Gist of EPW January Week 1, 2023

The Economic and Political Weekly (EPW) is an important source of study material for IAS, especially for the current affairs segment. In this section, we give you the gist of the EPW magazine every week. The important topics covered in the weekly are analyzed and explained in a simple language, all from a UPSC perspective.

	TABLE OF CONTENTS

1. Mitigating Risks in Agriculture

Introduction:

- According to several news reports, the demand for crop insurance under the Pradhan Mantri Fasal Bima Yojana (PMFBY) declined substantially during the rabi season.
- The expansion of the PMFBY has stalled with declining 'crop insured' area and value in the past few years.
- It is argued that the government is ignoring these signals despite the fact that the risks in agriculture are significantly increasing due to the growing weather uncertainties.
- Furthermore, the efforts to restructure the PMFBY have not been very effective.

Background Details:

- The first Comprehensive Crop Insurance was introduced in the year 1985 and operated till 2000.
- Then the National Agricultural Insurance Scheme was launched. It was in place for a decade and a half.
- The National Agricultural Insurance Scheme was replaced by the National Crop Insurance Programme with three component schemes in 2013-14.
- In 2016, it was further reorganized into the PMFBY and the Restructured Weather-Based Crop Insurance Scheme.

- The PMFBY is a flagship programme of the Government of India that intended to increase insurance coverage to half the gross cropped area in three years. It had a simple and low-premium structure for farmers, with the majority of the premium costs to be equally shared by the state and union governments.
- The insurance premium for farmers was 1.5% for Rabi crops, 2% for Kharif crops, and 5% for commercial and horticultural crops.
- It was also ensured that the crop insurance would be timely cleared by deploying emerging technologies like remote-sensing satellites for assessing crop losses.
- Despite the large budget allocations and ambitious targets, the scheme soon faltered because of unreliable crop loss assessments, delays in claim settlement, and the skewed distribution of insurance benefits across the states.

Status of PMFBY:

- It is found in the trends of the last five years (ending 2020-21) that the number of farmers adopting insurance increased by one-tenth whereas the crop area covered reduced by one-fifth.
- The overall value of the crops insured also decreased marginally.
- The total insurance premium paid to the insurance companies increased by nearly half.
- The premiums paid by the Union government have risen by half and that of states increased by two-thirds after capping the premiums paid by the government.
- In contrast, the premiums paid by the farmers have largely remained stable.
- The actual realization claims redeemed in the last three years came down to 86%, reflecting the growing disputes between the farmers and insurance companies.
- It is argued that the major gainers of the scheme are the insurance companies whose profits have burgeoned with the gap between total premium collected and claims paid increasing almost eightfold to close to half.
- Unfortunately, the share of insured farmers gaining from the scheme has declined from more than one-third to less than a quarter in the last two years.
- The distribution of the crop insurance scheme is highly skewed towards three states viz. Madhya Pradesh, Maharashtra, and Rajasthan, accounting for almost half the farmers enrolled for crop insurance, the crop area, and the total insured value. Notably, three states have also benefitted the most in insurance claims.
- In contrast, more than two dozen states have to manage with very meagre crop insurance while paying larger premiums with no corresponding share in the benefits.

Associated Issues:

- The stagnant growth and eventual decline in the extent of crop insured have major implications on farmers' livelihood and agriculture growth.

- It should be noted that agriculture output risks are insured in around two-thirds of the cropped area in China and approximately nine-tenths of the cropped area in the United States.
- The current approach of outsourcing insurance work to private corporates might be futile in the long term.
- The risk level of farmers, who secure large loans for procuring expensive and essential inputs has also increased manifold.
- The technological transformation is making farming extremely capital-intensive.

Way Ahead:

- PMFBY should be restructured to increase the pace and expand the area of insured crops.
- There should be efficient and reliable infrastructure to expeditiously and credibly assess damages and settle claims.

2. Indian Prison

Context: Overcrowding of prison and negative treatment of transgender community in India has raised many questions related to prison reform.

Detail:

State of prison in India:

- The actual capacity of prisons has increased from **4,14,033 in 2020 to 4,25,609 in 2021** ,having **increased by 2.8%**. Number of prisoners lodged in various jails has increased from **4,88,511 in 2020 to 5,54,034 in 2021** (as on 31st December of each year), having increased by 13.4% during the period.
- The number of undertrial prisoners has increased from 3,71,848 in 2020 to 4,27,165 in 2021, having increased by 14.9% during this period.

Image: Prison data

Year	No. of Prisons	Actual Capacity of Prisons	No. of Prisoners at the end of the year	Occupancy Rate at the end of the year
2019	1,351	4,00,934	4,81,387	120.1%
2020	1,306	4,14,033	4,88,511	118.0%
2021	1,319	4,25,609	5,54,034	130.2%

Issues related to transgender in the prison:

- A person who at birth was a male with male biological features but who identifies themself as a woman would be detained in a men's prison where they would be subjected to cruelty, humiliation, victim of sexual offences.
- The Model prison manual 2016 does not provide a mechanism to prescribe search procedures to be undertaken in the case of a transgender convict.
- The report also highlighted that **no uniform procedure or policy has been adopted with respect to the medical examination of transgender prisoners.**
- Medical examinations, the way they are conducted and the outcome of such examinations also form a matter of violation of the fundamental rights of transgender prisoners.
- Guidelines advocate that a separate ward or enclosure may be provided by prison authorities to house transgender prisoners, which should be separate from the male and female wards. But these guidelines are not followed.
- In cases where they are separately accommodate they are not properly taken care of and, in most cases, are segregated and even neglected by the prison authorities.

Advisory issued by the Government:

- The Ministry of Home Affairs issued an advisory to all Union territories States in an effort to prevent any discrimination against people belonging to the Transgender Community in Prison.
    - **Identity**: Every person recognised as a transgender person must have the **right to gender identification** and their identity should be respected at all times with regard to admission procedures, lodging, medical examinations.
- It is also advocated for the **adding of one more column of 'transgender'** as a separate category in the prison admission register other than male and female.
- Transgender prisoners should be housed separately but not segregated and a hospitable environment must be created in order for them to not feel neglected or even them being actually neglected.
- A transgender prisoner should also have access to the same and necessary standards of healthcare as available to other prisoners without any arbitrary differentiation or discrimination.

India is a welfare country where every citizen has equal rights over the resources of the country. But, due to their differential status they are discriminated against and ostracised. It is therefore, cardinal that measures are taken to protect their dignity in every aspect of life.

3. Sri lanka

Context: The Unravelling of the Global Political Economy and Sri Lanka's IMF Solution.

Detail:

What is International Monetary Fund (IMF)

- The International Monetary Fund (IMF) works to achieve sustainable growth and prosperity for all of its 190 member countries.
- It does so by **supporting economic policies that promote financial stability and monetary cooperation**, which are essential to increase productivity, job creation, and economic well-being.
- It plays a central role in the **management of balance of payments** difficulties and international financial crises.

What led to financial crisis in Sri Lanka:

- At the end of its civil war in 2009, Sri Lanka chose to focus on providing goods to its domestic market, instead of trying to boost foreign trade. This meant its income from exports to other countries remained low, while the bill for imports kept growing.
- When Sri Lanka's foreign currency shortages became a serious problem in early 2021, the government tried to limit them by banning imports of chemical fertiliser.
- **It told farmers to use locally sourced organic fertilisers instead.** This led to widespread crop failure. Sri Lanka had to supplement its food stocks from abroad, which made its foreign currency shortage even worse.
- Sri Lanka's tourist trade fell drastically soon after the global pandemic. This led to huge shocks to fiscal discipline.
- Economic mismanagement by successive governments that created and sustained a twin deficit –a budget shortfall alongside a current account deficit.
- The current crisis was accelerated by **deep tax cuts promised by Rajapaksa during a 2019 election campaign** that were enacted months before the COVID-19 pandemic, which wiped out parts of Sri Lanka's economy.
- With the country's **lucrative tourism industry and foreign workers' remittances sapped by the pandemic, credit ratings agencies moved to downgrade** Sri Lanka and effectively locked it out of international capital markets.

Sri Lanka & IMF:

- Sri Lanka has been facing a huge economic crisis and defaulted on its debt obligations. As a result of which it needed a bailout plan in order to come out of the economic crisis.

- The IMF solution involves the proposed disbursement of IMF funds based on the staff-level agreement **totalling $2.9 billion over four years, or a mere $60 million average per month.** This sum is meagre to meet the huge economic crisis in the country.
- But the bailout prospect offered by the IMF comes with various conditionalities, which is matter of concern
    - The growing awareness of the population that has been sparked by both the stunning people's uprising in 2022 and the **increasingly naked justification for austerity while the wealthy continue to enjoy luxuries.**
    - The breakdown of the hegemonic order of neo-liberal globalisation that the United States (US) oversaw.
- Sri Lanka, of course, is currently isolated in a global context. **The IMF has requested that Sri Lanka first reach an agreement with its bilateral and private creditors.**
    - The result is that the country is in a fix as it must first negotiate complex geopolitical rivalries and powerful international capitalist interests before receiving the first infusion of IMF cash.
- The **IMF package is to be paid in tranches over the next four years, which is less than what India provided to Sri Lanka over four months.**
    - The package must be approved by the IMF's board of directors.
    - The approval is contingent on Sri Lanka's international creditors - commercial lenders such as banks and asset managers, multilateral agencies, as well as bilateral creditors including China, Japan, and India agreeing to restructure its debt.

The Sri Lanka debt crisis can further disrupt global financial markets and could further trigger the incidence of recession. Under this condition it is necessary that efforts are taken to take the country out of the crisis.

4. Central Bank Digital Currency

Background:

- Central Bank Digital Currency (CBDC) is issued by the Reserve Bank of India. It is a digital counterpart of government-backed fiat money.
- The development of digital currencies backed by the Central bank is underway in more than 100 countries of the world.
- CBDCs differ from decentralized virtual currency (cryptocurrency and crypto assets), as they are issued by the government and have the status of "legal tender".
- CBDC is introduced due to the rising Government's concern about the risks associated with cryptocurrency and its tendency to facilitate money laundering. With CBDC government can track end-to-end virtual currency usage.

Introduction:

- Shifting trade dynamics, technological advancements, and the pandemic transformed the traditional banking and financial systems across the globe.
- After the demonetisation in 2016 and the introduction of the Digital India Mission, the Indian government also pushed for digital money.
- In this direction, a proposal was submitted by the RBI submitted in October 2021 to alter the RBI Act, 1934 expanding the definition of "banknote" to include currency in digital form.
- The Reserve Bank of India defines CBDC as "a legal tender issued by a central bank in a digital form. It is the same as a fiat currency and is exchangeable one-to-one with the fiat currency. Only its form is different."
- Thus CBDC is the same as money issued by a central bank, except for the fact that it is not in 'paper form'.
- It would appear as a liability (currency in circulation) on the balance sheet of the RBI.
- Moreover, it will be based on blockchain technology.
- Difference between Digital Currency and Virtual Currency:
    - All cryptocurrencies are digital currencies but not all digital currencies are cryptocurrencies.
    - Digital currency may not be encrypted, but cryptocurrencies are encrypted through blockchain technology.
    - It should be noted that private virtual currencies do not represent any person's debt or liabilities as there is no issuer.

Drivers of CBDC:

- Private or decentralized money cannot be regulated by central banks. This poses a challenge to the sovereignty of the national currency. As a result, many central banks in China, Sweden, European Union, etc are developing their own CBDC.
- The cryptocurrencies are based on speculations as they are not linked to any assets or currencies. This causes great fluctuations. CBDC will provide better resilience, higher safety, greater availability, and lower prices.
- CBDC can also expand financial inclusion. It can also aid in extending the public's access to public funds.
- Ease of use and security would increase as it is always more convenient and safe to carry digital money instead of cash.

Factors behind CBDC's popularity in India:

- CBDC would provide better control and oversight of the domestic money supply and financial stability.

- The major driver for CBDC in India is the desire for a more efficient and inclusive monetary system. As the paper currency is quite inefficient in production, distribution, storage, transport, and management, digital currency can help to a great extent.
- It will also help in improving financial inclusion. Notably, approximately 1.2 billion people in India do not have access to formal banking services.
- CBDC can be used for many real-world applications like programmable subsidy payments and quicker lending and/or payments.
- Cross-border remittances can be benefitted from enhanced use of CBDC as an environment for interoperability may be established, thereby strengthening faster real-time transmission.
- It can also help in reducing the cost of printing and distributing paper currency.
- Additionally, high fees charged by banks for certain services like international money transfers can be reduced.

Distinctiveness of CBDC from other digital mechanisms and its significance:

- CBDC is different from Unified Payments Interface (UPI) as each rupee transacted through UPI is backed by actual money. While in CBDC, the underlying payment method will be the Digital Rupee, and there won't be a requirement to back it with real money because it will be legal tender in itself.
- Moreover, CBDC will be managed by RBI instead of bank intermediates as in the case of UPI.
- UPI payments are based on the settlement of the transacting banks with the RBI. On the other hand in the case of CBDC, transactions will be done straight from the RBI and will be settled immediately.
- Significance of UPI:
    - CBDC will be more stable than cryptocurrencies.
    - Large transactions can happen through CBDC without worrying about the cap imposed by cryptocurrency.
    - CBDC is the faster and more efficient digital payment method.
    - CBDC can help in reducing crimes like money laundering.

Associated Concerns:

- It would lead to increased cyber security risks and other types of crimes like money laundering, terrorist financing, etc.
- It can also undermine the present financial system that is already reeling under high levels of non-performing assets(NPAs).
- It could further increase the inflation, if not managed properly.

- Many banks in India are apprehensive about their decreasing role and potential long-term impact of RBI in keeping and disbursing digital currency. It might gradually decrease deposit and hamper their ability to extend credit.
    - In order to address these concerns RBI has initially focused on wholesale CBDC.
    - Wholesale CBDCs means that it will be used to facilitate payment between RBI and commercial banks and entities that hold accounts with central banks.
- Another major area is the Privacy concern. It should be noted that digital currency users will not be entitled to the same amount of privacy and anonymity as those who trade with cash.

Conclusion:

A new phase of banking is about to begin with the introduction of digital currency. In India it will be issued by Reserve Bank of India and will be backed by the reserves held by the central bank. It will provide benefits in terms of liquidity, scalability, adoption, ease of transactions with anonymity, and quicker settlement.