

Eco issues

The projects were hanging fire for the want of environment clearance.

The roads have been in a bad shape since years, crying for repairs on several stretches and many of the culverts are in dilapidated condition.

However, the projects have to wait for a while, until the tens of thousands of migratory birds nesting in the Pulicat lake return to their homeland.

Prelims Prespect:

Pulicat Lake:

Pulicat Lagoon is the second largest brackish water lagoon in India, after Chilika Lake which is located in the eastern state of Odisha.

The Lagoon is one the three important wetlands to attract North-East Monsoon rain clouds during October to December season to Tamil Nadu.

The lake encompasses the **Pulicat Lake Bird Sanctuary**.

The barrier island of Sriharikota separates the lake from the Bay of Bengal and is home to the SatishDhawan Space Centre.

Pulicat Bird Sancturay

Pulicat Lake Bird Sanctuary is a famous sanctuary located in Nellore district of Andhra Pradesh and Protected area in Thiruvallur District of Tamil Nadu.

The sanctuary is most noted for the many greater flamingos seen here.

It also attracts many migratory birds and also is a feeding and nesting ground for aquatic and terrestrial birds such as pelicans, storks, etc.

The biodiversity of this lake attracts hundreds of thousands of visitors per year.

3. Budget shortfall worries Defence Services

The shortfall in Defence allocation in the interim Budget 2019-20, especially in its capital allocation, has left the Services worried as it threatens to derail the capability enhancement and modernisation underway. This comes at a time of fast-paced developments in the region, and China's rapid advancements will only leave India further behind in terms of military capabilities.

Significant shortfall

A look at the numbers reveals the shortfall is so significant that, for the Navy and Air Force, the capital allocation does even meet the committed liabilities, that is, payments for deals already contracted. The Army, meanwhile, is looking at a shortfall in its non-salary revenue expenditure.

For instance, the Indian Air Force (IAF), which has signed major deals in the last two years, including for the

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- 36 Rafale jets and
- S-400 air defence systems,
- CH-47F Chinook heavy lift helicopters and
- AH-64 Apache attack helicopters, has committed liabilities of Rs. 47,400 crore.

In contrast, the entire capital allocation is Rs. 39,300 crore and the projected capital requirement is Rs. 74,895 crore. Similarly, for the Navy, the committed liabilities for the coming year stand at Rs. 25,461 crore, while the total capital allocation is Rs. 22,227 crore.

The Defence allocation in the interim budget was Rs. 3.18 lakh crore, and Defence pensions stood at 1.12 lakh crore. Of this, allocation for revenue expenditure (net) is Rs. 2.01 lakh crore and capital expenditure (net) is Rs. 1.08 lakh crore. The share of the three Services in the overall defence budget stands as follows: Army-54%, Navy-14% and Air Force-22%.

However, the Army, with its large size, has a huge revenue burden compared to the other two Services, and a significant part of it goes for salaries. For the coming year, the Army has a total shortfall of Rs. 12,000 crore, of which Rs. 6,300 crore is under the capital head and around Rs. 5,500 crore is non-salary expenditure.

The Army has also embarked on its biggest reorganisation drive since independence and that would also entail some financial requirement.

Recently, to shorten procurement cycles, the Vice Chiefs of the three Services and Army Commanders were given greater financial powers for emergency procurement of spares and essential items, but the money for them goes from the revenue stream.

Scarce revenue

Similarly, no separate allocation has been made for the project to strengthen perimeter security of military installations. These eat into the already scarce revenue component effecting training and routine maintenance activities. Another concern is the large proportion of vintage equipment in the Army and even the IAF, which is in urgent need of replacement. For instance, last year, the Army had stated that 68% of its equipment is vintage.

The three Services are pushing through several procurements on a priority basis, many of which were to reach a decisive phase in the coming year, but there are no funds left for their conclusion.

4. Only 4 UDAN routes in northeast operational

Two years since the launch of the ambitious low-cost flying scheme, aerial connectivity continues to elude the northeastern region. While as many as 20 bi-directional

Widening deficit

A look at the allocation for the services in the interim Budget

SERVICE	CAPITAL		
	Projected (In ₹lakh crore)	Allotted	Committed liabilities
Army	36,000	29,700	21,600
Navy	35,714	22,227	25,461
Air Force	74,895	39,347	47,413



As far as we are concerned, the state today is 68% of our equipment is in the vintage category, with just about 24% in the current, and 8% in the state of the art category
 LT. GEN. SARATH CHAND, Vice Chief of Army Staff to the parliamentary standing committee last year

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routes were awarded to various airlines during this period, only four are currently operational.

The routes that have been connected are

- Guwahati-Pakyong-Guwahati (SpiceJet),
- Jorhat-Kolkata-Jorhat (IndiGo),
- Lilabari-Kolkata-Lilabari (SpiceJet) and
- Pakyong-Delhi-Pakyong (SpiceJet).

When the scheme was launched in March 2017, a total of five routes were identified from the northeast for the regional connectivity scheme (RCS), also known as UdeDeshKaAamNagrik (UDAN). Under the scheme, the government provides a subsidy to airlines, who have to cap airfares for 50% of the total seats at 2,500 per hour of flight.

These routes, connecting Shillong with five other destinations in Meghalaya, were bagged by Air Deccan. All of them now stand withdrawn because of the failure on the part of the airline to commence operations on some routes, and due to erratic services on others. Last week, the Ministry of Civil Aviation (MoCA) once again invited interest from various airlines for these routes.

The northeast region was among the priority areas to be brought under the scheme during the second round of bidding that was concluded in January 2018. During this phase, 15 routes in Arunachal Pradesh, Assam and Sikkim were granted to various carriers, of which only the four routes mentioned above have been able to take off.

None of the 75 helicopter routes in the country have taken off so far, which includes 33 routes for the northeast region.

In the meantime, the government allotted 19 additional routes last month, including five seaplane routes in yet another round of bidding for UDAN. Airlines have six months to start services on these routes.

UDAN Scheme:

Ministry/Department: Ministry of Civil Aviation

UDAN stands for UdeDeshkaAamNagrik

Objective: To get more people to fly in the smaller towns. To boost regional air connectivity and provide various incentives to airlines. Aims that at least half the seats on every flight should have a fare cap of Rs2,500 per seat per hour of flying.

Features of the Scheme:

- The UDAN scheme seeks to provide connectivity to un-served and under-served airports of the country through revival of existing air-strips and airports.
- This first-of-its-kind scheme will ensure affordability, connectivity, growth and development.
- It aims to increase ticketing volume from 80 million to 300 million by 2022.
- Under it regional connectivity will be developed on market-based mechanism under which Airlines will bid for seat subsidies.
- It will create affordable yet economically viable and profitable flights on regional routes so that flying becomes affordable to the common man even in small towns.
- Under it, airlines will have complete freedom to enter into code sharing with larger airlines for connectivity and they will be exempted from various airport charges.

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- Airlines will have exclusive rights for three years to fly on a particular regional route.
- On these routes for regional flights Airfares will be capped at 2500 rupees for an hour's flight.
- Central and State governments and airport operators will provide a financial stimulus in the form of concessions to airlines
- The mechanism of Viability Gap Funding (VGF) will be provided to interested airlines to kick-off operations from such airports so that the passenger fares are kept affordable
- Government will provide subsidy to airlines for first three years of operations when they will have exclusive flying rights on the selected routes.
- Once the market in these routes gets jump started, it will operate on a commercial basis as per market forces of supply and demand.

5. India should monitor safety of Rohingya

Bangladesh wants India, China and the ASEAN to monitor the promise of safety by Myanmar to ensure protection of the Rohingya community.

Ever since, there have been several discussions to ensure repatriation of the community from the Chittagong region where they are stationed in temporary camps constructed by the international community and the Government of Bangladesh.

However, such agreements do not enjoy sufficient credibility among the Rohingya who apprehend that the Myanmar military might carry out more attacks against them once they are repatriated.

Rohingya Crisis:

Rohingya is ethnic Muslim minority group, largely comprising Muslims living primarily in Myanmar's western Rakhine state.

They differ from Myanmar's dominant Buddhist groups religiously, ethnically and linguistically. They practice a Sufi-inflected variation of Sunni Islam.

They speak Bengali dialect, as opposed to commonly spoken Burmese language in Myanmar.

Myanmar considers Rohingya's as illegal Bengali immigrants, despite fact that many they have resided in Rakhine province of Myanmar for centuries.

Myanmar government even refuses to grant them citizenship status, and as a result they do not have any legal documentation, effectively making them stateless.

They are also restricted from freedom of movement, state education and civil service jobs. UN has often described Rohingyas as one of the most persecuted minorities in the world.



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Prelims Prespect:

- Operation Insaniyat
- Bali Declaration over Rohingya issue
- Map

6. Indian doctors in U.K. campaign against ‘unfair’ health surcharge

U.K.-based Indian doctors and health-care professionals are campaigning against what they describe as an “unfair” doubling of a health surcharge imposed on professionals from outside European Union (EU) living and working in Britain.

The “Immigration Health Surcharge” was introduced in April 2015 and from December last year, it was hiked from £200 to £400 per year.

Raising funds

It is imposed on anyone in the U.K. on a work, study or family visa for longer than six months, in order to raise additional funds for the country’s state-funded National Health Service (NHS).

The British Association of Physicians of Indian Origin (BAPIO), the U.K.’s largest representative body for Indian-origin doctors, is lobbying the U.K. Home Office for a rethink over the charge, arguing that it would have an adverse impact on their attempt to recruit more health-care professionals from India to meet staff shortages in the NHS.

Clinicians wishing to work in the U.K. are already facing burdensome processes relating to regulation and immigration, and this surcharge is only going to see U.K. losing out on quality health-care professionals from non-EU countries.

Staff shortage

According to the organisation, one in 11 NHS clinical posts are currently unfilled, rising to one in eight for nursing vacancies, and the severe shortage is likely to grow to around 2,50,000 by 2030.

Doctors, nurses and other health-care professionals from countries like India are considered the backbone of the U.K.’s health-care system as they take up critical posts across hospitals and clinics in the country.

7. Third round of OALP offers 23 oil, gas, coal-bed methane blocks

India offered 23 oil and gas and CBM blocks for bidding in the third round of **Open Acreage Licensing Policy (OLAP)**, expecting up to to \$700 million of investment that it hoped will help raise domestic output and cut imports.

In OALP-III, 23 blocks in 12 sedimentary basins are being offered. Of these, five are coal-bed methane (CBM) blocks. Total area on offer is about 31,000 square kilometre.

OALP-III will run concurrently with OALP-II, where 14 blocks, covering an area of close to 30,000 sq km, is on offer for bidding

Note



that in OALP-I, 55 blocks, covering an area of 60,000 sq km, were offered in January 2018 and awarded in October last year.

More area added

In one year, we have added about 1.2 lakh sq km of area to the exploration kitty. This compares to 90,000 sq km area under exploration previously, adding the area under exploration will double by the time the round ends.

The third round is expected to “generate immediate exploration work commitment of around \$600-\$700 million.

Open Acreage Licensing Policy (OALP):

The OALP, a part of the government’s **Hydrocarbon Exploration and Licensing Policy (HELP)**, gives exploration companies the option to select the exploration blocks on their own, without having to wait for the formal bid round from the Government

The company then submits an application to the government, which puts that block up for bid

Initially the applications and related bids for the blocks would be held twice a year in January and July

OALP offers single license to explore conventional and unconventional oil and gas resources to propel investment in and provide operational flexibility to the investors.

This will in turn help reduce imports and increase the share of gas in the country’s energy mix.

8. Where ‘angels’ are bedeviled

For the past few months, ‘angel tax’ issues have taken centre stage. Circulars have been issued with the hope that the matter would be resolved to everyone’s satisfaction. The Department of Promotion of Industry and Internal Trade (DPIIT) is attempting to move a fresh set of solutions to pour water on this raging issue.

From the face of it, a public policy meant to curb shell companies has turned into an attack on genuine investments; and, the solution itself has become a problem. Does the Department need to take a fresh look at Section 56 (2) in light of the visible outcomes of a public policy gone wrong? We will wait and watch. Till then, let us revisit the issue itself.

The focus was on promoting private sector investment in the country. This being the base, all other processes and rules should run consistent with this foundation. But, it is this premise which is taking a beating and hence the need to address it.

Angels in Distress

WHAT IS ANGEL TAX?

- Refers to Section 56(2) (viiB) of I-T Act which levies 30% tax on any consideration received by a startup in excess of its fair market value
- This tax is applicable only on individual investors, and not to venture capital funds

WHY IS IT THE VILLAIN?

- Seen as a major cause for the dip in angel investments in India
- 39% startups out of 2,860 surveyed by LocalCircles said they had received I-T notices this year

Cash Drying Up

Angel funding rounds

2017	191
2016	291

Angel Deals in 2017

Q1	73
Q2	54
Q3	38
Q4	27

(Source: Trackn)

Note



Every investor has a view as to whether a venture is worth investing in, by calculating likely returns. The entrepreneur seeking investment has also determined the extent of control and ownership to be surrendered in return for funds.

Both balance their interests to secure the maximum possible returns. To protect their respective long-term interests, both would be unwilling to compromise on their view. In case of doubt, the investor has recourse to the business plan to convince himself that his assumptions are accurate.

Now, into what should be entirely the domain of the 'private' sector, we have brought 'governmental control', to the extent that whatever deal may be struck between the investor and the entrepreneur, they are plagued with having to satisfy a clause which can be a threat to the entire venture on account of an unfactored tax burden.

Section 56 (2) (vii)(b) of the Income Tax Act provides for 'where a closely held company issues its shares at a price more than its fair market value, the amount received in excess of the fair value will be taxed as income from other sources'. The determination of fair market value becomes the bone of contention. It now comes under the domain of the 'Assessor' meaning the Income tax department. The department takes a look at the business plan and begins to check whether the turnover and business returns envisaged were achieved.

Valuation stalemate

If they weren't, the department faults the business plan and concludes that the valuation was much higher than what it should have been. Most businesses in our country are subject to flux on account of laws that are constantly being moved around. Then there is the market situation which is not guaranteed, either. Even if the investor is willing to wait for returns, the tax department is not. Due to volatile markets, coupled with tax issues, most financial advisers do not recommend formation of private limited companies. Strangely, it is common to find in recent times businesses — that could have easily benefited from the private limited tag and then becoming public limited companies — still remaining as partnerships or worse, sole proprietorships.

Our ecosystem is not conducive for real growth in the private sector unless you have learnt to 'handle the system'.

If the government is concerned about 'shell companies', it would need to attack the issue head-on and define a shell company. What would qualify a company to be one? Once the identity of a shell company has been determined, the penalty for the same can then be decided.

This would be better than targeting share valuation in a company, which is crucial to attracting investment. Currently, there is no distinction between a company functioning with genuine transactions and one that isn't.

Whether Laws are inadequate?

If money in excess 'appears' to be pumped into a private limited company and the source of such funds doubtful, aren't existing laws (Section 68 or 69 of the Income Tax Act, 1961) sufficient for the authorities to determine and tax accordingly without having to enter into the share valuation sphere?

Is Section 56 (2)(vii)(b) of the Income Tax Act, 1961 deterring the flow of investments into private limited companies? If it is non-negotiable and will continue to remain so even for the most straight-forward transactions, how can genuine private limited companies that seek capital infusion for expansion/consolidation be protected from interpretations that could lead to layers of litigation with huge tax levy to be fought at different levels up to the apex court?

Currently, consultants often discourage entrepreneurs from forming

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private limited companies due to factors that influence ease of investment and functioning.

Public policies in this area directly impact the ecosystem affecting the growth of private limited companies. Perhaps, 'angel' tax has got to go if private limited firms are to flourish in India.

9.Small growers enjoy a place in the sun via organic tea

The Wayanad Green Tea Producer Company has become a kind of role model for small tea growers in the country by ensuring sustainable income through organic tea cultivation.

According to the data with the Tea Board, as many as 3,500 registered small-scale farmers in the district depend on the tea sector for their livelihood. But most of them are left to the mercy of bought leaf agents and bought leaf factories in the absence of any processing facilities in the small-scale tea sector of the district.

As the farmers had no access to tea factories, they were forced to sell their produce to the bought leaf agents or the middlemen as per the price fixed by them.



Five years ago, members of the Small Tea Growers Society at Karadippara and the KarshakaJyothi Small Tea Growers Society at Vattachola in the district constituted Wayanad Green Tea Producer Company, a farmer-producer organisation, with the support of NABARD to overcome exploitation by the middlemen.

Finally, they set up a factory exclusively for green tea processing at Karadippara to tap the vast potential of organic green tea.

The company, which started with 15 shareholders and 10 lakh in authorised capital, now has 167 shareholders and an authorised capital of 50 lakh.

Better prices

We are getting 40 a kg for our tea leaves now but, two years ago, we were forced to sell it at 5 to 9 a kg to bought leaf agents. Moreover, production cost is also very low compared with traditional tea cultivation as we are following an organic way of cultivation here.

The company has become a model in organic tea cultivation for small-scale farmers in the country and the Tea Board is providing incentives and subsidies to promote organic tea cultivation.

Prelims Prespect:

- Tea Growing Conditions and States
- NABARD
- Other Plantation crops in India

Note



10. A fungus that cripples immune system

A common fungus found virtually everywhere on the Earth can knock out our body's defence system, enabling a potentially fatal infection to develop.

Aspergillus fumigatus can be found on damp walls or in spores that blow through the air and cling to on wallpaper, mattresses and floors.

The immune system of healthy people can put the spores out of action. However, the fungus can threaten the lives of people with a compromised immune system, such as HIV-infected persons.



Note

