

UPSC Syllabus Topic : GS Paper 3, Indian Economy, Industries and Industrial policies

Social Capital and Finance: Historical Constraints and Present Challenges in India

Social Capital Definition: "Social capital" refers to the capital or resources acquired through participation in a social network. It encompasses relationships among individuals in a society, contributing to the effective functioning of that society.

Historical Constraints on Industrial Development: Mahadev Govind Ranade identified hindrances to industrial development in 19th-century India, including:

- Scarcity of capital due to hoarding of bullion.
- Absence of financial institutions leading to a lack of institutional arrangements for industrial finance.
- Social capital constraints arising from hyper-diversity, with capital staying within caste-community groups.

Present Challenges of Access to Finances for MSMEs:

1. **Credit Gap:** A substantial credit gap exists in the MSME sector, with a small fraction having access to formal credit.
2. **Informal Borrowing:** Over 99% of MSMEs, particularly micro-enterprises, rely on informal sources like friends and family.
3. **Trust in Community Networks:** Trust within one's community continues to play a pivotal role in investment decisions, especially in informal sources.
4. **Caste Bias:** Public sector financial institutions show disparities in business loans, indicating that social capital and community networks influence financial decisions.
5. **Entrepreneurial Networks:** Entrepreneurs from non-dominant groups may face difficulties due to a lack of networks.

Recommended Solutions:

1. **Avoidance of Caste-Based Identity Politics:** To prevent entrenching divisions and strengthen inter-community financial cooperation.
2. **Open Credit Enablement Network (OCEN):** A technological solution aiming to transcend caste and community biases, promoting equitable distribution of business credit in India. Aligns with Ranade's vision of a financially inclusive and industrially robust India.

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Crypto Assets: Shaping the Financial Landscape with New Developments and Global Initiatives

Crypto-Asset Reporting Framework by OECD:

- **Released by:** Organization for Economic Co-operation and Development (OECD)
- **Objectives:** Enhance transparency, combat tax evasion, and ensure tax compliance related to crypto assets.
- **Purpose:** Establish a standardized framework for reporting and exchanging information on financial transactions involving cryptocurrencies and digital assets.

Developments in the Crypto Space:

1. **Bitcoin "Volcano" Bond in El Salvador:** El Salvador introduces an innovative financial instrument linked to Bitcoin.
2. **Pending Approval of Bitcoin ETF by BlackRock:** Awaiting approval for a Bitcoin

Exchange Traded Fund (ETF) by BlackRock in the United States.

3. **Nasdaq Listing Crypto Mining Companies:** Nasdaq lists several companies focused on cryptocurrency mining.

Significances of Cryptocurrencies:

1. **Digital Gold:** Seen as a "digital gold" providing a hedge against inflation due to their performance.
2. **Remittances:** Cross-currency remittances through cryptocurrencies are cost-effective compared to traditional bank transfers.
3. **Loss for Freelancers:** Indian freelancers in crypto and blockchain start-ups often receive payments in cryptocurrencies.
4. **Loss of Business Opportunities:** Uncertainty in crypto regulations discourages Indian citizens interested in crypto mining, gaming, and non-fungible token (NFT) ecosystems.

Present Status in India:

1. **Crypto-Asset Reporting Framework:**
 - Overseas transactions in cryptocurrencies by Indian citizens will be reported to Indian tax authorities.
 - Lack of clarity on how Indian citizens can use cryptocurrencies.
2. **Taxation Challenges:**
 - Imposition of high taxes on trading in crypto assets.
3. **Lack of Clarity on Usage:**
 - No clear regulations on using cryptocurrencies for cross-currency remittances or as alternatives to the rupee for transactions.

Call for Clear Rules and Guidelines:

- Urgent need for India to establish clear rules and guidelines on the use and taxation of cryptocurrencies to align with global trends and safeguard the interests of developers, entrepreneurs, and investors.