **Covid-19 pandemic** in March 2020.
        - Much of the brunt of these 3 shocks is borne by the informal sector.
    - **Presents state-specific data:**
        - **Maharashtra, Bihar, Gujarat, MP and Odisha** recorded an increase in the informal employment between 2015-16 and 2022-23.
        - **UP, West Bengal, Tamil Nadu, Karnataka and Andhra Pradesh** registered a decline in the number of informal sector workers during the same period.
        - These ten states account for nearly three quarters of the informal sector workers employed in India.
    - **Depicts a broad decline in employment quality:** Most new jobs in the sector were created in own-account enterprises rather than hired-worker units.
    - **Matches with the Periodic Labour Force Survey (PLFS):** As per PLFS 2022-23, there was an increase in workers in agriculture, and a decrease in manufacturing.

MCQ Current Affairs
18th July, 2024

1. Which among the following best describes 'INS Teg', that was in the news recently?
a) It is a diesel-electric submarine
b) It is a torpedo launch and recovery vessel
c) It is a guided missile frigate
d) None of the above

2. Where is the Davis Strait located?
a) Between Iceland and Norway
b) Between Antarctica and South America
c) Between Alaska and Siberia
d) Between Greenland and Canada

3. **Which one of the following is the best description of 'MV Sea Change', that was in the news recently?**
a) The first autonomous container ship with zero carbon emissions
b) A cargo ship designed to navigate the Arctic routes.
c) The world's first fully electric ferry powered by hydrogen fuel cells.
d) A specialized vessel for deep-sea mining operations.

4. Chagos Archipelago, recently seen in the news, is located in:
a) Arctic Ocean
b) Pacific Ocean
c) Atlantic Ocean
d) Indian Ocean

5. Consider the following statements with reference to the Emergency Credit Line Guarantee Scheme:
A. It was launched by the Government of India in view of the Covid-19 crisis.
B. The National Credit Guarantee Trustee Company Ltd (NCGTC) provides guarantee to the loans provided under this scheme.

Which of the statements given above is/are correct?
a) A only
b) B only
c) A and B
d) Neither of two

Answers Current Affairs
18th July, 2024

1. c
2. d
3. c
4. d
5. c