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TARGET 2021

ECONOMY & AGRICULTURE I

INDEX

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ECONOMY & AGRICULTURE - I

(JUNE 2020 TO DECEMBER 2020)

ECONOMY

1. GROWTH & DEVELOPMENT

1.1 Signs of Economic Recovery

The Commerce Ministry has released the latest data on output at the eight core industries.

- Overall production at the infrastructure industries extended their year-on-year decline to a fourth straight month in June 2020.
- Of the seven industries that extended their contractions, only coal shrank at a faster pace (-15.5%) than in May.
- Refinery products shrank 8.9% marking an improvement from the 21.3% contraction seen the previous month.
- [Refinery products - Largest weight on the index contributing 28%]
- The lifting of restrictions on inter and intra-State movement of persons and goods revived vehicular movement and fuel demand.
- With personal modes of mobility preferred given the fear of infection, petroproduct consumption grew.
- Electricity output fell at a slower 11% pace than the May month's 14.8% slump.
- This signals an uptick in demand from some manufacturing clusters including in western and northern India.
- Among the other sectors, steel production continued to tumble: output shrank by more than a third (-33.8%) from June 2019.
- The cement have put the worst behind as urban construction and projects under the rural job guarantee scheme spurred demand.
- Fertilizers saw the expansion ease to 4.2%, from 7.5% in May.
- **IMD forecast -** With monsoon activity above normal so far this year, kharif sowing was almost 14% higher as on July 31 than at the same time in 2019.
- The IMD is forecasting above average rainfall in August and September.
- So, the outlook for the agriculture-reliant rural economy is far more promising than for most other sectors.

1.2 Terminologies with respect to Recession

- In an economy, a recessionary phase is the counterpart of an expansionary phase.
- **Expansionary Phase -** When the overall output of goods and services (measured by the GDP) increases from one quarter (or month) to another, the economy is said to be in an expansionary phase.
- **Recessionary Phase -** When the overall output of goods and services (measured by the GDP) decreases from one quarter (or month) to another, the economy is said to be in a recessionary phase.
- In a recessionary phase, the GDP contracts from one quarter to another.
- **Business Cycle -** In an economy, the expansionary phase and recessionary phase together are called a "business cycle".

- **Recession -** In an economy, when a recessionary phase sustains for long enough, it is called a recession i.e. when the GDP contracts for a long enough period, the economy is said to be in a recession.
- There is no universally accepted definition of a recession but most economists agree with the definition that the National Bureau of Economic Research (NBER) in the United States uses.
- According to NBER, "During a recession, a significant decline in economic activity spreads across the economy and can last from a few months to more than a year".
- **Technical Recession -** The commentators often consider a recession to be in progress when real GDP has declined for at least two consecutive quarters in order to get around the empirical technicalities associated with the recession.
- The real quarterly GDP has been accepted as a measure of economic activity and a benchmark for ascertaining a "technical recession".
- According to recent bulletin of Reserve Bank of India on state of economy there is a contraction for a second consecutive quarter (Quarter 2).
- The contraction of Q2 is crucial because it implies that India has entered a "technical recession" in the first half of 2020-21 for the first time in its history.

1.3 World Economic Outlook

The International Monetary Fund (IMF) has released its latest World Economic Outlook.

- **Projections**- The report titled 'A long and difficult ascent' sums up the economic challenges ahead.
- The IMF's economists have sought to make forecasts for world output through 2020, 2021 and into the medium term.
- The global economy is projected to shrink 4.4% this year, reflecting a less severe contraction than the 5.2% drop estimated in June.
- The output is seen rebounding at a marginally slower 5.2% pace in 2021.
- The IMF has based its revision on better-than-anticipated second-quarter GDP out-turns, mostly in advanced economies.
- It is also based on the signs of a stronger recovery in the July-September quarter.
- **Concerns**- The IMF pointed out that even as the world economy ascends out of the depths it plunged into (due to the pandemic-led lockdown), there remains the danger of resurgence in infections.
- This danger is prompting European countries to reimpose at least partial closures.
- There are certain factors which magnify the uncertainty.
- The factors include the risks associated with predicting the pandemic's progression, the unevenness of public health responses, and the extent to which domestic activity can be disrupted.
- The IMF's Chief Economist pointed out that the pandemic is set to leave scars well into the medium term as the,
    1. Labour markets take time to heal,
    2. Investment is held back by uncertainty and balance sheet problems, and
    3. Lost schooling impairs human capital.
- The global growth will gradually slow to about 3.5% in the medium term.
- The cumulative loss in output relative to the pre-pandemic projected path estimated to more than double to $28 trillion over 2020–25.
- So, the efforts to improve average living standards are certain to be severely set back.

1.4 The US GDP Slide

The United States has recorded the sharpest GDP decline in its history.

- The GDP of the US, the world's largest economy, has contracted by 33% in the second quarter, or a near 10% quarter-over-quarter decline.
- This is in sharp contrast to the GDP data released by China, the world's second-largest economy.
- China's GDP growth swung back sharply into the black in the April-June quarter.
- Economists decoding the slide in the US GDP numbers point to a precipitous **fall in consumption**.
- [Consumption is the biggest component of American GDP that accounts for almost 70% of the economy.]
- Spending on goods and services has fallen at a seasonally adjusted annualised rate of 35% in the second quarter.
- **Investments** in buildings, equipment and intellectual property also fell at an annual rate of 49% while **exports** plunged 64%.
- The worrying news for the US is that the scale of this fall in the first quarter would be dwarfed by that in the second.
- Much of this pessimism can be attributed to the **sharp surge in COVID-19 cases**.
- **Similarities** - Both the US and China are consumption-driven - over two-thirds of US GDP and more than one-half that of China.
- In their relief packages, both countries focussed on boosting consumption by attempting to put money in the hands of consumers.
- **Divergent trends** - China's GDP growth showed a sharply divergent trend, swinging back sharply in the April-June quarter.
- This growth was driven by a bounce back in manufacturing output and a public spending boost.
- China recorded a V-shaped recovery (a sharp fall followed by an equally sharp recovery), which was something unexpected.
- This ensured that China effectively sidestepped a technical recession. [Technical Recession - Two consecutive quarters of negative growth]
- The US is clearly headed for a recession if the third-quarter projections are anything to go by.
- The big differentiator is with respect to the services sector and consumption trends.
- **Services sector** - Both economies rely on the service sector for a range of value-additions and output that contribute to their respective GDP.
- In the US, continuing mobility restrictions have significantly hampered the return of such jobs.
- Such restrictions in the US have been geographically more widespread and longer-term.
- This is so because of its initial delay in responding to the spread of the disease, and fickle state government policies.
- China's COVID-19 related support policies, including spending, loans and guarantees, amounted to just 2.5% of GDP.
- This is much higher than the 11% for the US.
- **Consumption trends** - China's 3.2% year-on-year GDP growth showed a clear recovery in consumption trends.
- This is something that is evidently missing in the US.

1.5 K-Shaped Recovery

- Economists have found that US is entering into a K shaped economic recovery, which allows workers at the top to prosper while sending working class American into further debt.
- Economists and analysts use letters like "V", "L", and "I" to describe their projections for the length of the recession and potential recovery.

- A "V-shaped" recovery is the most optimistic, as it suggests economic spending and employment will rapidly decline, but quickly pick back up like a "V."
- A "U" shape is similar but suggest the period of unemployment and low economic activity will remain longer than a "V" recovery.
- "L" and "I"-shaped recovery outlooks are much more dire, suggesting the high unemployment and low spending will have other ramifications, like cause debt defaults and overwhelm health systems.
- A "K-shaped" recovery is somewhere between a "V" and "L" — depending on type of employment.
- e.g. In US Industries like technology, retail, and software services have recovered from the industry and begun re-hiring, while the travel, entertainment, hospitality, and food services industries have continued to decline past March levels.

2. PUBLIC FINANCE

2.1 New Taxpayer's charter

The Centre has launched a platform for faceless assessment and appeals of tax, and a new Taxpayer's Charter.

- Taxpayers' Charter was announced by the Finance Minister in her Budget 2020 speech.
- The aim of introducing the charter is to build a trust between a tax payer and the tax administration and reduce harassment.
- It provides responsibilities of the Income Tax (I-T) department towards the taxpayers.
- It also lists duties of the taxpayers towards the I-T department.
- The objective is to enhance the efficiency of the delivery system of the I-T Department.
- The 14-point Charter states that taxpayers can look forward to fair and reasonable treatment from tax authorities.
- They can look at an efficient mechanism for appeal and review and a system that maintains confidentiality of the taxpayers' information.
- The Central Board of Direct Taxes (CBDT) issued an order.
- This **restricts survey** under Section 133A to only the investigative wing of the I-T department and the Commisionerates of TDS.
- As per the existing rules, any I-T officer could enter any place under his/her jurisdiction, to inspect books of accounts and other documents.
- The Centre restricting such intrusive actions (raids) will provide relief to both individual as well as corporate tax payers.
- This communication is particularly important this year, when tax revenue is going to contract sharply.
- Faceless assessments and appeals, if resolved in a timely manner, can be the right way forward to improve the tax-paying experience.

2.2 Taxing E-Businesses - ESS EQL

With models of e-businesses evolving at a rapid pace, taxation around the same has become a huge debate between countries.

- In 2016, India introduced equalisation levy (EQL).
- This was to tax India-sourced income earned by a non-resident (NR) from online advertisements through digital means.
- This covers entities earning advertisement revenue from India through digital means, but not being subject to tax in India.
- Since its introduction, the government of India has seen EQL's contribution to the Indian exchequer increasing.

- **Recent Change -** In the course of the enactment of the India Budget 2020, the government expanded the scope of EQL with effect from April 1, 2020.
- It now covers within its ambit the e-commerce supply or services (ESS) provided by an e-commerce operator (EOP).
- It was a unilateral move by the government; while the OECD is yet to conclude its discussions.
- E-commerce operator (EOP) is defined as any NR who owns, operates or manages digital or e-commerce facility/platform for the online sale of goods or online provision of services.
- [NR - as per Indian tax laws (ITL)]
- The ESS EQL shall apply to ESS made or provided or facilitated by EOP to a person, among other things -
    i. resident in India (or)
    ii. using internet protocol address located in India
- Also, it applies where the sales, turnover or gross receipts in a year exceeds Rs 2 crore.
- The consideration received shall be taxable at 2%.
- The ESS EQL shall apply to instances of e-commerce platforms situated outside India or online sale of software and the like.
- Notably, the financial services (FS) industry should be outside the purview of ESS EQL, as they are not EOP.
- However, given the language of the regulation and in the absence of any specific exclusion for the FS industry, it is not free from regulation.
- This can be illustrated below:
    i. an Indian company (ICo) has sold goods to a customer in the US through an e-commerce platform in the US
    ii. ICo has tied up with a money exchanger in the US to collect and remit the funds to ICo for a commission/fee
    iii. ICo makes payment to the merchant through a payment gateway (a NR entity), which charges network fees for the payments transmitted
- Prior to April 1, 2020, the afore-mentioned commission/fee was not subject to tax in India.
- This was because the NR did not have any presence in India.
- However, with ESS EQL in place, the consideration received by NR may now be subject to tax at 2%.
- The NR is required to obtain a tax ID in India and adhere to compliances.
- The failure of this would result in levy of interest and penalty.
- **Challenges -** EQL is not administered under ITL, but it is governed by a separate legislation.
- Accordingly, the availability of treaty protection and foreign tax credit in the home jurisdiction for NR is likely to be a challenge.
- The objective of the government in expanding the scope of EQL was to cover supply of goods or services provided by NR.
- However, the financial services industry, too, has been covered within the ambit of ESS EQL.
- Now, ESS EQL may require the financial services players to relook at their commercial arrangements.
- This may, among other things, involve passing on transaction costs to customers in India.
- Countries like the UK, France and Spain have amended their digital tax laws to exclude the financial services industry.
- A clarification on similar lines from the Indian government will be welcomed by the financial services industry in India.

2.3 CAG Report

The latest audit of the Union Government's accounts reveals that the Finance Ministry retained over 40% of all cess collections in 2018-19.

- The Finance Ministry retained the cess collections in the Consolidated Fund of India (CFI).
- As many as 35 different cesses, levies and charges yielded ₹ 2.75-lakh crore in the year.
- But only ₹ 1.64-lakh crore was remitted to the specific reserve funds for which these cesses were levied.
- The Comptroller and Auditor General (CAG) of India has urged the Finance Ministry to take immediate corrective action.
- Over 10 years, the ₹ 1.25-lakh crore of cess collected on crude oil was transferred to an oil industry development body it was meant to finance.
- Part of the hefty cess collected as additional excise duties on petrol and diesel, ostensibly to finance roads and infrastructure, was retained.
- A new 4% Health and Education Cess on income tax was partly deployed towards education, but no fund was created for health.
- Ditto with a Social Welfare surcharge levied on customs. None of these lapses can be considered unintentional.
- The GST Compensation Cess, over which the Centre and several States have now locked horns, was not spared either.
- Around ₹ 47,272 crore was not remitted to its rightful account over the first two years of GST.
- The compensation cess transfers to States were accounted as Grants-in-aid to States, distorting the Centre-States fiscal math.
- As per the 14th Finance Commission's suggestions, the States' share of the divisible pool of taxes was raised to 42%.
- After this, the Centre's reliance on cesses and surcharges to raise revenue has increased significantly.
- Cess receipts are not part of this 42% pool.
- Cesses, starting with the excise duties on petrol and diesel, need to be **rationalised**.
- Absolute **transparency** is needed in the management of cess receipts so that Parliament and the people do not wait for audit findings to learn of this subterfuge.

2.4 GST Council Meet

The GST Council's meeting was able to make slight progress.

- The progress is made in two respects, which includes Simplifying the return filing process and Taking a tentative step forward in resolving the impasse over compensation cess.
- **Option 1** - The Centre raised the compensation payable to the States under 'option one' from ₹ 97,000 crore to ₹ 1,10,000 crore.
- Under this option, the States can borrow through a special window of the Reserve Bank of India.
- The entire principal and interest on the borrowing would be borne out of the cess.
- **Option 2** - This option involves the States borrowing the entire shortfall of ₹ 2,35,000 crore from the market.
- The interest will be borne by the States.
- **Opting** - While 21 States have opted for the first option, the remaining (largely Opposition-ruled) have opposed the terms.
- The latter States are demanding the 14% annual increase in GST revenues to States that was written into law.
- The Centre has promised that all the dues of the States will be settled through the extension of the compensation cess beyond June 2022.

- It has released ₹ 20,000 crore of compensation cess collected this year.
- The opposing States should not insist on an escalation to the dispute redress mechanism.
- This would delay and complicate the process for all States at a time when their need for funds is immediate.
- From January 2021, taxpayers would have to provide details required in the GSTR 1 return alone, regarding outward supplies.
- Other data pertaining to input tax credit will be captured from the suppliers and the net tax payable will be shown in the GSTR-3B return.
- These measures show that the GST return filing system is moving back to its original design of ease of compliance and improved collection.
- This move should be viewed along with requirement for businesses with turnover exceeding ₹ 500 crore to file e-invoices from October, 2020.
- Almost 93% of the 1.3 crore GST registered taxpayers are smaller businesses having less than ₹ 5 crore of annual turnover.
- Providing leeway to these smaller businesses to file returns on a quarterly basis from next year is a good move.
- This move will provide relief to the majority of the businesses, cutting down their compliance costs to a third.
- However, there could be glitches for a few quarters.
- With small taxpayers filing quarterly returns, input tax credit could get blocked for larger taxpayers (who file on a monthly basis).
- Yet, the step may lead to larger companies persuading their suppliers to be more compliant in filing returns.
- These recent changes might further the shift of entities from the unorganised to organised sector, so far stalled by loose implementation.

2.5 Gender Budgeting

Gender Budgeting is needed to incorporate gender commitments into fiscal commitments.

- It is an approach that uses fiscal policy to promote gender equality by trying to translate gender commitments into fiscal commitments.
- This is done through different processes, resources and institutional mechanisms.
- In a multi-level governance structure, the political economy of gender budgeting encompasses both the fiscal and legal frameworks.
- The interface between intergovernmental fiscal transfers and the institutions of multi-level governance also matters.
- In India, gender budgeting is not mandatory by law at any level of the federation.
- The legal frameworks for gender budgeting can differ in unitary or federal states with multi-level governance.
- The frameworks for gender budgeting in India are confined only to fiscal fiat, inclusive of taxation and public expenditure policies.
- To a limited extent, it is regarding the intergovernmental fiscal transfers.
- There is heterogeneity of stakeholders, from various stages of budget formulation to implementation at multiple levels of governance.
- Gender budgeting was pioneered in India in the research of NIPFP in 2000-2001 with UN Women and the Ministry of Women And Child Development.
- Starting in 2005-06, a "Statement of Gender Budgeting" was introduced in the budget documents by the Union government.
- Today, the process of gender budgeting within the Union Finance Ministry starts with the 'budget circular'.
- This circular states that each ministry and department is required to undertake gender-based analysis of demand for grants within the analytical matrices.

- These matrices have been prepared by NIPFP for gender budgeting.
- Now, urgent policy reform is required to revive the gender budgeting secretariat.
- Designing a conditional transfer (specific purpose grant) to strengthen gender budgeting can be directly linked to gender equality outcomes.

2.6 Land Monetisation

The central and state governments are facing revenue crisis.So, the monetisation of land is a viable option for public sector undertakings and urban local bodies.

- Asset monetization is basically a transaction that converts a dead/idle asset into an income generating one.
- Land monetisation will enable the retention of land ownership while realising market rent (if the revision of rent is periodic and on agreed principles).
- For example, government-run company MTNL has a reported 250 acres of land in Delhi & Mumbai.
- Partnering with a company that can help lease the office space to companies could help MTNL with a healthy annuity income.
- It should be a well-thought process, weighing the potential benefits and viability.
- **Viable option -** It will generate a revenue stream and also entails several other benefits. It puts the land to better use.
- The commercial development of land accelerates the real estate prospects in the vicinity.
- It will fuel the demand for social infrastructure such as retail development, banking, etc.
- It also contributes to planned urbanisation, boosts tourism and generates employment.
- It has cascading effects on economic development and the quality of life of citizens.
- Land exchange/swap can also be used as an instrument if suitable options for exchange exist with any other government entity.
- The major hurdle is the time-consuming process of approvals from the various civic authorities.
- The confidence-building measures for the revival of the economy post-Covid-19 need to be supplemented by fast-tracking the approval processes.

2.7 Retrospective Taxation

Recently Permanent Court of Arbitration (PCA) ruled that India's retrospective imposition of a tax liability and interest penalties on Vodafone Group as violation of the Bilateral Investment Treaty with Netherlands and UNCITRAL.

- Retrospective Taxation allows a country to pass a rule on taxing certain products, items or services and deals and charge companies from a time behind the date on which the law is passed.
- Countries use this route to correct any anomalies in their taxation policies that have, in the past, allowed companies to take advantage of such loopholes.
- It hurts companies that had knowingly or unknowingly interpreted the tax rules differently.
- Apart from India, many countries including the USA, the UK, the Netherlands, Canada, Belgium, Australia and Italy have retrospectively taxed companies.
- In 1995, India and the Netherlands had signed a BIT for promotion and protection of investment by companies of each country in the other's jurisdiction.
- The two countries would ensure that companies present in each other's jurisdictions would at all times be accorded fair and equitable treatment and shall enjoy full protection and security in the territory of the other.
- The BIT between India and the Netherlands expired on 22nd September, 2016.

2.8 Options on GST Compensation

Recently, the Centre has decided to borrow an estimated revenue shortfall of Rs. 1.1 lakh crore as loans to States to meet the Goods and Services Tax (GST) shortfall.

- The Expenditure Department under the Finance Ministry allowed 20 States to raise ₹ 68,825 crore from the market.
- The two options are as follows
    1. **Borrowing -** Letting the States to borrow ₹ 1.1 lakh crore of the ₹ 2.35 lakh crore estimated shortfall in GST cess collections in 2020-21 without having to worry about principal and interest repayments.

       The amount can be repaid after five years (of GST implementation) ending 2022 from cess collection.
    2. **Raising money -** States to raise ₹ 2.35 lakh crore while bearing the interest costs (However it found no takers)
- A special window is being created to facilitate GST-related borrowings.
- While the present nods for additional borrowing pertain to the additional borrowing flexibility of 0.5% of the Gross State Domestic Product (GSDP) that had been offered to States who opted for the first option for GST compensation.
- Under the terms of Option-1, States are also entitled to get unconditional permission to borrow the final instalment of 0.50% of GSDP out of the 2% additional borrowings permitted by the Government of India, under Atmanirbhar Abhiyaan.
- The GST Compensation Act, 2017 guaranteed states that they would be compensated for any loss of revenue in the first five years of GST implementation, until 2022, using a cess levied on sin and luxury goods.

2.9 Leave Travel Concession

Finance Ministry has announced a slew of measures to spur spending and stimulate economic demand in the wake of the coronavirus pandemic.

- Consumer spending proposals - It include a LTC cash vouchers scheme and a special festival advance scheme.
- **Leave Travel Concession -** The LTC Cash Vouchers scheme is mainly targeted to employees in the government and other organised sectors.
- Central government employees, in a block of four years between 2017-18 and 2020-21 would have normally availed of one leave travel concession for any destination of their choice plus one visit to their hometown.
- If they didn't choose leave travel to one destination of their choice, they would usually go twice to their native village.
- This would mean air or rail fare as per their pay scale is reimbursed to them.
- In addition, they also get ten days of leave encashment, which they pay tax on, the travel fare is tax exempt.
- Conditions are as follows

1. Money would be offered to them based on three slabs, as per government rules and procedures, from which they could spend it to buy something of their choice.
2. This must be spent on items that have 12% GST or more; for instance, you cannot use it to buy food that has 5% GST slab.
3. It can only spend in digital mode and no cash payments are offered.

2.10 Special Festival Advance Scheme

- Till the Sixth Pay Commission, there was a festival advance scheme in which the highest level of advance was was ₹ 4,500 per non-gazetted officers.
- However, there was no such scheme in the Seventh Pay Commission.
- Under this scheme, ₹ 10,000 will be available to all central government employees, irrespective of their rank, instead of ₹ 4,500 that was available in the Sixth Pay Commission.

- This will be repaid in ten instalments and will be available upto March 31, 2021.
- A prepaid Rupay card will be given to the availees as an interest-free advance for use in any festival, however cash can't be withdrawn.

2.11 Compound Interest Waiver Scheme

Recently, the Government of India has announced the scheme for the waiver of compound interest.

- This is based on compound interest that was payable by the borrower who had opted for loan moratorium between 1st March 2020, and 31st August 2020.
- Under this, the government will grant eligible borrowers ex-gratia payment of the difference between the compound interest and simple interest for the six-month moratorium period.
- **Eligibility -**
    - The scheme shall be applicable for loans availed by
        1. Micro, Small and Medium Enterprises (MSMEs),
        2. Retail customers for education, housing, consumer durables, automobiles, provided a borrower has an aggregate outstanding loan of Rs. 2 crore or less, from all such loans.
- Credit card dues have also been included in the scheme's ambit.
- The loan interest waiver payment shall be admissible, irrespective of whether the borrower had availed the moratorium partly, fully, or not at all.
- However, this would only be permitted for loan accounts that had not been reported as Non-Performing Assets (NPAs) as on 29th February 2020.
- For loan accounts which were closed during this period, the ex gratia payment will be made from March 1, 2020 till the date of closure of such account.
- The waiver will be provided by all private and state-owned banks, cooperative banks, regional rural banks, housing finance companies and non-banking financial institutions.
- The rate of interest used to calculate the ex gratia amount will be based on the contracted rate specified for most loans.
- Exact waiver benefit will depend on the stage of the loan and outstanding principal amount.
- The government has specified that for reimbursement, the compounding of interest should be reckoned on a **monthly basis**.
- The rate of interest to be applied for calculating the difference will be the contracted rate as specified in the loan agreement.
- For credit card dues, the rate of interest will be the weighted average of lending rate charged by the card issuer for transactions financed on the EMI basis during the period from March 1, 2020 to August 31, 2020.
- Banks should process the claims of borrowers and credit the amount.
- They will have to lodge the claim for reimbursement with the designated cell at State Bank of India (SBI) by December 15, 2020.
- SBI, nodal agency for the scheme, will evaluate the claims and furnish the details to the government. Lending institutions will get the funds through SBI.

2.12 GST on Lotteries

The Supreme Court upheld the levy of GST on sale of lotteries and gambling across the country.

- Petitions filed by lottery dealers, argued that the Central GST Act of 2017 and notifications wrongly viewed lotteries as "goods" while they were only "actionable claims".
- A petition challenged the Section 2(52) of the Central Goods and Service Tax (GST) Act 2017 and notifications levying tax on lottery.

- It contended that the law was violative of the fundamental rights and contrary to the SC judgment (Sunrise Associates vs. Govt. of Delhi) that held that the lotteries were actionable claims and not 'goods'.
- They said lottery tickets by themselves were only "valueless pieces of paper" and the GST Council was wrong to recommend the imposition of tax on them.
- The court said that while determining the taxable value of supply the prize money is not to be excluded for the purpose of levy of GST.
- It said that the inclusion of actionable claim in definition "goods" as given in CGST Act, 2017 is not contrary to the legal meaning of goods.
- It also pronounce the verdict on charges of discrimination raised against the law for imposing 12% GST on lotteries sold within the same State and 28% GST for sale of tickets from other States.
- The bench noted this is Arbitrary, discriminatory, unreasonable and clearly violative of Articles 14 of the Constitution.
- In the earlier tax regime, in which no VAT was levied on lotteries, but service tax was levied, the rate of tax was 1.28% or.82% on the face value of the lottery tickets depending on the prize money payout.
- Thus the Legislature never intended to tax the prize money component in the lottery trade, as it did not form part of the income of lottery traders, but payable to the winner of the ticket prize.
- However, the notifications levy GST on the face value of the tickets without adjusting or taking into account the prize money component.

Actionable Claim

- Section 2(52) of the GST Act defines 'goods' to include 'actionable claims' like lotteries.
- An 'actionable claim' is a claim to debt by means other than mortgage or hypothecation of property.
- Hence, lotteries, despite being actionable claims, can be taxed as 'goods' under the Act.
- According to recent judgement Actionable claims can never be termed as goods and these are two separate concepts.
- However, the GST Act has blurred the distinction only with regard to lotteries, which is impermissible.
- It cannot be said that the sale of a lottery ticket involved a sale of goods.
- There was no sale of goods within the meaning of Sales Tax Acts of the different States but at the highest a transfer of an actionable claim.

2.13 Ways and Means Advances

- The WMA scheme was introduced in 1997, to meet mismatches in the receipts and payments of the government.
- The government can avail immediate cash from the RBI, if required, but it has to return the amount within 90 days.
- Interest is charged at the existing repo rate.
- Section 17(5) of the RBI Act, 1934 authorises the central bank to lend to the Centre and state governments subject to their being repayable "not later than three months from the date of the making of the advance".
- If the WMA exceeds 90 days, it would be treated as an overdraft (the interest rate on overdrafts is 2 percentage points more than the repo rate).
- The limits for WMA (for Centre) are decided by the government and RBI mutually and revised periodically.

Special WMA

- A Special WMA or Special Drawing Facility is provided against the collateral of the government securities held by the state.
- After the state has exhausted the limit of SDF, it gets normal WMA.
- The interest rate for SDF is one percentage point less than the repo rate.

- The number of loans under normal WMA is based on a three-year average of actual revenue and capital expenditure of the state.
- The annual incremental investments in Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF) shall be eligible for availing of SDF.

2.14 Sovereign Wealth Fund

- A sovereign wealth fund is a state-owned investment fund comprised of money generated by the government, often derived from a country's surplus reserves.
- SWFs provide a benefit for a country's economy and its citizens, the funding for a SWF can come from a variety of sources.
- Popular sources are surplus reserves from state-owned natural resource revenues, trade surpluses, bank reserves that may accumulate from budgeting excesses, foreign currency operations, money from privatizations, and governmental transfer payments.
- In general, sovereign wealth funds usually have a targeted purpose.
- Some countries have sovereign wealth funds that can be similar to venture capital for the private sector.
- Traditional classifications of sovereign wealth funds include:
  1. Stabilization funds
  2. Savings or future generation funds
  3. Public benefit pension reserve funds
  4. Reserve investment funds
- Union government has exempted specified persons from the income in the nature of dividend, interest or long-term capital gains arising from an investment made by it in India.
- Specified persons are SWF or PF which fulfils conditions prescribed therein and are specified for this purpose by the Central Government through notification in the Official Gazette.

3. INFLATION

3.1 Consumer Price Index-Industrial Workers (CPI-IW)

Recently, the Ministry of Labour and Employment released the new series of Consumer Price Index for Industrial Worker (CPI-IW) with base year 2016.

- The CPI-IW is mainly used for determining dearness allowance (DA) paid to central/state government employees and workers in the industrial sectors besides measuring inflation in retail prices, fixation and revision of minimum wages in scheduled employments.
- CPI-IW is compiled and maintained by the Labour Bureau, an attached office of the Ministry of Labour & Employment.
- The new series of CPI-IW with base 2016 has replaced the existing series with base 2001.
- Earlier, the series were also revised from 1944 to 1949; 1949 to 1960; 1960 to 1982 and 1982 to 2001.
- The revision in base year will reflect changing consumption pattern of the working-class population over the years.
- Key changes
  1. Following the change in base year, the index will give 39% weight to food and beverage consumption of workers now as against 46.2% earlier.
  2. In contrast, spending on housing will get almost 17% weight as against 15.2% earlier.
  3. Among consumption categories, a segment comprising spending on heads like education, health and transport by workers has been given a sizable jump in weight from 23% earlier to 30% now.

3.2 Monetary Policy Committee

- The Reserve Bank of India Act, 1934 was amended by Finance Act (India), 2016 to constitute MPC.
- Monetary Policy Committee is responsible for fixing the benchmark interest rate in India.
- The meetings of the Monetary Policy Committee are held at least 4 times a year (specifically, at least once every quarter) and it publishes its decisions after each such meeting.
- The committee comprises six members - three officials of the Reserve Bank of India and three external members nominated by the Government of India.
- The committee is answerable to the Government of India if the inflation exceeds the range prescribed for three consecutive quarters.
- They need to observe a "silent period" seven days before and after the rate decision for "utmost confidentiality".
- The Governor of Reserve Bank of India is the chairperson ex officio of the committee.
- Decisions are taken by majority with the Governor having the casting vote in case of a tie.
- The current mandate of the committee is to maintain 4% annual inflation until 31 March 2021 with an upper tolerance of 6% and a lower tolerance of 2%.
- The government has recently appointed three economists namely Ashima Goyal, Shashanka Bhide and Jayanth Varma as new members of the RBI's monetary policy committee (MPC).
- The new members nominated have been given a four-year term.

4. BANKING

4.1 RBI Recommendations on ATMs

- An RTI petition reveals that 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.

4.2 Committee to oversee Ownership of Private Banks

- Reserve Bank of India (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 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.
- 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.

4.3 Co-operative Banks under RBI

Recently, the Central government approved an ordinance 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.
- The Ordinance amends the Banking Regulation Act, 1949 as applicable to cooperative banks.
- With respect to UCBs and multi-State co-operative societies, the RBI will now have powers to -
    i. supersede boards
    ii. restructure managements
    iii. formulate resolution plans
- The change will subject 1,544 co-operative banks to greater RBI supervision.
- It will also partly address the problem of dual regulation by registrars of co-operative societies.
- Notably, the dual regulation is often cited as the reason for the string of co-operative bank failures.
- The Centre has expressed hope that this decision would reassure the 8.6 crore depositors in these banks about the safety of their money.
- 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.
- **Concerns -** The RBI already has enough responsibilities in monitoring regulatory compliance by the following under its watch:
    i. 86 scheduled commercial banks
    ii. 10 small finance banks
    iii. 53 regional rural banks
    iv. thousands of NBFCs
    v. housing finance companies (recently been added)
- So, the addition of over 1,500 new constituents is unlikely to make its task easier.

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.

4.4 New Loan-Restructuring Scheme

The Reserve Bank of India gave the green signal to a loan-restructuring scheme for stressed borrowers.

- Thisscheme is a special window that provides one-time loan restructuring to companies and individuals.It will provide relief specifically to those impacted by the pandemic.
- Only those companies and individuals whose loans accounts are in default for not more than 30 days as on March 1, 2020, are eligible.
- For corporate borrowers, banks can invoke a resolution plan till December 31, 2020 and implement it till June 30, 2021.
- Such loan accounts should continue to be standard until the date of invocation.
- The one-time restructuring window is available across sectors.
- The companies that were already in default for more than 30 days as on March 1 cannot avail this facility.
- This could affect revival plans of companies that were about to regain profitability but were hit when the lockdown was imposed.
- For personal loans, the resolution plan can be invoked until December 31, 2020 and will be implemented within 90 days thereafter.
- **Implementation -** The RBI has set up a five-member expert committee headed by K V Kamath.
- This committee will make recommendations on the financial parameters required.
- It will recommend the sector-specific benchmark ranges for such parameters to be factored into each resolution plan for borrowers with an exposure of Rs 1,500 crore or above at the time of invocation.
- It will also undertake a process validation of resolution plans for accounts above a specified threshold.
- The RBI will notify this along with modifications in 30 days.
- This means the RBI will have the last word on who will be eligible and the parameters.
- As per the RBI, the most adversely affected sectors by the pandemic are tourism and hospitality, construction and real estate, and aviation.
- The biggest impact will be that banks will be able to check the rise in non-performing assets (NPAs) to a great extent.
- However, it will not bring down the NPAs from the present levels.
- Banks will not face much of a problem in working out individual resolutions plans.But they will have to tackle borrowers who were in stress after the pandemic hit.
- **Safeguards -** The RBI has said that the term of loans under resolution cannot be extended by more than two years.
- In the case of multiple lenders to a single borrower, banks need to sign an Inter-Creditor Agreement (ICA).
- To mitigate the impact of expected loan losses, banks need to make a 10% provision against such accounts under resolution.
- For banks not willing to be part of the ICA, a penal provision of 20% has been specified.

Earlier Schemes

- *Strategic Debt Restructuring (SDR) scheme* - Banks were given an opportunity to convert the loan amount into 51% of equity.
- This equity was to be sold to the highest bidder, once the firm became viable.
- This was unable to help banks resolve their bad loan problem as only two sales have taken place through this measure due to viability issues.
- *Sustainable Structuring of Stressed Assets scheme* - Banks were unwilling to grant write-downs as there were no incentives to do so.
- Write-downs of large debtors could exhaust banks' capital cushions.

- *Asset reconstruction scheme* - The major problem was that asset reconstruction companies were finding it difficult to resolve assets they had bought from banks.
- Therefore, they wanted to purchase the loans only on low prices.
- Consequently, banks were reluctant to sell them loans on a large scale.
- *IBC:* The Insolvency and Bankruptcy Code kicked off.
- The RBI announced a stringent loan resolution process through its circular.
- ***Differences*** - The earlier restructuring schemes did not have any entry barrier.
- The current scheme is available only for companies facing Covid-related stress, as identified by the cut-off date of March 1.
- Strict timelines for invocation of resolution plan and its implementation have been defined in the scheme.
- In the past, this was largely open-ended.
- Independent external evaluation, process validation and specific post-resolution monitoring are further safeguards.

4.5 KV Kamath Committee

The KV Kamath committee was set up by the Reserve Bank of India (RBI).

- The committee was set up to look into the **restructuring needs** of large borrowers hit by Covid.
- The panel was set up to deal with accounts where the aggregate exposure of the lending institutions at the time of invocation of the resolution process is ₹ 1,500 crore and above.
- The committee has identified 26 vulnerable sectors and, the specific financial frailties of each.
- The sectors identified cover much of the manufacturing and infrastructure universe, besides retail outlets, hotels and tourism.
- The panel spelt out sector-wise thresholds with respect to EBITDA, debt service coverage, current assets and liabilities, total outside liability vis-a-vis adjusted tangible net worth.
- It has spelt out clear **restructuring guidelines** for banks to ensure that errors with respect to corporate debt restructuring don't recur.
- Restructuring has seen many avatars over the last decade, be it 5/25 (scheme for infrastructure assets) and S4A, which did not succeed.
- The specific crisis arising out of Covid necessitated a response for large players.
- This supplements the earlier efforts to boost the MSME sector as well as units where the aggregate exposure exceeded ₹ 100 crore.
- *Implementation* - Banks will present their board-approved **resolution policies** taking into account the RBI final guidelines.
- Broad guidelines will also be put in place for restructuring of retail loans.
- The RBI has allowed banks to recast loans which were classified as standard as on March 1, 2020.
- For implementing resolution plans, signing of inter-creditor agreement (ICA) is mandatory in all cases involving multiple lending institutions.
- The resolution framework will be invoked before December 31, 2020.
- It will be implemented before 180 days from the date of invocation.
- The process has to be approved by lenders with 75% in value and 60% in numbers.
- Lenders signing ICA will have to make a 10% provision and non-signing lenders at 20%.
- Any default by the borrower with any of the lenders that signed an ICA during the monitoring period would trigger a review period of 30 days.

- If the borrower remains in default at the end of the period, all lenders would downgrade the account as a non-performing asset (NPA).
- **Reliefs -** MSMEs have received liquidity and solvency packages since September 2019.
- The June 2019 RBI circular addresses the 'resolution plan' modalities for units whose aggregate exposure is above ₹ 100 crore.
- Relief to the large units will ensure flow of working capital across the supply chain, spurring industrial recovery.
- A relaxed timetable on loan repayments will aid this process.

4.6 Revised Long Format Audit Report

The Reserve Bank of India (RBI) has asked banks to implement the revised Long Format Audit Report (LFAR) from 2020-21.

- The current version of the LFAR was devised way back in 2002.
- It should be submitted by the bank auditors to the bank management and the RBI.
- Those were relatively innocent times, with banking transactions and record keeping done manually to a large extent.
- Risk management was not as big a focus area as it is now.
- But, over the past two decades, banking has undergone a sea-change with digital banking, core banking systems and risk management.
- The revised LFAR has sought to keep up with the times and address the requirements of technology-driven banking systems.
- It has done away with some questions that are no longer relevant.
- The revision also seems to have been accelerated by the seemingly unending crises in the banking system over the past few years.
- The revised LFAR has increased focus on a spectrum of risk management at banks, specific queries on credit assessment, information systems, compliance with regulations, etc.
- It wants the auditors to comment on adverse features considered significant in the top 50 standard large advances and which need the management's attention.
- Queries on capital adequacy, resolution of stressed accounts, initiation of IBC process, KYC, anti-money laundering, countering of financing of terrorism and cyber security are welcome.
- Also, there is more coverage of potential fraud areas.
- **Significance -** A specific time-window of 60 days to submit the LFAR to the RBI should pave the way for more seriousness about the report.
- There is a focus on red-flagged accounts and early warning signals.
- This, along with other provisions, should translate into robust LFARs by both statutory central auditors and branch auditors.
- It should help identify frauds and NPAs in a timely manner.
- **Problems -** The revised LFAR could mean longer processes and increased responsibilities for auditors. There could be limitations on conducting 'going concern' assessments, especially in these Covid-troubled times.
- Besides, the ongoing problem of limited time to branch auditors could continue to pose challenges to the effectiveness of the LFAR.

4.7 Moratorium on Lakshmi Vilas Bank

RBI imposed a 30-day moratorium (temporary suspension of activities) on Lakshmi Vilas Bank Ltd (LVB) & proposed a draft scheme for its amalgamation with DBS Bank India.

- ***Reasons*** - The financial position was declining steadily, with continuous losses over the last three years eroding the bank's net-worth.
- Its gross non-performing assets (NPAs) stood 25.4% of its advances as of June 2020, as against 17.3% a year ago.
- It was also experiencing continuous withdrawal of deposits and low levels of liquidity.
- There were serious governance issues which have led to deterioration in its performance.
- The bank management had indicated to the RBI that it was in talks with certain investors, but failed to submit any concrete proposal.
- So it was merged with DBS Bank.
- Also, the RBI has put a cap of Rs 25,000 on withdrawals & assured depositors of the bank that their interest will be protected.
- **Safety of Depositors -** Deposit Insurance and Credit Guarantee Corporation (DICGC) gives insurance cover on up to Rs 5 lakh deposits in banks.
- Merger Proposal will make the bank's CRAR at 12.51% and Common Equity Tier-1 capital at 9.61%.
- The RBI and the government have often assured that the financial system is safe and sound, but a series of failures might affect the confidence of depositors.

4.8 Banking health and the 'K Curve' dynamics

Recently, the depositors in Lakshmi Vilas Bank Limited (LVB) were bailed out.

- A key metric for financial companies is the 'Price to Book Value' ratio (P/BV).
- The P/BV reflects two critical attributes that the market values most:
    1. adequacy of current capital
    2. runway available to the entity for profitable growth
- **A P/BV ratio above 1** indicates that the market believes that the company can grow and generate Return on Equity (RoE) above the hurdle rate that investors expect.
- Here, the faster it can grow or the greater the spread of the ROE above the hurdle rate, the greater the P/BV multiple (above 1).
- **A P/BV below 1** indicates that the market either does not believe the bank has recognised all its bad loans or has the business model to deliver returns above the hurdle rate.
- This may be because the bank does not have a good deposit franchise, has bad cost discipline or a broken lending model.
- **K Curve -** There are banks that have a P/BV above 4 while some others have much below 1, even at 0.25.
- With NBFCs, the P/BV range is even wider, with some NBFCs being valued in excess of 7.
- The growth trajectories of these entities with dispersed P/BV will be varied, resulting in a classic K Curve.
- In other words, the K Curve **depicts the inequality** existing between different financial entities in terms of their attributes that determine their future growth and profitability.
- Widening of the arms of the 'K' would imply that the inequality is increasing.
- On the other hand, narrowing of the span of the 'K' would mean the opposite.
- **One arm of the K:**
- Among private sector banks, a couple of banks have always had their **P/BV above 3** on a consistent basis.
    - Capital is available in plenty for these banks.
    - Resultantly, the market is betting that these banks will grow much above system average and generate attractive RoE.

- This would imply that these banks would have disproportionate incremental market share on both assets and liabilities.
- Next comes the set of banks that have had **P/BV of above 1.5** for the most period.
  - The market insight on these banks is that they are long-term bets, and have access to sufficient capital.
  - But, these banks have to demonstrate a business model that works across cycles.
  - As comfort levels increase on the business model, the P/BV should climb, because runway for growth is available for these banks.
- Both the above set of banks **('Alpha banks')** have adequate access to capital and the intrinsic ability to grow market share.
- These banks would form one arm of the K.
  - The only constraint for these banks would be their ability to grow their liability franchise.
  - This is so because changes in market share on deposits are much slower than changes on the asset side.
- **The other arm:**
- The other private sector banks have a **P/BV of around 1 or much below 1.**
- For some of them that have demonstrated an ability to raise capital even through COVID-19 times, it is a business model issue.
  - It is also a question of whether they have strengths to grow profitably in a sustained manner.
- The new generation banks amongst these have to demonstrate consistent growth and stability on the liability side for a higher P/BV again.
- Quite a few of the old generation private sector banks have an issue with the credibility of their business model and their ability to generate above hurdle RoE through the cycle.
  - They may have a reasonably stable liability franchise.
  - But, the market perceives issues with their lending practices and thereby, asset quality.
  - That is the reason their P/BV is at very low levels.
  - They need to transform themselves by upgrading technology, add skilled manpower and improve management quality and governance.

4.9 Conversion of NBFC's into banks

RBI is pushing for the conversion of large NBFC's into banks due to IL&FS and DHFL failure.

- **Eligibility -** NBFCs with an asset size of 50,000 crore and credible operating experience.
- Payments banks can convert into small finance banks provided they have a good track record of three years.
- Banks which are currently under a non-operative holding financial company structure can exit, if they don't have other group entities in their fold.
- In order to encourage new entrants, industrial houses are allowed to set up banks, provided the laws and supervision systems prevent transactions between connected entities.
- **Need -** It creates uniform entities in the financial sector.
- It helps in greater regulation.
- It will lead to a higher share of the private sector in the banking (which accounts for 30 %of deposits and 36% advances).
- Even **internal working group** set up to review the ownership structure in the financial sector has suggested the relaxation of existing ownership norms for the conversion of NBFCs into banks.
- **Concerns** – NBFCs serve the last mile which is ignored by banks and they account for a quarter of non-food credit.

- It is futile to expect NBFCs to attract low cost deposits, when the other bank regulations such as CRR and priority sector lending obligations apply.
- Despite the new tighter regulation, it is wrong to assume that NBFC's are away from the supervision.
- Even YES Bank, Lakshmi Vilas Bank failed despite laws & audit.
- Today some large business houses management are dominated by promoter family.
- The regulations should be framed such that only groups with a sound professional and transparent management with strong governance are allowed.
- On the whole, Governance is related to the RBI's supervision capacity, rather than ownership pattern or the promoters' stake.

4.10 RBI's IWG Recommendations

An Internal Working Group (IWG) of the RBI constituted to "review extant ownership guidelines and corporate structure for Indian private sector banks" recently submitted its report.

- The IWG was asked to suggest changes that not only boost private sector banking but also make it safer.
- The terms of reference of the IWG inter alia included -
    1. a review of the eligibility criteria for individuals/entities to apply for banking license
    2. examination of preferred corporate structure for banks and harmonisation of norms in this regard
    3. review of norms for long-term shareholding in banks by the promoters and other shareholders

key recommendations

- **Promoter's cap** - The IWG has proposed to raise the cap on promoters' stake in private banks from the current 15% to 26% in 15 years.
- As regards non-promoter shareholding, a uniform cap of 15% of the paid-up voting equity share capital of the bank is prescribed for all types of shareholders.
- **Corporates as banks** - IWG has recommended that large corporate or industrial houses may be allowed as promoters of banks.
    - Large corporates refer to business houses having total assets of Rs 5,000 crore or more.
    - Here, the non-financial business of the group accounts for more than 40% in terms of total assets or gross income.
- However, this move will be rolled out only after making amendments to the Banking Regulation Act, 1949.
    - This is to deal with connected lending and exposures between the banks and other financial and non-financial group entities.
- The IWG also made a case for strengthening of the supervisory mechanism for large conglomerates, including consolidated supervision.
- **New Banks** - IWG recommended that the minimum initial capital requirement for licensing new banks should be enhanced -
    i. from Rs. 500 crore to Rs. 1,000 crore for universal banks
    ii. from Rs. 200 crore to Rs. 300 crore for small finance banks
- **NBFCs** - The panel suggested well run large NBFCs with an asset size of Rs. 50,000 crore and above, including those owned by a corporate house, may be considered for conversion into banks.
- This is however subject to completion of 10 years of operations and meeting due diligence criteria and compliance with additional conditions specified.
- **Payments Banks into SFBs** - The panel has proposed a reduction in the time-frame needed for payments banks to convert into small finance banks (SFB) to 3 years from 5 years.
- A change has also been suggested in the listing criterion for SFBs and payment banks.
- They may list -

i. within 6 years from the date of reaching the net worth equivalent to prevalent entry capital requirement prescribed for universal banks (or)

ii. 10 years from the date of commencement of operations, whichever is earlier

- **NOFHC -** Non-operative Financial Holding Company (NOFHC) should continue to be the preferred structure for all new licenses to be issued for universal banks.
    - [NOFHC is a category of non-banking finance company (NBFC), registered as an NBFC with the RBI.
    - It is governed by a separate set of directions issued by RBI.
    - The objective is to separate several financial activities carried out by the same holding company.]
- However, it should be mandatory only in cases where the individual promoters / promoting entities/ converting entities have other group entities.
- Banks licensed before 2013 may move to an NOFHC structure at their discretion.
    - However, once the NOFHC structure attains a tax-neutral status, all banks licensed before 2013 shall move to the NOFHC structure within 5 years from announcement of tax-neutrality.
- The concerns about banks undertaking different activities through subsidiaries joint ventures (JVs)/associates should be addressed through suitable regulations till the NOFHC structure is made feasible and operational.
- Banks currently under NOFHC structure may be allowed to exit from such a structure if they do not have other group entities in their fold.
- **Licensing guidelines -** The panel called for the RBI to take steps to ensure harmonisation and uniformity in different licensing guidelines, to the extent possible.
- **Benefits Growth -** The RBI panel has suggested opening the field to new players.
- This may provide a wide choice to consumers in terms of products and pricing.
- By initial indications, 9 private sector and 5 state owned NBFCs may get qualified to set up, or turn into, banks adding to the present strength of 143 banks (June 2020).
- This is likely to expand the banking network that should help the economy reach its growth potential.
- **NBFCs -** The IWG's recommendation to allow conversion of large NBFCs into banks could increase the size of the banking system itself.
- With at least 10 years as shadow banks, they will have a different approach to credit appraisal; risk-based pricing, monitoring and recovery strategies.
- **NOFHC -** A non-operative finance holding company (NOFHC) structure to separate ownership and management control is expected to take care of the 'conflict of interest' issues.
- This is in line with the recommendations of the PJ Nayak Committee report reviewing 'Governance of Boards of Banks in India'.
- The committee even called for Public Sector Banks (PSBs) to separate government ownership and grant autonomy in their functioning.
- The transition of the ownership structure of existing private banks licensed before 2013 is also clearly outlined.

4.11 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 ₹ 20 crore as compared to ₹ 10 crore now.
- Existing HFCs would have to reach ₹ 15 crore within a year and ₹ 20 crore within two years.

4.12 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.

4.13 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 -
- Any NBFC including Microfinance Institutions registered with RBI under the Reserve Bank of India Act, 1934 (excluding those registered as Core Investment Companies).
- 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.

4.14 Open Credit Enablement Network (OCEN)

- Open Credit Enablement Network (OCEN), 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.

4.15 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.
- Quality of the asset indicates how much of the loans taken by the borrowers are repaid in the form of interests and principal.

Classification of loans –

- **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.

4.16 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.

4.17 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.

4.18 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.

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.

- 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.

4.19 Chief Compliance Officer (CCO)

- Reserve Bank of India has issued guidelines for appointment of Chief Compliance Officer (CCO) in banks.

- This aims to ensure uniform approach with regard to compliance and risk management culture across the banking industry.
- The CCO must be appointed for a minimum fixed period of three years.
- The person should be a senior executive of the bank, preferably in the rank of a general manager or an equivalent position or he could also be recruited from outside.
- He must not be a member of any committee which brings his/her role in conflict with responsibility as member of the committee, including any committee dealing with purchases/sanctions
- Few important conditions to CCO are
    1. There shall not be any responsibility which brings elements of conflict of interest, especially the role relating to business.
    2. No vigilance case or adverse observation from the RBI should be pending against the candidate identified for appointment as the CCO.
    3. Selection of the candidate for the post of the CCO should be done on the basis of a well-defined selection process and recommendations made by the senior executive-level selection committee constituted by the board for the purpose.

4.20 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
    3. Export Credit
    4. Education
    5. Housing
    6. Social Infrastructure
    7. Renewable Energy

TGFIFL

- Technical Group on Financial Inclusion and Financial Literacy (TGFIFL) was set up in November 2011 by the FSDC.
- It is responsible for periodic monitoring and implementation of NSFE under the oversight of Financial Stability and Development Council (FSDC).

- 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.
- **Recent Developments -** 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.

Revised Priority Sector Lending (PSL) Guidelines

- It align with emerging national priorities and also bring sharper focus on inclusive development.
- The PSL guidelines were last reviewed for commercial banks in April 2015 and for Urban Co-operative Banks (UCBs) in May 2018.
- Additional Categories covered under to PSL are

a) Bank finance to start-ups up to Rs. 50 crore,

b) Loans to farmers for installation of solar power plants for solarisation of grid connected agriculture pumps.

c) Loans for setting up Compressed BioGas plants.

- Revised Guidelines includes the following

1. Higher credit limit has been specified for Farmers Producers Organizations (FPOs) undertaking farming with assured marketing of their produce at a predetermined price.
2. It has defined farmers with land holding of up to one hectare as marginal farmers, and farmers with a landholding of more than one hectare and up to 2 hectares as small farmers.
3. The credit limits for renewable energy, health infrastructure, including the projects under 'Ayushman Bharat', have been doubled.
4. Higher weightage has been assigned to priority sector credit in 'identified districts' where priority sector credit flow is comparatively low.

4.21 Appointment of RBI deputy Governor

- The Reserve Bank's affairs are governed by a Central Board of Directors (CBD).
- Members of the board are appointed by the Government of India in accordance with Section 8 of the Reserve Bank of India Act.
- The CBD as the administrative apex body of the RBI contains two sets of directors; the official directors and non-official directors.
- The official directors comprised of the Governor and not more than four Deputy Governors who are appointed/nominated by the Central Government under the RBI Act. RBI Governors is thus appointed by the Government
- **Structure -** The central bank has four Deputy Governors of which two are appointed from outside – one a commercial banker and the other, an economist.
- The remaining two are promoted from within the RBI.
- **Selection -** The Financial Sector Regulatory Appointment Search Committee (FSRASC) is responsible for selecting the candidate.
- The RBI Act doesn't mention any specific qualification for the governor.
- **Term/ Tenure -** The Governor and Deputy Governors hold office for periods not exceeding five years.
- The term of the governor may be fixed by the government at the time of his appointment.
- Governor/Deputy Governors is eligible for reappointment or extension.
- **Appointments -** Previously Deputy Governors were appointed by a panel headed by RBI Governor.
- But now they are appointed based on recommendations of the Financial Sector Regulatory Appointment Search Committee (FSRASC) headed by Cabinet Secretary that also includes RBI Governor.
- Recently Appointments Committee of the Cabinet (ACC) has approved the appointment of RBI's senior-most Executive Director M. Rajeshwar Rao as RBI Deputy Governor.

4.22 Failed Banks

- The closing of an insolvent bank by the regulator is known as a bank failure.
- The bank deposits are insured by Deposit Insurance and Credit Guarantee Corporation (DICGC) which is a subsidiary of the Reserve Bank of India (RBI).
- The account holders who have accounts in the failed bank will not experience any change using the bank with new ownership as they will still have access to their cash and should be able to use their debit cards and cheques.

- Recently RBI said the financial position of the Chennai-based LVB has undergone a steady decline and consider the bank as a failed one.

4.23 Regulatory Sandbox

- It refers to live-testing of new products or services in a controlled regulatory environment for which regulators may or may not permit relaxations for the limited purpose of the testing.
- The Reserve Bank of India (RBI) relaxed eligibility norms for applicants under its regulatory sandbox (RS) initiative.
- It has allowed partnership firms and limited liability partnerships (LLPs) to participate in the RS.
- It has modified the enabling framework, reducing the net worth requirement from ₹ 25 lakh to ₹ 10 lakh.
- It has also announced "cross-border payments" as the theme of the second cohort under this scheme.
- It has also decided that micro, small and medium enterprise (MSME) lending will be the theme for the third cohort.

4.24 RRB to Access Liquidity Windows

- RBI allowed regional rural banks (RRBs) to access the liquidity windows of the RBI and call or notice money market, aimed at facilitating better liquidity management for these lenders.
- The liquidity windows of the RBI include liquidity adjustment facility (LAF) and marginal standing facility (MSF).
- At present, RRBs are not permitted to access the liquidity windows of the RBI as well as the call or notice market.
- The RBI left the policy repo rate unchanged at 4 per cent.
- It also maintained an accommodative stance.

4.25 Consolidated Sinking Fund

- CSF was set up in 1999-2000 by the RBI to meet redemption of market loans of the States.
- Initially, 11 States set up sinking funds. Later, the 12th Finance Commission (2005-10) recommended that all States should have sinking funds for amortisation of all loans, including loans from banks, liabilities on account of National Small Saving Fund (NSSF), etc.
- The fund should be maintained outside the consolidated fund of the States and the public account.
- It should not be used for any other purpose, except for redemption of loans.
- State governments maintain a CSF with the Reserve Bank as a buffer for repayment of their liabilities.
- As per the scheme, State governments could contribute 1-3% of the outstanding market loans each year to the Fund.
- The Fund is administered by the Central Accounts Section of RBI Nagpur.

4.26 Sarfaesi Act of 2002

- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act enacted in 2002.
- Banks utilize Sarfaesi Act as an effective tool for bad loans (Non-Performing Asset) recovery.
- The Sarfaesi Act is effective only against secured loans where banks can enforce the underlying security.
- Following are the main objectives of the Sarfaesi Act.
    1. Provides the legal framework for securitization activities in India.
    2. It gives the procedures for the transfer of NPAs to asset reconstruction companies for the reconstruction of the assets.

3. Enforces the security interest without Court's intervention.
4. Gives powers to banks and financial institutions to take over the immovable property that is pledged to enforce the recovery of debt.

- Major feature of Sarfaesi is that it promotes the setting up of asset reconstruction companies (ARCs) and asset securitization companies (SCs) to deal with NPAs accumulated with the banks and financial institutions.
- Recently, the Supreme Court held that Co-operative banks established under a State law and multi-State level co-operative societies come within the ambit of Sarfaesi Act.

4.27 Co-Lending Model (CML) by NBFC

- Reserve Bank of India (RBI) has eased norms to allow co- origination of priority sector loans by banks and non-banking finance companies (NBFCs).
- The Co-Lending Model (CML) is aimed at improving the flow of credit to the unserved and underserved sector of the economy and making available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs.
- Under RBI norms banks have to compulsorily lend 40% of their net bank credit for sectors like agriculture, micro and small industries, weaker sections of society and new areas like renewable energy.
- Banks will take their share of the individual loans on a back-to-back basis.
- NBFCs have to retain a minimum of 20% share of the individual loans on their books, RBI said.
- The NBFC shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of NBFCs and banks.
- This model will not be applicable to foreign banks with less than 20% branches.
- The co-lending banks and NBFCs shall maintain each individual borrower's account for their respective exposures.
- However, all transactions (disbursements/ repayments) between the banks and NBFCs relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter- mingling of funds

5. FINANCIAL MARKET

5.1 Companies' Resort to Rights Issue

Reliance Industries Limited (RIL) recently concluded its rights issue to raise funds.

- A rights issue is a mechanism by which companies can raise additional capital from existing shareholders.
- Under this, the company gives its existing shareholders the right to subscribe to newly issued shares in proportion to their existing holdings.
- Rights issue is a more democratic approach to raising funds.
- This is because it allows the existing shareholders the right to invest first in the company.
- For a rights issue, there is no requirement of shareholders' meeting.
- An approval from the board of directors is sufficient and adequate.
- Therefore, the turnaround time for raising this capital is short.
- This is unlike other forms that require shareholders' approval which may take some time to fructify.
- Thus, the rights issue is much suited for the current situation and a more efficient mechanism of raising capital.
- The success of RIL and the big demand shows that there is investor appetite in the market for good companies with strong credentials at a good price.

- However, it is important to note that the capital markets regulator, Securities and Exchange Board of India (SEBI), undertook certain reforms over the last one year.
- Over the last one year, SEBI has undertaken significant steps to reform the rights issue process.
- Besides some permanent reforms, it also provided some temporary relaxations in the wake of Covid-19 pandemic.
- SEBI relaxed certain guidelines for right issues that open on or before March 31, 2021.
- This is to expand the universe of listed entities that are eligible for raising funds through fast track rights issuance.
- It also aims at easing the process for companies to raise funds during the present crisis.
- SEBI reduced the eligibility requirement of average market capitalisation of public shareholding from Rs 250 crore to Rs 100 crore for a fast track rights issuance.
- It also reduced the minimum subscription requirement from 90% to 75% of the issue size.
- Also, listed entities raising funds up to Rs 25 crores (erstwhile limit was Rs 10 crores) through a rights issue are now not required to file draft offer document with SEBI.

5.2 SEBI on Takeovers and Equity

The Securities and Exchange Board of India (SEBI) released an amended set of guidelines on takeovers and equity.

- They sought to make it easier for entrepreneurs and promoters to raise fresh equity during 2020-21.
- Promoters may acquire up to 10% of shareholding via the creeping acquisition route without triggering mandatory open offers under the Takeover Code.
- [The previous threshold for this route was up to 5% of equity annually.
- Beyond this, the process of a mandatory open offer was triggered.]
- However, the new 10% limit doesn't apply to secondary market operations.
- The acquisition must occur through a preferential offer where the promoter group issues new shares to itself.
- This relaxation will be in force only until March 31, 2021.
- SEBI has also relaxed the provisions for voluntary open offers.
- Earlier, a shareholder having 25% or more of shares, or voting rights, was permitted to make a voluntary open offer.
- But this was pemitted only if he had not acquired any shares via the creeping acquisition route in the preceding 52 weeks.
- That condition has now been relaxed till March 31, 2021.
- This would enable promoters to use the creeping acquisition route and also make an open offer if they so choose.
- However, the overall limit of 75% shareholding for a listed company remains.
- Another relaxation pertains to the interval between accessing qualified institutional placement (QIP) funding for a listed company.
- Compared with an initial public offer, raising money from QIPs is a relatively easy process in terms of compliance.
- However, prior to this, follow-on public offers (FPOs) made to institutional investors had to be staggered at an interval of at least 6 months.
- That period has now been reduced to 2 weeks, again only with respect to the 2020-21 fiscal year.
- These measures would offer some comfort to cash-strapped companies struggling to fund operations during these difficult times.
- These relaxations remove the need to take on more debt, which is difficult due to the enormous amount of government borrowing and is crowding out private players from the bond market.

- Companies can now access funding via the equity route.They can tap into both promoter funding and QIP funding using the FPO route.

5.3 SEBI's Norms for Preferential Issues

The Securities and Exchange Board of India has relaxed its norms for preferential issues.

- The SEBI has announced a pricing methodology that will make it easier for companies to raise funds.
- Now, the companies have the option of pricing the preferential offer at the weekly average price over the preceding **12 weeks or 2 weeks**.
- This pricing rule will be applicable only for preferential issues made from July to December 2020.
- The existing rules required the pricing to take into account the average price over the preceding **26 weeks**.
- This would have resulted in the offers being priced very high, thus deterring potential investors.
- **Significance -** The SEBI's tweak to the pricing rules for preferential issue is among the preferred channel of fund raising due to its relatively easier process.
- It had also allowed distressed firms to raise funds through preferential issue considering the share price of only the preceding 2 weeks.
- Investors in distressed firms were also exempted from the need to make an open offer.
- **Other changes -** If an open offer is delayed due to omissions by the acquirer, 10% penal interest is to be paid to all shareholders who have tendered shares in it.
- This move is necessary to check bogus open offers announced with the mal-intent of manipulating the stock price.
- The Prohibition of Insider Trading Regulations has also been amended.
- This makes all companies to maintain a database of unpublished price-sensitive information and the names of persons who have shared it.

5.4 Investing in Gold Bonds

Fourth tranche of sovereign gold bonds 2020-21 are opened for subscription.

- The government introduced the gold bonds scheme in 2015.
- The scheme was introduced to wean away investors from the physical gold market.
- These bonds have a maturity period of eight years.
- But, the investors have the option to exit after the fifth year.
- Funds raised through such issuances form part of the government's overall borrowings in a year.
- **Benefits -** Gold bonds offer investors twin benefits of price appreciation along with a fixed 2.5% coupon per year.
- Interest earned on these gold bonds is added to the holders' income.
- Interest earned on these bonds is taxed according to their slab rate.
- Any capital gains on these bonds at maturity are tax free.
- This makes them far more attractive than owning physical gold.
- To offer greater liquidity, the bonds are listed on stock exchanges within a fortnight of issuance, and can be traded.
- Gold bonds appear attractive when gold prices spike.
- This leads to greater investor interest in this asset class.

5.5 Rising Gold Price - Pandemic Times

After over 9 years, gold prices hit Rs 50,000 per 10 grams on 22 July 2020 in India.

- Gold had a remarkable performance in the first half of 2020.
- It increased by around 25% from its low in March 2020 and significantly outperformed all other major asset classes.
- Gold futures prices soared to a 9-year high of $ 1,856.60 per troy ounce in London.
- It is inching closer to their record high of $1,920 an ounce hit in September 2011. [One troy ounce is equivalent to 31.1034768 grams.]
- India is world's second-largest gold consumer after China.
- Households in India may have piled up around an estimate 24,000-25,000 tonnes of gold.
- Various temples across the country also hold sizeable gold holdings.
- The RBI bought 40.45 tonnes of gold in the financial year 2019-20.
- This took its total holdings of gold to 653.01 tonnes.
- **Reason for rise in Prices -** Gold prices in India are dictated by international prices.
- International gold prices have been on the rise in the last few months.
- It picked up pace amid sharp losses in the dollar, additional stimulus measures and robust investor inflows.
- A host of factors have increased the appetite for gold, like -
    i. global uncertainties triggered by COVID-19 pandemic
    ii. weak dollar
    iii. low-interest rates
    iv. stimulus programmes
- Equity markets around the world rebounded sharply from their March 2020 lows.
- But the high level of uncertainty surrounding the pandemic persists.
- So, like money market and high-quality bond funds, gold benefited from investors' need to reduce risk.
- Rising virus cases and US-China tensions have also underpinned the gold price.
- Whenever stock markets, real estate and bonds fall across the world, investors turn to gold to park their funds.
- The fall in the value of other asset classes and global uncertainties in the wake of Covid-19 helped gold climb to a record high.
- A key factor behind this robust performance is that the supply growth of gold has changed little over time.
- It has increased by approximately 1.6% per year over the past 20 years.
- [In contrast, fiat money can be printed in unlimited quantities to support monetary policy.
- E.g. the Quantitative Easing (QE) measures in the aftermath of the global financial crisis]
- Historically, gold has generated long-term positive returns in both good times and bad.
- Looking back almost half a century, the price of gold has increased by an average 14.1% per annum since 1973.
- [1973 is when Bretton Woods collapsed and the gold standard system of pegging the currency to gold ended.]
- The pandemic will thus continue to reinforce the role of gold as a strategic asset.

5.6 Social Stock Exchange

Social Stock Exchange (SSE) was established by the SEBI as a structure within the existing stock market ecosystem.

- SSE would enable the social enterprises and voluntary organisations to raise funds.
- It acts as a platform for listing social enterprise, voluntary and welfare organisations so that they can raise capital.
- It was mooted in the Union Budget 2019-20.

- Social enterprise can be defined as a non-loss; non-dividend paying company created and designed to address a social problem.
  - It works under the market regulator SEBI.
  - The aim of the initiative is to help social and voluntary organisations which work for social causes to raise capital as equity or debt or a unit of mutual fund.
  - It provides new and cheaper sources of financing for social welfare projects, while showcasing India's independence from foreign aid .
  - SSE already exists in countries such as Singapore, UK, Canada among others.These countries allow firms operating in sectors such as health, environment and transportation to raise risk capital.
  - An expert panel constituted by the Securities and Exchange Board of India (SEBI) has recommended allowing non-profit organisations to directly list on Social Stock Exchanges (SSE).

5.7 NFRA's Action against Deloitte

The National Financial Reporting Authority (NFRA) has taken action against an auditor who led the audit of IFIN in 2017-18.s

- The NFRA is a national regulator for auditors.It was set up specifically to investigate the **role of auditors in frauds** in listed and large public interest entities.
- Previously, only the Institute of Chartered Accountants of India can bar chartered accountants from being appointed as auditors for a company.
- Also, the Securities and Exchange Board of India (SEBI) was permitted to bar CAs from auditing listed companies.
- IL&FS Financial Services (IFIN) is a subsidiary of IL&FS.
- It ran into deep financial trouble after running out of cash in 2018.
- **Actions Taken -** The NFRA has fined Udayan Sen, the former CEO of Deloitte Haskins and Sells, Rs 25 lakh for lapses in the audit.
- It also barred the auditor from auditing activities for seven years.
- The NFRA noted that Deloitte was providing such non permitted services to companies related to IFIN, including the IL&FS.
- This is the first order of its kind by NFRA.
- The role of an auditor is to report on whether a company's financial statements have been reported in line with accounting standards.
- An auditor has to raise red flags in case the auditor notes any concerns regarding the statement of accounts or in any financial transactions entered into by the company.
- Auditors are also required to ensure that there is no conflict of interest in their own appointment.
- Auditors can be barred for **professional misconduct** including not exercising due diligence, or for **gross negligence** in their duties.
- The Companies Act prohibits audit firms from providing certain **non-audit services to clients** that they are auditing.

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 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.

5.8 AT-1 Bonds

The Securities Exchange Board of India (SEBI) has restricted the small investors their access to AT-1 bonds.

- AT-1 bonds, short for Additional Tier-1 bonds, are innovative debt instruments.
- AT-1 includes perpetual non-cumulative preference shares and perpetual bonds.
- It is a type of unsecured, perpetual bonds that banks issue to shore up their core capital base to meet the Basel-III norms.
- **New requirements -** The SEBI has said that offers of such instruments should take the electronic book provider route, with participation restricted to Qualified Institutional Buyers.
- The minimum ticket size for initial offers and secondary market trading in these bonds has been raised to ₹ 1 crore.
- Explicit disclosures will now be required on the perpetual character of these bonds.
- The Point-of-Non-Viability (PONV) clause that allows the RBI to direct a troubled bank to completely write-off the principal value.
- These new requirements are a welcome attempt by the SEBI to ward off YES Bank-like situations.
- In YES Bank, the write-off of AT-1 bonds as a part of the bank's restructuring plan came as a shock to the hundreds of retail investors.
- This case brought into focus the widespread mis-selling of AT-1 bonds to retirees and low-risk investors by banks and intermediaries.
- **Impact on liquidity** - The increase in the minimum trading lot can impact secondary market liquidity.
- This will render these bonds less appealing to institutions.
- **Shooting up capital needs** - A shallow market for AT-1 bonds can hurt when Tier 1 capital requirements for PSBs may shoot up on the back of Covid-related provisioning.
- Fitch estimates banks' capital requirement at $15-58 billion in the coming year.
- In this context, the SEBI and the RBI can evaluate if AT-1 bond participation can be opened up to **informed non-QIB investors**.[Non-QIB investors - Corporate treasuries and family offices with appropriate caveats.]
- The regulators also need to work out an **exit window**.
- This can be done through buybacks, for retail investors stuck in older AT-1 bonds with a current outstanding value of over ₹ 84,000 crore.
- The SEBI needs to initiate specific **penal actions** against intermediaries guilty of mis-selling.
- The RBI should **tighten its lax oversight of banks** acting as intermediaries for third-party products.
- SEBI's actions should serve as a wake-up call for the RBI to pay more serious attention to investor protection.

5.9 Forensic Audits

The Securities Exchange Board of India (SEBI) has made minor tweaks to different laws.

- It proposed the requirement for all listed entities to make compulsory disclosures to the stock exchanges.
- It initiated any forensic audits into their books along with the reasons for commissioning them.
- On completion, the final audit reports along with management comments need to be filed with the exchanges too.
- This is a welcome move because the initiation of a forensic investigation and an explanation on whether it was initiated by the regulator or the company's own Board, is price-sensitive information.

- It has a bearing on one's decision to invest in a stock.
- Making full public disclosures of forensic audit reports as soon as they are submitted is essential too.
- This would do away with insider trading and stock price manipulation based on half-baked leaks from such reports.
- Disclosing forensic audit reports to the public would remove all scope for selective interpretations.
- It allows analysts and investors in a company to make up their mind for themselves.
- Disclosing will prove instructive to investors and policymakers on the modus operandi used by fraudsters to divert public money.
- For better protection to bond and mutual fund investors, SEBI must extend the requirement on making forensic audit reports public to,
    1. Entities with listed shares,
    2. Entities with listed debentures and
    3. Entities dealing with public money in a fiduciary capacity — be it asset managers or rating agencies.
- The regulators such as SEBI and RBI should set an example by publishing the findings of these reports.

5.10 China's negative yield bonds

There is rising demand for Chinese negative yield bonds amidst of COVID Pandemic.

- They are debt instruments which pays the investor a maturity amounts lower than the purchase price of the bond.
- Investors buy themduring times of stress and uncertainty to protect their capital from significant erosion.
- A 10-year and 15-year bond gives positive return in China whereas interest rates in Europe has dropped significantly.
- As against minus —0.15% yield on the 5-year bond issued by China, the yields offered in safe European bonds are much lower, between –0.5% and —0.75%.
- China is one country that is set to witness positive growth (GDP expanded by 4.9% in the third quarter of 2020) when large economies are facing a contraction in their GDP for 2020-21 in these challenging times.
- China demonstrated that it has controlled the spread of a second wave of Covid-19 cases when Europe, US and other parts of the world are still suffering.
- After the pandemic global central banks injected massive amount of liquidity which shot up the prices of various assets including equities, debt and commodities.
- Investors wish to park their money in negative-yielding government debt for the purpose of hedging their risk portfolio in equities.
- The fresh wave of the Covid-19 pandemic can lead to further lockdown in the economies(new US government may impose), which can push interest rates down, yields reduces further, and leading to profits for investors.

5.11 SEBI's Measure to Increase Market Liquidity

- In April, SEBI had 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.

5.12 Integrated Market Surveillance System

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

5.13 ESG Funds

- ESG is a combination of three words i.e. environment, social and governance, it is a kind of mutual fund.
- Its investing is used synonymously with sustainable investing or socially responsible investing.
- ESG fund shortlists companies that score high on environment, social responsibility and corporate governance, and then looks into financial factors.
- ESG fund focuses on companies with environment-friendly practices, ethical business practices and an employee-friendly record.
- The fund is regulated by Securities and Exchange Board of India (SEBI).
- The ESG funds are increasingly becoming popular in the mutual fund industry in India.
- The first ESG mutual fund was launched by the State Bank of India - SBI Magnum Equity ESG Fund.

5.14 Framework for Regulatory Sandbox

The International Financial Services Centres Authority (IFSCA) has introduced a Framework for Regulatory Sandbox to tap into innovative FinTech solutions.

- The Regulatory Sandbox shall operate within the IFSC located at GIFT City.
- Under this Sandbox framework, entities operating in the capital market, banking, and insurance and financial services space shall be granted facilities to experiment with innovative FinTech solutions.
- Under the Sandbox experiments can be carried out in a live environment with a limited set of real customers for a limited time frame.
- These features shall be fortified with necessary safeguards for investor protection and risk mitigation.
- As an additional steps towards creating an innovation-centric ecosystem in the IFSC, IFSCA has proposed the creation of an "Innovation Sandbox"

- The Innovation Sandbox will be managed and facilitated by the Market Infrastructure Institutions (MIIs) operating within the IFSC.

5.15 IFSCA

- Union government has established International Financial Services Centres Authority to regulate all financial services in International Financial Services Centres (IFSCs).
- IFSCA has an objective to develop a world class FinTech hub at the IFSC located at GIFT City in Gandhinagar (Gujarat, India).
- The IFSCA will consist of nine members, appointed by the central government.
    1. This Include Chairperson, a member each from the RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA)
    2. Two members from the Ministry of Finance.
    3. Two other members will be appointed on the recommendation of a Selection Committee.
- All members of the IFSC Authority will have a term of three years, subject to reappointment
- IFSCA's 'FinTech' initiatives includes financial

5.16 Floating Rate Bonds

- FRS bonds are fixed income instruments offered by the Government of India which come with a lock-in period.
- Unlike regular bonds that pay a fixed rate of interest, floating rate bonds have a variable rate of interest.
- The rate of interest of a floating rate bond is linked to a benchmark rate and is reset at a regular interval.
- The interest rate risk is largely mitigated as these bonds will pay higher return when prevailing rates are high.
- There is no certainty of the future stream of income when investing in a floating rate bond.
- The best time to buy floating rate bonds is when rates are low and are expected to rise.
- The FRS bonds are a 100% risk free investment option as interest payments on these are guaranteed by the Government of India.
- The interest earned on FRBs will be taxed, TDS will be deducted on interest payment similar to an Fixed Deposit, the same can be claimed back while filing Income Tax returns.
- The minimum amount that a person can invest is INR 1,000 and in multiples of INR 1,000 thereof and there is no cap on investments that a person can make.
- All residents of India and Hindu Undivided Family (HUF) are eligible to invest in FRBs, However a Non-Resident Indian (NRI) cannot invest in the scheme.
- Recently, the Ministry of Finance has provided the information that the outstanding balance of 'Government of India Floating Rate Bonds (FRB) 2020' is repayable at par on December 21, 2020.

5.17 Zero-Coupon Bonds

- Zero-coupon bonds or accrual bonds are debt security instruments that do not pay interest.
- They trade at deep discounts, offering full face value profits at maturity.
- The difference between the purchase price of a zero-coupon bond and the par value indicates the investor's return.
- The Centre would recapitalise Punjab & Sind Bank using this bond.
- The Centre has allowed this bank to account for these securities under 'Held to Maturity' portfolio without any limit.
- Also, such investments will not qualify as Statutory Liquidity Ratio eligible papers.

- It is a rarest of the rare situation where the recapitalisation exercise will not earn any interest to the bank during the tenure of the securities.

5.18 IFSCA, an IAIS Member

- Gujarat International Finance Tec (GIFT) City is India's first operational smart city and international financial services centre.
- GIFT City's regulator International Financial Services Centres Authority (IFSCA) has become an International Association of Insurance Supervisors (IAIS) member.
- Now, IFSCA would have access to IAIS's global network and would exchange ideas and information with other global regulators.
- This would develop a vibrant global insurance hub in IFSC at GIFT City.
- This would connect GIFT IFSC with global insurance institutions.
- It would facilitate IFSCA in the joint development of global insurance business with other global centres.

IAIS

- Established in 1994 with Switzerland as its headquarter, IAIS is a voluntary membership organisation of insurance supervisors and regulators.
- It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards, and other supporting material for the supervision of the insurance sector.
- Indian Insurance Regulatory and Development Authority (IRDAI) is among the leading members of IAIS.

5.19 BSE Municipal Bond Listing

- Bonds issued by the Lucknow Municipal Corporation (LMC) listed on the BSE, raising a capital of Rs 200 crore for Uttar Pradesh's capital.
- It's the ninth city in India to raise capital through municipal bonds.
- LMC's bond issuance offered coupon of 8.5% and had tenure of 10 years.
- The issuance had garnered 4.5 times subscription.
- LMC bond were rated AA and AA (CE) Stable by Brickwork Ratings.
- The money raised using such bonds is typically used for infra projects such as roads, water and housing.
- Among the key eligibility criteria for issuing these bonds is that,
  1. The local body shouldn't have negative net worth in any of the three preceding financial years and
  2. The local body shouldn't have defaulted on payments in the last one year.

6. EXTERNAL SECTOR

6.1 GeM's Country of Origin Flag

The government made it mandatory for sellers on the GeM portal to clarify the country of origin of their goods when registering new products.

- Government e-Marketplace (GeM) is the Commerce Ministry's online marketplace.
- It procures goods and services by various Ministries and government bodies.
- Products sold on the portal range from stationery used by government officials to medical products that are used on patients.
- The GeM portal will now have the **'country of origin' flag** for their products.
- The portal already has a **'Make in India' filter**.
- Therefore, the government offices can ascertain which products have a higher content of indigenously produced raw materials.

- This would help them choose products that meet the 'minimum 50% local content' criterion when selecting bidders for their tenders.
- The portal now allows buyers to reserve a bid for Class I local suppliers, or suppliers of those goods with more than 50% local content.
- For bids below Rs 200 crore, only Class I and Class II (those with more than 20% local content) are eligible.
- **Need -** The decision comes in the backdrop of the government's **push for Aatmanirbhar Bharat**.
- [Aatmanirbhar Bharat intends to promote self-reliance by boosting the use of locally produced goods.]
- The decision also follows the **clashes between the troops of India and China** in Galwan Valley.
- This prompted several government departments to launch an offensive against imports from China.
- The Confederation of All India Traders is pushing for a country of origin tag in the private e-commerce firms.
- **Impact -** Over the time, the use of imported goods in government offices and facilities may be filtered out, as the following are combined,
    1. Announcement of the 'country of origin' of the products sold on the GeM portal,
    2. Make in India campaign &
    3. A push for Aatmanirbhar Bharat.
- This might provide an opportunity to Indian manufacturers across industries to push their products in government facilities.

6.2 Rising Forex Reserves

Covid-hit India's forex reserves jumped by a record $11.9 billion in the week ending July 31 to hit a fresh high of $534.5 billion.

- Forex reserves are external assets accumulated by India in the form of -
    i. gold
    ii. SDRs (special drawing rights of the IMF)
    iii. foreign currency assets (capital inflows to the capital markets, FDI and external commercial borrowings)
- These are controlled by the Reserve Bank of India.
- The RBI was able to increase its reserves by $79 billion over the past year (FY19) and by $29 billion since the beginning of the 2020-21 fiscal year.
- The $500 billion mark comes as an encouraging development amidst the current gloomy economic scenario, given the COVID-19 pandemic.
- The reserves will be useful if global financial conditions deteriorate further, causing turbulence in currency markets.
- **Contributing factors -** The dollar-rupee swap auctions conducted in March and April 2020 have helped increase reserves to some extent.
- But besides this, there is also a couple of other unplanned and some fortuitous developments as well.
- Notable among them are the rising external commercial borrowings (ECB) and an unexpected trade surplus.
- Global central banks are pumping in enormous amount of money into the global economy and moving interest rates lower.
- With this, Indian companies have found it easier to raise funds overseas at cheaper cost.
- Resultantly, ECBs raised in FY20 were 127% higher compared to FY19.
- In the first two months of 2020-21 fiscal, corporates had already borrowed over $2 billion.
- *FPI inflows*: The FPI inflows has risen following the government's decision in September 2020 to cut corporate tax rate.

- Between April and December 2019, FPIs pumped in $15.1 billion.
- *Dip in crude oil prices*: India's oil import bill has declined since February 2020.
- This is due to the global spread of coronavirus that roiled the stock markets and led to a crash in the Brent crude oil prices.
- The crude accounts for almost 20% of India's total import bill.
- Brent crude oil prices fell to levels of $20 per barrel towards March end, and it dropped further and traded between $9 and $20 in April.
- In January, Brent crude was trading between $60 and $70 per barrel.
- Import savings: Lockdown across countries in response to the pandemic impacted global trade.
- It has resulted in a sharp dip in import expenditure — electronics, gold and also crude oil prices among others.
- *FDI inflows*: Between September 2019 and March 2020, FDI stood at $23.88 billion and in April and May it amounted to $5.9 billion.
- A lot of FDI has also come in June and July too.
- Thus FDI inflow has been a significant contributor to the rise in foreign exchange reserves.
- Dip in gold imports: Gold import has dipped sharply in the quarter ended June 2020 following the high prices and the pandemic-induced lockdown.
- According to the World Gold Council (WGC), gold imports plummeted by 95% to 11.6 tonnes in the quarter as compared to 247.4 tonnes in the same period a year ago.
- This was due to logistical issues and poor demand.

6.3 China's Renminbi

Four commercial banks in China began large-scale testing of the digital currency, Renminbi.

- China is one of the most digitally penetrated countries in the world.
- It has seen impressive acceptance of financial technologies and digital payments.
- China's digital payments ecosystem is more advanced than many of its Western counterparts, including the US and the EU.
- China's new financial system is built on digital wallets, QR codes, and runs through its own big tech firms: Alipay of Alibaba, etc.
- So, it is natural that the government has planned to take the next step and experiment with an all-encompassing digital currency.
- According to the Bank for International Settlements (2019), most central banks (80%) are fiddling with the idea of a sovereign digital currency.
- This includes the US and the European Central Bank.
- The G7 countries have been planning a collective move on central bank-sponsored digital currencies.
- Even the RBI has been contemplating bringing out a national digital currency if and when safe technologies emerge.
- National Blockchain Strategy of India envisages a sovereign digital currency.
- But it seems China has gone ahead with its plans and is set to roll out one for mass use.
- Difference over other bitcoins - To start with, this is **legal tender**, endorsed by the state.
- Bitcoin is not legally accepted in many geographies, including India.
- A 2018 RBI order disallowed the use and exchange of cryptocurrencies by financial institutions it monitors.
- India is contemplating a law banning cryptocurrencies altogether.
- Bitcoin is designed to be anti-authority and is not controlled by a central bank or a government.

- This makes it prone to giant fluctuations in value.

6.4 Amendments to FCRA

The Foreign Contribution (Regulation) Amendment Bill, 2020 was passed in the Parliament.

- The Foreign Contribution (Regulation) Amendment Bill, 2020 seeks to amend the Foreign Contribution (Regulation) Act, 2010.
- The Act regulates the **acceptance and utilisation** of foreign contribution by individuals, associations and companies.
- Foreign contribution is the donation or transfer of any currency, security or article (of beyond a specified value) by a foreign source.

Provisions

- **Aadhaar for registration:** The Act states that a person may accept foreign contribution (FC) if they have:
    1. A certificate of registration from central government, or
    2. Prior permission from the government to accept FC.
- The Bill adds that person seeking prior permission, registration or renewal must provide the Aadhaar number of all its office bearers, directors or key functionaries, as an identification document.
- In case of a foreigner, they must provide a copy of the passport or the Overseas Citizen of India card for identification.
- **Prohibition to accept foreign contribution:** Under the Act, certain persons are prohibited to accept any foreign contribution.
- These include: election candidates, judges, government servants, members of any legislature, and political parties, among others.
- The Bill adds public servants (as defined under the Indian Penal Code) to this list.
- **Transfer:** The Act states that FC cannot be transferred to any other person unless such person is also registered to accept it.
- Theyshould have obtained prior permission under the Act to obtain FC.
- The Bill amends this to prohibit the transfer of FC to any other person.
- **FCRA account:** The Act states that a person can accept FC only in one branch of a scheduled bank specified by them.
- But, they may open more accounts in other banks for utilising the FC.
- The Bill states that FC must be received only in an account designated by the bank as "FCRA account" in such branch of the SBI, New Delhi, as notified by the central government.
- No funds other than FC should be received or deposited in this account.
- The person may open another FCRA account in any scheduled bank of their choice for utilising the received contribution.
- **Restriction in utilisation:** Under the Act, if a person violates the provisions of the Act, the unutilised or unreceived FC may be utilised or received, only with the prior approval of the central government.
- The Bill adds that the government may restrict usage of unutilised FC for persons who have been granted prior permission to receive such FC.
- **Renewal of license:** Under the Act, every person must renew the certificate of registration within six months of expiration.
- The Bill provides that the government may conduct an inquiry before renewing the certificate of registration.
- **Reduction in use of FC for administrative purposes:** Under the Act, a person who receives FC must use it only for the purpose for which the contribution is received.

- Further, they must not use more than 50% of the contribution for meeting administrative expenses. The Bill reduces this limit to 20%.
- **Surrender of certificate:** The Bill allows the central government to permit a person to surrender their registration certificate.
- The government may do so if, post an inquiry, it is satisfied that such person has not contravened any provisions of the Act.

6.5 Bilateral Currency Swap Agreements

China is using Yuan-denominated (RNB) currency swap agreements to enhance its influence international order apart from other methods and RBI has recently agreed to a $400 million currency swap facility for Sri Lanka till November 2022.

- It is an agreement between two countries to exchange their currencies at the prevailing market exchange rate.
- The borrowing country has to buy back its currency on a pre specified date at the same exchange rate in future by paying the interest.
- Usually china uses methods likes overseas investments, lending through Chinese dominated international institutions to increase its economic influence.
- Currently it adopts currency swaps as one of its strategy.
- From January 2009 to January 2020, China has entered into such agreements with 41 countries & mostly during 2009 -2016.
- Usually they are of 3 year term but are repeatedly renewed which was highest during 2016(33) & in 2019 it was 27.
- Despite slight decline at the end of 2016 & end of 2019, the total authorised value of such aggrements is relatively stable.
- It amounted to RMB 3,333 billion between 2015 and 2019.
- **Benefits -** Borrowing countries can get access to RMB liquidity at relatively lower interest rate by using its own currency as collateral.
- It helps the partnering countries to use its available reserves to settle transactions with other countries.
- They can lend it to institutions that face foreign currency shortages.
- They can temporarily finance any current account deficit with China.
- They can shore up their dollar reserves to meet their commitments to third parties as Argentina did.
- It is tool through which other counties can rely on Chinese goods thereby enhancing its economic influence.
- It can further the goal of internationalising RMB and establishing it as an alternative reserve currency.
- Such developments made RMB as a freely usable currency in the Special Drawing Right (SDR) basket.
- It can also influence strategically-placed foreign exchange-starved neighbours like Sri Lanka and Pakistan through its support.
- **Shortcomings** - If borrowing central bank is unable to meet its commitments lender bank is left with collateral of the borrowing country.
- This leads to loss of value of RMB in comparison to the exchange rate at which the swap was executed.
- **Global Status -** Due to dominance of dollar denominated transactions in trading, US Federal Reserve was the principal source of liquidity in bilateral swap arrangements.
- However, it was very selective about the central banks in signing agreements -relatively riskless.
- During the 2008 financial crisis, it chose to extend swaps with developed country central banks & only 3 developing country central banks in Brazil and Mexico.
- Often these arrangements are made when the country concerned is undergoing balance of payments stress.
- But Chinese Central bank hasn't adopted this principle.

- Its sole aim is to increase its economic presence and strengthen the role of its currency.
- This helps developing countries which are left out of the group covered by the Fed's dollar-liquidity swap system.

6.6 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, a 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.
- 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.

6.7 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).
- 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.

6.8 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
- Removes the exception which permitted Overseas Citizens of India (OCI) 100% FDI in air transport, but not Air India.
- This category of citizens has been replaced with NRIs, now allowed to commit 100% FDI in air transport, including Air India, through automatic route.
- The Reserve Bank of India (RBI) has been vested with the sole power to issue/interpret the rules regarding 100% FDI of NRIs.
- Previously, it was required to do so in consultation with the Central Government.
- 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.

Routes of FDI

- FDI is an investment made by a firm or individual in one country into business interests located in another country.
- **Automatic Route -** In this, the foreign entity does not require the prior approval of the government or the RBI.
- **Government route -** In this, the foreign entity has to take the approval of the government.
- **Method of clearance -** Foreign Investment Facilitation Portal (FIFP) facilitates the single window clearance of applications which are through approval route.
- This portal is administered by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry.

6.9 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.
- 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.

6.10 Merchandise Exports from India Scheme (MEIS)

- MEIS was launched with an objective to enhance the export of notified goods manufactured in a country.
- The scheme has been introduced through the Foreign Trade Policy (FTP) and came into effect on 1 April 2015.
- The Ministry of Commerce and Industry is responsible for the implementation of the MEIS.
- The MEIS will be applicable till the year 2020 and will replace the below 5 incentive schemes that were earlier available under the Foreign Trade Policy 2014-2019:
  1. Market Linked Focus Product Scheme (MLFPS)
  2. Focus Product Scheme (FPS)
  3. Agriculture Infrastructure Incentive Scrip (AIIS)
  4. Focus Market Scheme (FMS)
  5. Vishesh Krishi Gramin Upaj Yojana (VKGUY)

- Under this scheme, over Rs.22,000 crore per year has been allocated by the Government of India for exports.
- Under MEIS, a percentage of realized FOB (Free on Board) value (2,3, or 5%) of the exports are payable as incentives.
- The rewards are paid in the form of the MEIS duty credit scrip that can be used to pay for a number of taxes/duties including
  a) Excise duty
  b) Customs duty
  c) Service tax.
- Imported inputs and scrips can be transferred fully offering flexibility to exporters.
- The incentives that are available under MEIS are also available to units located in Special Economic Zones (SEZs).
- Recently a limit has been imposed on total rewards under the Merchandise Exports from India Scheme (MEIS).
- Directorate Generate of Foreign Trade (DGFT) has stated that the total reward which may be granted to an IEC holder under the scheme shall not exceed Rs.2 Crore per IEC of exports made in the period 1.9.2020 to 31.12.2020.
- Further, it has also been informed that any IEC holder who has not made any exports for a period of one year preceding 1.9.2020 or any new IECs obtained on or after 1st September would not be eligible for submitting any claim under MEIS.
- It is estimated that 98 per cent of the exporters' claim of MEIS will be unaffected by the changes.

6.11 CAROTAR

- The Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 (CAROTAR, 2020), will come into force from 21st September 2020.
- It was notified on 21st August 2020.
- The importers and other stakeholders were given a 30-day period to familiarize themselves with new provisions.
- Earlier, merely a country-of-origin certificate, issued by a notified agency in the country of export was sufficient to avail the benefits of FTAs.
- This was exploited in many cases, i.e., the FTA partner countries have been claiming to have produced the goods in question without having the necessary technological capacity for the required value addition.
- Highlights of the regulation are as follows

1. Importers will have to ensure that imported goods meet the prescribed 'rules of origin' provisions for availing concessional rate of customs duty under Free Trade Agreements (FTAs).
2. Importers have to prove that imported products have undergone value addition of at least 35% in the countries of origin.

6.12 Currency Manipulation

- The US included India in its monitoring list of countries with potentially "questionable foreign exchange policies" and "currency manipulation".
- The term 'currency manipulator' is a label given by the US to countries it feels are engaging in unfair currency practices by deliberately devaluing their currency against the dollar.
- The practice would mean that the country in question is artificially lowering its currency's value to gain an unfair advantage over others.

7. GENERAL ECONOMY

7.1 Insolvency and Bankruptcy Code (Amendment Ordinance), 2020

The Insolvency and Bankruptcy Code (Amendment Ordinance), 2020 has come into force and is effective from June 5, 2020.

- The ordinance inserting Section 10A in the Insolvency and Bankruptcy Code (IBC), 2016 has opened itself up to a legal challenge.
- Insolvency and bankruptcy code 2016 was introduced to resolve the bankruptcy crisis in corporate sector.
- 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).
- According to IBC, a financial creditor holds an important role in the corporate insolvency process.
- The Committee of Creditors (CoC) under IBC includes all financial creditors of a corporate debtor.
- The CoC will appoint and supervise the Insolvency Professional.
- It has the power to either approve or reject the resolution plan to revive the debtor, or to proceed to liquidate the debtor.

Key amendments

- The Ordinance provides for two amendments:
    1. the introduction of a Section 10A, suspending initiation of proceedings under the Code
    2. the introduction of Section 66(3) suspending the application of wrongful trading provisions under the Code when Section 10A is applicable
- The IBC provides for initiation of corporate insolvency resolution process (CIRP) of a corporate debtor.
- Section 10A provides that no such application for CIRP initiation under Sections 7, 9 and 10 of the IBC could be filed, for any default arising on or after 25th March 2020.
- This will be applicable for a period of 6 months or such further period, not exceeding one year from this period, as may be notified.
- The suspension period is thus from March 25 to September 25, 2020 unless extended for another 6 months, in which case it would be till March 25, 2021.
- Section 10A shall not apply to any default committed under the said Sections before March 25.

Concerns

- In clear terms, Section 10A prevents an application from being filed for initiation of a CIRP occurring during the **suspension period**.
- But the proviso (attached condition) to the section states that no application for CIRP shall **ever be filed** against a corporate debtor for any default occurring during the suspension period.
- While the main Section 10A suspends such applications for a limited period, the proviso enlarges the scope.
- The proviso provides complete amnesty under the IBC for 'any default occurring during such period'.
- The role of a proviso in a statute is to restrict the application of the main provision under exceptional circumstances.
- However, the proviso here expands the substantive provision in the main section.
- Further, if the main provision is unclear, a proviso may be given to explain its true meaning.
- In this case, the main provision appears clear, and the proviso is disputable.
- The proviso therefore does not appear to be legally tenable.
- Creditors can still approach courts, and banks/Financial Institutions can still approach Debt Recovery Tribunals.
- So the protection given by this proviso seems illusory.

- Also, Section 10A suspends provisions of Section 10 of the IBC that enables voluntary insolvency resolution.
- This is difficult to understand because such voluntary insolvency resolution should have been made easier for companies now facing distress.
- Also, the ordinance appears to consider every default occurring during the suspension period to be a consequence of the COVID-19 pandemic.
- There could be cases where defaults were imminent due to other reasons as well.
- Now all these will also enjoy the protection offered.

7.2 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.
- The National Company Law Appellate Tribunal (NCLAT) has ruled that liquidation process of a company under the Insolvency and Bankruptcy Code (IBC) holds precedence over outcome of an arbitration proceeding.

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.

7.3 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.

7.4 Global Hunger Index

The Global Hunger Index (GHI) 2020 has placed India at rank 94 among 107 countries.

- The GHI has been brought out every year by Welthungerhilfe (lately in partnerships with Concern Worldwide) since 2000.
- A low score gets a country a higher ranking which implies a better performance.
- The reason for mapping hunger is to ensure that the world achieves "Zero Hunger by 2030" - a Sustainable Development Goals of the UN.
- This is why GHI is not calculated for certain high-income countries.
- **Indicators - Undernourishment** reflects the inadequate food availability.
- It is calculated by the share of the population that is undernourished (i.e., whose caloric intake is insufficient).
- **Child Wasting** reflects acute under nutrition.
- It is calculated by the share of children under the age of five who are wasted (i.e., those who have low weight for their height).
- **Child Stunting** reflects chronic under nutrition.
- It is calculated by the share of children under the age of five who are stunted (i.e., those who have low height for their age).
- **Child Mortality** reflects both inadequate nutrition and unhealthy environment.
- It is calculated by the mortality rate of children under the age of five (in part, a reflection of the fatal mix of inadequate nutrition.
- Each country's data are standardised on a 100-point scale.
- A final score is calculated after giving 33.33% weight each to components 1 and 4, and giving 16.66% weight each to components 2 and 3.
- As GHI tracks the performance of different countries on four key parameters, it provides a far more comprehensive measure of hunger.
- **India's position -** The GHI 2020 places India at **rank 94** among 107 countries.
- The unedifying assessment of the national situation as "**serious**".
- The country's **score of 27.2** is the worst among BRICS countries.
- It is inferior to Pakistan, Sri Lanka, Bangladesh and Nepal.

7.5 PLI scheme

The government aims to expand the ambit of the production-linked incentive (PLI) scheme to include ten more sectors.

- The scheme aims to give companies incentives on incremental sales from products manufactured in domestic units.
- The central government introduced this scheme to boost domestic manufacturing and cut down on import bills.
- Apart from inviting foreign companies to set shop in India, it encourages local companies to set up or expand existing manufacturing units.
- The objective is to make India more compliant with the WTO (World Trade Organisation) commitments.
- Another objective is to make it non-discriminatory and neutral with respect to domestic sales and exports.
- So far, the scheme has been rolled out for mobile and allied equipment, pharmaceutical ingredients and medical devices manufacturing.
- These sectors are labour intensive and are likely to create new jobs for the ballooning employable workforce of India.

- It is important as the government cannot continue making investments in the capital intensive sectors.
- This is because they need longer times for start giving the returns.
- Instead, the government can invite global companies with adequate capital to set up capacities in India.
- The government would introduce PLI scheme in about ten sectors, apart from the two already existing ones.
- The likely candidates are food processing, textiles, leather as well as battery manufacturing.
- Like existing PLI schemes, the new sectors could see the government offering them sops and bonuses for incremental sales done.
- However, the previous schemes were brought to boost domestic manufacturing.
- The new one aims to give all the sops and benefits only if the companies are able to prove that they had incremental sales every year for the next five years.

7.6 Relaxation of Rules for Other Service Providers

The Centre relaxed the rules for governing Other Service Providers

- The existing rules governing the outsourcing companies were introduced in 1999 when the telecom sector was highly regulated.
- The Centre wanted to keep a tab on the voice traffic flowing within various call centres.
- By doing so, it wanted to ensure that no one infringed on the jurisdiction of telecom service providers.
- Under the new rules, non-voice processes have been kept out of the definition of other service providers.
- Even for voice-based call centres, there is no registration or reporting requirement.
- Other requirements such as deposit of bank guarantees, requirement for static IPs, publication of network diagram, frequent reporting obligations, penal provisions have been removed.
- The new rules for Other Service Providers (OSPs) seek to create a friendly regime for 'Work from Home' and 'Work from Anywhere'& removing frequent reporting obligations of companies.
- It makes accessing and maintaining data from remote places easier and quicker.
- The costs related to real estate and managing offices will go down.
- This will help in creation of jobs in smaller cities.
- In the old business model, talent had to be relocated from their hometown.
- Now, a qualified person does not have to migrate to work in an MNC.
- Another benefit is the boost it will give to the gig economy.

7.7 All about Fuel Pricing

Petrol and diesel prices hit a two-year high in mid-December 2020. Petrol is well above Rs. 80 a litre while diesel is getting there.

- The fact that crude oil - the fountainhead of these fuels - is still below 2018 levels highlights the role of petrol and diesel pricing policies of the government.
- The price of petrol and diesel in India is not determined by the actual costs incurred by PSU refiners.
- These include crude oil sourcing, refining and marketing costs incurred by Indian Oil, HPCL and BPCL.
- Rather, a formula named the trade parity price (TPP) is used to price these products.
- It assumes that 80% of petrol and diesel is imported into India and 20% is exported.
- So, petrol and diesel prices in India are determined based on prices of these fuels in the international market and not on the basis of crude oil prices.
- The international petrol and diesel prices generally move in line with crude oil prices.
- But it need not always be the case, given that demand and supply dynamics could be different.

- The TPP in dollars is converted to rupees. Then comes other costs and margins of the oil companies, dealer commission and taxes.
- From mid-June 2017, the pricing of petrol and diesel is done through a 'daily pricing' mechanism, based on a 15-day rolling average international rate.
- So, time lag has an effect too. Further, the weakening of the rupee against the dollar over the years has added to the fuel's cost.
- Petrol and diesel are government's good source of revenue.
- During the crude crash earlier in 2020, a cash-strapped Centre raised excise duty on petrol and diesel by Rs. 13-16 a litre.
- Many States too increased their sales tax/VAT.
- But when oil prices started rising, the taxes were not rolled back.
- So fuel prices increased, and customers bore the brunt.
- Notably, taxes now account for about 60% of the fuels' price.
- Besides pricing mechanism and taxes, there are unexplained pauses to price changes, leading to opacity in pricing.
- E.g. For more than 80 days between March and June 2020, the fuels' prices were frozen when they should have actually fallen.
- **Concerns -** India imports most of its oil needs but is more than self-sufficient in petrol and diesel production.
- So, the trade parity pricing mechanism has often been criticised, especially since petrol and diesel are 'decontrolled' fuels.
- The complaints include allegations of cartelisation with the three PSU oil companies charging nearly the same price, despite different cost structures and efficiencies.
- Cartelisation means a group of industry participants coming together to fix pricing of products and services. This may work against the interest of consumers.
- Transparent pricing, based on market principles, will likely help consumers more.
- **Significance -** Higher petrol and diesel prices don't just mean higher personal transport costs.
- They could also cause a price spike in a host of goods and services, given that these fuels play a big part in running the economy.

7.8 Upward Definition of MSME

- Micro, small and Medium Enterprises (MSMEs) popularly called as 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

7.9 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 and 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.
- Three basic objectives of the platform are
- Grievance Redressal - To resolve the problems of MSMEs including those of finance, raw materials, labor, regulatory permissions etc particularly in the Covid created difficult situation;
- To help them capture new opportunities - Including manufacturing of medical equipments and accessories like PPEs, masks, etc and supply them in National and International markets;
- To identify and encourage the sparks - i.e. the potential MSMEs who are able to withstand the current situation and can become national and international champions

7.10 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.

7.11 NCAER

- The National Council of Applied Economic Research is a Delhi based think tank that was established in 1956.
- The TATA Foundation and other premier organizations came together to form the think tank with the support of Government of India.
- The aim of the body is to give support to both government and private sector economic researches.
- Since 1991, the council is tracking the business confidence in the country on a quarterly basis.
- The NCAER survey elicits responses from firms across six cities to assess business sentiments in the four regions of India:
    1. Delhi-NCR represents the north;
    2. Mumbai and Pune, the west.
    3. Kolkata the east.
    4. Bengaluru and Chennai represent the south.

7.12 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.

7.13 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 Aatma Nirbhar 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.
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.

7.14 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.

7.15 India-UN Development Partnership Fund

- The India-UN Development Partnership Fund is a dedicated facility within the United Nations Fund for South-South Cooperation established in 2017.
    1. It is supported and led by the Government of the Republic of India.
    2. It is managed by the United Nations Office for South-South Cooperation.
    3. It is implemented in collaboration with the United Nations system.
- The Fund project portfolio aims to contribute to the efforts of developing countries towards the realization of the 2030 Agenda for Sustainable Development.
- The Fund now encompasses 36 projects, approved in partnership with nine United Nations agencies in 37 countries.
- It has made significant strides in advancing the national development goals and commitments of the 2030 Agenda by enlisting the global presence and operational capabilities of the United Nations system in the following areas
    1. Least developed countries (LDCs),
    2. landlocked developing countries (LLDCs)
    3. Small Island developing States (SIDS)
- Recently India has contributed $15.46 million to the India-UN Development Partnership Fund, to support developing nations in their developmental priorities across all the Sustainable Development Goals.
- The tranche of $15.46 million includes $6 million to the overall fund, in which all the developing countries are eligible for partnership, and $9.46 million dedicated to the Commonwealth countries.

7.16 Business Responsibility Reporting (BRR)

- Ministry of Corporate Affairs (MCA) has released a report of the Committee on Business Responsibility Reporting (BRR) under the chairmanship of Gyaneshwar Kumar Singh.
- BRR is a disclosure of adoption of responsible business practices by a listed company to all its stakeholders.
- It is applicable to all types of companies including manufacturing, services etc.
- Its focusses on the accountability of the business entities to the larger society by a new framework 'Business Responsibility and Sustainability Report (BRSR)' for reporting non-financial parameters.
- The BRSR would be integrated with the MCA 21 portal, where top 1000 listed companies are to undertake this reporting mandatorily.
- MCA21 is an e-Governance initiative of Ministry of Company Affairs (MCA) that enables an easy and secure access of the MCA services to the corporate entities, professionals and citizens of India.

7.17 Land Bank System

- Union Ministry of Commerce and Industry has launched a prototype of the National GIS-enabled Land Bank System.
- The LBS has been launched for six States based on which land can be identified for setting up industries.
- The system has been developed by the Integration of Industrial Information System (IIS) with state GIS (Geographic Information System).
- IIS portal is a GIS-enabled database of industrial clusters/areas across the states.
- On the system, more than 3,300 industrial parks across 31 states/UTs covering about 4,75,000 hectares of land have also been mapped out on the system.
- The information available on the system will include drainage, forest; raw material heat maps (horticulture, agricultural, mineral layers); multilayer of connectivity.
- IIS has adopted a committed approach towards industrial upgrading, resource optimization, and sustainability.
- The initiative has been supported by the National e-Governance Division (NeGD), National Centre of Geo-Informatics (NCoG), Invest India, Bhaskaracharya Institute for Space Applications and Geo-Informatics (BISAG) and Ministry of Electronics and Informational Technology.

7.18 Business Reforms Action Plan-2019

- Department for Promotion of Industry and Internal Trade (DPIIT) has developed Business Reforms Action Plan for State Reforms since 2015.
- It has started an ambitious program for reforms in partnership with State Governments to make it easier, simpler and quicker for businesses to operate.
- The Plan is designed keeping in mind 2 factors viz. Measurability and Comparability across States.
- To support this initiative, an online portal (www.eodb.dipp.gov.in) showcasing rankings was developed and launched in April 2016.
- Recently Andhra Pradesh has bagged the first rank among all the states in the country in the state business reforms action plan-2019 (BRAP-2019).
- Andhra Pradesh has achieved 100 percent compliance to the 187 reform action points by DPIIT-World Bank as a part of BRAP 2019.
- The ReSTART package announced by AP government found a special mention in the BRAP 2019.
- While Uttar Pradesh stood in the second position, Telangana bagged the third spot in the overall ranking of the state business process reforms undertaken during 2019.

7.19 Domestic Systemically Important Insurers

- D-SIIs are perceived as insurers that are 'too big or too important to fail' (TBTF).
- D-SIIs refer to insurers of such size, market importance and domestic and global interconnectedness whose distress or failure would cause a significant dislocation in the domestic financial system.
- The continued functioning of D-SIIs is critical for the uninterrupted availability of insurance services to the national economy.
- Recently the following insurers have been identified as Domestic Systemically Important Insurers (D-SIIs) for 2020-21 by insurance regulator, the Insurance Regulatory and Development Authority of India (IRDAI).
    1. The Life Insurance Corporation of India (LIC),
    2. General Insurance Corporation of India
    3. The New India Assurance Co
- The IRDAI would identify D-SIIs on an annual basis and disclose the names of such insurers for public information

- Requirements for D-SIIs are as follows
  1. The three public sector insurers have been asked to raise the level of corporate governance.
  2. Identify all relevant risks and promote a sound risk management culture.
  3. The D-SIIs will also be subjected to enhanced regulatory supervision of the IRDAI.

7.20 "ReSTART" Package

- Andhra Pradesh has launched a new programme ReSTART in May 2020, to support the Micro, Small and Medium Enterprise (MSME) sector in the State.
- Under the plan the government will spend ₹ 1,100 crore on revival of the sector which is expected to benefit 98,000 units that provide employment to more than 10 lakh people.
- Other features of the plan includes
- A special fund of ₹ 200 crore to provide input capital loan to the firms at low interest rates.
- The minimum power demand charges of the MSMEs for the months of April, May and June, amounting to ₹ 188 crore to be waived off.
- The government will purchase around 360 products from the MSMEs, and payments towards it would be cleared in 45 days.
- Of the total purchases, almost 25% would be done from the micro and small enterprises, 4% from the SC/ST community enterprises, and 3% from women entrepreneurs.

7.21 Suspicious Activity Reports

- SAR is a document filed by banks and financial institutions to report suspicious activity to the USA FinCEN.
- These are meant to red flag, within 30 days of the transaction's occurrence:
  1. Criminal funds or any form of dirty money;
  2. Insider trading,
  3. Potential money laundering,
  4. Terror financing,
  5. Any transaction that raises suspicion.
- These are used to detect crime but cannot be used as direct evidence to prove legal cases.
- There are details of banking transactions that give a clear indication of round-tripping, money laundering or dealings with shell-like entities.
- Recently, over 2100 Suspicious Activity Reports (SARs) were filed by banks with the United States Department of the Treasury's Financial Crimes Enforcement Network (FinCEN).
- The FinCEN files identify at least USD 2 trillion in transactions between 1999 and 2017 flagged as possible evidence of money laundering or other criminal activity by compliance officers of banks and financial institutions.

7.22 FinCEN

- It was set up in 1990, which serves as the leading global regulator in the battle against money laundering.
- It collects and analyzes information about financial transactions in order to combat domestic and international money laundering, terrorist financing, and other financial crimes.
- The Financial Intelligence Unit-India (FIU-IND) performs the same functions as FinCEN in the USA.
- Under the Finance Ministry, this was set up in 2004 as the nodal agency for receiving, analyzing and disseminating information relating to suspect financial transactions.
- The agency is authorized to obtain Cash transaction reports (CTRs), Suspicious transaction reports (STRs) and Cross border wire transfer reports

- These reports are obtained from private and public sector banks every month.
- This happens under the Prevention of Money Laundering Act, 2002 (PMLA).
- It is mandatory for banks in India to furnish a monthly CTR to the FIU on:
    1. All transactions over Rs. 10 lakh or
    2. Its equivalent in foreign currency or
    3. A series of integrally connected transactions that add up to more than Rs. 10 lakh or
    4. Its equivalent in foreign currency.

7.23 Universal Eligibility for World Bank Loan

- The World Bank has announced a loan in May 2020 to prevent, detect and respond to the threat of coronavirus and strengthen national health systems.
- It is pivoted towards migrants, unorganised workers, informal sector, and creating an integration of the existing infrastructure of safety nets like the Public distribution system, Jan Dhan, Aadhar & Mobile (JAM trinity).
- This loan will be funded and operated in two phases:
- First Phase: An immediate allocation of USD 750 million for fiscal year 2020.
- It will be implemented countrywide through the Pradhan Mantri Garib Kalyan Yojana (PMGKY) to benefit vulnerable groups, particularly migrants and informal workers.
- Second phase: A USD 250 million second tranche that will be made available for fiscal year 2021.
- It would deepen the social protection package, whereby additional cash and in-kind benefits based on local needs will be extended through state governments and portable social protection delivery systems.
- Recently, the World Bank has clarified that the USD 1 billion loan that it has provided to India in May 2020.
- According to the World Bank clarification
    1. The World Bank would have the right to review the procurement documents, inspect all accounts, records and other files relating to the project.
    2. Compliance to these conditions has been made mandatory for the funding.

7.24 National Productivity Council (NPC)

- National Productivity Council (NPC) works under Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry.
- National Productivity Council (NPC) has been granted accreditation by National Accreditation Board for Certification Body (NABCB), Quality Council of India (QCI).
- This accreditation is valid for a period of three years.
- NPC has been conducting inspections/audit for different statutory bodies such as Warehousing Development and Regulatory Authority (WDRA) and Food Safety and Standards Authority of India (FSSAI), and is already having high credentials in the area of inspections and audits.
- Present accreditation of NPC by NABCB conforming to ISO 17020:2012 will enable it to undertake Independent Third-Party Audits of Food Business Operators.

7.25 2020 Nobel Prize for Economics

- The Royal Swedish Academy of Sciences awarded Sveriges Riksbank Prize in Economic Sciences, 2020.
- It has been awarded to Paul Milgrom and Robert Wilson (both from the USA) for their work on commercial auctions.
- Milgrom and Wilson improved the auction theory and invented new auction formats.

- The new auction formats are for auctioning off many interrelated objects simultaneously, on behalf of a seller motivated by broad societal benefit rather than maximal revenue.
- Their work will benefit sellers, buyers and taxpayers around the world.
- It will help in auctioning goods and services, such as radio frequencies, which are difficult to sell in traditional ways.
- Wilson developed the theory for auctions of objects with a common value a value which is uncertain beforehand but, in the end, is the same for everyone.
- Examples include the future value of radio frequencies or the volume of minerals in a particular area.
- **Winner's Curse -** Wilson's work showed why rational bidders tend to bid under their own estimate of the worth due to worries over the "winner's curse".
- The winner's curse is a tendency for the winning bid in an auction to exceed the intrinsic value or true worth of an item.
- Milgrom came up with a more general theory of auctions, by analysing bidding strategies in different auction forms.

7.26 Auction Theory

- Auction theory studies how auctions are designed, what rules govern them, how bidders behave and what outcomes are achieved.
- The oldest form of auction is the auction of a bankrupt person's property to pay off his creditors.
- This simple design of such an auction is the highest open bidder getting the property (or the commodity in question).
- Over time, the format of auctions has widened to include other commodities such as spectrum for radio or telecom use, carbon dioxide emission credits, electricity or the right to collect the local garbage etc.
- Different auction models are needed for depending upon the commodities, purpose of the auction and the entities conducting the auction.
- For e.g. Maximizing the profit may be the motive of a private auction while making a service affordable can be the purpose of auctioning a service by the government.
- Wrong auction design can lead to a second-hand market where companies trade among themselves with little revenue accruing to the government or little benefit to the public.
- Three key variables need to be understood while designing an auction are as follows
  1. Rules of Auction i.e. closed/sealed bids, single bids versus multiple bids.
  2. Commodity or service being put up for auction i.e. how does each bidder value an item.
  3. Uncertainty regarding which bidder has what information about the object, or even the value another bidder associates with the object.

7.27 Manufacturing of Bulk drugs and Medical devices

- Recently Chemicals and Fertilizers Ministry has revised the Production Linked Incentive Schemes for promoting domestic manufacturing of bulk drugs and medical devices.
- In the revised guidelines, the 'Minimum Threshold' investment requirement has been replaced by 'committed investment' taking into account availability of technology choices which varies from product to product.
- The change has been made to encourage efficient use of productive capital.
- The Department of Pharmaceuticals earlier come out with the two Production Linked Incentive Schemes:
  1. Production Linked Incentive scheme for promotion of domestic manufacturing of critical Key Starting Materials, Drug Intermediates and Active Pharmaceutical Ingredients in India.
  2. Production Linked Incentive Scheme for Promoting Domestic Manufacturing of Medical Devices.

7.28 ECLGS 2.0

- Emergency Credit Line Guarantee Scheme (ECLGS) 2.0 was expanded by the National Credit Guarantee Trustee Company Limited (**NCGTC**).
- Under the scheme, 100% loan guarantee would be provided by NCGTC.
- While the ECLGS 1.0 will remain, the ECLGS 2.0 will cover entities in 26 stressed sectors identified by Kamath Committee, plus the health sector.
- These entities should have a credit outstanding of above Rs. 50 crore and up to Rs. 500 crores as on February 29, 2020.
- It provides a one-year moratorium on loans and four years.
- Facility under ECLGS 2.0 shall be on **'Opt-in' basis** - to enable eligible borrowers to choose whether they wish to opt in the GECL facility.
- The borrower accounts should be less than or equal to 30 days past due as on February 29, 2020.
- 20% of credit dues will be given as working capital without collateral.
- The rate of interest charged by banks will not exceed 9.25%.
- It will be extended to the scheduled commercial banks, financial institutions, NBFCs, eligible MSMEs/business enterprises, individual borrowers and Pradhan Mantri Mudra Yojana (PMMY) borrowers.

7.29 Atmanirbhar Bharat RojgarYojana

- It would boost employment in formal sector and incentivize creation of new employment opportunities during Covid recovery phase under Atmanirbhar Bharat Package 3.0.
- Government of India will provide subsidy for two years in respect of new employees engaged on or after 1st October, 2020 and up to 30th June, 2021.
- It will pay 12% employees' contribution and 12% employers' contribution of wages towards EPF in respect of new employees in establishments employing upto 1000 employees for 2 years.
- It will pay only employees' share of EPF contribution i.e. 12% of wages in respect of new employees in establishments employing more than 1000 employee for two years.
- An employee with less than Rs. 15000/- monthly wage who was not working in an Employees' Provident Fund Organisation (EPFO) registered establishment before 1st October, 2020 will be eligible.
- EPFO will credit the contribution in Aadhaar seeded account of members in electronic manner.
- EPFO shall develop a software for the scheme and also develop a procedure which is transparent and accountable at their end.

7.30 3RF

- Lebanon Reform, Recovery and Reconstruction Framework (3RF) is part of a comprehensive response to the massive explosion on the Beirut Port.
- It will bridge the immediate humanitarian response and the medium-term recovery and reconstruction efforts to put Lebanon on a path of sustainable development.
- 3RF is a collaborative process that is based on the participation of the government, civil society, private sector and development partners.
- It is structured around four strategic pillars: improving governance and accountability; jobs and opportunities; social protection, inclusion, and culture; and improving services and infrastructure.
- Each pillar identifies a set of strategic objectives and priority areas across both the recovery track and the reform and reconstruction track.
- A Financing Facility will be set up to pool and align grant financing for the 3RF, under the guidance of the 3RF governance arrangements.

- The fund will channel support directly to Lebanese people and businesses that have been impacted by the explosion.

7.31 Strategic and Non-Strategic Sectors

- An industry is considered strategic if it has large innovative spill overs and if it provides a substantial infrastructure for other firms in the same or related industries.
- Earlier, the strategic sectors were defined on the basis of industrial policy.
- The government classified Central Public Sector Enterprises (CPSEs) as 'strategic' and 'non-strategic' on the basis of industrial policy that keeps on changing from time-to-time.
- According to this, the Strategic sector PSUs are:
  1. Arms & Ammunition of defence equipment
  2. Defence aircraft & warships
  3. Atomic energy
  4. Applications of radiation to agriculture, medicine and non-strategic industry
  5. Railways
  6. Banking, insurance, defence, and energy are likely to be part of the strategic sector list.
- All other PSUs apart from the strategic sectors fall under Non-strategic Sector including Power Discoms.

Public Sector Enterprise Policy

- Under this banking, insurance and financial services will be classified as strategic sectors.
- The remaining companies in strategic sectors will be considered for privatization/merger/closure and non-strategic sectors will be considered for privatization, where feasible or for closure.
- In strategic sectors, the minimum presence of existing companies at the holding level will be retained under government control.
- The strategic sectors have limited number of players restricting it to maximum four public sector enterprises of the holding nature.

7.32 Empowered Group of Secretaries (EGoS)

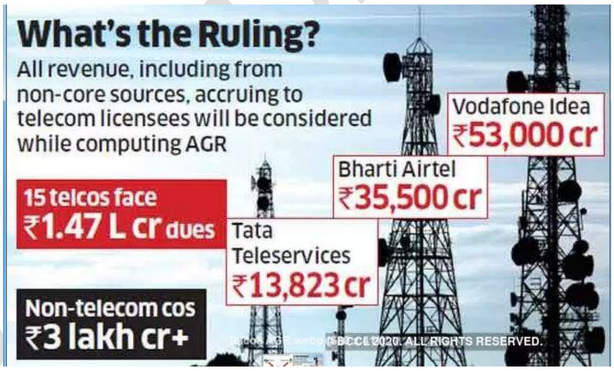
- Empowered Group of Secretaries (EGoS) and Project Development Cells (PDCs) in Ministries/Departments of Government of India for attracting investments in India has received approval for its set up.
- Its Objective is to provide investment support to global investors by bringing synergies and to ensure timely clearances from different departments and Ministries.
- Composition:
  1. Cabinet Secretary (Chairperson)
  2. Secretary, Department for Promotion of Industry and Internal Trade (Member Convenor)
  3. CEO, Niti Aayog (Member)
  4. Secretary, Department of Commerce (Member)
  5. Secretary, Department of Revenue (Member)
  6. Secretary, Department of Economic Affairs (Member)
  7. Secretary of Department concerned (to be co-opted)
  8. Project Development Cell (PDC)
- The cell will be set up for the development of investible projects in coordination between the Central Government and State Governments.
- This will lead to increase in the number of investible projects in India and in turn increase FDI inflows.

8. INFRASTRUCTURE

8.1 Telecom AGR Dues Case - SC Ruling

The Supreme Court has directed the telecom companies (telcos) to file affidavits giving details on their Adjusted Gross Revenue (AGR)-related dues to the government.

- AGR is the basis on which the Department of Telecom (DoT) calculates levies payable by mobile operators.
- Essentially, it is a metric calculated from a company's gross revenues.
- It is used to determine the levy to be imposed on the tele-income.
- The AGR issue is a 14-year-old case.
- It relates to mobile operators (telcos) locked in a legal battle with the government over the definition of the term AGR.
- The telecom providers insisted that AGR should only include revenue from core operations (telecom services).
- They say that other sources should be excluded from AGR calculations.
- But, the DoT maintained that AGR also embraced non-core revenue (non-telecom services).
- These include revenue from the sale of assets, interest on deposits, rental income and such like.
- **Repayment schedule -** On the time required by the telcos, the Union government had decided on a 20-year repayment schedule.
- But the court has observed that nobody can predict the next 20 years.
- It thus said that the “gentleman’s promise” of 20 years cannot be a criterion for its judgment.



- This is naturally agreeable and thus the Court has asked the companies to file affidavits on timeframes.
- The court has also asked the companies to explain what security they will provide and what the road map for their payments will be.

8.2 Central Vista Project

The Central government is planning to restructure the Central Vista.

- The Central government wants to redevelop the Central Vista, the 3-km long stretch from Rashtrapati Bhavan to India Gate.
- Amid the Covid-19 battle, the Centre has been rushing ahead, ignoring pleas to pause it for further deliberations.
- The plan is to construct a new Parliament building by March 2022 and a common central secretariat by March 2024.
- These will be built along with new residences for the Prime Minister and the Vice President near South and North Blocks, which will be repurposed as museums.
- There will be a new building for the Prime Minister’s Office.
- A draft master plan by a private firm contracted by the government has proposed a Parliament building next to the existing heritage structure, and office buildings all along Rajpath.
- These buildings will be built after demolishing existing buildings.
- The government has not publicly stated the project’s estimated cost.
- According to the CPWD application for environmental clearance for the project, the construction of the new Parliament building is estimated to cost Rs. 922 crore.

- **Need -** For the pre-Independence buildings that came up between 1911 and 1931, the Centre has cited that the restructuring needs to be done having in mind the structural safety of the existing buildings.
- For the post-Independence buildings such as Shastri Bhawan and Krishi Bhawan, it has cited the need for modern workspaces.
- Once delimitation is done and the number of seats will increase.
- So, there will be need for more space **to seat MPs** and **office space** for all of them.
- **Concerns -** The decision on redevelopment was taken in a hurry and without adequate consultations.
- The utility of such a massive redevelopment is not easily defendable.
- Nevertheless, the government is eager to recondition the capital's landscape as its monumental legacy.
- But, several key approvals for the proposed Parliament building have been pushed during the lockdown.
- This led to allegations of a lack of transparency.
- There were enough reasons to be circumspect about this grand idea from the very beginning.
- In the situation created by the pandemic, it must be deferred and the idea revisited later.

8.3 Air Travel Bubbles

India has proposed establishing air travel bubbles with several countries.

- Travel bubbles join states that have largely eliminated the virus, and who trust in each other's testing and case numbers.
- It is also known as air bridges or Covid-safe travel zones.
- It is conceptualised by countries that have managed to fully or partially contain the outbreak.
- The concept of a travel bubble is **reciprocal** in nature.
- This means that both the departure point and the arrival point have to be on board.
- It also means that travel restrictions such as quarantining or testing of passengers have to be discarded among the countries in the bubble.
- Australia and New Zealand could lead the way with the proposed trans-Tasman bubble.
- The Baltic countries of Estonia, Lithuania, and Latvia too have created a bubble allowing free travel among them.
- **India's proposal -** The Ministry of Civil Aviation (MoCA) is negotiating the setting up of travel bubbles to restart scheduled international passenger flights.
- It is looking at the possibility of establishing bilateral bubbles with US, France, Germany and UK.
- **Hurdles -** The finalising of travel bubbles could be a huge step in the direction of resuming scheduled international air travel.
- But a lot depends on the destination country's perception of India in terms of being a Covid threat.
- The Indian government allowed outbound commercial travel on flights meant to repatriate Indian citizens without allowing reciprocal benefits to countries like France and the US.
- This led to the US restricting Air India's repatriation flights.
- It is also threatening to suspend the third and fourth freedoms of flying.
- Also, France and the UAE too, have forced Air India to fly to Paris without any passengers.

8.4 Unified Gas Price System

The government has proposed for a unified gas price system.

- Tariffs for transportation of gas are set separately for each pipeline.
- It is set by the Petroleum and Natural Gas Regulatory Board.

- It is set based on the volume of gas transported on the pipeline and its operating life aimed at providing the operator a pre-tax return of 18%.
- Tariffs for pipeline usage are divided into zones of 300 km.
- Tariff increases for zones further away from the point where gas is injected.
- Further, if a buyer needs multiple pipelines even from the same operator, that transport tariff would increase.
- All of India's imported natural gas arrives at terminals on the west coast.
- So, the further east the buyers are located, the costs increases.
- **Proposed move -** The government is aiming to cut down the cost of transportation of natural gas by fixing a tariff for longer distances to boost consumption.
- It is proposing a unified price system with,
    1. One price for those transporting gas nearby within 300 km and
    2. One price for those transporting gas beyond 300km.
- This proposal is part of an effort to boost the share of natural gas in India's energy basket from 6% currently to 25% by 2030.
- The move would fix tariff prices within an integrated pipeline network such as that of GAIL (Gas Authority of India Ltd.)
- GAIL has India's largest gas transportation pipeline network that prevents the buyers to pay charges for the use of multiple pipelines.
- Such a move would help connect new markets.
- It would benefit consumers in parts of the country far from the western coast.
- The cost of gas transportation for oil marketing companies and fertiliser plants that are closer to the points of gas injection may go up.
- This is because the government lowers rates for transportation of gas to areas farther away from points of supply.
- GAIL would hope that the average tariff per unit of gas transported will not be very different from current tariffs.
- GAIL would hope for increased utilisation as demand for gas increases.
- The government is also expecting that as India boosts gas imports, it will be able to negotiate better prices on gas imports.

8.5 India's Solar Plan

The Prime Minister inaugurated the 'Asia's largest solar power project' in Rewa, Madhya Pradesh.

- This project inauguration sends a signal that India remains serious about clean energy.
- India's solar installed capacity is at about 40 GW today.
- This is in short of its goal of achieving 100 GW by 2022.
- India's current capacity - At present, India is estimated to have a module manufacturing capacity of 9 GW and a cell making capacity of 3 GW.
- Ironically, the indigenous manufacture of Photo Voltaic (PV) modules calls for a reliable supply of electricity.
- While China leads the world in PVs, making two-thirds of the world's modules, the EU is trying to make a comeback.
- This happened after the imposition of safeguard duty on solar cells and modules from China and Vietnam with effect from August 2018.
- The two-year period for which this duty was imposed ends in a few days.

- Amidst a policy of Atmanirbharat, reports suggest that this levy may be continued in the form of a regular tariff.
- Notably, China accounted for over 75% of India's cell and panel imports at least before the imposition of safeguard duties.
- The remaining gap was plugged by Singapore, Thailand and Vietnam.
- A 'manufacturing-linked tender' given by the Solar Energy Corporation of India in January was based on a tariff of ₹ 2.92/kWh.
- This tender is more than contracts awarded sometime ago, based on a tariff of about ₹ 2.50/kWh.
- This **new tariff** has made the India's costs are higher now.
- It is not yet clear to what extent the cells and wafers will be indigenously sourced in such cases.
- **Domestically produced modules** are 33% more expensive than their Chinese counterparts are.
- The **cost of the raw materials** is estimated to account for a major share of the cost difference.

Pradhan Mantri Kisan Urja Suraksha evam Utthaan Mahabhiyan (PM-KUSUM)

- The PM-KUSUM scheme was launched by the Ministry of New and Renewable Energy.
- It has a target to set up 25,750 megawatts (MW) solar capacity by 2022 to power irrigation pumps.
- The approved scheme comprises of three components:
  1. Setting up of 10,000 MW of decentralised ground / stilt-mounted grid connected solar or other renewable energy based power plants
  2. Installation of 17.5 lakh standalone solar agriculture pumps
  3. Solarisation of 10 lakh grid-connected solar agriculture pumps.

8.6 Real-Estate Investment Trust

The country's second real-estate investment trust (REIT), Mindspace Business Parks, came out with a public issue recently.

- Office REITs are investment vehicles.
- They own, operate and manage a portfolio of income-generating office properties in order to generate regular returns for investors.
- It is regulated by the Securities and Exchange Board of India (SEBI).
- REITs are usually commercial properties that are already generating rental income.
- For now, in India, there are only two REITs (Embassy and Mindspace), predominantly owning office properties.
- The working of office REITs are similar to mutual funds where money is pooled from a number of investors.
- The only difference is that, in REITs, they invest in rent-generating properties.
- REITs come up with an initial public offer to be listed on the exchanges.
- While retail investors can buy/sell REITs in the secondary market, they do have minimum investment requirements of ₹ 50,000 (200 units).
- This was reduced from ₹ 2 lakh (800 units) by SEBI to encourage investor participation.
- A REIT has a three-tier structure.
  1. There is a sponsor, who sets up the REIT.
  2. There is a fund management company, which is responsible for selecting and operating the properties.
  3. There is a **trustee**, who ensures that the money is managed in the interest of unit-holders.
- **Significance -** For those investors looking to diversify a portion of their portfolio into real-estate, REITs are an option.
- According to SEBI guidelines, REITs are to mandatorily distribute 90% of their income to unit-holders.
- The distribution could be in the form of dividend or interest income or a combination.

- REIT earns income by way of capital appreciation at the time of sale of any of its underlying properties, thereby boosting investors' returns.
- 80% of the value of a REIT should be invested in completed and rent-generating properties, ensuring visibility in returns for investors.
- **Risk -** REITs come with their own risks and investors should be wary.
- Both rent and capital appreciation from a REIT depends on location, infrastructure and industrial development of properties held by it.
- While this risk is mitigated with properties diversified across locations, challenges remain.
- With many working from home since the outbreak of the pandemic, office properties could face a significant slowdown in demand.
- Delays in construction of commercial properties and delays in leasing decisions could impact the REIT's revenue generation for the next 2-3 quarters.
- However, given the lack of quality office space in the country, some of these uncertainties could be temporary.
- Many real-estate players facing liquidity crunch in the last 2-3 years, mostly due to low demand.
- So, the rent-generating properties can be monetised by the developers in the form of REITs.
- They can generate a steady income stream for the investors.
- As long as the pandemic rages, even REITs are not immune.

8.7 Green-Blue Policy

The Green-Blue policy is the focus of the Master Plan for Delhi 2041.

- The Delhi Development Authority (DDA) is holding public consultations for the preparation of the Master Plan for Delhi 2041.
- It is a vision document for the city's development over the next two decades.
- The existing Master Plan 2021 will be outdated next year.
- The agency wants to notify the new plan by the time that happens.
- The draft policy's focus on water bodies and the land around it, which is referred to as the "Green-Blue policy", would give the city a new shape.
- 'Blue' infrastructure refers to water bodies like rivers, canals, ponds, wetlands, floodplains, and water treatment facilities.
- 'Green' infrastructure stands for trees, lawns, hedgerows, parks, fields, and forests.
- The concept refers to urban planning where water bodies and land are interdependent, and grow with the help of each other.
- They will offer environmental and social benefits.
- The DDA plans to deal with the multiplicity of agencies, which because of the special nature of the state, has plagued it for several years.
- It wants to map out the issues of jurisdiction, work being done by different agencies on drains, and the areas around them.
- Thereafter, a comprehensive policy will be drawn up, which would then act as the common direction for all agencies.

8.8 InvITs of NHAI

Infrastructure Investment Trusts (InvITs) of the National Highways Authority of India (NHAI) has started meeting investor groups.

- InvIT is meeting investors as it prepares to come up with its InvIT issue

- The issue will enable NHAI to monetise its completed NHs that have a toll collection track record of at least one year.
- The NHAI reserves the right to levy toll on identified highways.
- It will help the company raise funds for more road development across the country.
- In 2019, InvIT was established as a Trust by NHAI under the Indian Trust Act, 1882 and SEBI regulations.
- The Securities and Exchange Board of India (SEBI) notified the SEBI (InvITs) Regulations, 2014 for this purpose.
- The InvIT Trust was formed with the objective of investment primarily in infrastructure projects.
- The InvIT pools investment from various categories of investors.
- They invest them into completed and revenue-generating infrastructure projects, thereby creating returns for the investor.
- **Structure -** They have a trustee, sponsors, investment manager and project manager.
- **Trustee** - Certified by SEBI, the trustee has the responsibility of inspecting the performance of an InvIT.
- **Sponsors -** They are promoters of the company that set up the InvIT.
- In case of Public-private partnership (PPP) projects, it refers to the infrastructure developer or a special purpose vehicle (SPV) holding the concession.
- **Investment manager** is entrusted with the task of supervising the assets and investments of the InvIT.
- **Project manager** is responsible for the execution of the project.
- The fund will be raised by monetising the completed NHs.
- The project SPV would distribute not less than 90% of net distributable cash flow to the trust in proportion of its holding in each of the SPV.
- Further, not less than 90% of the net distributable cash flow of the trust will get distributed to the unitholders.
- The unitholders will get the distributions at least once every six months.
- The fund can be invested in the project SPVs by way of an issue of debt.
- The trust can utilise it to repay their loans or even for prepayment of certain unsecured loans and advances availed by such project SPVs.
- The Indian InvIT market is not yet mature.
- It has supported formation of 10 InvITs till date in roads, power transmission, gas transmission and telecom towers sectors.
- Of this, only two InvITs are listed on the stock exchange: IRB InvIT Fund and India Grid Trust.
- The listed are required to maintain a maximum-leverage ratio of 49%
- This can be increased to 70% subject to certain conditions, such as six continuous distributions to unit-holders and AAA-rating.
- With the significant amount of funding required in the infrastructure sector and a gap in availability of long-term funds, this structure helps close that gap by enabling fund raising from capital markets.

8.9 Shimla-Mataur Highway

The Shimla-Mataur highway was declared unviable by the central government.

- The Shimla-Mataur highway is one of Himachal Pradesh's primary national highways set for four-laning.
- It runs northwest from Shimla for around 223 kilometres.
- It passes through the districts of Solan, Bilaspur and Hamirpur before ending at the Mataur junction in Kangra district.
- The highway **directly connects** the state capital Shimla to Kangra, the state's most populated district.

- Kangra is home to Himachal's second capital Dharamshala.
- Kangra, Bilaspur and Hamirpur in lower Himachal, primarily connected to Shimla via this highway.
- The highway facilitates **indirect linking** of Shimla with parts of Mandi, Kullu, Una and Chamba districts.
- In effect, it connects Shimla with 9 out of 12 districts in the state.
- It's important for **religious tourism** too, since it provides connectivity to major pilgrimage centres in lower Himachal.
- In 2016, Union minister for road transport and highways announced that the highway would be four-laned.
- In addition, the NHAI was to build tunnels and bridges along the route and bypass some towns, to reduce the distance and travel-time.
- The road was to be widened in five different 'packages', or sections.
- The NHAI hired M/s Inter Continental Consultants and Technocrats, New Delhi, to prepare detailed project reports (DPRs) for this.
- Delays in the DPR process caused the High Court of Himachal Pradesh to intervene in the matter in 2017.
- In 2019, the HC directed NHAI and other agencies involved to ensure expeditious completion of works.
- In his 2020 budget speech, Chief Minister Jai Ram Thakur mentioned the highway as a priority project for the state.
- The final DPR is now complete.The land acquisition process is underway. However, no construction/excavation work has begun yet.
- In July 2020, the Union ministry of road transport and highways wrote to NHAI regarding the unviability of 2,887 kms of highways in India.
- This included the Shimla-Mataur highway.
- The NHAI asked the ministry to transfer the development, maintenance and repair of the road to the state public works department.
- According to an NHAI official, the projected cost is Rs 10,000 crore.
- Of this, Rs 7,000 crore is the project cost and Rs 3,000 crore the land acquisition cost.
- The financial crisis caused by the Covid pandemic was one of the factors behind the project being declared unviable.

8.10 Andhra Pradesh's Capital Conundrum

Andhra Pradesh Decentralisation and Inclusive Development of All Regions Bill, 2020, sets to replace earlier plan of building Amaravati as a capital to developing 3 capital cities.

- The bill states that the State will have Visakhapatnam, Amaravati and Kurnool as the executive, legislative and judicial capitals of the State respectively.
- The plan is similar to that in South Africa.
- The Sribagh pact, which happened between **Rayalaseema and coastal Andhra in 1937,** decided that if high court is in coastal Andhra, capital should be in Rayalaseema
- K.C. Sivaramakrishnan (KCS) Committee has also made recommendations along similar lines
- Even Maharashtra has two capitals, **Mumbai** &**Nagpur**, with the latter being the winter capital of the state.
- It helps to promote Even development in the state as north-coastal Andhra and Rayalaseema districts are the backward compared to the central coastal districts.
- A secretariat in Vizag can help in the development of regions ***like Vizianagaram and Srikakulam*** which consists of tribal and rural areas and are the most backward regions of the state.
- It helps to promote decentralised governance to spatially de-concentrate executive power, driven by region-specific economic activities.

- Eg: KCS Committee recommends that for Vizag region's suitability, it should have government offices relevant to local economic potential, such as for ports, shipping, fisheries and industry.
- **Challenges -** Running legislative business with most of the secretariat located 400 km away can lead to high logistical costs and inefficiencies.
- There is lack of well-developed infrastructural network linking the growth centres.
- Visakhapatnam, in spite of its excellent and natural advantages, is lacking in in infrastructure.
- It might unfold new problems as uncontrolled real estate interests can compromise the environmental interests.
- The recent environmental disasters, including the LG Polymers gas leak also expose the city's vulnerabilities.
- The bill also lacks appropriate details for the distributed development.

8.11 Need for Arbitration Body for Financial Disputes

The rising number of financial disputes and their changing nature highlights the need for an arbitration body for financial disputes in India.

- ***Litigation*** is a process followed in the courts which are under the administration of the state to resolve disputes between parties.
- In ***arbitration***, the parties can consult an arbitration tribunal on their own.
- In this, hearing is done in a private setting and it provides some amount of control to the parties.
- To note, while arbitration is typically a binding process, mediation isa non-binding process.
- The process of litigation is generally expensive than arbitration.
- Arbitration does not get stuck in formal procedures to be followed and therefore is able to avoid delays.
- Financial institutions and banks have traditionally opted for litigation instead of arbitration for dispute resolution.
- Litigation, traditionally, offered a more potent forum for recovery of money and resolving financial disputes.
- This is because the judges are vested with stronger powers than an arbitrator is.
- Litigation, as opposed to arbitration, allows judges to exercise multiple powers vested in them.
- These include interim measures, summary judgments, warrants for non-appearance, etc.
- These options are not available in arbitration.
- In addition, the public nature of disputes in courts and media attention allows the banks to create pressure on the defaulters.

8.12 Investment Clearance Cell (ICC)

- Civil Aviation ministry has set up a single window clearance mechanism to expedite various investment proposals in the domestic aviation industry.
- Investment Clearance Cell (ICC) will be setup for prompt assistance and clearance.
- The setting up of the ICC was announced by finance ministry in the 2020-2021 union budget.
- The 10 member ICC will be headed by Amber Dubey, Joint Secretary in the Aviation Ministry.
- The ICC has been mandated to serve as a single window system for attracting investment and its terms of reference include accelerating investments, bringing projects to the Empowered Group of Secretaries (EGoS),

8.13 Nationally Determined Contributions (NDC) –TIA

- NITI Aayog has launched Indian Component of the Nationally Determined Contributions (NDC)–Transport Initiative for Asia (TIA).
- NDC–TIA aims to promote a comprehensive approach to decarbonize transport in India, Vietnam, and China.

- NDC–TIA is a joint programme with a duration of 4 years, supported by the
  a) International Climate Initiative (IKI) of the German Ministry for the Environment,
  b) Nature Conservation
  c) Nuclear Safety (BMU).
- It is implemented by a consortium of seven organizations, namely:
  1. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
  2. International Council on Clean Transportation (ICCT)
  3. World Resources Institute (WRI)
  4. International Transport Forum (ITF)
  5. Agora Verkehrswende (AGORA)
  6. Partnership on Sustainable, Low Carbon Transport (SLoCaT) Foundation
  7. Renewable Energy Policy Network for the 21st Century e.V. (REN21)
- The India Component is implemented by six consortium organizations, all except SLoCaT.
- The NDC–TIA India Component will focus on
  a) Strengthening GHG and transport modelling capacities,
  b) Providing technical support on GHG emission reduction measures,
  c) Financing climate actions in transport,
  d) Offering policy recommendations on electric vehicle (EV) demand and supply policies etc.

8.14 iRAD

- Ministry of Road Transport & Highways will be implementing 'Integrated Road Accident Database Project (iRAD)' which will be applicable across the country.
- In the first instance, it has been decided to implement the proposal in six States, viz. Maharashtra, Karnataka, Madhya Pradesh, Rajasthan, Uttar Pradesh and Tamil Nadu.
- The development and implementation of iRAD has been entrusted to lIT Madras and National Informatics Centre Services Inc.
- iRAD Mobile app will be customized/integrated as per the requirements of concerned States/UTs.
- The App when developed and functional, will enable the stakeholders such as the Police, Transport, Health, etc to use their mobile phones to collect accident data on the spot.

8.15 Delhi-Meerut RRTS Project

- New Development Bank, also known as BRICS Bank has approved infrastructure projects worth 741 million dollars in India. The funds will be used for the following projects
- **Delhi-Meerut Regional Rapid Transit System (RRTS) Project** – the Loan would be used for on-lending to the National Capital Region Transport Corporation Limited (NCRTC).
- It aims to reduce journey time from Delhi to Meerut to 60 minutes.
- **Mumbai Metro Rail II (Line 6) Project -** The loan will be used for on-lending to the Government of the State of Maharashtra for implementing a metro rail Line 6 with length of about 14.47 km in the city of Mumbai.
- The Project will be implemented by the Mumbai Metropolitan Region Development Authority.

8.16 Ghar Tak Fiber

- 'Ghar Tak Fibre' scheme in Bihar, aims to connect all 45,945 villages of Bihar with high-speed optical fibre internet by 31st March 2021.

- Under the scheme, Bihar has to provide at least five fibre-to-the-home (FTTH) connections per village and at least one WiFi hotspot per village.
- The Scheme will be implemented by the Ministry of Electronics and Information Technology.
- The Scheme will lead the following
  1. Digital services including e-Education,
  2. E-Agriculture,
  3. Tele-Medicine,
  4. Tele-law and other social security schemes in Bihar ensuring easy access to all state natives.
- It is also likely to boost the local employment generation with the implementation of Bharat Net initiative which will be done by recruiting local workers.

Bharat Net Project

- It a special purpose vehicle envisaged in 2011.
- It was an ambitious plan to connect all the 2,50,000 gram panchayats through a high-speed optical network.
- Initially it was launched as National Optical Fibre Network (NOFN), it was renamed as BharatNet Project in 2015.
- Under the Project, a village or a gram panchayat (GP) is considered 'lit up' when it consistently has internet connection and users at the end to verify the same.

8.17 National Authority for Recycling of Ships

- Union government has established National Authority for Recycling of Ships under the section 3 of the Recycling of Ships Act, 2019.
- The Directorate General of Shipping will be now notified as National Authority for Recycling of Ships.
- It will be set up in Gandhinagar, Gujarat.
- The location of the office will benefit the Ship Recycling yard owners situated in Alang, Gujarat which is home of Asia's largest ship breaking and ship recycling industry in the world.
- It will be the apex body, which is authorised to administer, supervise and monitor all activities relating to ship recycling.
- DG Shipping will be the final authority for the various approvals required by the Ship-Recycling yard owners and State Governments.
- Under Ship Recycling Act, 2019, India has acceded to Hong Kong Convention for Ship Recycling under International Maritime Organization (IMO).
- DG Shipping is a representative of India in IMO and all the conventions of IMO are being enforced by DG Shipping.

8.18 PLI Scheme to Solar Manufacturing

The Union Cabinet decided to award 'Performance Linked Incentive' (PLI) to solar panel manufacturers.

- While the wind power sector has a strong domestic supply chain, solar power projects are majorly dependent on imported solar panels.
- This scheme for solar PV modules will incentivize domestic and global players to build large-scale solar PV capacity in India.
- It will help India leapfrog in capturing the global value chains for solar PV manufacturing.

8.19 Development Finance Institution (DFI)

- Union government is planning to set up a new Development Finance Institution (DFI) essentially to fill the gap in long-term finance for infrastructure sectors.
- DFIs provide long-term credit for capital-intensive investments spread over a long period and yielding low rates of return, such as urban infrastructure, mining and heavy industry, and irrigation systems.
- DFIs often lend at low and stable rates of interest to promote long-term investments with considerable social benefits.
- DFIs are also known as Development banks.

- They are different from commercial banks which mobilize short- to medium-term deposits and lend for similar maturities to avoid a maturity mismatch-a potential cause for a bank's liquidity and solvency.
- It will be used to finance both social and economic infrastructure projects identified under the National Infrastructure Pipeline (NIP).
- The DFI can have two types of character:
  1. Either it should be promoted by the government.
  2. Or it should be given a private sector character with the government restricting its holding to 49%.
- There are clear advantages if the DFI is fully held by the government, the most important being fund-raising.
- The securities from the DFI could be made Statutory Liquidity Ratio (SLR) eligible.
- This will encourage banks to subscribe to the securities issued by DFI and fulfil their SLR obligations.
- RBI requires banks to set aside 18% of their net demand and time liabilities towards SLR.
- Any issue involved in the senior management of the DFI may be hounded by
  1. Central Bureau of Investigation (CBI),
  2. Comptroller and Auditor General (CAG)
  3. Central Vigilance Commission (CVC).
- The first DFI was operationalised in 1948 with the setting up of the Industrial Finance Corporation of India (IFCI) Ltd.
- Previously, Industrial Credit and Investment Corporation of India (ICICI) and Industrial Development Bank of India (IDBI) were DFIs.

8.20 Indian Gas Exchange (IGX)

- India launched its first gas exchange which has been named as the Indian Gas Exchange (IGX).
- The IGX is a digital trading platform that will allow buyers and sellers of natural gas to trade both in the spot market and in the forward market for imported natural gas across three hubs —Dahej and Hazira in Gujarat, and Kakinada in Andhra Pradesh.
- The spot market is a public financial market in which financial instruments or commodities are traded for immediate delivery.
- A forward market is an over-the-counter marketplace that sets the price of a financial instrument or asset for future delivery.
- However, domestically produced natural gas will not be sold on the exchange.
- The price of domestically produced natural gas is decided by the government.
- IGX is expected to facilitate transparent price discovery in natural gas, and facilitate the growth of the share of natural gas in India's energy basket.
- It removes the requirement for buyers and sellers to find each other to ensure a fair price deal.

8.21 Transferable Developmental Rights

- Transferable development rights (TDR) is a method by which developers can purchase the development rights of certain parcels within a designated "sending district" and transfer the rights to another "receiving district" to increase the density of their new development.
- Transferable Development Rights or TDR is an economic tool that has been successfully tried and tested internationally in various forms.
- The underlying legal concept of a transfer of development rights programme is the notion that all land has a bundle of property rights.
- It is used for controlling land use to complement land-use planning and zoning for more effective urban growth management and land conservation.

- It enables cost savings and meets the infrastructural needs without compromising on the location, time and rights of the property owners.
- In India, this tool was first used in Mumbai and later in Ahmedabad, Bangalore, Pune, and others, with varied purposes and responses.
- Thus the TDR process can be considered a tool for controlling urban sprawl by concentrating development.
- TDR is a legal mechanism offered in some local government jurisdictions as a form of development control.

8.22 GARUD Portal

- Civil Aviation Ministry and DGCA have launched the GARUD (portal for providing fast track conditional exemptions to government agencies for COVID-19 related drone operations.
- GARUD is an acronym for 'Government Authorisation for Relief Using Drones'.
- The objective of the portal is to assist governmental entities in seeking exemption for COVID-19 related Remotely-piloted aircraft system (RPAS) operations.
- The Civil Aviation Ministry has clarified that any violation of provisions will make the conditional exemption null and void and will lead to penal action.

8.23 SheshNaag

- It is super-long train of about 2.8 Km ever to run on Indian Railways.
- It allows more goods to be sent from one place to another at a time powered by a electric locomotive.
- The incredible feat was achieved in the South East Central Railway zone of the Indian Railways.

8.24 TRAI Multi-Stakeholder Body

- Recently, the Telecom Regulatory Authority of India (TRAI) has recommended the creation of a multi-stakeholder body (MSB) to ensure that Internet access providers adhere to the provisions of net neutrality.
- The MSB should be set up as a non-profit entity, with the following objectives
  1. To provide advice and support to the Department of Telecommunications (DoT) in the monitoring and enforcement of net neutrality principles.
  2. To investigate complaints regarding the violation of net neutrality.
  3. To help DoT in the maintenance of a repository of reasonable traffic management practices.
- It could include telecom service providers, Internet service providers, content providers, researchers, academic and technical community, civil society organisations, and the government.

Net Neutrality

- Net neutrality has been defined as a principle that Internet Service Providers (ISP) also called Internet Access Providers (IAP) should enable access to all content and applications regardless of the source, and without favouring or blocking particular products or websites.
- This means when the customers pay an ISP for a data plan, they should be able to access all content online (news, social media, videos, games, etc.) at the same broadband speed which they had opted for.
- It democratises the internet space as the telecom provider cannot charge differently for different websites and allows everyone on the internet to participate in it.
- It does not let ISPs to act as "gatekeepers" and control, filter or block data according to their will without a court order.

8.25 Performance Assessment of Highways

- National Highways Authority of India (NHAI) has decided to undertake performance assessment and ranking of the highways in the country.
- The assessment activity majorly intended to improve the quality of roads in the country.
- The criteria for the assessment have been broadly categorised in three main heads namely, Highway Efficiency (45%), Highway Safety (35%) and User Services (20%).
- Additionally, important parameters like operating speed, time taken at toll plaza, road signage, road markings, accident rate, and illumination, availability of Advanced Traffic Management System (ATMS), functionality of

structures, cleanliness, plantation, wayside amenities and customer satisfaction will also be considered while conducting the assessment.

- Apart from overall ranking of all the corridors, separate ranking for Build-Operate-Transfer (BOT), Hybrid Annuity Model (HAM) and Engineering, Procurement, and Construction (EPC) projects will also be done.
- BOT is a conventional PPP model in which a private partner is responsible to design, build, operate (during the contracted period) and transfer back the facility to the public sector.
- In the case of HAM, the central government bears 40% of the project cost and the remaining amount is arranged by the developer.
- Under the EPC model, the cost is completely borne by the government.
- The ranking of the corridors will be dynamic and the operators will get the opportunity to improve upon their ranking by improving the services on that corridor.

9. AGRICULTURE

9.1 Farm Reform Laws

Thousands of farmers from Punjab, Haryana, Rajasthan and Uttar Pradesh have been marching toward Delhi in protest against the three central farm legislations.

- The three recent Acts on agriculture reforms are:
    1. The Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020
    2. The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020
    3. The Essential Commodities (Amendment) Act, 2020
- The Bills were introduced in the Parliament in September 2020 to replace the ordinances issued during the lockdown.

Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020:

- **Need:**
- Farmers in India suffered from various restrictions in marketing their produce.
- There were restrictions for farmers in selling agri-produce outside the notified APMC (Agricultural Produce Market Committee) market yards.
- The farmers were also restricted to sell the produce only to registered licensees of the State Governments.
- Further, barriers existed in free flow of agriculture produce between various States owing to the prevalence of various APMC legislations enacted by the State Governments.
- **Provisions:**
- It seeks to provide for the creation of an ecosystem where the farmers and traders have the choice relating to sale and purchase of farmers' produce.
- This facilitates remunerative prices through competitive alternative trading channels.
- It thus promotes efficient, transparent and barrier-free inter-State and intra-State trade and commerce of farmers' produce.
- The produce will have a reach outside the physical premises of markets or deemed markets notified under various State agricultural produce market legislations.
- It will also provide a facilitative framework for electronic trading.
- It will also help farmers of regions with surplus produce to get better prices and consumers of regions with shortages, lower prices.

The Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020

- **Need:**
- Indian agriculture is characterized by fragmentation due to small holding sizes.
- It has certain weaknesses such as weather dependence, production uncertainties and market unpredictability.
- This makes agriculture risky and inefficient in respect of both input and output management.
- In this context, this legislation will transfer the risk of market unpredictability from the farmer to the sponsor.
- **Provisions**:
- This seeks to provide for a national framework on farming agreements.
- It thus seeks to protect and empower farmers to engage with agri-business firms, processors, wholesalers, exporters or large retailers.
- They can take up farm services and sale of future farming produce at a mutually agreed remunerative price framework.
- It will also enable the farmer to access modern technology and better inputs.
- It will reduce the cost of marketing and improve income of farmers.
- Farmers will engage in direct marketing thereby eliminating intermediaries resulting in full realization of price.
- Effective dispute resolution mechanism has been provided for with clear time lines for redressal.

The Essential Commodities (Amendment) Act, 2020

- The Act seeks to remove commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities.
- This will remove fears of private investors of excessive regulatory interference in their business operations.
- The freedom to produce, hold, move, distribute and supply will lead to harnessing of economies of scale and attract private sector/foreign direct investment into agriculture sector.

Rationale

- India has become surplus in most agri-commodities.
- But farmers have been unable to get better prices due to lack of investment in cold storage, warehouses, processing and export.
- This is because the entrepreneurial spirit gets dampened due to Essential Commodities Act.
- Farmers suffer huge losses when there are bumper harvests, especially of perishable commodities.
- In this context, the legislation will help drive up investment in cold storages and modernization of food supply chain.
- It will help both farmers and consumers while bringing in price stability.
- It will create competitive market environment and also prevent wastage of agri-produce that happens due to lack of storage facilities.

Protesting States

- The protests are perhaps the loudest in northern states, traditionally India's wheat basket and rice bowl.
- The MSP system, in place since the mid-1960s, was part of the country's drive to reduce dependence on food imports.
- The MSP was meant to protect farmers against price crashes that could (and do) occur with large harvests.
- It is in its role as a floor price that a credible MSP matters to farmers.
- In principle, in deficit states (where demand exceeds local supply), market prices should be higher than the MSP, obviating the need for supporting the market at the level of MSP.

- However, this differential could be dampened or even eliminated by the distribution of grains under the National Food Security Act (NFSA).
- Seen in this light, the MSP matters more in historically surplus states of Punjab and Haryana.
    - Here, the government purchases over 80% of wheat and rice output for NFSA supply.
    - In comparison, in Bihar, the government procures at most a quarter of rice output of the state and no wheat.
- Also, in practice there is wide variation in the implementation of the MSP, across crops, states and categories of farmers.
    - A 2016 Niti Aayog report notes that all surveyed Punjab farmers reported selling at the MSP.
    - While other states often saw only one-third of farmers reporting sales at the MSP, and some, none at all (with sales at the lower open market prices).
    - The report also finds that large farmers are able to sell a greater share of their produce at the MSP as compared to smaller farmers.
    - Small farmers often rely on aggregators to sell their output.

Concerns

- **Cooperative federalism** -Agriculture and markets are State subjects – entry 14 and 28 respectively in List II.
- So the farm legislations are being seen as a direct encroachment upon the functions of the States.
- It is seen as being against the spirit of cooperative federalism enshrined in the Constitution.
- The Centre, however, argued that trade and commerce in food items is part of the concurrent list.
- **End to MSP?** -APMCs were set up with the objective of ensuring fair trade between buyers and sellers for effective price discovery.
- APMCs can -
    - regulate the trade of farmers' produce by providing licences to buyers, commission agents, and private markets
    - levy market fees or any other charges on such trade
    - provide necessary infrastructure within their markets to facilitate the trade
- The Farmers' Produce Trade and Commerce Act aims at opening up agricultural sale and marketing outside the notified APMC mandis for farmers.
- Given this, dismantling of the monopoly of the APMCs is seen as a sign of ending the assured procurement of food grains at MSP.
- To the Centre's 'one nation, one market' call, farmers have sought 'one nation, one MSP'.
- Farmers call for addressing the gaps in the APMCs, instead of making these State mechanisms redundant altogether.
- **No mechanism for price fixation -** The Price Assurance Act offers protection to farmers against price exploitation.
- However, it does not prescribe the mechanism for price fixation.
- There is apprehension that the free hand given to private corporate houses could lead to farmer exploitation.
- Farmers are apprehensive about formal contractual obligations owing to the unorganised nature of the farm sector.
- There is also the lack of resources for a legal battle with private corporate entities.
- **Food security** – Easing of regulation of food commodities in the essential commodities list would lead to hoarding of farm produce during the harvest season when prices are generally lower.
- This could undermine food security since the States would have no information about the availability of stocks within the State.

9.2 Ban on Pesticides

The Centre has issued a draft order banning the manufacture and sale of pesticides on grounds of the grave risk they pose to humans and animals.

- The order may ban 27 widely-used pesticides.
- This would include 12 insecticides, 8 fungicides and 7 herbicides.
- A large number of countries have already banned these pesticides and, experts say India should too.
- Punjab has just 1.53% of the country's area.
- But, its pesticide usage stood at 9.2% of the country in 2018-19 and over 8% in 2019-20.
- In Punjab, chemical pesticide consumption is said to be decreasing, it is still continuous and excessive.
- It stands after Uttar Pradesh and Maharashtra in pesticide usage, but both states have a 6-times larger area as compared to Punjab.
- Punjab has started using bio pesticides and its usage has increased from 136 MT in 2014-15 to 286 MT in 2019-20.
- There is still a wide variety of pesticides available to farmers for various uses.
- Punjab tops the country in terms of per hectare usage of fertilisers.
- These pesticides are used on almost all crops - rice, wheat, cotton, oilseeds, various vegetables, fruit etc.
- Punjab can do away with these pesticides, though there are no other alternatives available at present for around 9 of the 27 pesticides.
- There are three types of alternatives,
    1. Integrated Pest Management (IPM) techniques, which are using cost-effective mechanical methods,
    2. Bio-pesticides, and
    3. Molecular target-specific low toxicity pesticides, usage of which is extremely low, and which are a little more expensive.
- Neem-based biopesticides, which are environment-friendly, is very effective cost-wise and yield-wise.
- It's bitter taste keeps pests away from plants.
- Moreover, the right kind of seeds and precise irrigation can help farmers keep the pests away.
- Both PAU and Punjab agriculture department have been encouraging IPM extensively.
- Under IPM, simple hand-picking, light traps, pheromone traps, sticky traps, glue boards etc. are used to control pests.
- IPM aims to protect soil and the environment from poisonous elements
- Light trap - Electric bulb is switched on during night time for an hour close to the fields.
- The pests get attracted to the light in the night and then lights are switched it off.
- All the attracted pests fall into the diesel/petrol mixed water and get killed.
- Pheromone traps - They are meant for mating disruption, for suppression of pest population, and mass trapping.
- Such traps slowly release synthetic attractants which help in the detection of a single species of insect in the fields.
- Seed shelters - Farmers attract birds by installing seed shelters in the fields and such birds consume the harmful insects in fields.
- IPM, heavy reliance needs to be placed upon 'monitoring and surveillance' of the crops and fields.

9.3 Organic Matter in Soil

Punjab soils are degraded and depleted because organic matter is quite below (.5-.2%).

- Organic matter (OM) consists of plants, animal material which gets converted into humus after decomposing.
- It improves soil quality and fertility.
- It supplies nutrients, increases water-holding capacity and prevents soil erosion.
- This in turn needs lesser irrigation and helps arrest floods by alloying increased infiltration into the soil.
- Good OM also leads to proper utilisation of fertilisers put in the fields.
- Punjab Agricultural University (PAU) said that .75% organic matter in the soil is sufficient.
- Punjab agriculture department said it should be at least 1%.
- International standards suggest having around 2-3% in the soil.
- OM in the soil was .33% during the Green Revolution in 1966-67, which has increased to .51% at present.
- In the past over 50 years that have elapsed between the Green Revolution, the state registered a .18% increase of organic matter (OM) in its soil.
- **Punjab** - Its soil falls in the 'medium' category as for as availability of OM is concerned.
- Punjab is the highest consumer of chemical fertilisers per hectare in the country.
- It is also the third highest pesticide consumer while accounting for just 1.53% of the total area of the country.
- In Punjab, farmers usually plant three crops a year.
- This means that the land gets disturbed every time they till, leading to a decrease in organic matter in the soil.
- **Steps** - By tilling the land again and again, organic matter gets disturbed and decreases.
- Farmers can opt for two crops a year and grow green manure as a third crop.
- The green manure can be ploughed into the field to improve soil fertility.
- The best time to grow it is after wheat harvesting in April, and then ploughing it in the fields before paddy sowing in June.
- Putting cow dung in the fields, incorporating paddy and wheat stubble in soil, growing pulses are methods to enhance it.

9.4 Fertiliser Subsidy

The Centre is planning to restrict the number of fertiliser bags that individual farmers can buy during any cropping season.

- Farmers buy fertilisers at Maximum Retail Price (MRP) below their normal supply-and-demand-based market rates or what it costs to produce or import them.
- The difference, which varies according to plant-wise production cost and import price, is footed by the Centre as subsidy.
- MRPs of non-urea fertilisers are decontrolled or fixed by the companies.
- However, the Centre pays a flat per-tonne subsidy on these nutrients to ensure they are priced at "reasonable levels".
- Thus, decontrolled fertilisers retail way above urea, while they also attract lower subsidy.
- The subsidy goes to fertiliser companies, although its ultimate beneficiary is the farmer who pays MRPs less than the market rates.
- Companies, until now, were paid after their bagged material had been dispatched and received at a district's railhead point or approved godown.
- From March 2018, direct benefit transfer (DBT) system was introduced.
- In this, subsidy payment to the companies would happen only after actual sales to farmers by retailers.
- Each retailer now has a point-of-sale (PoS) machine linked to the **e-Urvarak DBT portal** of the Department of Fertilisers.

- **Fertiliser requirement of a typical farmer -** It depends on the crop.
- A farmer growing irrigated wheat or paddy may use about three 45-kg bags of urea, one 50-kg bag of DAP and 25 kg of MOP per acre.
- A total of 100 bags would easily cover the seasonal requirement of a 20-acre farmer.
- This could possibly be a reasonable cap to impose.
- Those wanting more can well afford to pay the unsubsidised rates for the extra bags.
- **Fertilisers** - For three bags urea, one bag DAP and half-a-bag MOP per acre, the farmer would spend a total of Rs 2,437 at existing MRPs.
- The corresponding subsidy value will add up to Rs 2,418.3 per acre.
- But then, farmers are also taxed on other inputs.
- **Other inputs** - Take diesel, where the incidence of excise and value added tax is Rs 42.19 on a litre retailing at Rs 70.46 in Delhi.
- On 30 litres of average per-acre consumption for paddy or wheat, that will be nearly Rs 1,266.
- So, for every Re 1 spent on fertiliser subsidy, more than half is recovered as diesel tax.
- **GST** - In addition, farmers pay goods and service tax (GST) on inputs, ranging from 12% to 18%.
- Fertiliser itself is taxed at 5%.
- Since there is no GST on farm produce, they cannot claim any input tax credit on their sales, unlike other businessmen.

9.5 APMC Markets

In the light of the ongoing farmer protests, here is a look at how APMC (Agriculture Produce Market Committee) markets went from being a solution to a problem.

- From the 1960s, there have been concerted efforts to bring all wholesale markets for agricultural produce in various states under the Agriculture Produce Market Regulation (APMR) acts.
- All states, except Kerala, Jammu and Kashmir and Manipur, enacted such laws.
- The APMC Acts mandated that the sale/purchase of agricultural commodities is carried out in a specified market area.
- Producer-sellers or traders pay the requisite market fee, user charges, levies and commissions for the commission agents (arhatias).
- These charges were levied irrespective of whether the sale took place inside APMC premises or outside it.
- Also, the charges varied widely across states and commodities.
- In the initial years, APMC acts helped remove malpractices.
- It freed the farmers from the exploitative power of middlemen and mercantile capital.
- The golden period for APMC markets lasted till around 1991.
- ***Problem*** - With time, there was a considerable loss in growth in market facilities.
- By 2006, it had declined to less than one-fourth of the growth in crop output after which there was no further growth.
- This increased the woes of Indian farmers.
- Market facilities did not keep pace with the increase in output.
- But regulation did not allow farmers to sell outside APMC markets.
- So, the farmers were left with no choice but to seek the help of middlemen.
- Due to poor market infrastructure, more produce is sold outside markets than in APMC mandis.

- The net result was a system of interlocked transactions that robs farmers of their choice to decide to whom and where to sell.
- This, ultimately, subjected farmers to exploitation by middlemen.
- Over time, APMC markets have been turned from infrastructure services to a source of revenue generation.
- In several states, commission charges were increased without any improvement in the services.
- And to avoid any protests from farmers against these high charges, most of these were required to be paid by buyers like the FCI (Food Corporation of India).
- This resulted in a heavy burden on the Centre.
- It also increased the logistics cost for domestic produce and reduced trade competitiveness.
- Given the above drawbacks, successive governments at the Centre made attempts to persuade the states to make appropriate changes in their APMC acts.
- But for 18 long years, the progress in reforms remained slow.
- **Latest Move** - It is in the above backdrop that the Farmers' Produce Trading and Commerce Act 2020 (FPTC Act) was brought in.
- The FPTC Act gives farmers the freedom to sell and buy farm produce at any place in the country.
- They can sell and buy in APMC markets or outside the mandated area, to any trader, like sale of milk.
- The Act also allows transactions on electronic platforms to promote e-commerce in agriculture trade.

9.6 Animal Husbandry Infrastructure Development Fund

- 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
  6. 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.

9.7 Minimum Support Price

- Recently, Government has declared MSP for mature de husked coconut for the season 2020 at Rs. 2700/- per quintal, thus hiking the MSP by 5.02% from Rs. 2571/- per quintal during season 2019.
- The MSP is the rate at which the government buys grains from farmers.

Crops Covered under MSP

- Government announces minimum support prices (MSPs) for 22 mandated crops and fair and remunerative price (FRP) for sugarcane.
- The mandated crops are 14 crops of the kharif season, 6 Rabi crops and two other commercial crops.
- In addition, the MSPs of toria and de-husked coconut are fixed on the basis of the MSPs of rapeseed/mustard and copra, respectively.
- The list of crops are as follows.
  1. Cereals (7) - paddy, wheat, barley, jowar, bajra, maize and ragi
  2. Pulses (5) - gram, arhar/tur, moong, urad and lentil
  3. Oilseeds (8) - groundnut, rapeseed/mustard, toria, soya bean, sunflower seed, sesame, safflower seed and nigerseed.
  4. Raw cotton.
  5. Raw jute.
  6. Copra
  7. De-husked coconut
  8. Sugarcane (Fair and remunerative price)

- Reason behind the idea of MSP is to counter price volatility of agricultural commodities due to the factors like variation in their supply, lack of market integration and information asymmetry.
- The MSP is fixed on the recommendations of the Commission for Agricultural Costs and Prices (CACP).
- Factors taken into consideration for fixing MSP include,
    1. Demand and supply,
    2. Cost of production (A2 + FL method) Price trends in the market, both domestic and international,
    3. Inter-crop price parity,
    4. Terms of trade between agriculture and non-agriculture,
    5. A minimum of 50% as the margin over cost of production,
    6. Likely implications of MSP on consumers of that product.
- The Commission also makes visits to states for on-the-spot assessment of the various constraints that farmers face in marketing their produce, or even raising the productivity levels of their crops.
- Based on all these inputs, the Commission then finalizes its recommendations, which are then submitted to the government.
- The government, in turn, circulates the CACP reports to state governments and concerned Central Ministries for their comments.
- After receiving the feed-back from them, the Cabinet Committee on Economic Affairs (CCEA) of the Union government takes a final decision on the level of MSPs and other recommendations made by the CACP.
- The Food Corporation of India (FCI), the nodal central agency of the Government of India, along with other State Agencies undertakes procurement of crops.

9.8 Agriculture Infrastructure Fund

Union government has launched a financing facility of Rs.1 lakh crore under the Agriculture Infrastructure Fund.

- It is a pan India central sector scheme.
- It aims to inject formal credit into farm and farm-processing based activities.
- It is a part of the over Rs. 20 lakh crore stimulus package announced in response to the Covid-19 crisis.
- It will provide medium - long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets.
- The funds will be provided for setting up of cold stores and chains, warehousing, silos, assaying, grading and packaging units, e-marketing points linked to e-trading platforms and ripening chambers, besides PPP projects for crop aggregation sponsored by central/state/local bodies.
- The fund will cover Agri-entrepreneurs, Startups, Agri-tech players, Farmer groups for post-harvest management, Nurturing farm assets.
- Agri Infra Fund is a pan India central sector scheme, duration of which will be 10 years till 2029.
- The fund will be managed and monitored through an online Management Information System (MIS) platform.

9.9 Sub-Mission on Agricultural Mechanization

- The Sub-Mission on Agricultural Mechanization (SMAM) was launched in April 2014 with an aim to have inclusive growth of farm mechanization to boost productivity.
- Recently union government has released Rs. 553 crore to states under the scheme to promote mechanization in the agriculture sector.
- In the year 2020-21, budget of Rs.1,033 crore has been provided for the scheme, out of which Rs.553 crore has been released to state governments.
- Under the scheme Individual farmers are also provided subsidy for procurement of machinery.

- Agricultural mechanization helps in increasing production through timely farm operations and cut in operations by ensuring better management of inputs.
- Mechanization also enhances the productivity of natural resources and reduces drudgery associated with various farm operations.

9.10 FARMS-app

- Union Agriculture ministry has developed a Multi lingual Mobile App, 'CHC (Custom Hiring Centers) - Farm Machinery' which connects farmers with Custom Hiring Service Centers situated in their locality.
- It encourages small and marginal farmers to take machines on rental basis for agriculture practices without them having to purchase such high priced machines.
- The app has been further modified and been given the acronym of FARMS-app (Farm Machinery Solutions-app).

9.11 E-Gopala App

- e-Gopala App, is a comprehensive breed improvement marketplace and information portal for direct use of farmers.
- At present, no digital platform is available in the country for farmers managing livestock including buying and selling of disease-free germplasm in all forms, availability of quality breeding services and guiding farmers for animal nutrition, treatment of animals using appropriate medicine.
- There is no mechanism to send alerts on due date for vaccination, pregnancy diagnosis and calving among other issues and inform farmers about various government schemes and campaigns in the area.
- The e-Gopala app will provide solutions to farmers on all these aspects.
- The app is launched part of PM- Matsya Sampada Yojana (PMMSY).

9.12 KRITAGYA

- Indian Council of Agricultural Research (ICAR) under National Agricultural Higher Education Project (NAHEP) has planned a hackathon named "KRITAGYA".
- NAHEP is a Government of India and World Bank project launched in 2017.
- The Hackathon aims to promote potential technology solutions for enhancing farm mechanization with special emphasis on women friendly equipment.
- Students, faculties and innovators/entrepreneurs from any university / technical institution across the country can apply and participate in the event in the form of a group.
- In one group maximum 4 participants can compete, with not more than one faculty and / or more than one innovator or entrepreneur.
- Participating students can collaborate with local start-ups, students from technology institutes, and can win Rs. 5 lakhs, Rs 3 lakhs and Rs. 1 lakh as first, second and third prize

9.13 Ayushman Sahakar

- Union Ministry of Agriculture and Farmers Welfare has launched Ayushman Sahakar, a scheme to assist cooperatives in creation of healthcare infrastructure in the country.
- It is formulated by National Cooperative Development Corporation (NCDC).
- Under the initiatives NCDC would extend term loans to prospective cooperatives to the tune of Rs.10,000 crore in the coming years.
- Any Cooperative Society with suitable provision in its byelaws to undertake healthcare related activities would be able to access the NCDC fund.
- The scheme covers establishment, modernization, expansion, repairs, renovation of hospital and healthcare and education infrastructure.

- NCDC assistance will flow either through the State Governments/ UT Administrations or directly to the eligible cooperatives.
- The scheme also provides working capital and margin money to meet operational requirements.
- Further, the scheme provides interest subvention of 1% to women majority cooperatives.

9.14 Open Market Sale Scheme (OMSS)

- It refers to selling of food grains by Government / Government agencies at predetermined prices in the open market from time to time.
- It enhances the supply of grains especially during the lean season and thereby to moderate the general open market prices especially in the deficit regions.
- For transparency in operations, the Corporation has switched over to e- auction for sale under Open Market Sale Scheme (Domestic).
- The FCI conducts a weekly auction to conduct this scheme in the open market using the platform of commodity exchange NCDEX (National Commodity and Derivatives Exchange Limited).
- The State Governments/ Union Territory Administrations are also allowed to participate in the e-auction, if they require wheat and rice outside Targeted Public Distribution System (TPDS)
- The present form of OMSS comprises 3 schemes as under

  (i) Sale of wheat to bulk consumers/private traders through e-auction.

  (ii) Sale of wheat to bulk consumers/private traders through e-auction by dedicated movement.

  (iii) Sale of Raw Rice Grade 'A' to bulk consumers/private traders through e-auction.
- Recently Government has decided that start date of procurement of pulses and oilseeds under the Price Support Scheme (PSS) may be decided by the respective States.
- The procurement shall continue for 90 days from the date of commencement of procurement.

9.15 Market Intervention Scheme (MIS)

- Market Intervention Scheme (MIS) is an ad-hoc scheme under which are included horticultural commodities and other agricultural commodities which are perishable in nature.
- Market Intervention Scheme works in a similar fashion to Minimum Support Price based procurement mechanism for food grains.
- MIS covers commodities which are not covered under the minimum price support scheme.
- It aims to intervene the market to protect the growers of their commodities from making distress sale in the event of a bumper crop during the peak arrival period when the prices tend to fall below economic levels and cost of production.
- Government implements M.I.S. for a particular commodity on the request of a State Government concerned.
- Losses suffered are shared on 50:50 basis between Central Government and the State.

9.16 Sahakar Pragya

- Recently, the Union Minister of Agriculture & Farmers Welfare has unveiled 'Sahakar Pragya' training module.
- It is part of a series of initiatives taken up by NCDC to strengthen India's cooperative societies.
- It is an innovative capacity building initiative for the farmers associated with such entities in the country.
- The 45 new training modules will impart training to primary cooperative societies in rural areas of the country.
- It embodies enhancing NCDC's training capacity through an elaborate network of 18 Regional Training Centres across the country.

Other Sahakar Initiatives

- **Sahkar Mitra SIP -** The "Scheme on Internship Program" (SIP) is an arrangement where NCDC will provide short term opportunity to young professionals acquire learning experience by applying skills and knowledge.
- **Yuva Sahakar** - Its objective is to motivate and promote the entrepreneurs of India in the Cooperative Enterprise and those individuals working for the business.
- **Ayushman Sahakar** - It is a unique scheme to assist cooperatives play an important role in creation of healthcare infrastructure in the country.
- Recently, the World Health Organisation (WHO) has suspended Remdesivir from the official list of medicines.
- **Sahakar Cooptube NCDC Channel -** It is an initiative towards One Nation One Market with the objective for India to become food factory of the world.
- **SAHAKAR-22** - It aims to develop cooperatives in Focus 222 districts, including aspirational districts, for doubling the farmers' income through providing new employment opportunities generated through cooperatives.

9.17 Honey FPO Programme

- Agriculture Ministry has launched five Farmer Producer Organisations (FPOs) for producing honey.
- These FPOs would be set up with the help of National Agricultural Cooperative Marketing Federation of India (NAFED).
- 5 FPOs - East Champaran (Bihar), Morena (Madhya Pradesh), Bharatpur (Rajasthan), Mathura (Uttar Pradesh) and Sunderbans (West Bengal).
- Through these FPOs, NAFED would help bee-keepers and honey collectors in branding, collective marketing, and also explore overseas markets for them.

Farmer Produce Organization (FPO)

- A Producer Organisation (PO) is a legal entity formed by primary producers that are farmers, milk producers, fishermen, weavers, rural artisans, craftsmen, etc.
- A Producer Organisation can be a producer company, a cooperative society or any other legal form which provides for sharing of profits or benefits among the members.
- In some forms of producer companies, institutions of primary producers can also become members of PO.
- These are basically the hybrids of cooperatives and private companies.
- The Companies Act was amended by incorporating Section-IX A in it to allow creation and registration of FPOs under it.
- FPO is one type of Producers Organisation where the members of the organisation are the farmers.
- These are also known as farmers' producer companies (FPC).
- It provide support to small farmers with end-to-end services covering almost all aspects of cultivation from inputs, technical services to processing and marketing.

9.18 NCDEX Agridex

- National Commodity and Derivatives Exchange (NCDEX) has launched India's first agri index ('NCDEX Agridex'), for easy reference to price variations in agricultural commodities.
- It has been launched with a composition of 10 leading liquid contracts on the NCDEX platform at present.
- Leading commodities such as guar seed, guar gum, soybean, chana, mustard seed, and jeera, etc, will be the index's constituents.
- The index is now available as 'indicative, It will be made tradable after being approved from the Securities and Exchange Board of India (SEBI).
- For indices, the NCDEX has partnered with NSE Indices, a leading index service provider, as a third party, to maintain and disseminate real-time NCDEX Agridex values.

- Futures trading on Agridex will enhance overall liquidity on the exchange platform.
- Agridex Futures Contracts provide a diversified cash-settled instrument, it will help in widening participation on the exchange from both institutional and retail investors.

9.19 FSSAI Order of Non-GM Crops

- Food Safety and Standards Authority of India (FSSAI) has issued an order that importers of 24 major food crops will have to mandatorily declare that the products are not genetically-modified and that they also have a non-GM origin.
- The 24 food crops include apple, eggplant, maize, wheat, melon, pineapple, papaya, plum, potato, rice, soybean, sugar beet, sugarcane, tomato, sweet pepper, squash, flax seed, bean plum and chicory.
- The importers will need to declare that the product is 'of non-GM origin, does not contain genetically modified organism, and is also not genetically modified'.
- It aims to ensure that only non-GM food crops are imported into India.

Food Safety and Standards Authority of India (FSSAI)

- It is an autonomous body established under the Ministry of Health & Family Welfare.
- It has been established under the Food Safety and Standards Act, 2006 which is a consolidating statute related to food safety and regulation in India.
- It is responsible for protecting and promoting public health through the regulation and supervision of food safety.
- The Ministry of Health & Family Welfare is the Administrative Ministry of Food Safety and Standards Authority of India.