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TARGET 2019

ECONOMY I

Shankar IAS Academy

Door No 18, New Plot No 259,
AL Block, 4th Avenue, Shanthi Colony,
Anna Nagar, Chennai 600040.

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Target 2019

Economy I (June 2018 - November 2018)

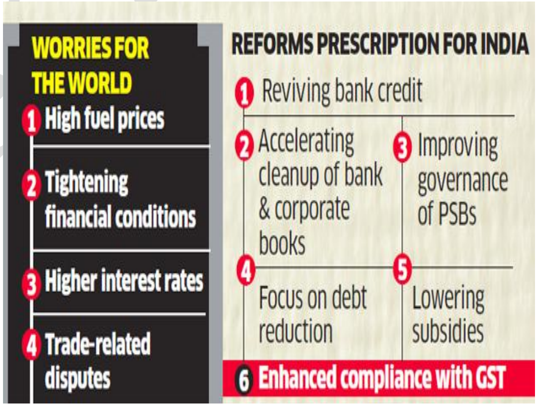
1. GROWTH & DEVELOPMENT

1.1 IMF's Projection on India

*In the latest World Economic Outlook, the IMF said India will grow **7.3% in FY19** and 7.4% in FY20.*

- The Indian economy grew 6.7% in FY18.
- It has projected India's medium-term growth rate of 7.75%.
- The economic recovery is supported by domestic demand-led pickup.
- It has posited India as the world's growth engine for the next 30 years.
- It has projected a 13.2% **increase in exports** this year and 10.1% the next.

- It expects the **current account deficit** to worsen to 3% of GDP in the current fiscal year before improving to 2.5% in FY20.
- **Inflation** is projected at 4.7% in FY19 compared with 3.6% in FY18 amid accelerating demand and rising fuel prices.
- **Core inflation**, excluding all food and energy items, has risen to about 6% as a result of a higher energy prices and exchange rate depreciation.
- It has called for an increase in policy rates by 25–50 basis points given the outlook on inflation
- It recognised important reforms such as GST, the inflation-targeting monetary policy framework, the Insolvency and Bankruptcy Code, and steps to liberalise foreign investment and make it easier to do business.



- The GST and the insolvency code are rightly expected to go a long way in lifting India's productivity.
- This will also lead to an **uptick in investment activity** to 32.2% of GDP in 2018-19 and 2019-20, against 30.6% in 2017-18.
- Other risks facing the global economy include the possible failure of Brexit negotiations and tightening financial conditions of developing economies.
- China is forecast to grow 6.6% and 6.2% in 2018 and 2019, respectively.
- Its growth is seen lower in 2019 due to the U.S tariffs on Chinese imports.

1.2 Back Series GDP Data

The Central Statistics Office (CSO) and NITI Aayog recently released the back series detailing growth numbers for 2005-06 to 2011-12.

- Back series calculations are done to link a new series of national accounts with an old series, for better comparison of growth over the years.
- Several changes were made recently to the calculation of GDP.
- **Changes in Methodology -** Base Year, GVA & MCA-21
- In 2015, the government moved to a new base year of **2011-12** from the earlier 2004-05.
- CSO also did away with using Gross Domestic Product (GDP) at factor cost for national income accounting.

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- Instead it adopted the international practice of valuing industry-wise estimates as gross value added (GVA) at basic prices.
- With the new base year, the growth rate of the economy for 2013-14 was estimated at 6.9%. But notably, it was 4.7% on the 2004-05 base.
- In the new methodology, apart from using the usual Index of Industrial Production (IIP) and Annual Survey of Industries (ASI), CSO also used MCA-21.
- The report compared growth rates between old series (2004-05) and new series based on 2011-12 prices.
- E.g. As per the old series, the expansion in the GDP at constant prices was 9.57% during 2006-07, but the revised growth number stands at 10.08%.
- Similarly, the growth rate for 2012-13 was revised upwards to 5.1% from 4.5%.
- Growth of the manufacturing sector also became higher in the new series.

MCA-21

- It is an e-governance initiative of the Ministry of Company Affairs (MCA) that was launched in 2006 but became available only since 2011-12.
- It allows firms to electronically file their financial results and advance filing of corporate accounts to calculate national accounts.

- Back series calculations are done to link a new series of national accounts with an old series and for a better comparison of growth over the years.
- The back series calculation has been complicated because of the **change in methodology**.
- Some of the data used under the new methodology is not available for earlier years.
- **MCA-21** is available only since 2011-12. So CSO faced issues for evaluating GDP for years preceding 2011-12.
- These recommendations of the NSC Committee will be examined by MoSPI and other experts.
- The appropriate methodology to be adopted for generating the back series estimates will then be decided.
- The data would be released officially later by the MoSPI.

GDP Vs GVA

- Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.
- GVA provides the rupee value for the amount of goods and services produced in an economy **after deducting the cost of inputs and raw materials.**
- While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective.
- As per the new methodology, CSO calculates GDP by adding product taxes to the GVA at basic prices, and removing subsidies.
- [GDP = GVA at basic prices + Product taxes - subsidies on products]
- GDP, which incorporates indirect tax collections net of subsidies, should normally be higher than GVA.
- But if net indirect tax collections grow slower than subsidies, GVA could be higher than GDP.
- The new series shows that on at least 12 occasions out of 18 until 2011-12, GVA was higher than GDP.
- This is possibly because fertiliser subsidy was scaled up significantly from 2005-06 following poor agricultural growth.

2. PUBLIC FINANCE

2.1 GST Council Meet

- Goods & Services Tax Council is a constitutional body for making recommendations to the Union and State Government on issues related to GST.
- The council is chaired by the Union Finance Minister and other members are the Union State Minister of Revenue or Finance and Ministers in-charge of Finance or Taxation of all the States.

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- **Article 279A** of the constitution deals with GST Council, which will make recommendations to the Union and the States on issues like the goods and services subjected or exempted from GST, model GST Laws, threshold limits, special rates for raising additional resources during natural calamities/disasters, special provisions for certain States, etc.
- It shall recommend the date on which GST be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.
- Quorum - 50% Members.
- Every decision of the GST Council shall by a majority of not less than 3/4th of the weighted votes of the members **present and voting**, in accordance with the following principles,
  a) the vote of the **Central Government** shall have a weightage of **1/3rd of the total votes** cast, and
  b) the votes of all the **State Governments** taken together shall have a weightage of **2/3rd of the total votes cast**, in that meeting.
- It shall establish a mechanism to adjudicate any dispute —
  a) between the Government of India and one or more States; or
  b) between the GoI and any State or States on one side and one or more other States on the other side; or
  c) between two or more States, arising out of the recommendations of the Council or its implementation.

Highlights of previously held GST Council Meetings

- **Rates** - The Council has cut tax rates on several general-use items such as TV, washing machine and refrigerators.
- Rates for such 17 white goods were cut by 10% from 28 to 18%.
- In all, the Tax Council has announced a reduction in the tax rates for over 85 goods.
- The Council has also put under the exempted category, sanitary napkins, taxed at 12% earlier.
- The tax rate on environment-friendly fuel cell vehicles has been reduced from 28% to 12%.Also, the **compensation cess** levied on them has been **dropped.**

Commodities outside GST

i. Alcohol for human consumption,
ii. Petroleum Products – Crude Oil, Petrol, High Speed Diesel, Natural Gas and Aviation Turbine Fuel
iii. Electricity

Note: Tobacco and tobacco products are subjected toGST. In addition, the Centre has the power to levy Central Excise duty on these products.

- Several other products have been placed in lower tax slabs.
- This particularly includes those from employment-intensive sectors such as carpets and handicrafts.
- **Returns** - Simpler return filing process was approved in the meet.
- It will now be quarterly returns for business turnover up to Rs 5 crore instead of monthly filings.
- Nearly 93% traders and small business will get benefited from this.
- **Exemption** limit for traders in Assam, Arunachal Pradesh, HP, Himalaya, and Sikkim was increased from Rs 10 lakh to 20 lakh.
- **Procedure** - There will be a standard operating procedure for imposing less severe penalties for small errors in filling e-way bills.This should provide relief to truckers.
- Also, RFID on vehicles will soon be linked with the GST Network.
- The transport ministry has to put this system in place in the next 6 months.
- Another significant change was **deferment of the reverse charge mechanism** till September 2019.

Fitment Committee

- The rate fitment committee comprises of tax officials of the central and state governments.
- Its task is to evolve a principle and an appropriate methodology to determine rates for various supplies under GST.

- **MSMEs** - A six-member panel of ministers would be set up to look into the issues in the MSME sector.

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- It will be headed by the Minister of State (MoS) for Finance.
- **Taxation** - The Law Committee will take decisions related to taxation law.
- On the other hand, the *Fitment Committee* will take decisions related to taxation rates.
- **Digital Payments** - It was proposed to incentivise digital payments through Rupay cards, BHIM app and UPI system on trial basis.
- A 20% cashback will be available on digital payments through these mediums.Customers would get cashback of 20% of the total GST amount, subject to a maximum limit of Rs 100.
- This is to promote cashless transactions in rural and semi-urban areas and help small firms.
- The GSTN and the National Payments Corporation of India will soon develop a system for the above.
- States will volunteer to run a pilot on these lines.
- A final decision will be taken after a detailed system-wide evaluation of such incentives.

Terminologies related to GST

GST Compensation Cess

- It has been introduced through the GST (Compensation to States) Act, 2017 to cover losses to states in the first 5 years of GST implementation.
- It is levied on inter & intra-state supply of notified goods like aerated drinks, coal, tobacco, automobiles etc.
- The proceeds will be distributed to loss-incurring States on the basis of a prescribed formula as compensation.
- The rate at which the cess is being levied is revised from time to time.
- Under 101st Constitution Amendment Act, 2016, Article 271 has been amended to state that an additional tax/surcharge cannot be imposed over and above the GST rates.

Cess

- A cess is a tax on tax, levied by the government for a specific purpose.
- The contributor and beneficiary of a cess must be relatable.
- Under Article 270 of the Constitution, proceeds of a cess can be retained exclusively by the Union and need not be shared with States.
- It is **kept outside of the CFI** to ensure that expenditure goes for that specific purpose.

- The GST Council's power to recommend a special rate is confined to raising resources only during any natural calamity or disaster.
- So, this cess cannot be justified under such power either.

Reverse Charge Mechanism

- The reverse charge mechanism of GST is an additional check that every business has to ensure that its suppliers, of both goods and services, are paying the right amount of taxes on time.
- The GST has to be typically paid by the supplier of goods and services. But in some cases, **the liability to pay the tax falls on the buyer.**
- This reverse charge is, however, applicable only under certain circumstances.
- The most common instance is when a business buys goods or services from a supplier who is not registered to pay GST.

Example

- Let's assume that business A that is GST-compliant buys goods worth Rs. 100 from business B that is not registered to pay GST.
- If the GST on the goods supplied is Rs.5, then business A, instead of business B, will have to pay Rs. 5 to the Government.
- Business A can, however, claim input tax credit of the GST payment of Rs. 5, when it sells the goods to its client.

- **An importer is liable to pay the GST under the reverse charge mechanism**.

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- Also government departments making payments to vendors above a specified limit (Rs. 2.5 lakh under one contract) are required to deduct tax (TDS) and e-commerce operators are required to collect tax (TCS) on the net value goods or services supplied through them.
- By putting the burden of paying the tax on the buyer, in cases where the supplier does not pay GST, the Government is gently coercing all businesses to sign up for GST.
- This self-policing mechanism is, therefore, expected to do the trick for the government, helping it grow the tax base as well as tax collection.

E-waybill

- An e-waybill is an electronically generated bill documenting any transport of a good of a value of more than 50,000.
- It can be generated on GSTN either by the supplier or recipient of the consignment, before the movement of goods.
- The bill once generated, is valid for one day for consignment up to 100 km and then one additional day for every 100 km thereafter.
- It is important to note that e-way bill is required even in case of **intra-state movement (beyond 10 km)**, which was not the case earlier.
- Goods moved on non-motorised conveyance, such as carts, have been left out.
- Over 150 items of common use, including LPG cylinders, vegetables, foodgrain and jewellery, will be exempt from such transport permits, which can be checked by designated tax officials by intercepting a transporting vehicle.
- Though few items which may be exempted from GST, they would require generation of e-waybill for their transportation.
- For e.g. The National flag, temple prasadam, Khadi fabric and Gandhi caps may be exempt from GST, but for their transportation, generation of e-waybill may be required.
- Sensitive technology that goes into spacecrafts and satellites will be exempt.

Goods and Services Tax Network (GSTN)

- GSTN provides the technological support to the GST.
- It handles massive amounts of data and deals with crucial data sets such as indirect tax returns and refunds.
- Union Cabinet has recently approved increasing the government stake in GSTN to 100%.
- At present, the government holds a 49% stake, with Centre and states share of 24.5% each.
- The balance 51% is held by five non-government institutions.
- Thus, the government will acquire the entire 51% equity held by the non-government institutions.
- The stake will be acquired equally by the Central and state governments.
- The Cabinet also decided to allow change in the existing composition of the GSTN board.
- It will have a total of 11 directors including a Chairman and a Chief Executive (CEO).
- While 3 directors each will be nominated by the Central and state governments, 3 other independent directors would be nominated by the board of directors.

2.2 Growth in State Budget 2018-19

According to RBI report the combined size of State budgets is bigger than that of Union budget.

- In 2011-12 size of Union Budget was bigger than that of state Budgets.
- Since then the combined size of the state Budgets has been growing rapidly.
- In 2017, it was 36% more than the Union Budget and in 2014-15, it was 16% more than that of the Union Budget.
- Union Budget - Rs 24.42 trillion for 2018-19

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- States' Budget - Rs 33.59 trillion.
- The combined fiscal deficit of states and the Centre rose to a level of 6.7% of GDP in 2014-15 and widened further to 7% each in the following two years.
- This happened mainly because the state budgets' deficit rose in this period even as the Union's deficit declined.
- Overall gross fiscal deficit of states declined to 3.1% of GDP in 2017-18, even though it stayed above the prudent level of 3% for the third successive year.
- Due to the roll out of the goods and services tax (GST) and its long-term benefits for state revenues, the states' own tax revenue in 2017-18 was to have risen to 6.6% of GDP.

2.3 CBDT's Decision on Tax Appeals

Central Board of Direct Taxes (CBDT) has recently released its Central Action Plan for the year 2018-19 with special emphasis on litigation management.

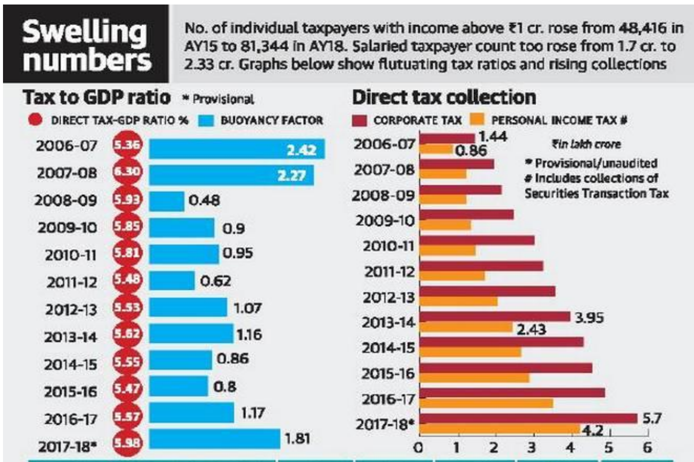
- The Income Tax judicial process in India starts with the Commissioner of Income Tax (Appeals) CIT (A), followed by the Income Tax Appellate Tribunal, High Courts and finally the Supreme Court.
- The taxpayer, when aggrieved by the order of the tax officer, is granted a right to file an appeal before CIT (A).
- CIT (A) is a quasi-judicial authority.
- CBDT, in its recent action plan, sets target for speedy disposal of appeals pending and provides incentives to CIT (A) for 'Quality Orders' passed.
- The 'Quality Orders' would include cases where enhancement has been made by the CIT (A) or where the order under appeal has been strengthened by the CIT (A) or penalty under section 271(1) has been levied.
- Each CIT (A) shall be expected to dispose a minimum of 550 appeals or achieve a minimum of 700 units during the financial year.
- For passing each 'Quality orders', the CIT (A) shall be given additional credit of two units.
- **Issues -** Incentivising CIT(A) to enhance assessment orders introduces a conflict of interest given that the CIT(A)'s quality order will be judged by his immediate supervisor, i.e. the chief commissioner.
- It also undermines its impartiality as he or she is prejudiced against the concerned taxpayer.
- Thus, it has created a concern that officials would be more interested in strengthening the tax officer's order and/or dismissing such appeals instead of adjudicating in fair, judicious manner.

2.4 CBDT - Time Series Data

CBDT recently released the new time series data (same data points recorded at regular intervals) up to FY 2017-18.

Highlights

- **Returns** - Direct tax base has significantly widened in the last few years.
- There is a growth of more than 80% in the number of returns filed in the last 4 financial years.
- Number of persons filing income tax returns also increased by about 65% during this period.
- **Income** - There has been a continuous increase in the amount of income declared between Assessment Year (AY) 2016-17 & AY 2017-18.
- This is true with all categories of taxpayers, over the last three assessment years.
- For AY 2014-15, corresponding to FY 2013-14 (base year), the return filers had declared gross total income of Rs. 26.92 lakh crore.



No. of returns filed (excl. revised)	FY14	FY15	FY16	FY17	FY18
Company + firms, in lakh	16.76	17.45	18.91	19.85	23.37
Individual, In crore	3.5	3.74	4.29	5.21	6.44
Total number of taxpayers, In cr.	5.28	5.72	6.15	6.93	7.41

Source: Ministry of Finance

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- This has increased by 67% for AY 2017-18.
- This shows a higher level of compliance resulting from various legislative and administrative measures, including the enforcement measures against tax evasion.
- **Taxpayers -** The overall number of taxpayers declaring an income above Rs. 1 crore a year saw a sharp growth of about 60% over the 3 years under consideration.
- This included corporates, firms, and **Hindu Undivided Families**.
- The number of individual taxpayers disclosing income above Rs. 1 crore also saw a growth of 68% in this period.
- There is also an improvement in the compliance of salaried taxpayers.
- It rose from 1.70 crore for AY 2014-15 to 2.33 crore for AY 2017-18, an increase of 37%.
- The average income declared by these salaried taxpayers has also gone up by 19%.
- In the same period, there has been a growth of 19% in the number of non-salaried individual taxpayers.
- Also, the average non-salary income declared rose by 27% between AY 2014-15 and AY 2017-18.
- **Tax-GDP ratio -** The direct tax-GDP ratio rose to 5.98% in FY 2017-18, the highest it has been in the last 10 years.

Driving factors for Widening Tax Base

- Demonetisation
- Digitalization of tax department
- Movement towards digital assessment
- Ease of getting refund, majorly by small and medium taxpayers
- Tax deduction at source (TDS)
- **Advance taxes -** payment of income tax in advance instead of 'pay as you earn tax'.

Concern with Direct Taxes Share

- The **contribution of direct taxes to the total amount of taxes collected rose every year** through the first decade of this century.
- It increased from around 36% in 2000-01 to nearly 60% in 2009-10.
- But this was reversed in 2010-11, when the share fell to around 56%.
- Also, thereafter, despite spikes in some years, the broad trend has been that of decline.
- The share of direct taxes has fallen every single year since 2013-14, except this year.
- It is about 52% in 2017-18, but less than the 2009-2010 peak of 60%.
- So, most of the rise in the total tax collection in the last few years has come from indirect tax collections.

3. INFLATION

3.1 Hike in Repo Rate

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) recently raised the repo rate by 25 basis points.

Repurchase/Repo Rate

- It is the rate at which the RBI lends money to commercial banks.
- This is availed by the banks in the event of any shortfall of funds.
- Reverse repo is the rate at which the RBI borrows money from commercial banks within the country.

Driving factors

- **Inflation -** Fear of rising inflation rates has been a major factor for raising the policy rates.
- According to the RBI, inflation outlook is likely to be shaped by several factors:

1. Increasing minimum support price (MSP) for kharif leading to food inflation & headline inflation.

2. House Rent Allowance revision by state governments.
3. Volatility in crude oil prices due to supply disruptions.
4. Rainfall being 6% below the long-period average and deficient over a wider area resulting in CPI inflation.
5. The recent round of the RBI's survey of households also reported a rising inflationary trend.

- **Currency** - The recent global trade war has resulted in competitive currency devaluation.
- In the event of a currency war, the domestic currency has to give way for depreciation pressure of the region.
- But depreciation is likely to contribute to the vulnerability of the economy. Click here to know more
- Thus, avoiding such risks is essential for ensuring macroeconomic stability.
- A rate hike by the central bank thus attempts to strengthen the currency and avoid getting affected by the currency war.
- **Recovery** - There was an increased output of the eight core industries in the recent period.
- This suggested that the economic recovery was back on track.
- It was thus convincing for MPC to now focus on containing headline inflation.

Monetary Policy Committee

- The Reserve Bank of India Act, 1934 has been amended by the **Finance Act, 2016** to provide for a statutory and institutionalised framework for a Monetary Policy Committee.
- It is responsible for fixing the benchmark interest rate in India while keeping in mind the objective of growth.
- It usually meets once in 2 months and is mandated to meet at least 4 times a year and it publishes its decisions after each such meeting.
- Committee comprises 6 members - 3 officials of RBI and 3 external members nominated by the Government.
- Members of RBI - The Governor, 1 Dy Governor and 1 officer of the RBI.
- The government members are appointed by the Centre on the recommendations of a search-cum-selection committee which is to be headed by the Cabinet Secretary.
- The Members of the committee appointed by the Central Government shall hold office for a period of **4 years** and are not eligible for reappointment.
- The Governor of RBI is the ex-officio chairperson of the committee.
- Quorum - 4 members.
- Decisions will be taken on the basis of majority vote and incase of a tie, RBI governor has a casting vote. He doesn't enjoy veto power.
- The current mandate of the MPC is to maintain inflation within the targeted range of 4% ± 2%, which is to be adhered till March 2021.
- The Financial Markets Operations Department (FMOD) operationalises the monetary policy, mainly through day-to-day liquidity management operations.
- The Financial Markets Committee (FMC) meets daily to review the liquidity conditions so as to ensure that the operating target of the weighted average call money rate.
- Once in every six months, the RBI is required to publish a document called the Monetary Policy Report to explain the sources of inflation and the forecast of inflation for 6-18 months ahead.

3.2 Four-Year High Wholesale Price Inflation

Wholesale Price Index (WPI) rose 5.77% on a year-on-year basis to a 54-month high in June 2018.

Driving Factors

- Rising crude oil prices has persistently driven inflation.
- Inflation in the fuel and power group has risen every month in the recent period.

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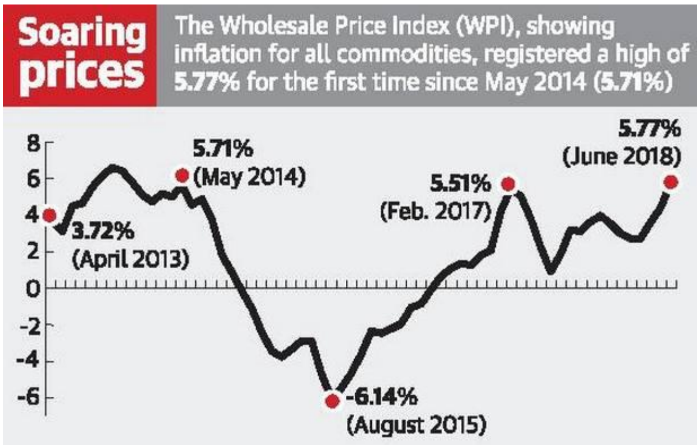
- Food articles, especially vegetables, have been on a rising trend as well.
- The inflation in politically sensitive duo of potatoes and onions is a notable cause.
- Manufactured products (largest weight in the WPI) are also on an inflationary trend.
- WPI rise is also to be seen from the perspective of an unfavourable base effect.
- It is the effect of the previous year taken as the base for calculation.
- This is because the WPI inflation in June 2017 was just 0.9%.



Concerns

- **Policy** - In 2014, RBI had adopted CPI as its key measure of inflation from the earlier WPI.
- India thus shifted to CPI as the benchmark for deciding policy rates (e.g. repo rate).
- Accordingly, RBI has a target to keep consumer-level inflation at **4% (+/- 2%)**.
- Any rise in CPI inflation beyond this comfort zone pressurises RBI to hike interest rates.
- So WPI rise might not appear relevant from a policy perspective.
- **Economy** - However, price changes at the producer level usually get transmitted to the consumers.
- But this could come with a time lag or may not be to the full extent of the impact at the producer level.
- So, the apprehensions with a higher WPI may not be valid at all times.
- Nevertheless, a steady rise in WPI is certainly an indicator of an overall inflationary pressure.
- It reflects the unbalanced conditions within the broader economy.
- **Retail** - There is a concern of a cascading effect of WPI increase on the CPI.
- This remains even after discounting for the base effect.
- Evidently, the retail inflation (CPI) had risen to a 5-month high of 5% in June, 2018.

CPI & WPI

- Retail inflation is measured by Consumer Price Index (CPI) with **2012** as the base year.
- CPI is a measure that examines the weighted average of prices of a basket of consumer goods and services that are consumed by the average consumer.
- It is calculated by taking price changes for each item in the basket of goods.
- It is released by **Central Statistics Office** in 3 categories such as CPI rural, CPI urban and CPI combined.
- The components of CPI includes food, beverages, tobacco; Housing; Fuel and light; Clothing, bedding, footwear.
- Wholesale Price Index (WPI) represents the price of basket of goods at a wholesale stage i.e. goods that are sold in bulk and traded between organizations instead of consumers.
- WPI is calculated by the **Office of Economic Advisor**, DIPP under Ministry of Commerce and Industry.
- The base year for the index is 2011-12.
- The components of WPI include Primary articles, Manufacturing items, fuel and power with different weightages assigned to them.
- The weightages are Primary Articles (Weight 22.62%), Fuel & Power (Weight 13.15%), and Manufactured Products (Weight 64.23%).

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- It basically indicates the rise in profitability of industries.
- The annual rate of inflation is calculated based on monthly WPI.
- Previously, the WPI was calculated on the basis of the base price plus excise duty minus any trade discount.
- The new formula removes the excise duty aspect and no longer incorporates indirect taxes in calculating the price calculation of a product.
- The total number of items covered under WPI has increased from 676 to 697.
- The two indices differ in the manner in which weightages are assigned.
- This applies to food, fuel and manufactured items as well as their sub-segments.

4. BANKING

4.1 Banks Board Bureau

Banks Board Bureau has recently recommended 22 candidates from different banks for the executive director positions for state-run banks.

- Under government's **Indradanush programme** to reform public sector banks, BBB was constituted.
- It is an autonomous body created in 2016 under the chairmanship of former CAG Vinod Rai to improve the governance of public sector banks (PSBs).
- It was setup based on the recommendation of RBI-appointed **PJ Nayak Committee**.
- It has 3 members and 3 ex-officio members (Secretary of Department Financial Services and Department of Public Enterprises and Deputy Governor, RBI).
- It was initially given the mandate to **recommend candidates** for the top post in state-run banks and financial institutions.
- Later, BBB's role was expanded to help banks in developing strategies and capital raising plans.
- Its main purpose was to separate the day-to-day governance and supervision of the banks from the concerns of their ultimate owner, the government.
- **Concern** - It can only recommend candidates, but the appointment is made only by the government.
- In many instances, its recommendations being simply ignored by the government.
- Rather than going to the Cabinet for approval, its recommendations are re-scrutinised and sometimes overruled by the finance ministry.

4.2 MCLR and Base Rate

- Banks calculate the lending rates to its customers based on the base rate and Marginal Cost of Funds Based Lending Rate (MCLR).
- Base rate is the minimum rate set by the RBI below which banks are not allowed to lend to its customers.
- The **Components of base rate** system are
  i. Cost of funds (interest rates offered by banks on deposits),
  ii. Operating expenses to run the bank,
  iii. Minimum Rate of return (margin or profit),
  iv. Cost of maintaining the Cash Reserve Ratio (CRR).
- MCLR was later introduced by RBI, modifying the existing base rate system.
- The **Components of MCLR** are
  i. Marginal cost of funds,
  ii. cost for the banks in maintaining CRR with the RBI,
  iii. operating expenses incurred by the banks and Tenor premium.

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- The problem with the base rate system is that the repo rate and other borrowing rates were not explicitly considered.
- Whereas, MCLR is determined largely by the marginal cost for funds and especially by the deposit rate and by the repo rate.Thus, it makes the lending rates in line with RBI's repo rate.
- **Concerns** - RBI is yet to mandate banks to allow customers to shift from base rate system to MCLR.
- Thus, customers who signed up for loans in the erstwhile 'Base Rate' regime are paying higher rates and they can't shift to the current 'MCLR' structure, which is lower than the base rate.

4.3 Liberalized Remittance Scheme

- Under LRS, all resident individuals can freely remit $250,000 overseas every financial year for a permissible set of current or capital account transactions.
- Remittances are permitted for overseas education, travel, medical treatment and purchase of shares and property, apart from maintenance of relatives living abroad, gifting and donations.
- Under LRS, people can't send money to countries identified as 'non-cooperative' by the Financial Action Task Force.
- However, the rules do not allow remittances for trading on the foreign exchange markets and the purchase of Foreign Currency Convertible Bonds issued by Indian companies abroad.
- **Concern -** Outward remittances under **maintenance of close relatives** shot up to almost $3 billion in 2017-18 from a mere $174 million in 2013-14.
- RBI has been concerned over this and thereby, it has narrowed the definition of relatives to check the flow of funds.
- Hence, funds under the 'maintenance of close relative' category can be sent only to immediate relatives such as parents, spouses, children and their spouses.
- This has brought about by defining 'relatives' under the Companies Act, 2013 instead of the same act of 1956.

4.4 Regional Rural Banks

- RRBs were set up with the objective to provide credit to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas for development of productive activities.
- RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks with the issued capital in the ratio of 50:15:35 respectively.
- Union cabinet has recently approved the extension of the scheme of recapitalization of RRBs for the next 3 years upto 2019-20.
- This will enable the RRBs to maintain the minimum prescribed Capital to Risk Weighted Assets Ratio (CRAR) of 9%.
- The scheme of Recapitalization of RRBs started in FY 2010-11 and was extended twice in the year 2012-13 and 2015-16.
- Earlier, the Government has sought comments of respective State Governments and Sponsor Banks on a roadmap for consolidation of RRBs within a State.
- In line with the proposal, the roadmap for consolidation of RRB has been prepared in consultation with NABARD.
- It is expected that it will bring better scale-efficiency, higher productivity, robust financial health of RRBs, improved financial inclusion and greater credit flow to rural areas.
- Earlier, the government approved the extension of the scheme of recapitalization of RRBs for the next 3 years upto 2019-20.
- This was done to help RRBs to maintain the minimum prescribed Capital to Risk Weighted Assets Ratio (CRAR) of 9%.

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4.5 Local Incorporation of Foreign Banks

- Mauritius-based SBM Group, a foreign bank, has received RBI's approval to operate in the country through a wholly-owned subsidiary route.
- It is the first foreign lender to receive such a licence after local incorporation was introduced in 2013.
- At present, many of the foreign banks are operating in the country through opening branches in India.
- In 2013, RBI has introduced the local incorporation model which allows foreign banks to operate as a wholly owned subsidiary (WOS) in India.
- It would involve local incorporation, a local board of directors, and a ring-fenced capital and assets profile that would not be affected by the impact of global events on its parent.
- It is to encourage foreign banks to move to this model following the global financial crisis of 2008.
- It will help in scaling up supply-chain finance, transaction banking and cash management operations.
- In SBM group case, at present, it operates through 4 branches in Mumbai, Chennai, Hyderabad and Ramachandrapuram (A.P).
- After the approval, the bank will soon operate as a banking subsidiary of SBM Group in India under the name of SBM Bank (India) Ltd.

4.6 Banking Ombudsman Scheme

- Banking Ombudsman is a quasi-judicial authority to enable the resolution of customer's complaint relating to services rendered by Bank.
- All Scheduled Commercial Banks, Regional Rural Banks and Scheduled Primary Co-operative Banks are covered under the Scheme.
- RBI, earlier this year, has extended the scheme to **deposit taking Non-Banking Finance Companies (NBFC).**
- The authority does not charge any fee for filing and resolving customers' complaints.
- Any person aggrieved by the decisions of Banking ombudsman can approach the Appellate Authority, which is vested with a Deputy Governor of the RBI.

4.7 Internal Ombudsman

- RBI has recently issued guidelines tightening the Banking Ombudsman scheme to strengthen the grievance redressal mechanism.
- In its recent notification, RBI has asked all commercial banks having 10 or more banking outlets to have an independent internal ombudsman (IO).
- IO will review customer complaints that are either partly or fully rejected by the banks.
- This guideline is not applicable for Regional Rural Banks sponsored by commercial banks.
- The Internal Ombudsman Scheme of 2018 mandates banks to grant IO, a fixed term of three to five years, which cannot be renewed.
- The IO can be removed only with prior approval from RBI.
- The remuneration would have to be decided by the customer sub-committee of the board and not by any individual.
- The implementation of the scheme will be monitored by the bank's internal audit mechanism apart from regulatory oversight by RBI.

4.8 NBFC

- A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956.
- The Reserve Bank has been given the powers under the RBI Act 1934 to register, lay down policy, issue directions, inspect, regulate, supervise and exercise surveillance over NBFCs.

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- NBFCs should be engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority, butdoes not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods.
- A company should fulfills following two criteria (also known as **50-50 criteria**) to be registered as NBFC by RBI
  i. A company's financial assets constitute more than 50% of the total assets and
  ii. Income from financial assets constitute more than 50% of the gross income.
- There are few differences between Banks and NBFCs such as
  i. NBFC cannot accept demand deposits;
  ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;
  iii. deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.
- NBFCs are categorized
  a) In terms of the type of liabilities into Deposit and Non-Deposit accepting NBFCs,
  b) Non-deposit taking NBFCs by their size into systemically important and other non-deposit holding companies (NBFC-NDSI and NBFC-ND) and
  c) By the kind of activity they conduct – Asset Finance Company, Investment Company, Loan Company, systemically Important core investment company, Infrastructure Debt Fund.
- NBFCs whose asset size is of ₹ 500 cr or more as per last audited balance sheet are considered as **systemically important NBFC.**
- Entities regulated by RBI – All financial companies are not regulated by RBI. Some of them are regulated by different authorities.

Company	Regulator
Housing Finance Companies	National Housing Bank
Merchant Banker/Venture Capital Fund Company/stock-exchanges/stock brokers/sub-brokers	Securities and Exchange Board of India
Insurance companies	Insurance Regulatory and Development Authority
Chit Fund Companies	Respective State Governments
Nidhi Companies	Ministry of Corporate Affairs

- **Recent developments** - Kreditech, a Germany based company, has been licensed by the RBI to operate as an NBFC.
- It is the first-of-its-kind licence in Indian financial history for digital lending business and app-based financing by RBI.
- This digital lending NBFC offer two kinds of services,
  1. Individualised Direct-to-Consumer loans
  2. LAAS - Lending-as-a-Service Solution for Vendors, which allows partners to offer customised credit products to their customer.

4.9 India Infrastructure Finance Company Ltd (IIFCL)

- IIFCL is a wholly-owned Government of India company set up in 2006.

NBFC-ND-IFC

- An IFC is defined as Non-Deposit taking NBFC (NBFC-ND) that fulfils following criteria,
  i. A minimum of 75% of its total assets should be deployed in infrastructure loans,
  ii. Net owned funds of Rs. 300 crore or above,
  iii. Minimum credit rating 'A' or equivalent of CRISIL, FITCH, CARE, ICRA or equivalent rating by any other accrediting rating agencies and
  iv. CRAR (Capital to Risk Weighted Assets ratio) of 15 % with a minimum Tier I capital of 10 percent.

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- It has been registered as a NBFC-ND-IFC with RBI since September 2013.
- It provides long term finance to viable infrastructure projects – Both Greenfield and Brownfield projects.
- It provides refinance to banks and other eligible financial institutions for their loans to infrastructure projects.
- The sectors eligible for financial assistance from IIFCL are as per the harmonized list of Infrastructure Sub-Sectors as approved by the Government and RBI.
- It broadly includes transportation, energy, water, sanitation, communication, social and commercial infrastructure.
- **Recent Development** – Asian Development Bank (ADB) and Government of India has recently signed $300 million Loan Agreement to support lending by IIFCL.

4.10 Purchase of Gold by RBI

- Reserve Bank of India has bought gold for the first time in nearly a decade.
- The move signals that gold could be in demand as a store of value when returns and capital values of fixed-income bonds are declining in a rising rate environment.
- RBI might also want to create a buffer to meet the redemption needs of bonds sold under Gold Bond Schemes.
- Unlike many other central banks such as the People's Bank of China, RBI does not regularly trade in gold, although the RBI Act permits it to do so.
- According the latest annual report, RBI held 566metric tonnes of gold in its forex reserve.
- It last bought 200 metric tonnes from the IMF to boost its reserves in November 2009.

4.11 Financial Stability Report - RBI

- Reserve Bank of India has recently released the financial stability report.
- **NPA** - RBI report warns that the gross non-performing assets (GNPAs) could rise.
- The *GNPAs* of scheduled commercial banks could rise from 11.6% in March 2018 to 12.2% in March 2019.
- This would be the **highest level of bad debt in almost two decades**.
- It is more worrying for GNPAs of banks under *prompt corrective action framework*.
- It is expected to rise to 22.3% in March 2019, from 21% in March 2018.
- **Capital** - GNPAs will increase the size of provisioning for losses and affect banks' capital position.
- The capital to risk-weighted assets ratio of the banking system as a whole is expected to drop.
- It could come down from 13.5% in March 2018 to 12.8% in March 2019.
- **Bank frauds** - RBI notes that more than 85% of frauds could be linked to PSBs.
- But, their share of overall credit is only about 65%.
- The PSBs are far more prone to fraud than the private banks.
- This is significant in light of the recent Punjab National Bank scam.
- It is possibly due to the corporate governance issues in public sector banks.
- This also largely contributed to the weak lending practices, the core of the NPA crisis.
- **Economy** - Economy has registered a healthy growth rate of 7.7% in the recent quarter.
- The deteriorating health of banks is in contrast to the recovering economy.
- **External risks** - The RBI, however, has warned about the rising external risks.It poses a significant threat to the economy and to the banks.
- Credit has already started to flow out of emerging markets such as India.
- This is due to the
    i. tightening of monetary policy by the US Federal Reserve

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ii. increased borrowing by the U.S. government

- **Prices** - The increase in commodity prices is another risk on the horizon.
- This could pose a significant threat to the rupee and the fiscal and current account deficits.
- All these factors could well combine to increase the risk of an economic slowdown.
- It could, in turn, exert pressure on the entire banking system.

4.12 Concerns with IBC Amendment

- Union Cabinet has recently approved amendments to the Insolvency and Bankruptcy Code, 2016 (IBC).
- Insolvency and Bankruptcy Code (IBC) 2016, was introduced to resolve the bankruptcy crisis in corporate sector.
- It facilitate a time-bound resolution for ailing and sick firms.
- It could either be through closure or revival, while protecting the interests of creditors.
- Under IBC, either the creditor (banks) or the loaner (defaulter) can initiate insolvency proceedings.
- It is done by submitting a plea to the adjudicating authority, the National Companies Law Tribunal (NCLT) in case of companies and National Debt Tribunal in case of individuals.
- The resolution process was expected to aid in reducing the rising bad loans in the banking system.
- According to IBC, a financial creditor holds an important role in the corporate insolvency process.
- The Committee of Creditors (CoC) includes all financial creditors of a corporate debtor.
  - The CoC will appoint and supervise the Insolvency Professional, and has the power to either approve or reject the resolution plan to revive the debtor, or can proceed to liquidate the debtor.
  - The entire process is time-bound and must be completed within a period of 180 days (a one-time extension of 90 days is possible after the completion of 180 days).
  - **Recent Amendments -** It has given home-buyers the status of "financial creditors" in the insolvency process under the IBC.
  - By doing so, the Union Cabinet has overlooked the recently enacted Real Estate (Regulation and Development) Act, 2016 (RERA), which is a special legislation to protect the interests of home-buyers.
  - RERAwas enacted to promote the real estate sector and to ensure sale of plot, apartment or building, or sale of real estate project in an efficient and transparent manner to protect the interest of home-buyers.
  - The following are some of the protections offered by RERA to home-buyers:

  1. It mandates that the promoters should deposit 70% of the money realised for the real estate project from the allottees in a scheduled bank to cover the cost of construction and the land cost, and shall be used only for that purpose;
  2. Every promoter should apply to the Real Estate Regulatory Authority ("Authority") for registration of real estate projects.
  3. Such registration can be revoked by the Authority if the promoter makes default in doing anything required by RERA (including time-bound completion of the project).
  4. Upon revocation of the registration, the Authority has the power to freeze the above mentioned bank account to ensure that the promoters do not siphon off money belonging to the allottees.
  5. Subsequently, upon revocation of the registration, the Authority may consult the government to take such action as it may deem fit including carrying out of the remaining development works by competent authority or by the association of allottees.
  6. If a promoter or a real estate agent fails to pay any interest or penalty or compensation imposed on him, it shall be recoverable from such persons as an arrears of land revenue.

- It also provides for an adjudication mechanism for speedy dispute redressal, and establishes an appellate tribunal to hear appeals.

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- Thus, RERA treats home-buyers as consumers, and provides a consumer-friendly dispute resolution mechanism through an exclusive Authority and appellate tribunal for the home-buyers.
- **Problems with the amendment -** Actually financial creditors largely consist of banks and financial institutions, which have the requisite expertise to actively participate in, and to contribute to the resolution process, which involves the crucial task of coming up with a resolution plan to revive the company.
- Thus in reality home-buyers will have little interest in the company's revival or the corresponding macro-economic implications, as their end-goal will be to simply recover their hard-earned money.
- The recent representation of home-buyers will be a challenge to obtain consensus or a majority vote on various issues that need to be addressed at the CoC meetings.
- Therefore, the inclusion of home-buyers in the category of "financial creditors" will only cause unnecessary delay in the corporate liquidation process, which will significantly reduce the value of the assets under liquidation.

4.13 Mehta Panel Report on NPAs

- The Sunil Mehta Committee for restructuring stressed assets, submitted a five-point plan on bad loan resolution. The key recommendations are as follows.
- It has proposed **Project Sashakt** to recover banks and stressed companies.
- The five-pronged resolution route outlines five features for bank resolution:
  - i. an SME resolution approach
  - ii. bank-led resolution approach
  - iii. AMC/AIF led resolution approach
  - iv. NCLT/IBC approach
  - v. asset-trading platform
- This route will be applicable to the following, which have a potential for turnaround -
  - i. smaller assets with exposure up to ₹50 crore
  - ii. mid-size assets between ₹50 crore and ₹500 crore
  - iii. large assets with exposure of ₹500 crore and more
- **Large assets -** For large assets, an independent asset management company (AMC) will be set up.
- The resolution route is also applicable to larger assets already before the National Company Law Tribunal (NCLT).
- It would also cover any other asset whose resolution is still pending.
- The process will cover both performing and non-performing assets.
- **Mid-size assets -** The committee called for a bank-led resolution approach for these.
- The resolution plan has to be approved by lenders holding at least 66% of the debt.
- The independent steering committee appointed by the Indian Banks Association (IBA) has to validate the process within 30 days.
- The resolution for this category would be achieved in 180 days.
- In this category, the key challenge would be to arrive at a consensus.
- This is because the exposure is held by multiple banks/lenders.
- **SMEs -** The committee suggested setting up of a steering committee by banks for SMEs resolution.
- This will formulate and validate the schemes, with a provision for additional funds.
- The resolution should be complete within 90 days.
- It also suggested that the resolution be under a single bank's control.

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- The bank will have the liberty to customise the resolution process.
- **AIF** - Alternative investment fund (AIF) would raise funds from institutional investors.
- Banks would be given an option to invest in this fund if they wish.
- AIFs can also bid for assets in National Company Law Tribunal (NCLT).
- The lead bank can discover price discovery through the open auction route.
- **Significance -** The recommendations offer a transparent market-based solution and are fully compliant with RBI regulations.
- It focusses on asset turnaround to ensure job protection and creation.
- The resolution process would help bring in credible long-term external capital.
- This could limit the burden on the domestic banking sector.
- It could also ensure robust governance and credit architecture and prevent any build-up of NPAs in the future.

Concerns

- **Approach** - Large banks helping smaller lead banks to run the resolution process, if required, sounds an ineffective suggestion.
- The bank-led resolution approach has largely failed in the past.
- Clearly, this is the reason why alternative plans to resolve NPAs quickly are being sought.
- **Consensus -** The lead bank's resolution plan to be approved by 66% of the lenders (by value) merely replaces the earlier JLF.
- The JLF (joint lenders' forum) structure failed miserably as it fell short of building consensus.
- The present committee report has missed to address this real challenge.
- **Small banks -** The structure also fails to serve the interests of smaller banks.
- If restructuring involves additional finance, small banks may be affected.
- As, unlike the larger ones, smaller banks may not prefer giving good money after the bad loans.
- **Reconstruction** - The report points out the lacunae in the existing functioning of asset reconstruction companies (ARCs).
- But it fails to address how such issues will be tackled under the proposed AMC or AIF structure.
- Success of price discovery through open auction under AMC/AIF depends on banks' willingness and capability to take financial risks.
- Clearly, unattractive returns and poor recovery rates have discouraged investors from bringing in capital in the past.
- **Complex -** The objective of early resolution to NPAs may be hampered by complicated work processes.
- E.g. there is lack of clarity on how AIFs will work with a series of AMCs for a quick resolution.
- Also, there are 26 ARCs and a couple of resolution advisory service companies in operation.
- Given this, creation of new platforms like the AMC in AIFs for NPA resolution seems illogical.

4.14 Inter-Creditor Agreement

- More than a dozen of lenders led by State Bank of India recently signed the inter-creditor agreement (ICA).
- The agreement is part of the **Project Sashakt**, proposed by Sunil Mehta Panel and approved by the government to address the problem of resolving bad loans.
- The objective is to use this ICA for faster facilitation of resolution of stressed assets.
- It is aimed at the resolution of loan accounts with a **size of Rs. 50 crore and above** that are under the control of a group of lenders.

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Provisions of ICA

- If 66% of the lenders agree to a resolution plan it would be binding on all lenders.
- A 'dissenting creditor' is that which votes against or abstains from voting for the resolution plan approved by the committee.
- A dissenting creditor could sell its loan at a discount of 15% of the liquidation value to other lenders.
- Liquidation value is the amount at which a company could sell its assets and settle liabilities.
- Another option is to sell their loans to any person at a price mutually arrived between dissenting lender and the buyer.
- However, it cannot sell it to an asset reconstruction company.
- The agreement has a standstill clause wherein all lenders are barred from enforcing any legal action against the borrower.
- During standstill period, lenders are also barred from transferring or assigning their loan to any other person except a bank or finance company.
- **Concerns -** The obligation on the lead lender to come up with a time-bound resolution plan can have unintended consequences.
- Banks may be compelled to engage in a rush sale of stressed assets due to arbitrary deadlines.
- This will work against the interests of lenders looking to get the best price for their stressed assets.
- Besides, the biggest challenge to bad loan resolution is the absence of buyers to purchase stressed assets.
- There is also the unwillingness of banks to sell their loans at a deep discount to their face value.

4.15 Bank of Baroda, Dena Bank & Vijaya Bank Consolidation

- The amalgamation of state-owned Bank of Baroda (BoB), Dena Bank and Vijaya Bank has recently got in-principle approval from the government.
- As per the approval, BoB will be the 'transferee bank' and Vijaya Bank and Dena Bank will both be 'transferor banks'.
- This would mean that the amalgamation process, which would lead to formation of the country's third largest bank, would not involve creation of fourth entity where the assets of the three banks would get transferred.
- It would also mean that BoB will retain its brand identity while the other two Vijaya Bank and Dena Bank will cease to be separate legal entities.
- The envisaged amalgamation will be the first-ever three-way consolidation of banks in the country.
- After amalgamation, BOB with a combined business of ₹ 14.82 lakh crore, making it the third largest bank after State Bank of India (SBI) and ICICI Bank.
- Once the amalgamation and Dena Bank is completed, the number of state-run banks will come down to 19.
- The move will lead to a lower NPA (non-performing assets) ratio for the new bank.
- The NPA ratios are now 11.04% for Dena Bank, 5.4% for Bank of Baroda and 4.1% for Vijaya Bank.
- This could, in turn, mean lower capital requirements from the government.

Alternative Mechanism

- The amalgamation structure got approved by the Alternative Mechanism (AM), which was set up by the Cabinet and headed by Union Finance Minister.
- Its objective is to hasten the process of consolidation of public sector banks.
- The other members of AM are Defence Minister Nirmala Sitharaman and Railways Minister Piyush Goyal. The aim is to create a mega bank that would be sustainable and whose lending ability will be far higher
- The final scheme of amalgamation will have to be notified by the Central Government in consultation with RBI.

- Capital Adequacy Ratio (CAR) at 12.25% will be significantly above the regulatory norm of 10.87%, and the stronger amalgamated bank will be better positioned to tap the capital markets.
- The new bank, with its higher capital base (12.25 %) can have better ability to lend more.

- **Implication -** After the merger announcement, shares of Bank of Baroda and Vijaya Bank fell significantly. On the other hand, Dena Bank gained sharply.
- Notably, Dena Bank is the bank in the worst financial situation among the three entities.
- It is currently under the Reserve Bank of India's *prompt corrective action* framework.
- Unlike the other two banks, its shareholders are set to gain from being part of a new bank with greater financial strength.
- But the weaker banks would make an unhealthy impact on the operations of the stronger one.
- Clearly, forced mergers such as the current one make little business sense for the stronger banks.

Prompt Corrective Action (PCA)

- PCA is primarily to take appropriate corrective action on weak and troubled banks.
- The RBI has put in place some trigger points to assess, monitor and control banks.
- The trigger points are on the basis of CRAR (a metric to measure balance sheet strength), NPA and ROA (return on assets).
- Based on each trigger point, the banks have to follow a mandatory action plan.
- It prohibits them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.

4.16 RBI Surplus Transfer to Government

- RBI has transferred a surplus of Rs 50,000 crore to the central government in FY18.
- It has also made a provision of Rs 14,190 crore and transferred it to contingency fund (CF), which is built by the central bank over the years.
- CF is to meet unexpected exigencies and risks
    i. from sharp fluctuation in the value of securities held by it
    ii. from monetary or exchange rate policies of central banks
    iii. from other systemic risks
- Besides, RBI transfers the surplus generated from its functions to the government at the end of each financial year.
- This is after accounting for any funds transferred to the contingency reserve or the asset development fund.
- It follows July-June financial year.

Recent Trend

- Transfer of surplus to the government has risen by around 63% during the financial year ended June, 2018.
- RBI had transferred a surplus of around Rs 30,600 crore to the government in financial year 2016-17.
- During 2017-18, RBI's balance sheet increased by 9.49% or Rs 3.13 trillion.
- The increase on the asset side was mainly due to rise in foreign investments, and loans and advances.
- On the liability side, the increase was due to increase in notes issued and other liabilities and provisions.
- Domestic assets, foreign currency assets and gold recorded marginal increase from the previous year.
- **CF Contribution -** RBI had been transferring a chunk of its surplus to the contingency fund up to 2012-13.
- However, these transfers temporarily ceased thereafter.
- The transfers resumed from 2016-17 and this prudential policy continues in 2017-18.
- The RBI faces pressure to transfer funds to the Centre, to help bridge the fiscal deficit.
- Despite this, RBI has continued to transfer a portion to the Contingency Fund.
- This year's contribution is also slightly higher than the CF transfers of last year.
- **Challenges -** There are heightened worries of turbulence in global financial markets due to the ongoing trade war.
- There is also an explosive political situation in the US.There is also the threat of value erosion to currencies of emerging economies.

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- Given these, the value of the RBI's foreign currency assets is at a greater risk.

4.17 India Post Payments Bank

India Post Payment Bank (IPPB) was recently launched by the Prime Minister.

- IPPB is a financial service provider that will operate under the country's postal department.
- It will be a 100% government owned entity.
- It is launched with an intention to make banking facility available at the doorstep of citizens and leverage the workforce of 300,000 postmen.
- **Features -** It will be able to accept deposits of up to Rs.1 lakh from customers but it cannot lend to its customers.
- While it cannot lend directly, it can act as a banking correspondent to other banks to provide credit in rural areas.
- It offers three types of savings accounts—regular, digital and basic.
- A digital savings account can be opened through the IPPB mobile app.However, it is valid only till 12 months.
- Within this, it has to be converted into a regular savings account by providing biometric data to the postman.
- A regular and basic account can be opened either through the post office or the postman.
- **Balances -** All three accounts are zero-balance accounts, with no minimum balance rules.
- However, RBI has directed all payments bank account holders to hold not more than Rs 1 lakh in any account at a given point of time.
- So, the moment an IPPB account crosses Rs 1 lakh limit, the transaction will be rejected automatically.
- To handle this, IPPB suggests linking a post office savings account with the IPPB account.
- So, any balance in excess of Rs 1 lakh will be transferred to the post office savings account.
- **Interest rate -** All IPPB accounts attract an interest rate of **4% per annum**.
- Calculated on the daily closing balance, the interest rate is paid quarterly.
- **Deposit & withdrawal -** In regular and digital savings accounts, one can withdraw or deposit any number of times.
- In case of a basic savings account, there is a restriction of 4 cash withdrawals monthly.
- For cash deposits and withdrawals, one can approach the nearest post office where the IPPB service is available.
- IPPB accounts do not come with an ATM card and so one cannot withdraw cash from ATMs.
- **Doorstep banking -** Consumers can also call the postman or Grameen DakSevaks (GDS) home and make transactions.
- This is done using the QR card that is received with the IPPB account.
- Doorstep banking from IPPB comes at a cost of Rs 25 for cash transactions and Rs 15 for digital transactions.
- **Transfers -** It can enable money transfers (both domestic and overseas) and direct benefit transfers, facilitate payments of utilities and other bills.
- It can also help channel savings by distributing insurance, mutual funds and pension products.

4.18 Independent Payments Regulatory Board

- The RBI has opposed the government's proposal to set up a separate and independent regulator for the payments industry in the country.
- An inter-ministerial committee was earlier set up by the Department of Economic Affairs.

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- It was tasked to finalise amendments to the Payment & Settlement Systems (PSS) Act, 2007.
- **Recommendations** - The committee proposed the establishment of an Independent Payments Regulatory Board (PRB).
- The aim is to foster competition and consumer protection, systemic stability and resilience in the payments sector.
- It also recommended having a government-appointed chairperson for the PRB.
- It held that the Securities Appellate Tribunal (SAT) should look at dispute cases related to the payments.
- Besides, the *Payment Council of India* (PCI) also maintained that the payments sector has undergone a sea change in the last 7-8 years.

Payments Council of India

- The Payments Council of India was formed under the aegis of IAMAI (Internet and Mobile Association of India) in the year 2013.
- It was set up to cater to the needs of the digital payment industry, address and help resolve various industry level issues and barriers.
- It works to promote payments industry growth and to support the national goal of 'Cash to Less Cash Society' and 'Growth of Financial Inclusion'.

- So, there are various types of risks involved, and a risk-based regulation is the need of the hour.

RBI's rationale

- In a dissent note, the RBI has rejected the above recommendations.
- It has argued that payment systems are a sub-set of currency, which is regulated by the RBI.
- There is an overarching impact of monetary policy on payment and settlement systems and vice-versa.
- This adds validity to the idea that regulation of payment systems remain with the monetary authority i.e. the RBI.
- Also, the activities of payments banks come well within the purview of the traditional banking system.
- So, there is no case of having a separate regulator for payment systems outside the RBI.
- Regulation of the banking systems and payment system by the same regulator provides synergy.
- Nevertheless, RBI is open to changes and is not totally against a new PSS Bill, if required.
- However, the changes should not result in the existing foundations being shaken.
- They should not result in potential creation of disturbances in an otherwise well-functioning and internationally-acclaimed structure.
- RBI also held it would prefer the Payments Regulatory Board to function under the purview of the RBI Governor.
- It, however, may comprise three members nominated by the government and the RBI respectively.
- It should come with a casting vote for the governor to ensure smooth operations of the board.
- The recommendation on Securities Appellate Tribunal was also rejected by the RBI.
- The exchanges and securities markets are not under the purview of the Payment Systems Bill.
- So, there is no rationality in bringing SAT for resolving payment system-related cases.

4.19 Estimates Committee's Report on NPAs

Parliament's Estimates Committee on public sector banks headed by Raghuram Rajan released its report recently on NPA's.

Contents of the report

- It says that gross NPAs of banks rose to Rs 10.3 lakh crore in FY18, or 11.2% of advances.
- **Reasons for rising bad loans -**
  1. **Over-optimism -** Banks extrapolate past growth and performance of the companies that made them to **accept higher leverage** in projects.
  2. **Slow Growth -** Domestic demand slowdown after GFC crisis (2008) affected strong demand projections.

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3. **Government decision-making** - Governance problems as in allocation of coal mines, Project cost overruns etc., made projects unable to service debts.
4. **Loss of Interest** - Banks' **deceptive accounting** by failing to restructure and recognize losses or declare the loan NPA, to make the business look profitable to the shareholders.
5. **Malfeasance** - Lack of an independent analysis in the system which multiplies the possibilities for undue influence.
6. **Fraud** – Increase in the number of of fraud cases in PSBs.

- **RBI's rationale to introduce schemes**
  1. The **Debts Recovery Tribunals** (DRTs) were set up to help banks recover their dues speedily without being subject to the procedures of civil courts.
  2. The **SARFAESI Act** was setup to enable banks a to enforce their security interest and recover dues even without approaching the DRTs.
  3. Yet the recovery was only 13% of the amount at stake and only 25% of these cases were disposed off during a year.
  4. **Central Repository of Information on Large Credits (CRILC)** was created, that includes all loans over Rs. 5 crores, to identify early warning signs of distress in a borrower such as habitual late payments.
  5. **Joint Lenders' forum** was created to decide on an approach for resolution, while giving the opportunity to exit for unconvinced borrowers.
  6. 5/25 scheme was created to establish reliability on projects that have long dated future cash flows.
  7. Strategic Debt Restructuring (SDR) scheme to enable banks to displace weak promoters by converting debt to equity.
  8. All these tools effectively created a resolution system that replicated an **out-of-court bankruptcy**.
- **Importance of recognising NPAs**
  1. To restructure or write down loans, the bank has to recognize it has a problem i.e classify the asset as a Non-Performing Asset (NPA).
  2. Only then the bank balance sheet will represent a true and fair picture of the bank's health, as a bank balance sheet is meant to.
- **RBI's role in creation of NPAs**
  1. Bankers, promoters, and circumstances create the bad loan problem.
  2. The RBI is just a referee, not a player in the process of commercial lending.
- **Reason to initiate the Asset Quality Review**
  1. Banks were simply not recognizing bad loans, neither were they following uniform procedures.
  2. Hence, Asset quality review was done to ensure every bank followed the same norms on every stressed loan and to look for signs of ever-greening.
- **Reason for NPAs even after AQR**
  1. Risk-averse bankers
  2. Lethargy of promoters before Bankruptcy Code was enacted, hoping to regain control though a proxy bidder, at a much lower price.
  3. The government's delay on project revival etc
- **Recommendations to RBI**
  1. RBI should probably have raised more flags about the quality of lending in the early days of banking exuberance.
  2. It should have initiated the new tools earlier and pushed for a more rapid enactment of the Bankruptcy Code.
  3. RBI could have also been more decisive in enforcing penalties on non-compliant banks.

4.20 Role of DICGC

- Deposit Insurance and Credit Guarantee Corporation (DICGC) is a wholly owned subsidiary of RBI which provides insurance to all the banks registered under the guidelines of the RBI Act.

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- All commercial banks including branches of foreign banks functioning in India, nationalized/local banks and RRB's are insured by the DICGC.
- At present all the co-operative banks other than those from the Union Territories of Chandigarh, Lakshadweep, the State of Meghalaya and Dadra and Nagar Haveli are covered by the DICGC.
- Primary cooperative societies are also not insured by the DICGC.
- Deposit insurance premium is borne entirely by all the insured banks, respectively.
- It insures all bank deposits, such as savings, fixed, current, and recurring.
- There are some exceptions like deposits of foreign governments, deposits of Central/ State Governments, deposits of State Land Development Banks with State co-operative banks, and inter-bank deposits.
- Each of the depositor is insured up to a maximum of Rs 1 lakh for both principal and interest amount held by them as on the date of cancellation or liquidation of bank's license or the date on which the scheme of amalgamation/merger/reconstruction takes place.
- If any of the banks fail to pay the premium for three consecutive periods, then the corporation may cancel the registration of an insured bank.

5. FINANCIAL MARKET

5.1 Bharat 22

- The second tranche of Bharat 22 Exchange Traded Fund (ETF) was launched by the government to raise Rs. 8400 crores from the markets.
- Bharat-22 will comprise stocks of 22 blue-chip **public sector units, State-owned banks and three private companies** where Specified Undertakings of the Unit Trust of India (SUUTI) has stakes.
- It consists of stocks from six sectors such as capital goods, finance, oil & gas, power, FMCG and metal, metal products and mining.
- It is managed through ICICI Prudential Fund and it is in pursuance of government's disinvestment policy targeting an initial amount of Rs.6,000 crore.
- Earlier the government has launched Central Public Sector Undertakings (CPSE) ETF, which had stocks of many energy companies.
- Bharat 22 is a well-diversified ETF spanning six sectors such as basic materials, energy, finance, FMCG, industrials and utilities.
- While CPSE ETF has only state-run companies as its constituents, Bharat-22 will give the government a shot at selling stakes in some of the private sector blue-chip companies as well.

5.2 Exchange Traded Fund

- An ETF is a type of fund that tracks the underlying assets and divides ownership of those assets into shares.
- The underlying assets can be shares of stock, bonds, oil futures, gold bars, foreign currency, etc.
- Shareholders do not directly own or have any direct claim to the underlying investments in the fund, rather they indirectly own these assets.
- The ETFs trading value is based on the net asset value of the underlying stocks that it represents.
- ETF shareholders are entitled to a proportion of the profits, such as earned interest or dividends paid, and they may get a residual value in case the fund is liquidated.
- **ETF Vs Mutual Fund** - The transaction of stocks and bonds under the Mutual Fund is with the company that manages the fund.
- Whereas in ETF, the ownership of the fund can easily be bought, sold or transferred in the same way as shares of stock, since ETF shares are traded on public stock exchanges.

5.3 Additional Surveillance Measures

- Additional Surveillance Measures (ASM) was introduced recently by SEBI.

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- It is a surveillance method in which SEBI impose trading curbs on excessively volatile stocks in the Indian market.
- For example, if the "Spread" - Price variation of a stock between the high and low price, in the last three months is 200% or more, then it will be placed under ASM.
- Once a stock is caught in the ASM net, it attracts a bunch of stricter exchange rules on intra-day price movements.
- Such curbs discourage speculators and intra-day traders from taking heavy positions in stocks and will result in stock prices to drop.
- Stocks of PSUs, securities with derivative products and stocks under **Graded Surveillance Measure** are exempted from ASM net.

5.4 Graded Surveillance Measure

- GSM, designed by SEBI, is to keep a tab on securities that witness an abnormal price rise, which is not commensurate with financial health and fundamentals of the company.
- The underlying principle is to protect small / retail investors from getting stuck in such stocks inadvertently on some wrong advice.
- Currently, more than 900 companies are monitored under this.
- Once a firm is identified for surveillance it goes through 6 stages.
- In the first stage the securities are put in the trade-to-trade segment i.e no speculative trading is allowed, and delivery of shares and payment of consideration amount are mandatory.
- A maximum of 5% movement in share price is allowed.
- With subsequent stages, corresponding surveillance actions and the restrictions get higher progressively.
- In the sixth and final stage, trading is permitted only once a month, with no upward movement allowed in price.
- There would a quarterly review of securities.
- Based on this, the securities would be moved from a higher stage to a lower stage in a sequential manner.

5.5 Bond-i

- Bond-i, an acronym standing for Blockchain Offered New Debt Instrument is the world's first public bond created and managed using only blockchain.
- It is launched by World Bank and the Commonwealth Bank of Australia is the sole manager of the deal.
- The total worth of the bond is 100 million Australian Dollars.
- It is viewed as an initial step in moving bond sales away from manual processes towards faster and cheaper automation.
- World Bank's bonds hold an AAA rating, creating a new bond markets and also engineers new methods to sell and trade securities.
- Blockchain technology refers to the distributed ledger technology that securely records all transactions made on the chain.
- This can help simplify raising capital and trading securities, improve operational efficiencies and enhance regulatory oversight.

5.6 Share Buyback

- A buyback is a mechanism through which a listed company buys back shares from the market.
- It can be done either through open market purchases or through the tender offer route.
- Under the open market mechanism, the company buys back the shares from the secondary market while under tender offer, shareholders can tender their shares during the buyback offer.

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- A company prefers buyback usually when it has a significant cash reserve and feels that the shares are not fairly valued at the current market price.
- The brought back shares will have increased Earnings per share (EPS) by default.
- It is because a buyback is usually done at a price higher than the then prevailing market price, shareholders get an attractive exit option, especially when the shares are thinly traded.
- A company can use a maximum of 25% of the aggregate of its free reserves and paid-up capital for a buyback.
- Both Institutional investors and retail shareholders take part in a buy back offer.
- SEBI has recently revised the buyback regulations that stipulate 15% reservation for retail shareholders in a buy back offer.
- It gives retail investors a fair share in the offer, which otherwise could see large institutional investors tendering their shares leaving little or no room for small investors.

5.7 Electoral Bonds

- Government of India has recently notified the Electoral Bond Scheme 2018.
- As per the provisions of the scheme, Electoral Bonds may be purchased by a person, who is a citizen of India or entities incorporated or established in India.
- A person being an individual can buy Electoral Bonds, either singly or jointly with other individuals.
- SBI is the only authorised bank to issue such bonds.
- Political Parties which are eligible for receiving the electoral bonds must satisfy two criteria,
  1. The party must be registered under Section 29A of the Representation of the People Act, 1951 (43 of 1951).
  2. It should secure not less 1% of the votes polled in the last General Election to the House of the People or the Legislative Assembly of the State.
- The electoral bonds shall be encashed by an eligible Political Party only through a Bank account with the Authorized Bank.
- The bonds shall be valid for 15 calendar days from the date of issue and no payment shall be made to any payee Political Party if the Electoral Bond is deposited after expiry of the validity period.

5.8 Financial Stability and Development Council

- The council has met recently to discuss the issue of real interest rate, current liquidity situation.
- FSDC was established in 2010 with Union Finance Minister as its Chairman.
- Its members include

  i. the heads of financial sector regulators (RBI, SEBI, PFRDA, and IRDA)

  ii. Finance Secretary, Department of Economic Affairs

  iii. Secretary, Department of Financial Services

  iv. Chief Economic Adviser

  v. Chairman of the Insolvency and Bankruptcy Board
- FSDC has two core functions:

  i. to perform as an apex level forum to strengthen and institutionalize the mechanism for maintaining financial stability

  ii. to enhance inter-regulatory coordination and promote financial sector development in the country
- It focusses on financial literacy and financial inclusion.
- It monitors macro-prudential supervision of the economy and also assess the functioning of the large financial conglomerates.
- FSDC sub-committee is chaired by the Governor of RBI.

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5.9 Commodity Derivatives

- Derivatives - They are financial contracts that derive their value from an underlying asset.
- These could be stocks, indices, commodities, currencies, exchange rates, or the rate of interest.
- These financial instruments help to make profits by betting on the future value of the underlying asset. Therefore, they are called 'Derivatives'.
- **Recent Developments -** The Bombay Stock Exchange became the first stock exchange in the country to launch commodity derivatives contract in gold and silver.
- Till date, commodity derivatives contracts are available only in the 2 specialized commodity derivatives - Multi-Commodity Exchange (MCX) and National Commodity Derivatives Exchange (NCDEX).
- The launch of commodity derivatives platform on the BSE will help in efficient price discovery, reduce timeline and make it cost-effective.
- BSE also waived off transaction charges for the first year in the commodity derivatives segment.

5.10 Sovereign Blue Bond

- The Republic of Seychelles has recently launched the world's first sovereign blue bond.
- Blue Bond is a financial instrument designed to support sustainable marine and fisheries projects.
- It is partially guaranteed by a US$5 million guarantee from the World Bank (IBRD).
- It is further supported by a US$5 million concessional loan from the Global Environment Facility (GEF) which will partially cover interest payments for the bond.
- Proceeds from the bond will also contribute to the World Bank's South West Indian Ocean Fisheries Governance.
- It combines Public and private investment to mobilize resources for empowering local communities and businesses in achieving a transition to sustainable fisheries.

5.11 P-Notes and Money Laundering

- The special investigation team (SIT) on black money has asked the SEBI to furnish details of all those investing through participatory notes (P-Notes).
- P-Notes or Participatory Notes are Overseas Derivative Instruments that have Indian stocks as their underlyingassets.
- These instruments are issued by foreign portfolio investors (FPIs) registered with SEBI.
- It allows foreign investors to buy stocks listed on Indian exchanges without being registered with SEBI.
- It gained popularity as foreign institutional investors (FIIs) started betting on stocks through this route.
- This is to avoid the formalities of registering, and to remain anonymous.
- Though, P-Notes are an internationally accepted route to invest money and there are genuine player, there are concerns about round-tripping of money.
- Wealthy Indians, like companies' promoters, are using it to bring back unaccounted funds and to manipulate their stock prices.
- **Recent Developments -** SEBI has recently put in place restrictions on foreign portfolio investors from issuing participatory notes.

Derivatives

- Derivative is a contract between two or more parties and its value is determined by the underlying asset.
- The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes.

- So, P-Notes can be issued only for the purpose of hedging (safeguarding) with respect to the equity shares held.
- SEBI said that existing positions on unhedged P-Note derivatives must be liquidated by the end of December 2020.
- Earlier to this, SEBI tightened P-Note norms by deciding to levy a fee of USD 1,000 on each instrument.

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- It had increased the know-your-customer (KYC) requirement.
- It also issued curbs on transferability and prescribed more stringent reporting for P-Notes issuers and holders.
- SEBI also barred their issuance for speculative purposes from checking any misuse for channelizing black money.
- It also decided to relax the entry norms for foreign portfolio investors (FPIs) willing to invest directly in Indian markets rather than through P-Notes.
- It also mandated issuers to follow Indian anti-money laundering laws instead of norms prevalent in the jurisdiction of the end beneficial owner.
- **Significance of SIT's directive -** The tightening of P-Note norms was triggered by the concerns raised by SIT in 2015.
- This was especially over the investment coming from **Cayman Islands, the top destination for P-Note investors** investing in the Indian securities market.
- Panama Papers leak also compounded the black money concerns.
- The present directive is the first time the government-constituted SIT has sought such massive amount of data.
- It includes the list of beneficial owners and transfer trials of investors taking the P-Note route.
- The SIT wants to ensure that the regulatory changes made by SEBI are sufficient to curb the misuse of such instruments.

5.12 Changes in Mutual Fund Regulations

- SEBI has unleashed a set of fundamental changes to the regulations governing mutual funds in India. The proposed measures are as follows.
- **Total Expense Ratio -** Mutual funds are investments where an investor entrusts his/her money with an investment manager (of an asset management company) to manage it efficiently.
- This money management comes at a cost, which is usually charged as a percentage of the investment.
- The charge levied is called Total Expense Ratio and money received from the investment is reduced by this ratio.
- For example, if a fund charges 2% as the TER, and the fund produces a gross profit (return) of 15% in a given year, the investor would get 13%.
- SEBIhas laid down rules on how much an asset management company can charge an investor to manage their funds.
- TER for equity-oriented mutual fund schemes were capped at 1.25% and for other schemes at one%.
- The cap for fund of funds will be 2.25% for equity-oriented schemes and two% for other schemes.
- **Transparency** - SEBI has mandated that commissions and expenses shall be paid from the scheme only and not by any other route.
- Further, the mutual fund industry has to adopt the full trail model of commission in all schemes without paying any upfront commission.
- **Overseas Investors -** SEBIalso decided to go with the **HR Khan panel recommendations**, which sought the easing of restrictions on investments by non-resident Indians (NRIs) and some foreign funds.
- That will ease the concerns of overseas investors worried about tighter norms.
- **Consent Mechanism –** It is aimed at reducing long-drawn litigation and is similar to a negotiated settlement of civil proceedings between the regulator and securities law offenders.
- SEBI said it will not settle offences through the consent mechanism if it views the issue as having market-wide impact, affects the integrity of the market or results in loss to investors.
- **Large corporates** are the ones with outstanding borrowings of Rs.100 crore or above and credit rating of AA and above.

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- SEBI mandated that large corporates should meet one-fourth of their financing needs through debt instruments.
- **Timeline for listing –** Listed Companies are those shares are traded on an official stock exchange. It must adhere to the listing requirements of that exchange, which may include how many shares are listed and a minimum earnings level.
- SEBI has cutdown thelisting period after an initial public offering (IPO) to T+3 from T+6 now. This means a company will get to list three days after the IPO as against six at present.
- The regulator has also reclassified the definition of promoters and public.
- **Promoters** are those who should not hold more than 10% of the total voting power or exercise control over the listed entity or have special rights in the company.
- They should not be in key managerial positions for three years from reclassification and be willful defaulters.
- SEBI has put up restrictions on fund raising through various share sales or making an open offer for **Fugitive Economic Offenders.**
- **Disclosure -** SEBI requires category-wise disclosure of all schemes' returns with respect to its total returns to be made available on the Association of Mutual Funds of India's website.

5.13 Commercial Paper

- Commercial Papers are issued by companies with high-quality debt ratings for raising money to meet their short-term liabilities.
- Corporations, financial institutions, wealthy individuals and money market funds are usually buyers of commercial paper.
- It is usually issued at a **discount from face value** and reflects prevailing market interest rates.
- Maturities on commercial paper are usually no longer than 9 months.
- Unlike banks, Non-Banking Financial Companies (NBFC) do not have access to low-cost public deposits.
- Thus, theyhave to heavily rely upon commercial paper and commercial debt markets.
- Banks and Mutual Funds are the main source of funding through commercial papers to NBFCs and housing finance companies.
- While large MFIs have access to bank finance, the mid-sized and smaller ones depend on funds from NBFCs.
- Small and mid-size NBFCs and Micro Finance Institutions (MFI) are going to face the liquidity crunch due to redemption of commercial papers due in November-March.
- Anticipating liquidity crunch, the RBI has announced Rs. 40,000-crore liquidity infusion in November through open market operations.

Discount Rate

- In finance, discount refers to a situation when a bond is trading for lower than its par or face value.
- For example, if a bond with a par value of $1,000 is currently selling for $990 dollars, it is selling at a discount of ($1000/$990) - 1 = 1%, or $10. The reason a bond will trade at a discount is if it has a lower interest or coupon rate than the prevailing interest rate in the economy.
- In other words, since the issuer is not paying as high of an interest rate to the bondholder, the bond must be sold at a lower price to be competitive, or else no one would buy it. **(Invsetopedia).**

5.14 IL & FS and Stock Market Volatility

- Infrastructure Leasing & Financial Services Ltd. (IL&FS) is an infrastructure development company (NBFC), which provides finance and loans for major infrastructure projects.
- It has a complex structure with 169 subsidiaries and its shareholding has broad-based institutional investors.
- The State Bank of India (SBI), LIC (largest shareholder), ORIX (Japan), Abu Dhabi Investment Authority and Greenspring Associates have stakes in the company.
- The company is classified as systematically important NBFC and describes itself as the pioneer of public private partnerships.

- One of the projects is the Chenani-Nashri tunnel — India's longest road tunnel at 9 kilometers (5.6 miles).
- But IL&FS and its maze of subsidiaries have not made profits for almost a decade now and are in deep financial debt.
- IL&FS group of companies has a total consolidated debt of close to Rs 1 lakh crore, and it started to miss deadlines on its debt obligations beginning last week of August 2018.
- **Reasons -** IL&FS have raised a huge amount through Commercial Papers (CP) and its redemption time has approached.
- The interest rates have soared for its short-term borrowings.
- Additionally, some of IL&FS's construction projects have faced cost overruns amid delays in land acquisition and approvals.
- Disputes over contracts have locked about 90 billion rupees of payments due from the government.
- These have made IL&FS run short of cash and it has defaulted on around Rs 450 crore worth of inter-corporate deposits to SIDBI.
- Insurance companies, state-owned banks and their provident funds and pension funds, and mutual funds (MFs) have exposure to the debt papers of IL&FS; state-owned banks have also extended term loans to IL&FS.
- Fears grew among the investors that the default problem will spread to other NBFCs, leading to a sharp fall in the stocks of housing finance companies (HFCs) and NBFCs (which operate on borrowed funds).
- Thus, stock indices witnessed an extraordinary swing recently resulting in panic sell-off by investors.
- Following the defaults, rating agencies ICRA, India Ratings and CARE abruptly downgraded IL&FS and its subsidiaries credit ratings.
- The ratings down from high investment grade (AA plus and A1 plus) to junk status, indicating actual or imminent default.

Credit Ratings

- A credit rating is an assessment of the creditworthiness of a borrower.
- Individuals are given 'credit scores', while corporations and governments receive 'credit ratings'.

- **Government's approach –** The government moved National Company Law Tribunal (NCLT) and it approved the government's proposal to bring in a new six-member board to run the affairs at IL&FS.
- Accordingly, its board has been reconstituted.

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Debt Instrument

- It is a paper or electronic obligation through which finance companies normally source funds.
- It enables the issuing party to raise funds by promising to repay a lender in accordance with the terms of a contract, and loans from banks.
- Indian NBFCs issue debt instruments like bonds, non-convertible debentures (NCDs), certificates of deposits, commercial papers (CPs), mortgages, leases etc., between a lender and a borrower.
- Debt papers are issued at a specific interest rate linked to the market rate, though interest rates have been rising in recent times.
- CPs and NCDs are two widely used debt instruments used by corporates to raise money.
- The IL&FS group defaulted on CP, which is an unsecured money market instrument issued in the form of a promissory note with a maximum validity of one year.

6. EXTERNAL SECTOR

6.1 Export Credit Guarantee Corporation (ECGC)

- The Cabinet Committee on Economic Affairs has approved the capital infusion of Rs.2000 crore for strengthening of Export Credit Guarantee Corporation (ECGC).

- ECGC is a premier export credit agency to provide export credit insurance services to facilitate exports from the country.
- It offers credit insurance schemes to exporters to protect them against losses due to non-payment of export dues.
- The capital infusion would enhance insurance coverage to MSME exports.
- It will strengthen India's exports to emerging and challenging markets like Africa, CIS and Latin American countries.

6.2 FDI in education institutions

- The Government has allowed Foreign Direct Investment (FDI) upto 100% under automatic route in the educational institutions.
- Consolidated FDI Policy of 2017 has accorded this limit but subject to applicable laws, rules/regulations/security conditions.
- UGC and All India Council for Technical Education (AICTE) have issued regulations/guidelines on collaboration between Indian and Foreign Universities.
- It is with a view to increase synergy between Indian and foreign academic institutions and to improve curriculum and educational content.
- As per these regulations, Indian Universities and Colleges having the highest grade of accreditation/threshold accreditation, can apply online to the UGC for starting twinning arrangement with Foreign Educational Institutions (FEI) having the prescribed quality.

6.3 Crypto-Pegged Forex rate

- Venezuela has recently announced a single exchange rate based on its cryptocurrency.
- Petro is a cryptocurrency launched by the government earlier this year.
- The President has effectively devaluated the petrocurrency by 96%.
- Exchange rates, salaries, pensions and prices are pegged to Petro.
- Now, one petro would equal $60 and have the equivalent of 360 million bolivars (official currency of Venezuala).
- Since 2003 Venezuela has had strict currency controls, identified by economists as a major cause of its economic crisis.
- It has led to hyperinflation and rendered the bolivar currency near worthless.
- The International Monetary Fund has predicted that inflation in Venezuela would hit 1 million percent this year.

6.4 Currency Swap Arrangement

India and Japan have agreed to enter in to currency swap arrangement of $75 billion.

- Currency swap arrangement means one country exchanges its national currency for that of another or even a third currency.
- Under this arrangement, India can acquire dollars from Japan in exchange for rupees.
- So, India can acquire yen or dollars from Japan upto $75 billion in exchange for rupees under a fixed exchange rate.
- This exchange has to be reversed after an agreed period. Conversely, Japan can also seek dollars from India in exchange for yen.
- This facility will serve as a line of defence for our country's foreign exchange reserve.
- **Advantages** – Short-term liquidity mismatches can be met quickly.
- It will help stabilize the rupee, which has witnessed the steepest fall in recent years.
- It improves market sentiment, curbs speculative pressure on the rupee.

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- Foreign Investors will draw comfort from the arrangement.

6.5 Currency Monitoring List

- Currency Monitoring List is maintained by Department of Treasury, USA.
- The countries are placed in this list which have potentially questionable foreign exchange policies.
- India was placed for the first time in April this year, in this list.
- The other countries in the list are China, Germany, Japan, South Korea and Switzerland.
- In the latest report by department of treasury, it highlighted that India could be removed from the list citing India's foreign exchange market intervention and current account deficit.
- Reserve Bank of India (RBI) has noted that the value of the rupee is broadly market-determined, with intervention used only during "episodes of undue volatility".
- IMF projects that India's current account deficit to be around 2.5% of GDP over the medium term.

6.6 Hedging Norms for Companies

- A hedge is an investment to reduce the risk of adverse price movements in an asset.
- RBI has recently relaxed norms for External Commercial Borrowing (ECB) by reducing the mandatory hedging provision to 70% from the current 100%.
- The notification has come after strengthening of the dollar in the recent times which made ECB route unattractive to companies.
- A notification issued by RBI highlights that mandatory hedge coverage has been reduced under Track I of the ECB framework.
- Track I refer to medium-term foreign currency-denominated ECBs with a minimum average maturity of 3-5 years.
- ECBs raised prior to this circular would be required to mandatorily roll over their existing hedge only to the extent of 70% of outstanding ECB exposure.
- The move will help reduce costs for companies that raise foreign funds.

6.7 Foreign Investments Slows

Reports have confirmed that all forms of Foreign Investment in India (including the priced FDI) are slowing down.

- **Data -** According to recent data from the "Department of Industrial Policy and Promotion" (DIPP), growth rate of FDI hit a 5-year low in 2017-18.
- It grew by only 3%, to $44.85 billion this year, which is despite the big-ticket purchase of Essar by Rosneft, for $13 billion.
- According to UNCTAD, FDI to India actually fell in the calendar year 2017, from $44 billion the previous year to $40 billion.
- But on the contrast, UNCTAD notes that outward FDI from India more than doubled during the same period.

6.8 Fall of Rupee &Turkey's Currency Crisis

- The value of Turkey's currency, lira, has fallen since January and has lost more than 34% of its value against the dollar.
- **Construction Boom -** The Turkish economy has been in slow-motion decline for a while, with the lira sliding steadily downhill since 2016.
- A construction boom was happening and it reached its height in 2013 and 2014, as Turkish banks issued low-interest loans.
- This construction frenzy has been at the heart of Turkey's economy, accounting for up to 20% of the country's GDP growth in recent years.
- But this was not accompanied by having enough foreign capital.

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- So, property developers funded this construction frenzy with cheap loans in foreign currencies. (In a parallel to the 2008 financial crash, the boom was funded by low-interest loans and ballooning debt.)
- Turkey is also heavily reliant on imports for construction materials.
- Much of the properties were built with the expectation that it would be bought by wealthy investors from Gulf countries.
- But the demand from the Gulf failed to rise to the level hoped.
- This lack of demand, alongside rising costs for iron and steel, has caused many projects to stall.
- This was further complexed by poor regulation of this industry.
- These factors affected the exchange rate of lira heavily.
- **Foreign Relations -** The present crash was triggered by a spat with the US government over Turkey's ongoing imprisonment of the American pastor Andrew Brunson, who is accused of involvement with a 2016 coup attempt.
- Lira experienced a further blow when Trump Administration said doubled the tariffs on Turkish steel and aluminium.
- **Central Bank -** In many nations, the central bank is independent of government. This means it can keep control of inflation by raising them when necessary.
- But in Turkey, Mr Erdogan has made sure he controls the reins.

Consequences

- To repay loans in dollars and euros, as the weakened lira means there is now more to pay back.
- Many middle-class homebuyers who paid for new apartments upfront are also affected as these apartments are now on permanent hold because the companies can't afford to build them.
- Only upside to this is that the tourism industry has been flourishing due to the fall of lira.
- Indian Rupee - This turmoil has impacted many emerging markets due to deteriorating emerging-market sentiment among investors.
- Rupee faced a huge blow as it was already being affected by lack of FII inflows and growing oil prices.
- Hence the rupee plunged to hit a record low of 70.08 a dollar.
- Central bank intervened to slow the pace of fall but it is unlikely that there could significant intervention as factors impacting the currency are coming from external sources.
- Experts feel that the fall is not so dramatic and so not a time to panic.
- Foreign investors investing in government bonds or fixed income may feel some impact due to this.
- But the fall provides a big opportunity for exports especially at a time when trade wars are happening.

6.9 Weakening Rupee

- Rupee crashed to a lifetime low of 69 against US Dollar.
- **Causes -** The rise in international **crude oil prices** is one of the reasons.
- Importers have had to shell out more dollars to fund their purchases.
- The rise in global trade tensions amidst the ongoing **trade war** is another factor.
- But its impact on the rupee remains unclear as of now.

Rupee Trend

- Rupee was pushed to a life-time intraday low of 69.10 a dollar.
- The rupee is the worst-performing currency in Asia this year.
- It has lost almost 8% in value since January 2018.
- The rupee's previous historic low was in November 2016 (it plunged to 68.86).
- It is, however, not the only currency to be in the weakening trend.
- Emerging market currencies as a group have witnessed a sharp correction in their value against the dollar this year.

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- But by far the most important reason is the tightening of **U.S. monetary policy**.
- Investors attracted by higher yields in the US have been pulling their capital out of India.
- Also, **China** has been **depreciating** its currency (yuan).
- This is to offset the effect of duties imposed by the US.
- The Indian unit also seems to be moving in tandem with the yuan so that exporters don't lose out.

Implications

- **CAD** -India's CAD jumped to 1.9% of GDP in the fourth quarter of 2017-18 from just 0.6% a year earlier.It is now expected to widen to 2.5% in FY 2019.
- This could impact the rupee as the demand for dollars could turn out to be overwhelming.
- But although current account deficit has widened, it remains modest relative to GDP.
- Also, it is largely financed by equity inflows, including foreign direct investment.
- **External risks** - Moody's Investors Service has ruled out any risk with this development.
- India's large and relatively stable domestic financing base restricts its external vulnerability.
- It will contribute to the economy's resilience by protecting from abrupt changes in external financing conditions.
- **DebtAffordability** - Currency depreciation transmitting into materially weaker debt affordability is limited.
- This is because of India's low dependence on foreign-currency borrowing to fund its debt burden.
- India's significant build-up of foreign exchange reserves in recent years to all-time highs provides a support buffer.
- This will contribute to mitigating the external vulnerability risk.

6.10 Changing Nature of Imports

- The global crude prices are on an increasing trend.Resultantly, the value of petroleum and crude imports jumped almost 25% from 2017 to 2018.
- It thereby led to an increase in the CAD from 0.6% of the GDP to 1.9%.
- This is in turn leading to a pressure on the rupee.
- Notably, this happens alongside a slower growth rate of exports.
- But besides, several other items imported by India are also playing a crucial role.

Changing imports trend

- The import basket shows that crude might not be the only one disturbing the equilibrium.
- **Coal** - The value of imports of coal and coke jumped nearly 45% from 2016-17 to 2017-18.
- This rise is in line with the **decline in growth rates of coal production** in India.
- Notably, the growth in raw coal production of Coal India Ltd (CIL) has slid over the last three years.
- It has failed to keep pace with surging demand on account of higher electricity generation.
- Besides, demand for coking coal arises from its use in steel-making.
- But there is a limited supply of high-quality coking coal (low-ash-coal) in the country.
- Hence there is no option but to import coking coal, and coal imports are only likely to be much higher this fiscal.
- **Others** - The value of imports of metaliferous ore and minerals rose nearly 47% in the same period.
- Another major component has been pearls, precious and semi-precious stones, whose imports climbed 44%.
- In all, the imports of coal and coke, metal and mineral, non-ferrous metal, and iron and steel rose nearly 73% of the jump in petroleum and crude imports.

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- Even gold imports, which had declined earlier, increased in the FY18.
- **Electronic imports**, the second biggest component of India's import basket also increased around 23%.
- It is to be noted that this is driven purely by demand and is irrespective of crude price rise.
- Among the top import items, electronic goods are the only import component that has seen a year-on-year growth (in value terms) over the last three years.
- It is thus felt that electronic imports are a major area of concern as far as the CAD is concerned.
- **Exports -** While imports have been rising steadily, export growth has slowed down drastically.
- India's imports rose 21% in FY18 over those in the previous year; however, the exports grew by only 9.98%.
- The average annual export growth was just 0.6% between 2014 and 2018.

6.11 SEBI Panel's suggestion on FPI Norms

SEBI appointed panel has made some suggestions to its circular to enhance KYC norms for foreign portfolio investors (FPI).

SEBI's circular

- **Ban -**It says Resident Indians (RIs), Non Resident Indians (NRIs), Persons of Indian Origin (PIOs) and Overseas Citizens of India (OICs) **cannot be BO** of a FPI investing in India.
- NRIs and OCIs can only obtain an FPI licence on condition that **they limit their roles to investment advisors** and do not invest their money.
- **Conversion -**Any single FPI can only hold a shareholding limited to 10% in an Indian listed company.

> - A beneficial owner (BO) is one, who, directly or indirectly, derives the benefits of ownership.
> - The threshold for a BO in a partnership firm or trust is 15% and 25% in the case of companies.
> - The threshold is only 10% if the fund is incorporated in high-risk nations with a history of money-laundering and terrorism, etc.
> - In case no single entity meets these thresholds, then a senior managing official of the FPI is the designated BO.

- If the limit is breached, the BO must either opt to be treated as a FDI, or divest stake below 10% within five trading sessions.
- The investment limit of different FPIs will be clubbed if they have the same BO and the clubbed limit should also not exceed 10%.
- Category II and III FPIs were asked to disclose the name and address of the BOs, their tax residency jurisdiction along with percentage shareholding capital or profit ownership in the FPIs.
- SEBI has also asked FPIs to determine ownership based on both shareholding and control, in contrast to the prior criteria of whoever owning a majority stake in a fund being considered a BO.
- Though SEBI has not explicitly stated the reason, concerns over money-laundering and round tripping may have prompted this directive.
- In a relief to FPIs, SEBI-appointed panel has made some suggestions to the circular.

HR Khan Panel Recommendation

- NRIs be allowed to hold stakes of up to 25% in FPI funds.
- In combination, NRIs can hold up to 50% of an FPI fund in concert and PIOs and OCIs can be allowed to invest via the FPI route without any restriction.
- It clarified that the concept of BO should be applied only for KYC norms.
- For additional KYC norms, certain sensitive data (such as the US Social Security number) will not be collected, to alleviate concerns about data security.
- This prevents the possibility of the 10% limit being triggered and the Centre has told SEBI that it need not use beneficial owner definition laid down under PMLA.
- In cases where the 10% limit is exceeded, the FPIs in question will be given 180 days to divest holdings (or opt to be treated as foreign direct investors).

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- The same regulations will apply to participatory note investments.

7. GENERAL ECONOMY

7.1 Economic Fugitive Offenders

- Fugitive Offenders are those who've migrated elsewhere to escape prosecution in a particular jurisdiction.
- India has moved the UK for extradition of Vijay Mallya, and Interpol for a 'Red Corner Notice' (RCN) against Nirav Modi (also in UK soil).

Rules for provisional arrest and extradition

- India's treaty partners — which include the UK — have an obligation to consider requests for provisional arrest.
- In the absence of a treaty, India can still make a request, which the other country will decide in accordance with its laws.
- This may be followed by a detailed presentation requesting extradition.
- The concerned law enforcement agency in India prepares the request, which is then forwarded to the concerned authority of the other country.

Offences are covered under extradition treaties

- Most treaties seem to follow at least five principles:
- Extradition applies only to offences stipulated as extraditable
- The offences must be covered under the national laws of both countries
- The requested country must be satisfied of a prima facie case
- The person must be tried only for the offence specified in extradition
- There must be a fair trial.
- From the UK's side, it has been seeking the custody of 17 people through extradition from India – but has successfully extradited only 2 people till now.

India share extradition treaties with the following countries-

- India currently has extradition treaties with 48 countries including - US, UAE, Hong Kong, France, Germany, Netherlands, Spain, Switzerland and UK.
- India has worked extradition arrangements with Croatia, Italy, Sweden, Fiji, Italy, Thailand, Papua New Guinea, Singapore, Sri Lanka, and Tanzania.
- Notably, apart from Samirbhai Vinubhai Patel from the UK, only four fugitives have been extradited to India from various countries since 2014.
- But significantly, during 2002-13, 54 terrorists and other fugitives were extradited to India from multiple countries.

Fugitive Economic Offenders Bill

- Lok Sabha has approved Fugitive Economic Offenders Bill.
- The Bill defines the fugitive economic offender "as an individual who has committed a scheduled offence or offences involving an amount of ₹100 crore or more and has absconded from India or refused to come back to India to avoid facing criminal prosecution in India."
- There is a provision in the Bill that economic offenders who flee from the country will be brought back, prosecuted and their properties will be confiscated.
- The law will apply to all those who have been declared fugitives in big economic crimes by Indian courts.

Significance of the bill

- It seeks to quickly recover the losses to the exchequer or public sector banks in cases of frauds.

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- Among other things, the Bill makes a provision for a Special Court under the Prevention of Money Laundering Act, 2002 to declare a person a Fugitive Economic Offender.
- Fugitive Economic Offenders Bill gave power to agencies to seize properties that are not only in the name of the offender, but 'benami' assets.

7.2 Interpol Red Notice

- Interpol has issued a Red notice against the fugitive who had involved in the PNB Scam in India.
- INTERPOL is the world's largest international police organization, with 192 member countries.
- It aims to facilitate international police cooperation even where diplomatic relations do not exist between particular countries.
- Action is taken within the limits of existing laws in different countries and in the spirit of the Universal Declaration of Human Rights.
- Its constitution prohibits 'any intervention or activities of a political, military, religious or racial character'.

Interpol Red Notice

- **Red Notice -** A Red Notice is a request to locate and provisionally arrest an individual pending extradition.
- It is issued by the General Secretariat at the request of a member country or an international tribunal based on a valid national arrest warrant and it is not an international arrest warrant.
- INTERPOL cannot compel any member country to arrest an individual who is the subject of a Red Notice.
- Each member country decides for itself what legal value to give a Red Notice within their borders.
- A Red Notice in itself does not confirm that the wanted individual will actually be arrested.
- When Interpol publishes a Red Notice, its purpose is simply to inform all member countries that the person is wanted based on an arrest warrant or equivalent judicial decision issued by a country or an international tribunal.
- Thus the success of a Red Notice depends on the diplomatic heft of the requesting country.
- For example, Red Notices against fugitives wanted by India in Pakistan, such Dawood Ibrahim, have not led to their arrest.

7.3 Concerns with Design of EPFO

- Union government has made few tweaks in the design of Employees Provident Fund Organisation (EPFO).
- The recent structural change has made various concerns with the beneficiaries.

Role of EPFO

- EPFO is a **statutory** body of the Indian Government **under Labour and Employment Ministry**.
- It is one of the largest social security organisations in the world in terms of members and volume of financial transactions undertaken.
- The Central Board of Trustees administers a contributory provident fund, pension scheme and an insurance scheme for the workforce engaged in the organized sector in India.

Recent changes

- EPFO members who are without employment for one month will now be allowed to withdraw 75 % of their accumulated balance without closing their accounts.
- The residual 25 % can be withdrawn, if they remain without work for two months.
- This flexibility is likely to be cheered by the more affluent members of the EPFO who are looking to take a career break to pursue higher education or start their own venture.
- The decision may do serious harm to the social security of lower-income employees who make up the majority of the EPFO's member base.

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7.4 Need for WTO

- The World Trade Organisation is now amidst a crisis for ensuring a legitimate dispute settlement mechanism.
- The changes in the global trade regime and the multilateral institutions necessitate a greater role for the developing world.
- The new financial trade order with the coming of Bretton Woods institutions (World Bank and IMF) demanded a trade organisation at the international level.
- It became necessary for the regulation of the international monetary system.
- It was also needed to establish multilateral rules for the settlement of trade disputes.
- Adherence to the rules was expected to serve as an important domestic incentive for governments.
- It would allow them to resist protectionist demands and provide for greater legal certainty.
- The World Trade Organisation (WTO) was created primarily to address these demands.

WTO Appellate Body

- The Appellate Body of the WTO was established in 1995 with its seat in Geneva, Switzerland.
- It is a standing body of seven persons.
- It hears appeals from reports issued by panels in disputes brought by WTO Members.
- The Appellate Body can uphold, modify or reverse the legal findings and conclusions of a panel.
- The Appellate Body Reports, once adopted by the Dispute Settlement Body (DSB), must be accepted by the parties to the dispute.

7.5 Ease of Doing Business

- Annual ranking of States on 'ease of doing business' has been released by Department of Industrial Policy and Promotion and the World Bank .
- The Annual ranking of States on 'ease of doing business', have been drawn up on the basis of performance across 372 parameters.
- These cover a gamut of regulatory practices, such as factory inspections, environmental regulations, labour laws, construction permits, land availability and single-window clearances.
- The highlight of the recent rankings is that it has been prepared after incorporating feedback from industry.
- The recent rankings shows that the economically backward States are keen to catch up with the industrialised western and southern States.
- While Andhra Pradesh and Telangana have grabbed the first two slots, it is notable that Jharkhand, Chhattisgarh, Madhya Pradesh and Rajasthan are in the first 10, their incremental reforms bettering States such as Maharashtra and Tamil Nadu.
- If this impetus translates into a certain equalisation of investment across regions, it may mitigate existing regional inequalities.
- It is notable that, besides the north eastern States, Delhi, Punjab, Goa, Kerala and Jammu and Kashmir have been slotted as reform laggards.

7.6 Strategic Partnership Model

- The Defence Ministry has recently approved key guidelines for implementation of Strategic Partnership model.
- The guidelines were approved by the Defense Acquisition Council (DAC), the ministry's highest decision making body.
- Under this model, select private firms will be roped in to build military platforms like submarines and fighter jets in India in partnership with foreign entities.
- It aims to create a vibrant defense manufacturing ecosystem in the country through joint ventures between Indian corporate and global defense majors.

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- All procurements under the SP Model would be executed by specially constituted Empowered Project Committees (EPC).
- It is to provide focused attention and ensure timely execution.

7.7 Insights from NABARD's Survey Findings

- NABARD has released the All India Rural Financial Inclusion Survey (NAFIS).
- NAFIS is based on a sample of 40,327 rural households in 29 states of which 48 % are agriculture households (agri-HHs), 87 % are small and marginal farmer households.
- The survey combines the strengths of the NSSO's Situation Assessment Survey (SAS) and RBI's All India Debt and Investment Survey.

Significant findings

- **Benchmark Income Levels -** The Dalwai Committee set up in 2016, to advice on the strategy to double farmers' incomes by 2022 but did not have any benchmark income levels for 2015-16.
- In terms of sources of income, NAFIS offers interesting insights, particularly for the Dalwai Committee.
- **Agri and Non- Agri Incomes -** NAFIS estimates that in 2015-16, 35 % of farmers' income came from cultivation, 8 % from livestock, 50 % from wages and salaries and 7 % from non-farm sectors.
- The survey also estimates income of non-agri rural HH at Rs 7,269/month, more than half of which comes from working as wage labourers.
- **Insights based on Climate -** NAFIS data finds that working as labourers is a fall-back option for average farmers in drought years.
- Besides, the increasing pressure as a result of shrinking average holding size is presumably forcing farmers to work as labourers to meet their needs.

7.8 TK Viswanathan Committee on Fair Market Conduct

- The SEBI-appointed TK Viswanathan committee on fair market conduct recently released its report.
- The committee was aimed at addressing the illegal practices and ensuring fair conduct among investors.

Key recommendations

- **Malpractices** - SEBI may consider any trading by players beyond their known 'financial resources' as fraud.
- It is also suggested that SEBI be given the power to grant immunity to whistle-blowers who help uncover illegal activities.
- **Insider trading** - It is a practice wherein investment decisions are made by having access to otherwise non public information.
- Among a number of recommendations on insider trading, is the creation of two separate codes of conduct.
- One would set minimum standards on dealing with insider information by listed companies.
- **Calls** - Currently, SEBI has the power to only ask for call records including numbers and durations.
- The committee has recommended direct power for SEBI to tap telephones and other electronic communication devices.

7.9 Pension Fund Regulatory Development Authority

- PFRDA completes five years of functioning.
- The interim PFRDA was established in 2003.
- This was to oversee the National Pension System (NPS), and regulate India's pensions sector.
- The interim PFRDA transitioned into the PFRDA with the passage of Pension Fund Regulatory Development Authority (PFRDA) Act, 2013.
- PFRDA has come a long way, but there are still some gaps in India's pension regulatory framework.
- **Significance** - The PFRDA Act is the linchpin of India's pension regulatory framework.

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- The Act is being supplemented by regulations issued by the PFRDA.
- They regulate the functioning of key intermediaries under the NPS framework.
- These include the NPS Trust and the Pension Funds and Points of Presence (PoPs).

7.10 Data Localization Rules

- The government and the RBI are firm on the October 15 deadline for compliance on data localisation
- Data localisation is storing of data on a device physically present within the borders of the country where the data was generated.
- The data should include the full end-to-end transaction details, information collected/carried/processed as part of the message/payment instruction.
- The requirements apply as those mentioned in the draft data protection bill and draft national e-commerce policy framework.
- Data localisation would offer supervisory access to data stored with these system providers.
- It also gives access to data stored by their service providers/ intermediaries/third party vendors and other entities in the payment ecosystem.
- National security and data sovereignty are other reasons for data localisation rules.
- Any move to restrict all cross-border data flows could be counterproductive, on becoming a trade barrier.
- The norms could have negative impacts on the ability of companies to do business in India.
- Especially, the U.S. warned that India's policy on the issue will adversely affect American businesses in the country.
- It may undermine India's own economic goals and may not likely improve the security of Indian citizens' data.
- It could also break up the Internet if every country in the world insists on keeping data within its territory.

Limitations to data localisation

- **Global players** like banks, e-commerce majors, fin-tech service providers and credit card companies prefer to store and process data at one or two global centres.
- So moving processes implies higher costs and disruption for them.
- **Local infrastructure** in India suffers from severe deficiencies.
- Indian data-transmission speeds are slow by global standards.
- Server capacity is low and costs are high, and likely to rise as demand is artificially boosted.
- **Legal** - The Srikrishna Committee recommendations on data protection is still in proces.
- Evidently, there have been instances of massive leaks and hacks of sensitive information, including payment records.
- **Surveillance** - Law and order departments and security agencies currently operate in a legal vacuum, making surveillance another grey area.
- They can search and survey all sorts of digital data without any checks or balances.

7.11 WEF Future Jobs Report

- World Economic Forum has released the Future of Jobs Report, 2018.
- According to the report 75 million jobs will be displaced by disruptive technology.
- 133 million new jobs will emerge concurrently means that huge opportunities are up for grabs, but only for those prepared.
- 69% of Indian business leaders adopting intelligent technologies will be a critical differentiator.
- While 84 % expect that AI-driven man-machine interface will add substantial value and improve efficiency.

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- Indian companies lack engineers with new-age digital skills to address contemporary challenges, apart from the employees only few industries understand the emerging technologies.
- While a few Indian IT companies are progressing remarkably towards meeting the amplified needs in a very short time, they lag in a multi-pronged approach through a coalition of competitors.

7.12 Draft "New e-Commerce Policy"

- Inter-ministerial task force constituted to evolve a "new e-commerce policy" has submitted its report to the government.
- The policy will seek to define e-commerce, strengthen FDI laws in the sector, address regulatory and competition issues and customer concerns.
- **Overall -** The policy will seek to define e-commerce, strengthen FDI laws in the sector, address regulatory and competition issues.
- It will also focus on consumer interests, including data protection and privacy.
- **Data privacy -** The task force has recommended the local storage of data generated by users in India from various sources.
- Data sources include e-commerce platforms, social media and search engines.
- The policy is likely to tow a nuanced approach on data localisation in order to balance the free flow of businesses with privacy concerns.
- **Structures -** Development of a suitable framework for sharing the data within the country has also been recommended.
- An online grievance redressal mechanism is also on the cards and division of powers between the Centre and States is being worked out.
- Further, a single central e-com regulator is also likely to be established on the lines of the Telecom Regulator TRAI.
- **Competition -** The draft policy has recommends tightening the scrutiny of mergers & acquisitions in the sector.
- Further, it also seeks to ensure fairness in the market place and prevent predatory pricing by imbibing aspects of competition principles.

7.13 Drone Regulations

- Directorate General of Civil Aviation (DGCA), has recently published final guidelines for operating drones by ordinary citizens.
- It will come into force on December 1,2018, the date when the civilian use of drones becomes legal in India.
- DGCA has identified multiple categories of drones, which can be broadly classified as,
    i. Nano (weighing up to 250 g),
    ii. Micro (more than 250 g but less than 2 kg) and
    iii. Small and above (weighing 2 kg or more).
- Every drone bigger than Nano must obtain a unique identification number from DGCA, similar to the registration number for a car.
- Users of bigger drones will be required to obtain a Unique Air Operator's Permit (UAOP), similar to a driver's licence.
- All categories of drones must be flown in the visual line of sight, and only during daytime.
- The operation of drone will be restricted to 50ft above the ground.
- The drones cannot be operated from a moving vehicle, ship or aircraft.
- The regulator has listed 12 categories of **"no-drone zones"**which includes airports, International borders including the Line of (Actual) control, strategic locations notified by Ministry of Home affairs, secretariat complexes in state capitals.

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7.14 Programme for International Student Assessment

- India recently decided to end its boycott of the PISA.
- PISA was introduced in the year 2000 by the Organisation for Economic Cooperation Development (OECD).
- It tests the learning levels of 15-year-olds in reading, mathematics and science.
- The test is carried out every three years.
- India decided to stay away from PISA on account of its dismal performance in 2009. In 2012 and 2015, when it was placed 72nd among the 74 participating countries.
- India, subsequently, chose to not participate in the 2012 and 2015 cycle.
- The "out of context" questions were stated as a reason for the poor show.
- The HRD Ministry, now, had formally decided to end this boycott.The ministry will negotiate India's terms of participation in 2021 with OECD.
- Unlike 2009, when schools in Tamil Nadu and Himachal Pradesh had participated, the Union government will request OECD to administer the test across all schools in Chandigarh in 2021.
- Chandigarh was selected for three reasons.
    - Compact area.
    - To keep number of languages in which the test has to be administered to a minimum and
    - Chandigarh's record of performing well in learning assessments.

7.15 Udyam Sangam-2018

- President of India has recently launched Udyam Sangam to mark UN SME (Small and Medium sized Enterprises) Day.
- In April 2017, the United Nations General Assembly declared June 27 would be World SME day.
- The inaugural event was celebrated last year, including in Melbourne.
- The day was designed to highlight and celebrate the significant contribution SMEs make to the global economy and to the **UN's global 2030 Agenda for Sustainable Development.**

7.16 Sampark Portal

- The portal was recently unveiled by the President of India.
- It is under the Ministry of MSME.
- The portal will act as a bridge between the talent pool and those enterprises seeking trained man power.

7.17 Solar Charakha Mission

- The mission was recently launched by the President of India.
- The mission is under the Ministry of MSME.
- It is technology revolution scheme in the cotton industry, under which Charkas (Spinning wheel for making Khadi) are operated using solar energy.
- Charkhas spun by hand have a limit on production.
- Thus developing wheels with more spindles that can run on solar power will increase the production.
- It will cover 50 clusters and every cluster will employ 400 to 2000 artisans.
- Government of India will disburse subsidy of Rs. 550 crore to the artisans.
- The aim is to grow khadi sales from Rs. 26,000 crores to 1 lakh crores.

7.18 Safeguard Duty

- The Indian government has recently announced the imposition of safeguards duty of 25% on imported solar cells and modules for 2 years.

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- It would specifically impact the solar panels coming from China and more than 85% of India's solar capacity is built on Chinese panels.
- Safeguard duties are applied when,
    1. There is a surge in imports of a particular product irrespective of a particular country and,
    2. It causes serious injury to the domestic industry.
- Safeguard measures are applied to all imports of the product in question irrespective of the countries in which it originates or from which it is exported.
- This aspect distinguishes Safeguards from antidumping measures which are always country specific.
- Safeguards are applied in the form of either safeguard duty or in the form of safeguard QRs (import licenses).
- These measures are administered in India by an authority called Director General of Trade Remedies (DGTR) under the Ministry of Commerce and Industry.
- Earlier, it was administered by Director General of Safeguards (DGS) under Ministry of Finance. But its function was shifted to DGTR earlier this year.

7.19 Anti-Dumping duty

- Dumping is said to occur when the goods are exported by a country to another country at a price lower than its normal value.
- This is an unfair trade practice which can have a distortive effect on international trade.
- Anti-dumping is a measure to rectify the situation arising out of the dumping of goods and its trade distortive effect.
- Thus, the purpose of anti-dumping duty is to rectify the trade distortive effect of dumping and re-establish fair trade.
- The use of anti-dumping measure as an instrument of fair competition is permitted by the WTO.
- In fact, anti-dumping is an instrument for ensuring fair trade and is not a measure of protection per se for the domestic industry.

7.20 Relaxation in Cabotage Law

- Cabotage in shipping refers to the transport of goods or passengers between two ports within the same country by a foreign shipping operator.
- Union shipping ministry has recently lifted the restrictions on foreign registered vessels on transportation of loaded or empty containers between Indian ports.
- Earlier, it was the prerogative of Indian registered shipping lines that paid taxes and were governed by Indian laws.
- It is expected that this move will lead to cargo growth in India.
- It will also improve the competitiveness of the Indian traders by reducing transshipment cost at a foreign port.
- For instance, Colombo port thrives on Indian cargo containers that passes through it and it is one of the major container transshipment hubs in the region.
- After the relaxation of rules, Colombo has cut the transshipment rates by 9.5%, allowing foreign ships to operate on local routes.

7.21 'One District One Product' Summit

- The President of India has recently inaugurated 'One District One Product' Summit in Lucknow, Uttar Pradesh.
- 'One District One Product' is a scheme developed by U.P state government to popularise products produced by MSME sector.
- Under the scheme, the government has set a goal of providing employment to 25 lakh people in 5 years through the financial assistance of Rs. 25,000 crores.

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- It aims to improve the economic progress of MSME artisans by improving the skills of local people and increasing the reach of products.

7.22 National Logistics Portal

- The portal is being developed by the Ministry of Commerce and Industry.
- It is a digital platform to bring all stakeholders in the logistics sector on board to cut down transaction cost and time for businesses.
- It will act as a single window online market place for trade.
- Stakeholders like traders, manufacturers, logistics service providers, infrastructure providers, financial services, government departments and groups and associations will all be on one platform.
- There are four main components of the portal - logistics e-market place, logistics certification platform, integrated regulatory platform and banking and financial services platform.
- The portal is developed to achieve the government's target of reducing the logistics cost from the present 14% of GDP to less than 10% by 2022.

7.23 TRAI App in UMANG platform

- Telecom Regulatory Authority of India has integrated its Mobile Apps namely DND 2.0 &MyCall with UMANG Platform.
- UMANG (Unified Mobile Application for New-age Governance) is developed by National e-Governance Division (NeGD), Ministry of Electronics and Information Technology (MeitY).
- It provides a single platform for all Indian Citizens to access pan India e-Gov services ranging from Central to Local Government bodies and other citizen centric services.
- It provides a unified approach where citizens can install one application to avail multiple government services.
- The services live on the app include Aadhaar, DigiLocker, Bharat Bill Payment System (BBPS) among others.
- Citizens will be able to access Employees Provident Fund Organisation (EPFO) services, apply for a new PAN, and can register under the Pradhan Mantri Kaushal Vikas Yojana.

7.24 ARIIA

- Atal Ranking of Institutions on Innovation Achievements (ARIIA) is a new annual ranking of higher educational institutions.
- It will be based on innovation and will be launched on October 15, the birth anniversary of former President APJ Abdul Kalam.
- It will work parallel to National Institutional Ranking Framework (NIRF) published annually.
- NIRF focuses on research (New knowledge) and ARIIA focuses on innovation (Puts the new knowledge to use).
- ARIIA takes in to account innovation ecosystems supported through teaching and learning, innovative solutions to improve governance of the institution, revenues generated and ideas of entrepreneurship.

7.25 Niryat Mitra

- It is a mobile app launched by the Ministry of Commerce and Industry.
- It provides wide range of information required to undertake international trade.
- The information includes policy provisions for export and import, applicable GST rate, available export incentives, tariff, preferential tariff.
- ITC (HS) code refers to Indian Trade Clarification (ITC) and are based on Harmonized System (HS) of Coding.
- It was adopted in India for import-export operations.
- This app works internally to map the ITC HS code of other countries with that of India and provides all the required data without the users bothering about the HS code of any country.

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7.26 UPI 2.0

- Unified Payment Interface is a platform created by the National Payments Corporation (NPCI) to facilitate faster and smoother digital payments.
- It allows a customer to pay directly from a bank account to another bank account & different merchants, both online and offline, without the hassle of typing credit card details, IFSC code, or net banking/wallet passwords.
- UPI 2.0 is an upgraded version with several new features added to UPI.
- It allows scheduling payment transfers at a later date with pre-authorisation.
- It allows customers to link their overdraft (OD) account with UPI. In the Earlier version, only current and savings account can be linked.
- It will also let users verify UPI credentials using a QR code.
- Customers can now receive invoices from merchants directly in the inbox to verify the authenticity of credentials.

7.27 North East Venture Fund

- The fund was set up by the North Eastern Development Finance Corporation Ltd. (NEDFi) under the Ministry of Development of North Eastern Region (DoNER).
- The capital commitment to the fund is Rs.100.00 crore.
- The initial contribution of Rs. 75 crore is from DoNER and NEDFi. The balance (Rs.25 crore) has been committed by Small Industries Development Bank of India (SIDBI).
- It is the first dedicated venture capital fund for the North Eastern Region.
- Its primary objective is to promote investments in enterprises on various sectors like food processing, healthcare, tourism etc.
- It will provide resources for entrepreneurs from the region to expand throughout the country.
- Investments from this fund will be monitored by NEDFi.

7.28 Global Skills Park

- Global Skills Park is going to be established in the state of Madhya Pradesh.
- It is funded by Asian Development Bank (ADB).
- ADB and Government of India recently signed a $150 million loan agreement to establish the park.
- GSP is the first multi-skills park in India.
- It aims to enhance the quality of Technical and Vocational Education & Training (TVET) System in the State and create a more skilled workforce.
- The GSP campus will be in Bhopal which consists of

  1. Core Advanced Training Institutes including the Center for Occupational Skills Acquisition,
  2. Center for Advanced Agricultural Training and
  3. Other support services focusing on entrepreneurship, training of trainers, and skill-related research.

7.29 Udyam Abhilasha

- It is a National Level Entrepreneurship Awareness Campaign.
- It is organised by Small Industries Development Bank of India (SIDBI).
- The campaign is organised in 115 Aspirational Districts identified by NITI Aayog in 28 States and reaching to around 15,000 youth.
- It provides entrepreneurship training to the aspiring youths across these districts thus encouraging them to enter the segment of entrepreneurs.
- It focuses on women aspirants in these aspirational districts to encourage women entrepreneurship.

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- The campaign will be delivered through common service centres (CSC) in these districts.
- SIDBI has partnered with a CSC Special Purpose Vehicle (CSC SPV).
- CSC e-Governance Services India Limited is set up by the Ministry of Electronics & IT.

7.30 National Monitoring Framework on Sustainable Development Goals

Union Cabinet has recently approved the constitution of a High Level Steering Committee for monitoring of Sustainable Development Goals (SDGs) with associated targets.

- The committee will periodically review and refine the National Indicator Framework (NIF) for SDG.
- The committee will be chaired by Chief Statistician of India and Secretary, Ministry of Statistics and Programme Implementation (MoSPI).
- United Nations General Assembly in its 70th session adopted SDG for 2015-2030.
- The 17 SDGs with 169 targets came into force with effect from January, 2016.
- SDGs are not legally binding, but it has become de facto international obligations to reorient domestic spending priorities of the countries.

7.31 RE-INVEST

- RE-INVEST is a global platform to explore strategies for development and deployment of renewables.
- It showcases India's clean energy market and the Government's efforts to scale up capacity to meet the national energy demands in sustainable ways.
- Ministry of New and Renewable Energy is organising 2nd global RE-INVEST expo in Greater Noida, UP.
- It will build upon the success of RE-INVEST 2015.
- It provides an international forum to established players as well as new segments of investors and entrepreneurs to engage, ideate and innovate.

7.32 QS World University Ranking

- QS, the global higher education think tank, has recently released its first standalone ranking of India's higher education institutions.
- Indian University ranking by this think tank is the second country-specific rankings, after it released one for China earlier.
- The rankings include Public Universities, Private Universities and deemed universities.
- The ranking looks in to the Indian university system with an international lens.
- According to the recent ranking, IIT Bombay is named India's leading institution.
- Indian Institute of Science, Bangalore secured the second spot followed by IIT Madras in the third place.
- Interestingly, while IISc was India's best institution in the QS World University Rankings released earlier this year, the domestic league has pegged IIT-Bombay at first place.
- This variation is because of the difference in criteria taken in global and domestic level.

7.33 INSPIRE

- The 2nd edition of INSPIRE (International Symposium to Promote Innovation & Research in Energy Efficiency) was recently inaugurated.

INSPIRE Programme

- Innovation in Science Pursuit for Inspired Research (INSPIRE) Programme is sponsored and managed by Ministry of Science & Technology.
- The basic objective of INSPIRE is to attract young talents to the study of science and build the required critical human resource pool for strengthening R & D base.
- The programme does not conduct any competitive exams for identification of talent at any level.
- It relies on the existing educational structure for identification of talent.
- The programme has three components:
  1. Scheme for Early Attraction of Talent-(SEATS)
  2. Scholarship for Higher Education-(SHE)
  3. Assured Opportunity for Research Careers - (AORC)

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- It is being organised by Energy Efficiency Services Limited (EESL) and World Bank.
- Bureau of Energy Efficiency (BEE), The Energy & Resources Institute (TERI), Asian Development Bank (ADB), the United Nations Environment Program (UNEP) are the other collaborators for the symposium.
- It focuses on enhancing grid management, e-Mobility, financial instruments and technologies for energy efficiency in India.
- Awards for InnovateToINSPIRE, a first-of-its-kind energy innovation challenge, was also given in the symposium.

7.34 National Investment Infrastructure Fund

- NIIF is going acquire controlling interest in private infrastructure lender IDFC.
- This acquisition is the first investment from NIIF's Strategic Fund and the first control transaction for NIIF.
- The NIIF is a trust that raises debt to invest in the equity of infrastructure finance companies.
- It acts like a bankers' bank in infrastructure financing. Government owns 49% of NIIF.
- It provides equity support to NBFCs/ Financial Institutions (FIs) engaged in infrastructure financing.
- It also provides equity/ debt to commercially viable projects, both Greenfield and Brownfield, including stalled projects.
- It is being considered as an Alternative Investment Fund (AIF) under SEBI regulation.
- A typical sovereign wealth fund (SWF) will be a state-owned investment company owned by governments and invests their own money in foreign countries.
- Though the NIIF acts like an SWF, it does not invest in assets such as stocks, bonds, real estate, commodities etc like an SMF do and therefore cannot be called so.
- The Abu Dhabi Investment Authority (ADIA) became the first institutional investor in the NIIF with an investment of $1 billion.
- An India-UK Green Growth Equity Fund (GGEF) is also being set-up under the fund of funds under NIIF.
- GGEF shall receive funds worth 120 million each from Government of India (through NIIF) and Government of UK.
- The fund aims to leverage private sector investment from the City of London to invest in Green Infrastructure Projects in India.

7.35 Privatisation of Airports

- Union Cabinet has recently given in principle approval for operating, managing and developing 6 non-metro airports under Public Private Partnership (PPP).
- The airports are Ahmedabad, Jaipur, Lucknow, Guwahati, Thiruvananthapuram and Mangaluru.
- At present, airports at Delhi, Mumbai, Bangalore, Hyderabad and Cochin are managed under the PPP model.
- The Airports Authority of India (AAI) will hold a minor stake in 6 new airports under PPP, just like it does at the Delhi and Mumbai airports.
- The private player will hold at least 75% stake.
- **PPP bidding model** - It will be held in a revenue-sharing model, where bidders are required to pay a specified share of gross revenue to the AAI.
- The same model followed was during the privatisation of Delhi and Mumbai airports.
- PPP mode has helped create world-class airports while also helping the AAI increase its revenues.

7.36 India's Oil Sourcing Networks

- US administration has granted India and 7 other countries waivers on purchase of oil from Iran.
- Saudi Arabia is India's top exporter for crude oil followed by Iraq, Nigeria, Venezuala.
- Iran is placed 5th for the last six years though imports from Iran have increased in recent years.

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- Vadinar in Gujarat has handled the most crude oil imports. It is followed by Sikka , Jamnagar in Gujarat and Paradip in Odisha.

7.37 Largest Sugar Producer

- Brazil traditionally the world's top sugar producer, this year the output from the nation will tumble 21 percent to 30.6 million tons due to adverse weather and a shift to produce more cane-based ethanol.
- By this India will hold the title of world's largest sugar producer for the first time in 16 years.
- However, Brazil is expected to remain the top exporter, followed by Thailand.

7.38 Nobel Prize in Economic

- Nobel Memorial Prize in Economic Sciences rewards the design of methods that addresses sustainable growth in the global economy and welfare.
- It is not formally a Nobel Prize.
- It was created by the Swedish central bank "in memory of Alfred Nobel" and first awarded in 1969.
- This year, it is awarded to William D. Nordhaus and Paul M.Romer from USA.
- Nordhaus is known for persuading governments to address climate change, preferably by imposing a tax on carbon emissions.
- Paul M. Romer is known for integrating technological innovations into long-run macro-economic analysis.

8. INFRASTRUCTURE

8.1 Universal Electrification Access

India has achieved its long pending goal of 100% electrification of its villages.

- However, the definition of electrification was limited to the provision of basic infrastructure such as transformers, of electricity in public places like schools and panchayats, and electrification of at least 10% households in the village.

Challenges

- **Regional imbalances** in electricity access is persisting in seven States namely Uttar Pradesh, Bihar, Odisha, Jharkhand, Assam, Rajasthan and Madhya Pradesh, which account for 90% of un-electrified households.
- Coincidentally, these States are ranked poorly in social development indices and house about two-thirds of the population living below the poverty line.
- There are a range of implementation shortcomings in universal electrification by state governments due to sluggish finance structure of the union government.
- Most of the Indian power **distribution companies (discoms)** in these states are **bankrupt** and are unable to purchase power and provide it to consumers.
- As a result, discoms don't have the capacity to sign power purchase agreements (PPAs).
- The issue of **aggregate technical and commercial (AT&C) losses**, heightened by the rampant problem of power theft.

8.2 Renewable Energy Target

Union Power Ministry announced it would overshoot the target of installing renewable energy sources by 2022.

- In 2015 Union government has announced 175 GW of renewable energy installations recently the target has been increased to 225 GW.
- India meeting the 175 GW target is one of the greenhouse-gas emission goal under the Paris climate agreement.
- Of the current goal of 100 GW from solar energy by 2022, 40 GW is to come from rooftop installations, and 60 GW from large solar parks.

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Concerns

- **Lower Margins -** Wind and solar tariffs have hit such low levels that suppliers are working with thin margins.
- **Policy Lacunas -**Policy uncertainties in the solar sector alone, which the government is prioritising, is a major concern
- **Practical challenges -** Technological and financial challenges remain, both wind and solar generation could be erratic.

8.3 Housing for All Project

- It was launched with an aim to provide affordable housing to urban poor by **2022**.
- It is proposed to build around 2 crore houses for urban poor including Economically Weaker Sections and Low Income Groups, with central assistance in the range of Rs.1 lakh to Rs.2.30 lakh.
- This Mission has four components namely:
    1. In-situ Slum Redevelopment with private sector participation using land as resource.
    2. Affordable Housing through Credit Linked Subsidy.
    3. Affordable Housing in Partnership with private and public sector.
    4. Beneficiary led house construction/enhancement.
- Union government has decided to **increase the carpet area** under the project to cater the aspirations of the present generation for 3 bedroom apartments.
- People earning up to Rs.18 lakh per annum can now avail up to Rs.2.3 lakh as subsidy upfront which is a substantial benefit, especially for those in Tier 2 and Tier 3 towns.
- The RBI recently revised the limit for a housing loan to be classified as priority sector from Rs.20 lakhs to Rs.25 lakhs in cities other than metros.
- The objective behind these initiatives are two-fold - increase the housing coverage and in the process give a push to employment in the construction sector and create demand for cement and steel.

8.4 Green Express Way Corridor

- The proposed Greenfield highway between Chennai and Salem has run into opposition from various farmer organisations.
- **Proposal -** The proposed eight lane road is estimated to cost is Rs 9,106 crore.
- It also includes a tentative Rs 415 crore for rehabilitation of the displaced people.
- It will run 277 Km through Kancheepuram, Tiruvannamalai, Krishnagiri and Dharmapuri districts.

8.5 Strategic Petroleum Reserves

- Union government approved the construction of two more strategic petroleum reserves in the country.
- Strategic petroleum reserves are essentially huge stockpiles of crude oil to enhance a country's energy security.
- This is because the government has to stay prepared with emergency stores of crude oil to tide over severe supply shocks of this critical fuel.
- India is the world's third largest energy consumer after the US and China.
- The trouble is India produce very little oil of its own and are dependent on imports for more than 80% of its needs.

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- Indian Strategic Petroleum Reserves Ltd, has constructed three strategic petroleum reserves in huge underground rock caverns at Visakhapatnam on the East Coast, and at Mangaluru and Padur on the West Coast.
- These facilities, with total capacity of 5.33 million tonnes, can meet about 10 days of India's crude oil requirements.
- The new facilities approved recently can provide additional supply for about 12 days.

8.6 Status of "Real Estate Regulatory Act"

- Real Estate (Regulation and Development) Act, 2016 seeks to regulate construction sector.
- The act sought to make each state governments establish a "Real Estate Regulatory Authority" (RERA) and "Real Estate Appellate Tribunal" (REAT).
- Subordinate rules under the act were supposed to be subsequently notified by states/UTs for their respective jurisdictions.
- Parliamentary Committee on Subordinate Legislation looked into the Real Estate Act and has expressed concern over issues such as delay in notifying rules by various states, establishment of RERA/ REAT as customers are being affected.
- Dilution of rules to favour builders, absence of registration of ongoing projects and ineffective implementation are other issues that have been flagged.
- The committee also asked the "Ministry of Housing and Urban Poverty Alleviation" to ensure that the act takes effect across states in letter and spirit.
- It further recommends that the provisions of the RERA Act should be uniformly applicable across the country.
- Also, till the time RERA/REAT is constituted, it has been recommended to constitute a temporary authority for the intended purposes.

8.7 Offshore Wind Power

- Ministry of New and Renewable Energy (MNRE) has recently declared revised targets for offshore wind power capacity addition.
- The National Off-Shore Wind Policy was notified in 2015.
- The recently firmed up offshore wind power target is 5 GW by 2022 and 30 GW by 2030.
- This was for the first 1 GW offshore wind power plant off the Gujarat coast.
- The National Institute of Wind Energy (NIWE) is designated the official agency to develop offshore wind power.

Benefits

1. **Power output** from these plants is **steady**, almost free from interruption.
2. **Per unit power production** is relatively **high** and **the maintenance cost** is **low**.
3. India also has a strong wind power equipment manufacturing base.
4. Importantly, offshore windmills **do not need land**.

Prospects of Off Shore Plants

- **Potential** - Preliminary studies have shown good wind potential in both southern tip of the Indian peninsula and the west coast.
- There is substantial scope off the coasts of **Tamil Nadu, Gujarat and Maharashtra**.
- **Global** - Globally, 17-18 GW of offshore wind power has been installed.
- UK, Germany, Denmark, Netherlands and China are the leading countries.
- There has also been a fall in offshore wind tariff in the recent years in some of these markets.
- **Investment** - Government has assured a level-playing field to all investors, domestic and international.

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- There is thus a favourable power tariffs and policy environment for private investment.
- **Cost** - There is constant inflow of new cost-cutting and output-enhancing technologies.

8.8 MSME Bill 2018

- The Centre has tabled the MSME Development (Amendment) Bill 2018 in Parliament.
- The Bill amends the Micro, Small and Medium Enterprises Development Act, 2006.
- Under the current Act, manufacturing units are defined depending on their investments in plant and machinery as:
    i. micro enterprises (below Rs.25 lakh)
    ii. small enterprises (Rs.25 lakh to Rs.5 crore)
    iii. medium enterprises (Rs.5 crore to Rs.10 crore)
- The thresholds were lower for services units.
- Under the Bill, all **MSMEs will be classified on the basis of their annual turnover**.
- This is irrespective of whether they are manufacturing or service-providing enterprises.
- Now, the units will be
    i. 'micro' enterprises if their annual sales turnover is less than Rs.5 crore
    ii. 'small' if they fall in the Rs.5-75 crore range
    iii. 'medium' if they are in the Rs.75-250 crore band
- The central government may change these annual turnover limits through a notification.
- The maximum turnover may be up to three times the limits specified in the Bill.

Benefits of the Amendment

1. **Starters** - Under the current definition, the newer units often face disadvantages.
    i. As, their higher investments, as part of the industrial modernisation efforts, keeps them out of MSME definition.
    ii. Hence, the turnover criterion is a more pragmatic way to incentivise industry.
    iii. It facilitates fairer comparisons between older and newer ventures and helps starters in utilising MSME sops.
2. **Sectors** - Turnover-based sops may be friendlier to technology-intensive sectors.
    i. These include engineering, auto components or pharmaceuticals.
    ii. Substantial capital investments are needed to ensure even minimal scale in these.
    iii. Here again, turnover, instead of investment criterion, would be more beneficious.
3. **Procedure** - The annual turnover criteria can be directly verified from the GST Network.
4. **Efficiency** - Turnover criteria will allow a unit to graduate from its MSME status on reaching a fair size.
    i. It will discourage the proliferation of inefficient units created mainly with an eye to utilise sops.
    ii. The Centre should consider a sunset clause on MSME benefits to encourage small units to climb up the value chain.

8.9 National Mission for Cleaning Ganga

- It is a registered trust that runs the 'Namami Gange' mission, India's most ambitious endeavour to clean the Ganga River.
- The NMCG has a Rs. 20,000-crore, centrally-funded, non-lapsable corpus and consists of nearly 288 projects.
- The NMCG's thrust is on roping in the private sector to set up sewage treatment plants and also maintain them.

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- In return, the government offers to contribute 40% of the capital costs upfront.
- The mission also has projects to clean the Ghats, rid the river of biological contaminants and improve rural sanitation and afforestation.

Implementation challenges

- Most of the Ganga is polluted and it is due to five States on the river's main stem Uttarakhand, Uttar Pradesh, Jharkhand, Bihar and West Bengal.
- Approximately 12,000 million litres a day (MLD) of sewage is generated in the Ganga basin, for which there is currently a treatment capacity of just 4,000 MLD.
- Industrial pollution from tanneries in Kanpur, distilleries, paper and sugar mills in the Kosi, Ramganga and Kali river catchments is a major contributor.
- A financial audit also suggested that meagre amount is spent out of the fund allocated for the projects.

8.10 Kaleshwaram Irrigation Project

- Kaleshwaram is a town on **Godavari right bank** about 300 km downstream of major dam, Sriram Sagar project (SRSP).

- At Kaleshwaram, the major tributary of Godavari -Pranahita, which merges with Godavari brings large quantity of water, the place is also known as Sangam and Dakshin Ganga.
- The project proposes to lift about 180 TMC (about 5 billion cubic meters) of water.
- It includes construction of barrages, high speed pumps for transport of water upstream for providing for irrigation.
- Besides, it involves constructions of network storage dams, series of tunnels, canals water passing through several stages of pumping and reverse flow into Godavari River.

Concerns regarding the Project

- **Feasibility concerns**
  1. The 180 TMC water is not enough for 26 lakh acres for any meaningful irrigation.
  2. The complete omission of social and ecological costs.
- **Financial concerns -** The Telangana government is going to spend 4 times more on the operation and maintenance costs than all the benefits that would accrue to farmers.
- **Ecological and livelihood concerns -** The project will displace at least 30,000 people in 19 villages.
- Further, the project is going to affect the total land of around 100,000 acres (40,015 hectares).

8.11 Dams and Flood Control

- The recent Kerala floods have highlighted the dangers of excess water accumulation in dams.
- It is essential, in this context, to understand the role of dams in flood control.
- The 4,700 large dams built since 1947 have cumulatively displaced 4.4 million people.
- This makes dams the single largest cause for displacement post-Partition.
- These dams are built over decades and only a fraction of their output is for the household sector.
- Over 85% of them are used in agriculture for producing cash crops such as sugarcane.
- Moreover, many dams in India are over a century old, and so have major defects.
- There is also a case for reservoir-induced seismicity (RIS) from the weight of the reservoir.
- This has resulted in earthquakes in various parts of the country.

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Dam Management

- The water level of a reservoir should be kept below a certain level before the onset of the monsoon season.
- This is an internationally accepted practice.
- This ensures that there is enough space to store the excess rainwater when the monsoon rains come.
- This also facilitates releasing water in a regulated manner.
- It thus prevents floods downstream when there is heavy inflow to the dams.

Concerns

- The roles of dams in irrigation and power generation are acknowledged.
- However, its role in flood control has always been underestimated.
- The maximum amount of water in reservoirs is stored during the monsoon season.
- It is then used for irrigation and generation of electricity during the summer months.
- Despite the extra quantity of electricity produced and area of land irrigated, excess storage is risky.
- It leads to loss of human lives, infrastructure and agricultural land, in times of heavy rains as in Kerala.

8.12 Promoting Waterways

- The Shipping Ministry has allowed foreign flagged vessels to transport fertiliser between Indian ports by easing the cabotage law.

Cabotage Law

- It specifies that only Indian flagged vessels are allowed to carry cargo between Indian ports.
- Foreign vessels can ply in Indian waters only after obtaining a licence and only if an Indian vessel is unavailable.
- The norms to ply without license for foreign vessels has been relaxed earlier this year to transport agriculture, horticulture, fisheries and animal husbandry cargo.
- Fertiliser is the seventh item that has been freed from restriction imposed by the cabotage law.

8.13 Reviving Inland waterways

- India revives its inland waterways for freight movement with a shipment of 16 containers owned by PepsiCo reaching the new multi-modal terminal at Varanasi.

Potential of Inland Waterways

- India has 14,500 km of navigable waterways in rivers, canals, backwaters, creeks, etc.
- About 55 million tonnes of cargo moves on waterways, but the activity is largely restricted to –
    1. The Ganga-Bhagirathi-Hooghly system
    2. The Brahmaputra
    3. The Barak river
    4. The rivers in Goa
    5. The backwaters of Kerala
    6. Inland waterways in Mumbai
    7. The delta regions of the Godavari and Krishna.
- Overall, waterways account for just about 3% of all freight movement in India, and the mode remains grossly underutilised.
- However, the same amount of energy can move several times more cargo (by weight) by water than it can move via rail or by road.

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8.14 Rising Water Demand of Energy Sector

The water demand for the energy sector is projected to rise and makes it necessary to report its water consumption in the coming years.

Water crisis

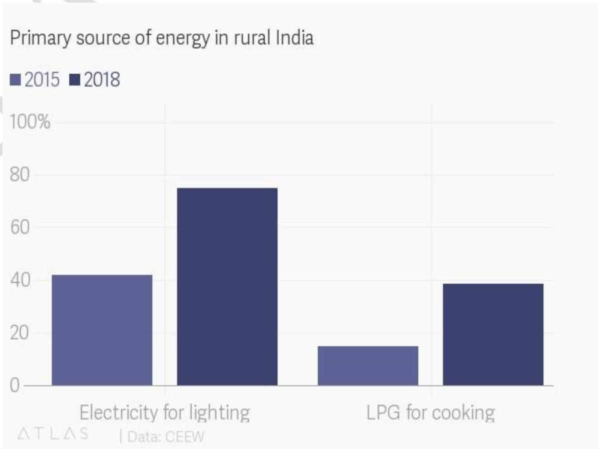
- The Composite Water Management Index (CWMI) by the NITI Aayog shows that **600 million people face high to extreme water stress in India.**
- The water quality index report places India at a dismal 120 among 122 countries.
- It predicts that a persistent water crisis will lead to an eventual 6% loss in the country's GDP by 2030.
- A significant key to this stress is the vast gulf that has been predicted between the demand [1498 billion cubic metres (BCM)] and supply [744 BCM] of fresh water, by 2030.

Power Sector

- In its 2015 projections, the Central Water Commission (CWC) reported that the sector-wise requirement of water (drinking and domestic use, industry and energy) will rise steeply between 2030 and 2050.
- Thermal electricity accounts for more than 86% of India's total power generation.
- Analysis shows that 77% of these thermal power plants that are dependent on freshwater sources.
- Around 40% of them are installed in areas with high or extremely high water-stress.

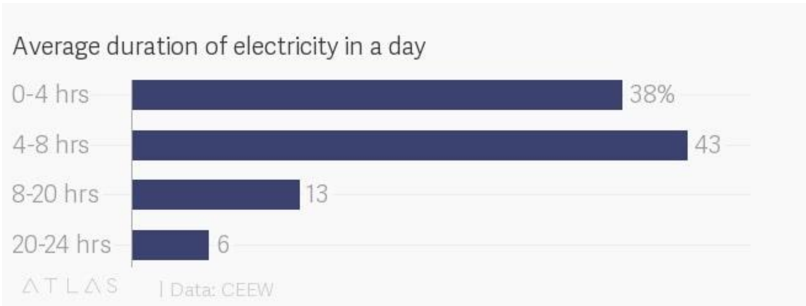
8.15 CEEW Report on Energy Access

Council on Energy, Environment and Water (CEEW) recently released a report on Indian villages' access to energy.



Significant Findings

- The survey was conducted in six of the country's major energy-deprived states - Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, Odisha, and West Bengal.
- It has found a strong improvement in Indian villages' access to energy.
- **Towards Universal Electricity** - Electricity through the national grid is now the main lighting source for 75% of India's rural households.
- **Cooking Fuel** - In the past 3 years, the number of rural households using LPG as primary cooking fuel has also more than doubled to 39%.
- They have shifted from firewood to LPG as cooking fuel and from kerosene oil to electricity for lighting.



Concerns

- **Affordability** - Traditional biomass such as firewood is available almost for free, and hence is the primary cooking fuel for 61% of the rural households.
- However, Indoor pollution from such stoves leads to 4 million premature deaths every year in India.
- These people suffer from respiratory illness, cardiovascular disease, and cancer, as well as serious injuries from scalding, burns, and poisoning.
- **Upfront Cost** – Even after Ujjwala scheme, 42% of the rural households have not acquired an LPG connection.

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- They cite the high costs involved, both in setting up the connection and the recurrent expenses incurred in refills.
- **Gender factor** – Apart from a volatile rural income, most rural women do not have a say in determining when a refill is ordered, even though the connection is in their name.
- **Quality and reliability** - Most electrified households cite frequent power cuts, voltage fluctuations, and blackouts as prominent concerns.

8.16 BharatNet Project

Provisions of the project

- The objective of the National Optical Fibre Network (rechristened BharatNet) project was to connect over 2.5 lakh gram panchayats through high-speed broadband.
- The physical execution of the project is scheduled to be completed by March 2019.
- The onus of preventive and corrective maintenance of the optical fibre portion connecting gram panchayats is with BSNL (Bharat Sanchar Nigam Ltd).
- Bharat Broadband Nigam Ltd (BBNL) was the special purpose vehicle created to execute the project.

Significance

- Indian users are among the top consumers globally when it comes to adopting digitisation and online platforms.
- At the centre of this transition to a digital world is the availability of a reliable and affordable data network.
- Private telecom companies, including Reliance Jio, have announced plans to connect over 1,100 cities with optical fibre, which will cater to the urban consumers.
- But BharatNet is critical to ensure that rural India also benefit from the digital dividend.
- Besides this, BharatNet project is expected to -
    i. attract billions of dollars in investments
    ii. help train a million youth for new-age jobs
    iii. facilitate delivery of e-governance, e-health, e-education, e-banking and other such services

Asynchronisation

- The lack of ownership by BSNL and inability of BBNL in ensuring timely project implementation has cost the nation a great deal.
- Though a clear utilisation target has already been set, the actual utilisation on the ground is well less than 10% of the target.
- Poor planning, lack of monitoring and co-ordination between the two organisations lead to ineffective implementation.

8.17 India's CSR Landscape

- Companies Act stipulates that companies with a "net worth of Rs 5 billion, or turnover of Rs 10 billion or net profit of Rs 50 million per annum" must spend **2% of net profits on CSR**.

Gaps in CSR

- Notably, "net profit" is a derived accounting number that companies can tinker with, and "turnover" could've been a better metric for CSR calculations.
- Data shows that "Indian companies" aren't spending as much on "Corporate Social Responsibility" (CSR) as mandated by law.
- Presently, the government is already looking into the records of top 1,000 companies, and prosecutions have been launched against 254 companies.

Financial Ambiguities

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- **Taxation -**The amount a company spends on CSR cannot be claimed as business expenditure and be offset from taxable income.
- Tax experts say this creates room for ambiguity as business expenditure is vaguely defined, thereby resulting in several court cases.
- **Tokenism -** There are many schemes like "PM's Relief Fund, Rural Development and Skill Development projects" that enjoy tax exemptions.
- Hence, the bulk of CSR spending is merely **cheque-writing activity, which defeats the spirit of the act**, which is to get corporate entities to go social.
- **Carry over -** Presently, unspent CSR money is allowed to be transferred to the next financial year, which is causing stagnation in this domain.
- **Dedication -** CSR spending of many companies focus on aligning their philanthropic programmes to their image-building exercises alone.

8.18 Resolving Power Sector NPAs

The Allahabad High Court hears petition by power companies against RBI's February 12 circular.

- Reserve Bank of India's Feburary 12 circular requires banks to finalise a resolution plan in case of a default on large accounts of Rs 2,000 crore and above within 180 days.
- Failing this would result in insolvency proceedings being invoked against the defaulter.
- This would be as per the Insolvency and Bankruptcy Code (IBC) provisions.

Alternatives

- The government as well as other related agencies have suggested various ways to deal with power sector NPAs.
- The government has come up with the Sashakt scheme which is likely to bring relief to banks.
- Banks can get rid of the NPAs from their books quickly while hoping for better recovery rates in the future.
- State Bank of India and Power Finance Corporation, with the highest exposure to the power sector, have suggested the *Samadhan scheme*.
- The Rural Electrification Corporation has suggested the *Pariwartan scheme*.

8.19 Samadhan Scheme

- It is the Scheme of Asset Management and Debt Change Structure.
- Under this, the bankers' consortium shortlisted 11 power plants with an overall capacity of over 12 GW, which are either complete or are nearing completion.
- The idea is to carry out an assessment of what would be sustainable debt of these assets.
- The remaining debt which is unsustainable would be converted into equity to be held by the banks.

8.20 Pariwartan Scheme

- 'Power Asset Revival through Warehousing and Rehabilitation' is a Central Government's scheme to protect the value of stressed power projects and prevent their distress sale under the IBC.
- The State-run Rural Electrification Corporation has identified projects with a total debt of around Rs 1.8 trillion.
- These stressed projects will be housed under an asset management and rehabilitation company (AMRC) that will be owned by financial institutions.
- The promoter's equity will be reduced to facilitate a transfer of management control and the lenders will convert their debt into equity.
- The AMRC will charge a fee and help complete the projects that are stranded for lack of funds.

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