IAS PARLIAMENT

Information is a Blessing

A Shankar IAS Academy Initiative

TARGET 2020

ECONOMY & AGRICULTURE III

UPTO AUGUST 2020

SHANKAR IAS ACADEMY

Door No. 18, Old Plot No 109, New Plot No 259,
AL Block, 4th Avenue, Shanthi Colony,
Anna Nagar, Chennai 600040

www.shankariasacademy.com || www.iasparliament.com

INDEX

SHANKAR IAS ACADEMY

TARGET 2020

ECONOMY & AGRICULTURE III

(UPTO AUGUST 2020)

ECONOMY

1. BANKING

1.1 Fully Accessible Route

- RBI has introduced a separate channel named Fully Accessible Route (FAR), to enable non - resident to invest in specified government bonds with effect from April 1
- The move follows the Union Budget announcement that certain specifies categories of government bonds would be opened fully for nonresident investors without any restrictions
- Eligible investors can invest in specific categories of government securities without being subject to any investment ceilings this scheme shall operate along with the two existing routes
- Medium Term Framework (MTF) - The scheme was aimed at drawing in foreign investors who are willing to commit to keeping money in India for a minimum period of time.
- In return, they will get more operational freedom than regular foreign debt investors.
- This will substantially ease access of nonresidents to Indian government securities market and facilitate inclusion in global bond indices this would facilitate inflow of stable foreign investment in government bonds
- Voluntary retention route (VRR) allows investors easier rules in return for a commitment to remain invested for a longer period.
- This was first suggested in October 2018 against the backdrop of a weakening Indian rupee.
- The route has seen considerable success, particularly in the corporate debt segment.
- Data of Clearing Corporation of India Ltd. showed that Rs 41,583 crore have come in via this route.
- Of this, Rs 2,890 crore has come into government bonds.

1.2 Banking under Public Utility Service

- Union government has declared banking industry as a public utility service for six months till October 21 under the provisions of the Industrial Disputes Act.
- Bringing banking services under the provisions of this Act means that the banking sector would not see any strikes by employees or officers during the operation of the law starting from April 21.
- The notification was issued by the labour ministry on April 17 against the backdrop of the coronavirus pandemic which has significantly impacted economic activities.

1.3 Targeted Long Term Repo Operation (TLTRO)

- LTRO is a tool that lets banks borrow one to three-year funds from the central bank at the repo rate, by providing government securities with similar or higher tenure as collateral.
- This helps banks get funds for a longer duration as compared to the short-term (up to 28 days) liquidity provided by the RBI through other tools such as Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF).

SHANKAR IAS ACADEMY

- It is called 'Targeted' LTRO as in this case, the central bank wants banks opting for funds under this option to be specifically invested in investment-grade corporate debt
- LTROs provide banks with access to cheaper capital from the RBI.
- This, in turn, encourages them to lend more and spur economic activity.
- They can also invest these long-term funds in assets that yield better returns to improve profitability.
- Also, as banks provide government securities as collateral, the demand for such government bonds increases and helps in lowering yield.
- RBI stipulated that small and mid-sized NBFCs and micro-finance institutions (MFIs) should receive at least 50% of these funds.
- Banks can avail ₹ 50,000 crore through the targeted long-term repo operation.
- Under which, banks have to invest the funds availed under targeted long-term repo operation (TLTRO), in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs.
- These investments have to be made within one month of availing liquidity from the RBI.
- Investments made by banks under this facility would be classified as 'held-to-maturity' (HTM), even in excess of 25% of the total investment permitted to be included in the HTM portfolio.
- The regulator has also allowed non-banking institutions to extend the date for commencement for commercial operations (DCCO) by an additional one year, without treating the same as restructuring, if the project is delayed due to reasons beyond the control of the promoter.

1.4 Deferred Counter Cyclical Capital Buffer (CCyB)

- CCyB is the capital to be kept by a bank to meet business cycle related risks.
- It is aimed to protect the banking sector against losses from changes in economic conditions like recession.
- This is an important theme of the Basel III norms.
- Recently, RBI has deferred the implementation of Counter Cyclical Capital Buffer (CCyB) for banks.
- It has decided that it is not necessary to activate CCyB for a period of one year or earlier, as may be necessary.

1.5 SAFE PLUS Loans

- The SIDBI Assistance to Facilitate Emergency response against Corona virus - SAFE PLUS will be offered collateral free and disbursed within 48 hours.
- In a press release, SIDBI informed that the loans will be offered at an interest rate of five per cent.
- Meanwhile, the bank further informed that the limit of SAFE loans, announced a few days back has been enhanced from 50 lakh rupees to two crore rupees.
- The scheme was launched to provide financial assistance to MSMEs engaged in manufacturing of hand sanitizers, masks, gloves, head gear, bodysuits, shoe-covers, ventilators and goggles used in dealing with COVID-19.

1.6 Helicopter Money

- Helicopter money is an unconventional monetary policy tool, which involves printing large sums of money and distributing it to the public, to stimulate the economy during a recession (decline in general economic activity) or when interest rates fall to zero.
- Recently, the Telangana Chief Minister suggested that the helicopter money can help states to come out of the economic chaos created by Covid-19 pandemic.
- The term was coined by American economist Milton Friedman, It basically denotes a helicopter dropping money from the sky.
- Under such a policy, a central bank directly increases the money supply and, via the government, distribute the new cash to the population with the aim of boosting demand and inflation.

SHANKAR IAS ACADEMY

- In case of helicopter money, currency is distributed to the public and there is no repayment liability.
- It does not rely on increased borrowing to fuel the economy, which means that it doesn't create more debt.
- It boosts spending and economic growth more effectively than quantitative easing because it increases aggregate demand the demand for goods and services immediately.
- It does not involve repayment liability, therefore many people argue that it's not a feasible solution to revive the economy.
- It may lead to over-inflation.
- It may devalue the currency in the foreign exchange market.
- Difference between Helicopter money and Quantitative Easing

Quantitative Easing

- Helicopter money should not be confused with quantitative easing, because both aim to boost consumer spending and increase inflation.
- In case of quantitative easing, it involves the use of printed money by central banks to buy government bonds.
- Here the government has to pay back for the assets that the central bank buys.

1.7 Extension of Moratorium

- The Reserve Bank of India has extended the moratorium on loan repayments by three more months in view of Covid-19.
- The lending institutions have been permitted to extend the moratorium (suspension) on term loan instalments by another three months, i.e., from 1st June, 2020 to 31st August, 2020.
- This is expected to help borrowers, especially companies, which have halted production and are facing cash flow problems, to get more time to restart their units.
- Earlier, the RBI announced the moratorium for a three-month period — 1st March to 25th May.
- All conditions related to the extension remain unchanged, that is, the loan will not be classified by the lender as a 'non-performing asset' and there will not be any impact on the creditworthiness of any individual/firm.
- The RBI has allowed borrowers and banks to convert the interest charges during the moratorium period (from 1st March to 31st August) into a term loan which can be repaid by March 2021.
- This is expected to reduce the burden on borrowers who have gone for moratorium.
- The latest moves are expected to ease the financial burden on businesses due to the extended lockdown.

1.8 Risk Free Status

- The Reserve Bank of India (RBI) is likely to allow banks to assign zero risk weight for loans that will be extended to the micro, medium and small enterprises (MSMEs) under the Atmanirbar Bharat package.
- Zero risk would mean that banks will not have to set aside additional capital for these loans.
- The move is aimed at encouraging lenders to extend credit, as banks have turned risk averse and have been reluctant to lend.
- The Finance Ministry had requested the central bank to make these loans risk free, following an interaction with banks.
- As a part of the package, a ₹ 3 lakh crore loan for the MSME sector was announced.
- This will be guaranteed by the National Credit Guarantee Trustee Company Limited (NCGTC) in the form of a Guaranteed Emergency Credit Line (GECL) facility.
- However, such loans would attract a risk weight of a minimum 20% since these don't come with direct government guarantee.
- This facility is similar to the loans that are guaranteed by the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

SHANKAR IAS ACADEMY

- After banks highlighted the issue with the government, the Finance Ministry asked the RBI to waive the requirement of assigning a risk weight to the loans.
- The RBI is likely to waive the requirement of risk weight, the Finance Ministry is expected to issue detailed guidelines on this credit guarantee loan issues.

1.9 Guaranteed Emergency Credit Line (GECL) facility

- The Union Cabinet has given its approval for the Emergency Credit Line Guarantee Scheme (ECLGS) for MSMEs and MUDRA borrowers.
- Under the Scheme, 100% guarantee coverage to be provided by National Credit Guarantee Trustee Company Limited (NCGTC) for additional funding of up to Rs. 3 lakh crore to eligible MSMEs and interested MUDRA borrowers.
- The credit will be provided in the form of a Guaranteed Emergency Credit Line (GECL) facility.
- The scheme will be applicable till October 31, or till an amount of ₹ 3 lakh crore is sanctioned, whichever is earlier.
- Tenor of the loan under Scheme shall be four years with a moratorium period of one year on the principal amount.
- No Guarantee Fee shall be charged by NCGTC from the Member Lending Institutions (MLIs) under the Scheme.
- Interest rates under the Scheme shall be capped at 9.25% for banks and FIs, and at 14% for NBFCs.

1.10 Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

- Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGS) was launched by the Government of India (GoI) to make available collateral-free credit to the micro and small enterprise sector.
- Both the existing and the new enterprises are eligible to be covered under the scheme.
- The Ministry of Micro, Small and Medium Enterprises, GoI and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises.
- The scheme was formally launched in 2000.
- The corpus of CGTMSE is being contributed by the GoI and SIDBI in the ratio of 4:1 respectively.

1.11 RBI Recommendations on ATMs

- An RTI petition reveals that the RBI committee on ATM transactions made a few eyebrow-raising recommendations last year.
- The panel headed by ***VG Kannan***, then CEO of Indian Banks' Association, had submitted the report last October, but the central bank hasn't released the report yet.
- The report recommended a population-based approach for fixing ATM interchange fee and customer charges, the report covered them all.
- The panel suggested charging ATM withdrawals above Rs 5,000 in order to discourage high cash withdrawals.

1.12 Committee to oversee Ownership of Private Banks

- RBI has constituted an internal working group to review the existing guidelines on ownership and corporate structure of private sector banks.
- The group will be headed by RBI's Executive Director P.K. Mohanty.
- The bank licensing rules mandated that a private bank's promoter will need to pare holding to 40% within three years, 20% in 10 years and to 15% in 15 years.
- The rules on promoter holding have changed over the years.

SHANKAR IAS ACADEMY

- It is, therefore, felt necessary to comprehensively review the extant guidelines on ownership, governance and corporate structure in private sector banks, taking into account key developments which have a bearing on the issue.
- The group will examine the existing licensing guidelines and regulations on ownership and control of private sector banks.
- It will also suggest appropriate norms, keeping in mind the issue of excessive concentration of ownership and control.
- Besides, it will examine and review the eligibility criteria for individuals or entities to apply for a banking licence, and review the promoter shareholding norms at the initial licensing stage.
- It will also study the current regulations on holding of financial subsidiaries through a non-operative financial holding company (NOFHC) and suggest steps to migrate all banks to a uniform regulation.

1.13 Co-operative Banks under RBI

- Recently, the Central government approved Banking Regulation (Amendment) Ordinance 2020 to bring all urban and multi-state co-operative banks under the direct supervision of the RBI.
- The decision comes after several instances of fraud and serious financial irregularities, including the major scam at the Punjab and Maharashtra Co-operative (PMC) Bank in 2019.
- Till now, all the co-operative banks came under dual regulation of the RBI and the Registrar of Co-operative Societies.
- Previously, the RBI had no powers to draw up an enforceable scheme of reconstruction of a co-operative bank.
- However, from now onwards the urban and multi-state co-operative will come under the direct supervision of RBI.
- The move will empower the RBI to regulate all urban and multi-state co-operative banks on the lines of commercial banks.

Co-operative Banks

- It is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank.
- It is distinct from commercial banks. They are broadly classified into Urban and Rural co-operative banks based on their region of operation.
- They are registered under the Co-operative Societies Act of the State concerned or under the Multi-State Co-operative Societies Act, 2002.
- The Co-operative banks are also governed by the
  1. Banking Regulations Act, 1949.
  2. Banking Laws (Co-operative Societies) Act, 1955.

1.14 SARFAESI Act

- It was passed on December 17, 2002, in order to lay down processes to help Indian lenders recover their dues quickly.
- Before this Act took effect, financial institutions had to take recourse to civil suits in the courts to recover their dues, which is a lengthy and time-consuming process.
- The SARFAESI Act essentially empowers banks and other financial institutions to directly auction residential or commercial properties that have been pledged with them to recover loans from borrowers.
- As per the SARFAESI Act, if a borrower defaults on a loan financed by a bank against collateral, the lender, ***after giving a notice period of 60 days***, can take possession of the pledged assets of the borrower, take over the management of such assets, appoint any person to manage them or ask debtors of the borrower to pay their dues too, with respect to the asset.
- Co-operative banks initially were not covered under the definition of banks for which the SARFAESI Act was applicable.
- On May 5, 2020, the Supreme Court held that the provisions of the SARFAESI Act will be ***applicable to cooperative banks***, and not just commercial banks.
- This move helps co-operative banks avoid inordinate delays in the recovery of their bad loans due to the involvement of civil courts and co-operative tribunals.

SHANKAR IAS ACADEMY

1.15 RBI Norms for NBFC's

- A housing finance company is considered a non-banking financial company (NBFC) under the RBI's regulations.
- A company is treated as an NBFC if its financial assets are more than 50% of its total assets and income from financial assets is more than 50% of the gross income.
- RBI has proposed stringent norms for housing finance companies by mandating 75% of their home loans to individual borrowers by 2024.
- Recently, RBI has proposed the definition of qualifying assets for housing finance companies (HFCs).
- It defined 'qualifying assets' as loans to individuals or a group of individuals, including co-operative societies, for construction/purchase of new dwelling units, loans to individuals for renovation of existing dwelling units, lending to builders for construction of residential dwelling units.
- Non-Housing loans - All other loans, including those given for furnishing dwelling units, loans given against mortgage of property for any purpose other than buying/construction of a new dwelling units or renovation of the existing dwelling units.
- Under new definition at least 50% of net assets should be in the nature of 'qualifying assets' for HFCs, of which at least 75% should be towards individual housing loans.
- Such HFCs which do not fulfil the criteria will be treated as NBFC – Investment and Credit Companies (NBFC-ICCs).
- They will be required to approach the RBI for conversion of their Certificate of Registration from HFC to NBFC-ICC.
- The NBFC-ICCs which want to continue as HFCs would have to follow a roadmap to make 75% of their assets individual housing loans.
- The central bank also proposed a minimum net-owned fund (NOF) of Rs.20 crore as compared to Rs.10 crore now.
- Existing HFCs would have to reach Rs.15 crore within a year and Rs.20 crore within two years.

1.16 Payments Infrastructure Development Fund (PIDF)

- Recently, the Reserve Bank of India (RBI) has announced the creation of a Rs. 500-crore Payments Infrastructure Development Fund (PIDF).
- PIDF has been created to encourage deployment of Point of Sale (PoS) infrastructure, both physical and digital, in tier-3 to tier-6 centres and North-Eastern States.
- The setting of PIDF is in line with the measures proposed by the vision document on payment and settlement systems in India 2019-2021.
- It is also in line with the RBI's proposal to set up an Acceptance Development Fund which will be used to develop card acceptance infrastructure across small towns and cities.
- It has a corpus of Rs. 500 crore in which the RBI has made an initial contribution of Rs. 250 crore.
- The remaining will come from the card-issuing banks and card networks operating in the country.
- The PIDF will also receive recurring contributions to cover operational expenses from card-issuing banks and card networks. RBI will also contribute to yearly shortfalls, if necessary.
- The fund will be governed through an advisory council but will be managed and administered by the RBI.

1.17 Priority Sector Lending Guidelines

- Under Priority Sector Lending (PSL) guidelines, banks have to set aside a specific portion of bank lending to sectors deemed important by the central bank.
- The following are the categories listed by RBI under PSL
    1. Agriculture
    2. Micro, Small and Medium Enterprises

SHANKAR IAS ACADEMY

3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy

- All scheduled commercial banks and foreign banks with a sizeable presence in India are mandated to set aside 40% of their Adjusted Net Bank Credit (ANDC) for lending to these sectors.
- RBI has recently assigned PSL status to India's startup sector.
- Startups were considered under the MSME category and were required to show three years of profitability
- RBI also recently increased the limits for renewable energy, including solar power and compressed bio-gas plants.
- It would benefit smaller bootstrapped businesses that had earlier faced challenges in getting low-priced debt from banks.
- An incentive framework has been established to help banks address regional disparities, with respect to flow of priority sector credit.
- Higher weighting will be assigned to incremental priority sector credit in identified districts where credit flow is comparatively lower.
- Whereas a lower weighting will be assigned in case of a comparatively higher credit flow.

1.18 RBI Surplus Transfer

- Central Board of the RBI on decided to transfer a sum of Rs 57,128 crore of its surplus to the Union government for the fiscal 2019-20, against Rs 1.76 trillion it did last FY.
- The Surplus Distribution Policy of RBI that was finalized is in line with the recommendations of the Bimal Jalan committee that was formed by the RBI.
- Surplus transfer is in consultation with the Government, to review the extant Economic Capital Framework of the RBI.
- In view of the RBI's function as a lender of last resort, it needs to maintain some Contingent Risk Buffer (CRB) to insure the economy against any tail risk of financial stability crisis.
- The Jalan Committee recommended that the CRB needs to be maintained at a range of 5.5% to 6.5% of the RBI's balance sheet.
- The surplus transfer policy is now formula based and thus transparent, which is an important departure from the past.
- The formula-based CRB will take care of the risk provisioning and the central board of RBI will decide on the level of risk provisioning.
- RBI can transfer its surplus that is the excess of income over expenditure to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.
- By and large, with a few exceptions, the quantum of surplus transfer averages around 0.5% of the GDP.

1.19 Committee for Stressed Assets

- Recently RBI set up an expert committee under ***K V Kamath*** to suggest financial parameters for resolution of Covid-19 related stressed assets.
- The committee will submit its recommendations to the RBI, which will notify them along with modifications, if any, in 30 days.
- Resolution Framework for Covid-19-related Stress envisages to make recommendations on the required financial parameters to be factored in into the resolution plans, with sector-specific benchmark.
- Assets of the banking system comprises of loans given and investment (in bonds) made by banks.

SHANKAR IAS ACADEMY

- Quality of the asset indicates how much of the loans taken by the borrowers are repaid in the form of interests and principal.
- **Stressed assets** = NPAs + Restructured loans + Written off assets
- **NPA** - means interest or principal is not repaid by the borrower during a specified time period ('overdue' for a period of 90 days.)
- Bad assets are further classified into substandard asset, doubtful asset, and loss assets depending upon how long a loan remains as an NPA.
- **Restructured loans -** Assets which got an extended repayment period, reduced interest rate, converting a part of the loan into equity, providing additional financing, or some combination of these measures.
- Hence, under restructuring a bad loan is modified as a new loan.
- **Written off Assets -** Those the bank or lender doesn't count the money borrower owes to it.
- The financial statement of the bank will indicate that the written off loans are compensated through some other way.

2. PUBLIC FINANCE

2.1 Price Monitoring & Resource Unit

- Price Monitoring & Resource Unit (PMRU) has been set up by National Pharmaceutical Pricing Authority (NPPA) in J&K recently.
- It will be funded by NPPA for its recurring and non-recurring expenses.
- PMRU will help NPPA and State Drug Controller in ensuring availability and accessibility of medicines at affordable prices.
- PMRUs have already been set up by NPPA in 11 States, including, Kerala, Odisha, Gujarat, Rajasthan, Punjab, Haryana, Nagaland, Tripura, Uttar Pradesh, Andhra Pradesh and Mizoram.
- The PMRU, a registered society, shall function under the direct control and supervision of State Drug Controller of Jammu & Kashmir.
- It is also expected to organize seminars, training programs and other information, education and communication (IEC) activities in the areas of availability and affordability of medicines for all.
- PMRU will also collect samples of medicines, collect and analyse data and make reports with respect to availability and over-pricing of medicines for taking action under the provisions of Drug Price Control Order (DPCO).
- This assumes added significance as PMRU, J&K will assist NPPA and Governments in checking overpricing and identifying causes & addressing local issues of shortages/hoarding in the current situation when country is fighting the COVID-19 pandemic.

2.2 CARES Programme

- The Government of India and the Asian Development Bank (ADB) signed a $1.5 billion loan that will support the government's response to the novel coronavirus disease (COVID-19) pandemic.
- The loan agreement for the ADB's COVID-19 Active Response and Expenditure Support Programme (CARES Programme) will provide budget support to the government to counter and mitigate the adverse health and socio-economic impact of the pandemic.
- The CARES Programme is provided as the first support to meet the immediate requirements of the government.
- Building on the CARES Programme, ADB is also in dialogue with the government for further possible support for stimulating the economy, support strong growth recovery, and to build resilience to future shocks.
- This includes the support for the affected industries and entrepreneurs particularly micro, small, and medium-sized enterprises (MSMEs) by facilitating their access to finance through credit guarantee schemes,

SHANKAR IAS ACADEMY

MSME integration into global and national value chains through enterprise development centers, and a credit enhancement facility for infrastructure projects.

2.3 Upward Definition of MSME

- Micro, small and Medium Enterprises (MSMEs) are the backbone of Indian economy.
- Silently operating in different areas across the country, more than 6 crore MSMEs have a crucial role to play in building a stronger and self-reliant India.
- These small economic engines have a huge impact on the country's GDP-making a contribution of 29 percent.
- They contribute to almost half of exports from the country. Additionally, more than 11 crore people are employed in the MSME sector.
- In line with focus on energizing MSMEs in the country, Union government has approved the upward revision of MSME definition.
- It may be noted that this revision was done after 14 years since the MSME Development Act came into existence in 2006.
- It has also been decided that the turnover with respect to exports will not be counted in the limits of turnover for any category of MSME units whether micro, small or medium.
- This is yet another step towards ease of doing business.
- This will help in attracting investments and creating more jobs in the MSME sector.
- The following table provides the details of revised limits:

Category	***Old Capital***	***New Capital***	***Old Turnover***	***New Turnover***
Micro	25 Lakhs	1 crore	10 Lakhs	5 crores
Small	5 crore	10 crores	2 crores	50 crores
Medium	10 crore	50 crores	5 crores	250 crores

2.4 CHAMPIONS Platform

- Union Ministry of Micro, Small and Medium Enterprises (MSME) has launched CHAMPIONS portal.
- The CHAMPIONS stands here for Creation and Harmonious Application of Modern Processes for Increasing the Output and National Strength.
- It is a technology driven Control Room-Cum-Management Information System which utilizes modern Information & Communication Technology (ICT) tools.
- It is also fully integrated on a real time basis with the Government of India's main grievances portal Centralized Public Grievances Redress and Monitoring System (CPGRAMS) and the Ministry's other web based mechanisms.
- The entire ICT architecture is created in house with the help of the National Informatics Centre.
- A network of control rooms is created in the Hub & Spoke Model.
- The Hub is situated in New Delhi in the Secretary MSME's office. The spokes will be in the States in various offices and institutions of the Ministry.
- 3 basic objectives - Grievance Redressal, Capturing new oppoturnities, identify and encourage the sparks.

SHANKAR IAS ACADEMY

2.5 Animal Husbandry Infrastructure Development Fund (AHIDF)

- Cabinet Committee on Economic Affairs has given its nod to set up a Rs.15,000 crore Animal Husbandry Infrastructure Development Fund.
- The fund had been proposed as part of the Aatmanirbhar Bharat.
- Eligible beneficiaries under the scheme include the following with a minimum 10% margin money contribution by them,
  1. Farmer producer organizations,
  2. MSMEs,
  3. Section 8 companies,
  4. Private companies and
  5. Individual entrepreneurs
- The balance 90% would be the loan component to be made available by scheduled banks.
- The Centre will provide 3% interest subvention to eligible beneficiaries, with a 2-year moratorium period for the principal loan amount and six-year repayment period after that.

2.6 Waterfall Mechanism under IBC

- Insolvency and Bankruptcy Code, 2016 was enacted for reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of the value of assets.
- Section 53 of IBC deals with the waterfall mechanism, which gives priority to secured financial creditors over unsecured financial creditors.
- The mechanism says that if a company is being liquidated, these secured financial creditors must be first paid the full extent of their admitted claim, before any sale proceedings are distributed to any other unsecured creditor.
- The top most priority, however, is given to costs related to the liquidation process and dues of workmen of the corporate debtor.
- The dues of the workmen include all their salaries, provident, pension, retirement and gratuity fund, as well as any other funds maintained for the welfare of the workmen.

Types of creditors

- **Secured creditor** is generally a bank or other asset-based lender that holds a fixed or floating charge over a business asset or assets.
- When a business becomes insolvent, sale of the specific asset over which security is held provides repayment for this category of creditor.
- **Unsecured creditor** is an individual or institution that lends money without obtaining specified assets as collateral.
- This poses a higher risk to the creditor because it will have nothing to fall back if the borrower default on the loan.

2.7 Border Adjustment Tax

- Border Adjustment Tax (BAT) is a duty that is proposed to be imposed on imported goods in addition to the customs levy that gets charged at the port of entry.
- BAT is a fiscal measure that imposes a charge on goods or services in accordance with the destination principle of taxation.
- Under this principle, the government taxes products based on the location of their sale to the final consumer rather than on the location of their production or origin.
- Thus, to adjust a tax "at the border," a country taxes imported products and domestically produced products sold on its market on the same basis and at the same rate; and exempts from this tax products exported for sale to foreign consumers.
- Generally, BAT seeks to promote "equal conditions of competition" for foreign and domestic companies supplying products or services within a taxing jurisdiction.
- The World Trade Organization (WTO) rules allow for the adjustment of certain types of internal taxes at the border under certain conditions.

SHANKAR IAS ACADEMY

- The main conditions are as follows
    - The tax must be applied equally to imports and "like" domestic products.
    - The tax must be "borne" by a product and not be "direct".
    - A permitted border tax adjustment must not subsidize exports.
- Recently, a NITI Aayog member has favored imposing a Border Adjustment Tax (BAT) on imports to provide a level-playing field to domestic industries.
- This suggestion comes in the backdrop of the USA-China trade tensions (trade war) which are expected to rise even further post-Covid-19.

2.8 Extending EPF Contribution

- Union Cabinet has given its approval for extending the contribution both 12% employees' share and 12% employers' share under Employees Provident Fund from June to August, 2020.
- This measure is taken as a part of the package announced by the Government under Pradhan Mantri Garib Kalyan Yojana (PMGKY).
- The salient features of the proposal are as under:
    - For the wage months of June, July and August, 2020, the scheme will cover all the establishments having up to 100 employees and 90% of such employees earning less than Rs. 15,000 monthly wage.
    - About 72.22 lakh workers working in 3.67 lakh establishments will be benefited and would likely to continue on their payrolls despite disruptions.
    - Government will provide Budgetary Support of Rs.4800 crore for the year 2020-21 for this purpose.
- The beneficiaries entitled for 12% employers' contribution for the months of June to August, 2020 under Pradhan Mantri Rozgar Protsahan Yojana (PMRPY) will be excluded to prevent overlapping benefit.

2.9 National Financial Reporting Authority (NFRA)

- It is an independent regulator to oversee the auditing profession and accounting standards in India.
- It was formed in 2018 under The Companies Act 2013.
- It consists of one chairman, 3 full-time members and one secretary.
- It is responsible for transparency and reliability of financial statements and information presented by listed companies and large unlisted companies in India.
- **Recent Developments –** It has constituted a Technical Advisory Committee (TAC) under the Chairmanship of R Narayanaswamy, Professor IIM-Bangalore.
- The TAC comprises 7 members, including the Chairman.
- It would aid and advise the NFRA on issues related to the drafts of accounting standards and auditing standards.

2.10 Debt Instruments

- A debt instrument is a tool an entity can utilize to raise capital.
- It is a documented, binding obligation that provides funds to an entity in return for a promise from the entity to repay a lender or investor in accordance with terms of a contract.
- Debt instrument contracts include detailed provisions on the deal such as collateral involved, the rate of interest, the schedule for interest payments, and the timeframe to maturity if applicable.
- As per RBI's extant Basel III guidelines, if a bank holds a debt instrument directly, it would have to allocate lower capital as compared to holding the same debt instrument through a mutual fund (MF)/exchange traded fund (ETF).
- RBI recently permitted banks to invest in debt instruments through mutual funds (MFs) or exchange traded funds without allocating additional charges.

SHANKAR IAS ACADEMY

- This is to expand the bond market. This will result in substantial capital savings for banks and is expected to give a boost to the corporate bond market.

2.11 Liquidation Process

- The Insolvency and Bankruptcy Board of India (IBBI) notified the Insolvency and Bankruptcy Board of India (Liquidation Process) (Third Amendment) Regulations, 2020.
- IBBI is a key institution in implementing the Insolvency and Bankruptcy Code (IBC), which provides for market-linked and time-bound resolution of stressed assets.
- IBC provides for market-linked and time-bound resolution of stressed assets.
- In case the insolvency resolution process does not succeed, then the company concerned goes for liquidation.
- When a company goes into liquidation under IBC, the committee of creditors (CoC) appoints a liquidator and decides on a fixed fee to be paid for their services.
- A liquidator can claim fees only on the basis of the amount of work they have done during the liquidation process of a company, be it in terms of the amount realised or distributed.
- The new regulations require the committee of creditors to fix the fee payable to the liquidator.
- Where the fee has not been fixed by the committee of creditors, the regulations provide for a fee as a percentage of the amount realized and of the amount distributed by the liquidator.
- It also amended the regulations for voluntary liquidation to enable a corporation to appoint an alternate liquidator at any point during the process through a resolution of members or partners, or contributories.

2.12 MSME Restructuring Scheme

- Reserve Bank of India's (RBI's) announced restructuring package for small businesses in 2019.
- It aimed to recast Rs. 1 lakh crore of loans for 7 lakh eligible micro, small and medium enterprises (MSMEs).
- The scheme announced by RBI is a one-time scheme wherein a loan tenor and interest rate can be revised without classifying the asset as a NPA.
- The facility is available for standard advances of up to Rs 25 crore only.
- Banks will need to make a provision of 5% towards these restructured loans.
- As per the existing scheme, the borrower account had to be standard as on January 1, 2020.
- Recently Union government has extended the scheme till March 2021.

3. FINANCIAL MARKET

3.1 Special Liquidity Facility for Mutual Funds

- A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets.
- Reserve Bank of India has announced special liquidity facility for mutual funds (SLF-MF) Scheme worth Rs 50,000 crore.
- It aims to ease liquidity in the segment and helps bailout, which intensified in the wake of redemption pressures related to closure of some debt MFs and potential contagious effects.
- The scheme was announced in the backdrop of Franklin Templeton Mutual Fund deciding to shut several schemes.
- The regulatory benefits announced under the SLF-MF scheme will be extended to all banks, irrespective of whether they avail funding from the Reserve Bank or deploy their own resources under the SLF-MF scheme.
- Banks meeting the liquidity requirements of MFs by extending loans and undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial paper , debentures and

SHANKAR IAS ACADEMY

certificates of deposit held by MFs, will be eligible to claim all the regulatory benefits available under the scheme.

3.2 Mutual Agreement Procedure (MAP)

- Recently Central Board of Direct Taxes (CBDT) has amended a rule to settle disputes expeditiously under the mutual agreement procedure (MAP), which is a dispute resolution process under tax treaties.
- The direct tax board has amended rule 44G of MAP in this regard.
- MAP is an alternative dispute resolution process under the tax treaties.
- Under it, competent authorities of respective countries enter into discussions to resolve the dispute, which has arisen due to any action of a tax authority not in accordance with the treaty.
- MAP proceedings are increasingly becoming popular with MNCs, even as the time taken to complete them is an issue.
- CBDT's amended rule states that the competent authority in India will endeavor to arrive at a mutually agreeable resolution of tax disputes, in accordance with the agreement between the country and others, within an average of 24 months.
- The amended rule further states that once a resolution is arrived at, the assessee concerned should communicate his acceptance or non-acceptance within 30 days of receiving the communication.
- Upon acceptance, the assessee will withdraw any appeal filed in this regard and pay the tax determined by the

3.3 SEBI's Measure to Increase Market Liquidity

SEBI had recently relaxed certain regulatory requirements related to rights issues and initial public offerings (IPOs) to help companies to raise funds during this pandemic.

- It allowed any listed entity with a market capitalization of at least Rs.100 crore could use the fast- track route for a rights issue.
- Earlier, the norm was ₹ 250 crore for such offerings.
- Further, any company that had been listed for 18 months was permitted to raise funds through a fast- track rights issue. Earlier it was 3 years.
- Also, the minimum subscription requirement to make an issue successful was lowered from the earlier 90% of the offer size to 75%.
- Recently, SEBI has allowed companies to make 2 qualified institutional placements (QIPs) with a gap of just 2 weeks between them.
- This is a significant move as the earlier regulations mandated a minimum gap of 6 months between two such issuances.
- It also permitted promoters to increase their stakes in their companies through preferential allotments by up to 10% without triggering an open offer, the cap was earlier set at 5%.
- SEBI allowed the above relaxation only for the current financial year.
- These moves would help in enhancing liquidity in the market as companies would be able to better time fund-raising while promoters could also acquire shares at a time when valuations were quite low compared with the historic highs.

4. EXTERNAL SECTOR

4.1 External Commercial Borrowings

- External commercial borrowing (ECBs) are loans made by non-resident lenders in foreign currency to Indian borrowers.
- They are used widely in India to facilitate access to foreign money by Indian corporations and PSUs (public sector undertakings).

SHANKAR IAS ACADEMY

- The debtors can be the government, corporations or citizens of that country.
- The debt includes money owed to private commercial banks, foreign governments, or international financial institutions such as IMF and World Bank.
- For telecom sector, infrastructure and Greenfield projects, funding up to 50% (through ECB) is allowed.
- Recently, RBI issued a guideline stating that all eligible borrowers can raise ECB up to USD 750 million or equivalent per financial year under the automatic route (earlier it was applicable only to corporate companies).
- The Department of Economic Affairs, Ministry of Finance, along with RBI, monitors and regulates ECB guidelines and policies.
- U.S. dollar-denominated debt remains largest component of the external debt.

4.2 Current Swap Agreement

- A currency swap between the two countries is an agreement or contract to exchange currencies with predetermined terms and conditions.
- Central banks and Governments engage in currency swaps with foreign counterparts
- To meet short term foreign exchange liquidity requirements
- To ensure adequate foreign currency to avoid Balance of Payments (BOP) crisis till longer arrangements can be made.
- Currency swaps are used to obtain foreign currency loans at a better interest rate than could be got by borrowing directly in a foreign market.
- RBI has recently agreed to a $400 million currency swap facility for Sri Lanka till November 2022.
- The RBI's action follows a recent bilateral 'technical discussion' on rescheduling Colombo's outstanding debt repayment to India.

4.3 Special Liquidity Scheme

- Special Liquidity Scheme of Rs. 30,000 crore for NBFCs and HFCs is being implemented w.e.f. 1st July, 2020.
- The Scheme has been launched to improve the liquidity position of NBFCs/HFCs through a Special Purpose Vehicle (SPV) to avoid any potential systemic risks to the financial sector.
- The Scheme is being implemented by SLS Trust, the SPV set up by SBI Capital Markets Limited (SBICAP).
- Eligibility -
    1. Any NBFC including Microfinance Institutions registered with RBI under the Reserve Bank of India Act, 1934 (excluding those registered as Core Investment Companies).
    2. Any HFC registered with the National Housing Bank (NHB) under the National Housing Bank Act, 1987 which is complying with certain specified conditions
- The Scheme will remain open for 3 months for making subscriptions by the Trust.
- It permits both primary and secondary market purchases of debt and seeks to address the short-term liquidity issues of NBFCs/HFCs.
- Therefore, those market participants who are looking to exit their standard investments with a residual maturity of 90 days may also approach the SLS Trust.

4.4 FDI in Commercial Coal Mining

- Union government clarified process on FDI in commercial coal mining.
- Any country that shares land borders with India, which wishes to invest in commercial coal mining will be allowed only after government approval.

SHANKAR IAS ACADEMY

- A citizen of Pakistan or an entity incorporated in Pakistan can invest only under the government route in sectors/activities other than defence, space, atomic energy, and sectors/activities prohibited for foreign investment.
- While the central government auctions coal blocks, state governments need to handle local issues efficiently and with sensitivity.

4.5 FDI in India

- According to the World Investment Report by UNCTAD, India is the *world's 9th largest recipient* of Foreign Direct Investments (FDI) in 2019.
- India received USD 51 billion in foreign investment in 2019 which is an increase of 20% from 2018.
- It is an improvement from the 12th rank in 2018.
- In the Asian region, India was among the top five host economies for FDI and largest in the South Asian Region.
- The report also highlighted that this is the first time since 2005 that global FDI falls below the USD 1 trillion mark but FDI flows to South Asia increased by 10%.

4.6 Empowered Group of Secretaries (EGoS)

- Union Cabinet has recently approved setting up of Empowered Group of Secretaries (EGoS) and Project Development Cells in Ministries/Departments for attracting investments in India.
- It is set up to provide support and facilitation to investors for investing in India and to boost growth in key sectors of the economy.
- EGoS is headed by Cabinet Secretary.
- It includes NitiAayog CEO, Secretaries to Department for Promotion of Industry and Internal Trade, Department of Commerce, Department of Revenue and Department of Economic Affairs as members.
- A project development cell is approved for the development of investible projects in coordination between the Central Government and State Governments.
- Under the guidance of the Secretary, an officer not below the rank of Joint Secretary of each relevant central line Ministrywill be in-charge of the PDC.
- Obj - To identify issues that need to be resolved in order to attract and finalise the investments and put forth these before the Empowered Group.
- It would reinforce India's vision of becoming a $5 trillion economy by 2024-25.

4.7 P-Notes

- According to SEBI data, the value of participatory note (P-note) investments in Indian capital markets increased to Rs. 63,288 crore till July 2020-end.
- This is the fourth consecutive monthly rise in investments through P-notes.
- Derivative is a financial instrument which derives its value from the underlying assets.
- P-notes are issued by registered foreign portfolio investors (FPIs) to overseas investors who wish to be part of the Indian stock market without registering themselves directly with SEBI.
- These are among the group of investments considered to be Offshore Derivative Investments (ODIs).
- These are popular investments due to the investor remaining anonymous.
- P-notes have Indian stocks as their underlying assets.
- Though P-note holders have less stringent registration requirements, they have to go through a proper due diligence process of SEBI.

SHANKAR IAS ACADEMY

4.8 Social Stock Exchange (SSE)

- It would be established by the SEBI as a structure within the existing stock market ecosystem.
- It would enable the social enterprises and voluntary organisations to raise funds.
- Social enterprise can be defined as a non-loss; non-dividend paying company created and designed to address a social problem.
- Listing of social enterprises on an SSE would improve visibility of social enterprises to large investors and philanthropic organisations.
- Apart from equity capital, social enterprises need debt, particularly to meet working capital requirements.
- Listing of debt products on the SSE would encourage banks, NBFCs and other investors to participate in the growth journey of these social enterprises and thereby deepen their impact.
- SSE impact valuation would also help in supporting an ecosystem of innovative financial products (like results based financing) which is a next big leap for the impact investing community in India.

Structure of SSE given by SEBI

- Eco-system - A welcomed suggestion is to build an eco-system, which includes,
    1. Establishing a self-regulatory organisation,
    2. Bringing together the information repositories on NPOs,
    3. Standardising the reporting standards for social impact, governance, etc.,
- With regard to fund-raising, the SEBI recommends that NPOs can raise zero coupon zero capital bonds on the SSE that will be akin to donation.
- Instruments - The SEBI suggests listing of equity and debt of NPOs.
- It suggests raising social and development impact bonds.
- It also suggests using social venture funds and mutual funds to channel money into charitable causes.
- These instruments can help worthy causes.
- But liquidity in these instruments is likely to be scant, even if market makers are established in every counter.
- The investors participating on this platform have to be mature enough to understand that they are not playing for returns.
- **Drawbacks** - A self-declaration by FPEs is needed about being a social enterprise.
- This is likely to be misused, in the absence of agencies that can do independent verification of the declarations made by these FPEs.
- The regulator should first establish the mechanism for verifying these claims.

4.9 New FDI Policy on Aviation

- Ministry of Finance has allowed Non Resident Indians (NRIs) to have 100% Foreign Direct Investment (FDI) in Air India.
- For the same, necessary amendments have been made in the Foreign Exchange Management Rules (Non-debt Instruments), 2019.
- The new FDI policy allows the following
    1. Removes the exception which permitted Overseas Citizens of India (OCI) 100% FDI in air transport, but not Air India.
    2. This category of citizens has been replaced with NRIs, now allowed to commit 100% FDI in air transport, including Air India, through automatic route.
    3. The Reserve Bank of India (RBI) has been vested with the sole power to issue/interpret the rules regarding 100% FDI of NRIs.
    4. Previously, it was required to do so in consultation with the Central Government.

SHANKAR IAS ACADEMY

- In March 2020, Union cabinet approved a policy to permit foreign investment up to 100% by those NRIs who are Indian Nationals in Air India through the automatic route.
- Earlier Foreign investments in Air India Limited, including that of foreign airlines shall not exceed 49% either directly or indirectly except in case of those NRIs, who are Indian nationals.

5. GENERAL ECONOMY

5.1 Open Credit Enablement Network (OCEN)

- It is a protocol infrastructure for the democratization of credit.
- It is developed by a think tank, Indian Software Products Industry Round Table (iSPIRT).
- It will mediate the interactions between loan service providers, usually fintech and mainstream lenders, including all large banks and NBFCs.
- Meanwhile, private equity and venture capital players, angel investors, high net worth individuals and others will also could be part of this exercise as investors.
- To start with, iSPIRT will work with lenders such as the State Bank of India.
- Former SEBI Chairman U. K. Sinha MSME Committee had recommended this architecture in 2019.

5.2 Emergency Credit Line Guarantee Scheme

- The Emergency Credit Line Guarantee Scheme was rolled out in May as part of the Centre's Aatma-nirbhar package in response to the COVID-19 crisis.
- It has a corpus of Rs. 41,600 crore and provides fully guaranteed additional funding of up to Rs. 3 lakh crore.
- Eligibility – As of February 29,2020, MSMEs which have an annual turnover up to Rs. 100 crore and with outstanding loans of up to Rs. 25 crores.
- Union government has recently decided to expand the scheme, to cover enterprises with a turnover up to Rs. 250 crore, with outstanding loans up to Rs. 50 crore.
- It aims to cover loans given to larger firms, as well as to self-employed people and professionals who have taken loans for business purposes.
- Individual beneficiaries include both professionals such as doctors, lawyers and chartered accountants, as well as self-employed people such as vendors or taxi drivers.

5.3 Credit Guarantee Scheme for Subordinate Debt (CGSSD)

- Union Ministry of MSME has launched subordinate debt scheme to provide financial facility to stressed MSMEs.
- It aims to provide emergency credit support to MSMEs impacted by coronavirus lockdown.
- Under CGSSD the government has operationalized Rs 20,000 crore stressed fund which is likely to benefit around 2 lakh medium and small entrepreneurs.
- CGSSD is a part the Rs 20.97 lakh crore AatmaNirbhar Bharat Abhiyan package.
- The highlights of the scheme are

1. It seeks to extend support to the promoters of the operational MSMEs which are stressed and have become NPA as on April 30, 2020.
2. The promoters of the MSME unit will be given credit equal to 15 percent of stake in the company or Rs 75 lakh, whichever is lower.
3. As per the latest norms, this scheme seeks to extend support to MSMEs whose accounts have been standard as on March 31, 2018, and have been in regular operations, either as standard accounts, or as NPA accounts during financial year 2018-19 and 2019-20.
4. Fraud/willful defaulter accounts will not be considered under the proposed scheme.

SHANKAR IAS ACADEMY

5. The scheme is valid for stressed MSME units which were Special Mention Accounts (SMA-2) and NPA as of April 30, 2020, who were eligible for restructuring as per RBI guidelines on the books of the lending institutions.

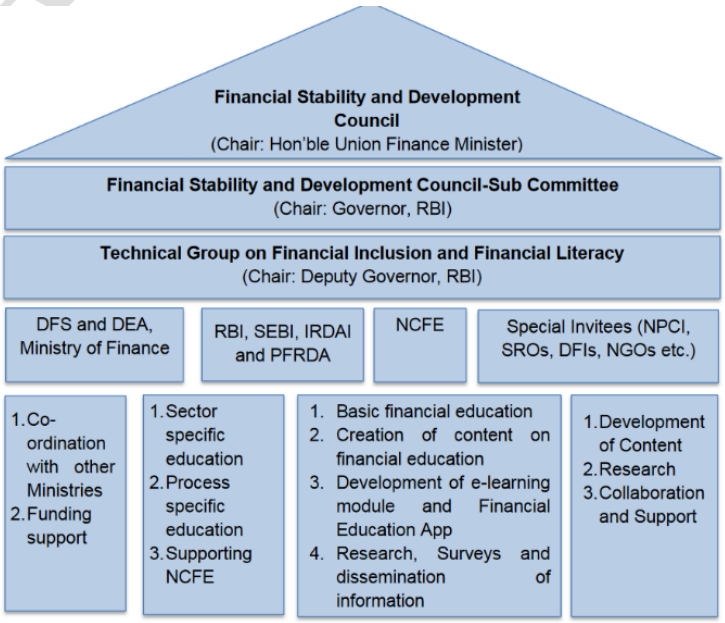
5.4 Special Mention Accounts

- Special Mention Accounts are those assets/accounts that shows symptoms of bad asset quality in the first 90 days itself or before it being identified as NPA.
- The classification of Special Mention Accounts (SMA) was introduced by the RBI in 2014, to identify those accounts that has the potential to become an NPA/Stressed Asset.
- The Special Mention Accounts are usually categorized in terms of duration.
- There are four types of Special Mention Accounts

1. **SMA –NF -** Non-financial indications about stress of an asset is considered.
2. **SMA-0** are those accounts in which loan repayments are wholly or partly overdue for a period of up to 30 days.
3. **SMA-1** for period between 31 and 60 days.
4. **SMA-2** for 61-90 days.

5.5 National Strategy for Financial Education (NSFE)

- RBI has released the National Strategy for Financial Education (NSFE): 2020-2025 document for creating a financially aware and empowered India.
- It is the second NSFE, the first one being released in 2013.
- It aims to strengthen the ecosystem for various modes of digital financial services in all Tier-II to Tier VI centers to create the necessary infrastructure to move towards a less-cash society by March 2022.
- NSFE has been prepared by the National Centre for Financial Education (NCFE), under the aegis of the Technical Group on Financial Inclusion and Financial Literacy (TGFIFL).
- NCFE is a Section 8 (Not for Profit) Company under the Companies Act, 2013 promoted by RBI, SEBI, IRDAI and PFRDA.
- It has recommended a '5 C' approach for dissemination of financial education in the country:



1. **Content -** Financial Literacy content for various sections of population.
2. **Capacity -** Develop the capacity and 'Code of Conduct' for financial education providers.
3. **Community -** Evolve community led approaches for disseminating financial literacy in a sustainable manner.
4. **Communication -** Use technology, media and innovative ways of communication for dissemination of financial education messages.
5. **Collaboration -** Streamline efforts of other stakeholders for financial literacy.

TGFIFL

- Technical Group on Financial Inclusion and Financial Literacy (TGFIFL) was set up in November 2011 by the FSDC.

SHANKAR IAS ACADEMY

- It is responsible for periodic monitoring and implementation of NSFE under the oversight of Financial Stability and Development Council (FSDC).

5.6 Positive Pay Mechanism

- Positive Pay is a fraud detection tool adopted by banks to protect customers against forged, altered or counterfeit cheques.
- It cross verifies all details of the cheque issued before funds are encashed by the beneficiary.
- In case of a mismatch, the cheque is sent back to the issuer for examination.
- By following such a system, a bank knows of a cheque being drawn by the customer even before it is deposited by the beneficiary into his/her account.
- RBI has introduced a new 'Positive Pay' mechanism which will make cheque payments safer and reduce instances of frauds.
- Under the new system Issuers will be able to send all details to their bank, thereby ensuring faster clearance of cheques above Rs 50,000.
- All cheques will be processed as per the information sent by the account holder at the time of issuance of cheques.
- This will cover approximately 20 per cent of transactions by volume and 80 per cent by value.

5.7 Pan-India Entity for Retail Payments

- RBI releases framework for pan-India entity for retail payments
- As per the framework, the companies with a net worth of over 500 crore rupees will be eligible to set up an umbrella entity which among other things will be permitted to set up, manage and operate new payment systems in the retail space comprising the following
    1. ATMs,
    2. White Label PoS,
    3. Aadhaar-based payments
    4. Remittance services.
- This entity, to be incorporated under the Companies Act, 2013, would need to focus on retail payments systems
- The entity will be expected to monitor national as well as international developments so as to avoid shocks and frauds that may adversely affect the system and the economy in general.
- The entity will operate clearing and settlement systems for participating banks and non-banks, identify and manage relevant risks, monitor retail payments system developments and related issues in the country and internationally.

5.8 White Label PoS

- Currently, merchant services providers have two common options when it comes to offering their clients a POS system.
- Customers with access to a third-party branded POS system - Companies which choose this route believe that their clients want to feel comfortable by knowing they are using a well-known brand.
- Where a white label POS system is an off-the-shelf solution built by software specialists, which channel partners can rebrand and sell as their exclusive offering to merchants.

5.9 Integrated Market Surveillance System

- Market surveillance is the prevention and investigation of abusive, manipulative or illegal trading practices in the securities markets.

SHANKAR IAS ACADEMY

- It helps to ensure orderly markets, where buyers and sellers are willing to participate because they feel confident in the fairness and accuracy of transactions.
- Without market surveillance, a market could become disorderly, which would discourage investment and inhibit economic growth.
- Market surveillance can be provided by the private sector and the public sector.
- In India Financial Markets Regulation Department (FMRD) undertakes surveillance of financial markets regulated by the RBI.
- RBI has shortlisted few private vendors for implementation of Integrated Market Surveillance System.

5.10 National Land Management Corporation

- The government is planning to setup National Land Management Corporation to manage government owned surplus land assets.
- It uses the special purpose vehicle (SPV) route to pursue land lease or concessions as a primary mode of commercial exploitation.
- It will facilitate monetisation of land and act as an asset manager for land owned by the Centre as well as central public sector enterprises (CPSEs).
- Its objective is to carry out commercial exploitation of land, manage land concessions, as well as raise funds for re-investment in CPSEs and for infrastructure development.
- It will also consider co-development of private land parcels adjoining government lands so as to maximise revenue.
- It will develop model concession agreements and look after resettlement and rehabilitation/eviction of occupiers.
- Presently, apart from Railways and Defence, other government departments do not have a specialisedorganisation to handle commercial development of government land.
- ***Surplus Land*** - Those that are not needed or are not appropriate for provision of public service. Vacant land not planned for future service use.
- **Board of SPV –** It will have representation from the Ministry of Housing and Urban Affairs, Department of Economic Affairs, Department of Public Enterprises, Department of Investment and Public Asset Management, and independent directors from real estate and finance domains.

5.11 Bimal Julka Committee

- It is set up by the Ministry of Information and Broadcasting for the Rationalisation/Closure/Merger of Film Media Units.
- Its mandate includes Review of Autonomous Bodies under the Ministry.
- It will also give recommendation for professionalisation of institutes related to film activities.

5.12 SAFE and SMILE Scheme

- Sidbi Assistance to Facilitate Emergency (SAFE) scheme aims to provide financial assistance to MSMEs engaged in manufacturing of hand sanitizers, masks, gloves, head gear etc used in dealing with COVID-19.
- The loans will be offered at an interest rate of 5% and are collateral free.
- It is open to SIDBI and non SIDBI customers.
- Soft Loan Fund for Micro Small and Medium Enterprises (SMILE) is to provide soft loans and term loan to MSMEs to meet the required debt-equity ratio for the establishment of an MSME as also for pursuing opportunities for growth for existing MSMEs.
- Under the scheme, minimum Loan Size - Rs 10 lakh for equipment financing and Rs 25 lakh for other purposes are on offer.

SHANKAR IAS ACADEMY

5.13 Consolidated Sinking Fund (CSF)

- State governments maintain a Consolidated Sinking Fund (CSF) with the Reserve Bank as a buffer for repayment of their liabilities.
- It was set up in 1999-2000 by the Reserve Bank of India.
- The fund gets contribution from State governments in the ***range of 1-3 per cent*** of their outstanding market loans each year.
- The Fund is administered by the Central Accounts Section of RBI Nagpur.
- Contribution to the fund is voluntary.
- CSF gives States and investors comfort that State development loan payments would be made in all circumstances.

5.14 Open Budget Survey

- The survey was conducted by ***International Budget Partnership (IBP)***.
- The survey, covering 117 countries, ***rates the level of budget transparency*** across countries on a scale of 0-100, based on several normative, internationally comparable indicators.
- It evaluates for each country, the availability of eight key budget documents of the Central or Federal Government, and assesses whether these are made public, in a timely manner, and provide comprehensive information.
- India has been placed at 53rd position among 117 nations in terms of budget transparency and accountability, according to Open Budget Survey.
- The survey provided India's Union Budget process a transparency score of 49 out of 100, which is higher than the global average of 45.
- New Zealand tops the chart with a score 87.
- Some of the other large developing countries, ***with the exception of China***, have got much higher transparency scores compared to India.
- South Africa (87), Mexico (82) and Brazil (81) are among the top six countries providing extensive information to public for scrutiny.

6. AGRICULTURE

6.1 Nutrient Based Subsidy Scheme

- Government provides fertilizers, Urea and 21 grades of P&K fertilizers to farmers at subsidized prices through fertilizer manufacturers/importers.
- In accordance to its farmer friendly approach, the Govt is committed to ensure the availability of P&K fertilizers to farmers on affordable price.
- The subsidy on P&K fertilizers is being governed by NBS Scheme from 2010.
- Nutrient Based Subsidy (NBS) Scheme is being implemented , since 2010 by the Department of Fertilizers, Ministry of Chemicals & Fertilizers.
- Under NBS, a fixed amount of subsidy decided on an annual basis, is provided on each grade of subsidized Phosphatic & Potassic (P&K) fertilizers depending on its nutrient content.
- The NBS scheme was sought to deregulate subsidy on non-urea fertilizers and expected to reduce the subsidy burden substantially.
- While the NBS certainly did not lead to any decline in subsidy on fertilizer, it did lead to worsening of soil nutrient quality, along with shortages and price increases in all three types of major nutrients, namely Nitrogenous, Phosphoric and Potassic.
- An undesirable outcome has been the change in fertilizer mix.

SHANKAR IAS ACADEMY

- As against the recommended Nitrogen (N): Phosphorous (P): Potassium (K) ratio of 4:2:1, the NPK ratio in 2013-14 was 8.2:3.2:1.
- The environmental damage caused by the inappropriate use of fertilizers is certainly a matter of serious concern in many states.
- Recently, the Union government has cut the subsidy for non-urea fertilizers this year to ₹22,186 crore.
- That is about 3% lower than the ₹22,875 crore which was the estimated expenditure on the nutrient based subsidies in 2019-20.
- The Cabinet Committee on Economic Affairs decided to reduce the subsidy for nitrogen-based fertilizers to ₹18.78 per kg, for phosphorous-based fertilizers to ₹14.88 per kg, and set the subsidy for potash-based fertilizers at ₹10.11 per kg.
- And while the subsidy for sulphur-based fertilizers had been raised last year to ₹ 3.56 per kg, from ₹2.72 per kg, this year it has been slashed to just ₹2.37 per kg.
- The CCEA also approved the inclusion of a complex fertilizer, ammonium phosphate, under the nutrient-based subsidy scheme.
- The subsidy component on retail price of fertilizers is announced at the beginning of the fiscal and subsequent changes in raw material cost, import price and currency fluctuations get reflected in the retail price.

6.2 National Commission on Farmers

- In 2004, the Union government formed the National Commission on Farmers (NCF) with MS Swaminathan as its chairman.
- The main aim of the committee was to come up with a sustainable farming system, make farm commodities cost-competitive and more profitable.
- It, in 2006, recommended that MSPs must be at least 50% more than the cost of production.
- It talked about the cost of farming at three levels:
    1. A2: All the types of cash expenditure to generate the crop like seeds, manure, chemicals, labour costs, fuel costs and irrigation costs.
    2. A2+FL: It includes A2 plus an imputed value of unpaid family labour.
    3. C2: Under C2, the estimated land rent and the cost of interest on the money taken for farming are added to A2 and FL.

6.3 Pricing Policy for Sugarcane

- The pricing of sugarcane is governed by the statutory provisions of the Sugarcane (Control) Order, 1966 issued under the Essential Commodities Act (ECA), 1955.
- Prior to 2009-10 sugar season, the Central Government was fixing the Statutory Minimum Price (SMP) of sugarcane and farmers were entitled to share profits of a sugar mill on 50:50 basis.
- As this sharing of profits remained virtually unimplemented, the Sugarcane (Control) Order, 1966 was amended in October, 2009 and the concept of SMP was replaced by the Fair and Remunerative Price (FRP) of sugarcane.
- States also announce a price called the State Advisory Price (SAP), which is usually higher than the SMP.
- The advised or remunerative price shall always be higher than the minimum price in accordance with the provisions of the Sugarcane (Control) Order, 1966, issued under Section 16 of the Uttar Pradesh Sugarcane (Regulation of Supply and Purchase) Act, 1953.
- A Constitution Bench of the Supreme Court recently held that both the Central and State governments have the power to fix the price of sugarcane under the Concurrent List of the Constitution.
- According to the judgment it is only when the “advised price” fixed by the State government is lower than the “minimum price” fixed by the Central government, the provisions of the Central enactments will prevail and the “minimum price” fixed by the Central government will prevail.

SHANKAR IAS ACADEMY

- So long as the advised price fixed by the State government is higher than the minimum price fixed by the Central government, the same cannot be said to be void under Article 254 of the Constitution.

6.4 New Features to e-NAM Platform

- e-NAM was launched in 2016 as a pan-India electronic trade portal linking Agricultural Produce Market Committee - APMCs across the States.
- As of now 585 mandis in 16 States and two Union Territories have been integrated on e-NAM portal.
- e-NAM provides for contactless remote bidding and mobile-based any time payment for which traders do not need to either visit mandis or banks for the same.
- Recently, Agriculture Ministry has launched new features of National Agriculture Market (e-NAM) Platform.
- It will help strengthen agriculture marketing by farmers which will reduce their need to come to wholesale mandis for selling their harvested produce, at a time when there is critical need to decongest mandis to effectively fight against COVID-19.
- These software modules are warehouse based trading module in e-NAM software and Farmer Producer Organization trading module in e-NAM.

6.5 Agriculture Infrastructure Fund

- Union government has launched a financing facility of Rs.1 lakh crore under the Agriculture Infrastructure Fund.
- The fund will cover,
    1. Agri-entrepreneurs,
    2. Startups,
    3. Agri-tech players,
    4. Farmer groups for post-harvest management,
    5. Nurturing farm assets.
- Agri Infra Fund is a pan India central sector scheme, duration of which will be 10 years till 2029.
- It aims to provide medium - long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets.
- The fund will be managed and monitored through an online Management Information System (MIS) platform.

6.6 Army Worm Attack

- Fall Armyworm (FAW) is a dangerous transboundary insect with a high potential to spread rapidly due to its natural distribution capacity and opportunities presented by international trade.
- The Food and Agriculture Organization (FAO) has launched a Global Action for FAW Control as a response to the international threat posed by the armyworms.
- Recently, the Directorate of Agriculture has reported an armyworm attack on the standing crops in the northeastern Dhemaji district of Assam.
- The pest attack has added to sorrows of the already worried farmers, due to the Covid-19 pandemic.
- The weather is a factor because there are no pre-monsoon rains in Assam yet and the temperature is very high now.
- The armyworm can cause more damage in the absence of rain.
- Another major issue is reaching out to farmers, all the roads and gaps have been blocked due to the fear of contracting coronavirus.

SHANKAR IAS ACADEMY

6.7 Desert Locusts

- Desert Locusts normally live and breed in semi-arid/desert regions.
- Locusts aren't dangerous as long as they are individual hoppers/moths or small isolated groups of insects, in what is called the "solitary phase".
- It is when their population grows to large numbers the resultant crowding induces behavioral changes and transformation from the "solitary" to "gregarious" phase that they start forming swarms.
- A single swarm contains up to 40-80 million adults in one square km and these can travel up to 150 km in one day.
- The above large-scale breeding and swarm formation, however, takes place only when conditions turn very favorable in their natural habitat, i.e. desert and semi-arid regions.
- For laying eggs, they require bare ground, which is rarely found in areas with dense vegetation.
- So, in India they are more likely to breed in Rajasthan than in the Indo-Gangetic plains or Godavari and Cauvery delta.
- The Union Agriculture Ministry's Locust Warning Organisation then observed "low-density I & II instar gregarious/transient hoppers" at Jaisalmer and Suratgarh in Rajasthan and Fazilka in Punjab adjoining the Indo-Pakistan border.
- Subsequently, there has been arrival of swarms from the main spring-breeding areas.
- And these swarms have come not only to western Rajasthan, but also moved to the eastern parts of the state and even Madhya Pradesh and Maharashtra.
- Much of this movement, it seems, was aided by the strong westerly winds from Cyclone Amphan in the Bay of Bengal.

6.8 Tropical race 4 (TR4)

- It is the latest race of the fungus Fusariumoxysporum f. spcubense.
- It is a soil-borne pathogen that ***attacks the roots of the banana*** causing the Banana Fusarium Wilt disease by clogging its vascular system.
- TR4 is recognized as one of the most aggressive and destructive fungi in the history of agriculture and the world's greatest threat to banana production.
- The survival form of the fungus, spores with a thick wall called chlamydospores, can remain dormant in the soil or on several host plants for decades.
- The fungus affects many varieties including Cavendish bananas, which provide around half of global banana supply and almost all of the bananas exported.
- More than 80 percent of global banana production is thought to be based on TR4 susceptible germplasm.
- Once established in a field, TR4 can cause complete yield loss.
- ***Mode of Transmission*** **-** The fungus spreads through infected plant materials and contaminated soil particles attached to items such as farm tools, shoes, clothes, animals and vehicles.
- Irrigation and drainage water also play a critical role in its spread.
- Typhoons and other storms can also carry the TR4 fungus to new plantations.

6.9 Ban on TB Drugs on crops

- Recently, the Registration Committee (RC) under the Central Insecticides Board and Registration Committee (CIBRC) has recommended to ban the use of antibiotics streptomycin and tetracycline.
- The RC recommended to ban antibiotics streptomycin and tetracycline with immediate effect on crops where other options are available for bacterial disease control.
- Where no alternatives are available, use of these antibiotics should be phased out by 2022-end.

SHANKAR IAS ACADEMY

- Till then, the antibiotics could be used on crops strictly as per the label claim i.e. streptomycin sulphate (9%) and tetracycline hydrochloride (1%).
- The RC acknowledged that diseases in crops can be managed by using integrated pest management and other practices.

6.10 Agridex

- It is India's first agricultural index to trade in commodities market.
- It was launched by the National Commodity and Derivatives Exchange (NCDEX).
- It comprises 10 liquid commodities traded on NCDEX.
- It is based on the revised guidelines issued by the Securities and Exchange Board of India, which allowed futures trading in commodity indices.
- The index represents various agricultural commodities of both kharif and rabi seasons, with price references throughout the year.
- Commodities - soybean, chana, coriander, cottonseed oilcake, guar gum, guar seed, mustard seed, refined soy oil, castor seed and jeera.

****

SHANKAR IAS ACADEMY