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GOOD MORNING TIMES

Economics –PT Shots

(JULY-2019)

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TOPIC GENERAL STUDIES 3: ECONOMICS- ECONOMIC DEVELOPMENT- GOV POLICIES

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1) FOOD SECURITY- FUTURE OF FOOD

The report titled “World Resources Report: Creating a Sustainable Food Future” was co-issued by the World Bank, UN Environment Programme and UN Development Programme. The report offers solutions to ensure we can feed 10 billion people by 2050 without increasing emissions, fueling deforestation or exacerbating poverty.

Findings of the WRI's Report

Feeding 10 billion people sustainably by 2050, then, requires closing three gaps:

- A 56 percent food gap between crop calories produced in 2010 and those needed in 2050.
- A 593 million-hectare land gap (an area nearly twice the size of India) between global agricultural land area in 2010 and expected agricultural expansion by 2050; and
- An 11-gigaton GHG mitigation gap between expected agricultural emissions in 2050 and the target level needed to hold global warming below 2°C (3.6°F), the level necessary for preventing the worst climate impacts.

Roadmap for a Sustainable Food Future

- Reduce Growth in Demand for Food and Other Agricultural Products:
 - o Reduce food loss and waste: Approximately one-quarter of food produced for human consumption results in loss and waste all along the food chain, from field to fork. Reducing food loss and waste by 25 percent by 2050 would close the food gap by 12 percent.
 - o Shift towards more sustainable diets: As incomes rise,

people will increasingly consume more resourceintensive, animal-based foods. Consumption of ruminant meat has to be reduced drastically, as they are resource-intensive to produce, requiring 20 times more land and emitting 20 times more GHGs per gram than common plant proteins.

- o Achieve replacement-level fertility rates: The food gap is mostly driven by population growth, thus, RLFR would close the land gap by one quarter and the GHG mitigation gap by 17 % while reducing hunger.

- Increase livestock and pasture productivity: Demand for animal-based foods is projected to grow by 70 % by 2050 therefore need of boosting pasture productivity. Actions farmers can take include improving fertilization of pasture, feed quality and veterinary care; raising improved animal breeds; and employing rotational grazing.

- Enhance the Fisheries Management:

- o One third of marine stocks were overfished in 2015, therefore, catches need to be reduced to allow wild fisheries to recover enough just to maintain the 2010 fish-catch level in 2050.

- o As wild fish catches decline, aquaculture production needs to more than double to meet a projected 58 percent increase in fish consumption between 2010 and 2050.

- Improve soil and water management: Farmers can boost crop yields in degraded soils—particularly drylands and areas with low carbon—by improving soil and water management practices. For example, agroforestry, or incorporating trees on farms

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and pastures, can help regenerate degraded land and boost yields.

- Link productivity gains with protection of natural ecosystems: While improving agricultural productivity can save forests and savannas globally, in some cases it can actually cause more land clearing locally. Thus, infrastructure investments should not come at the expense of ecosystems.

Report suggests:

- o Limit inevitable cropland expansion to lands with low environmental opportunity costs.
- o Reforest agricultural lands with little intensification potential.
- o Conserve and restore peatlands.
- Reduction of GHG's emissions from agricultural production: The emissions from agricultural production arise from livestock farming, application of nitrogen fertilizers, rice cultivation and energy use.
 - o Of the Ruminant livestock emissions, the largest source is "enteric methane," or cow burps. Increasing productivity of ruminants also reduces methane emissions along with new technologies which can reduce enteric fermentation.
 - o Globally, crops absorb less than half the nitrogen applied as fertilizer, with the rest emitted to the atmosphere or lost as run off. Increasing nitrogen use efficiency thus, involves improving fertilizers and their management.
 - o Adopt emissions-reducing rice management and varieties as rice paddies contributed at least 10 percent of agricultural production emissions, primarily in the form of methane.
 - o Increase agricultural energy efficiency through shift to non-fossil energy sources and reduced emissions through improved manure management.

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2) DRAFT MODEL TENANCY ACT, 2019

Ministry of Housing and Urban Affairs (MHUA) released the draft Model Tenancy Act, 2019.

About the Draft Model Tenancy Act

- It aims to establish a Rent Authority for regulating renting of premises in an efficient and transparent manner and to balance the interests of owner and tenant by establishing adjudicating mechanism for speedy dispute redressal and to establish Rent Court and Rent Tribunal to hear appeals and for matters connected.
- It will promote inclusive and sustainable ecosystem to various segments of society including migrants, formal and informal sector workers, professionals, students and urban poor.
- It will notify the rules for residential and non-residential premises and further to develop the policies to promote balanced rental housing by developing different options of rental housing like individual units, dormitories, hostels, co-living, co-housing, paying guest and employee housing and outline the roles of various stakeholders.

Important Provisions of the Act: Existing Challenges and Solution

- Addressing the issue of Security deposit: The Draft tries to address the most ambiguous issue of the upper slab/limit of security deposit that can be demanded by a landlord. At present, the security deposit amount is, typically, about two or three times the monthly rent in cities like Delhi, but it goes up to 10-12 months of the monthly rent in cities like Mumbai and Bengaluru.
- o The draft Act proposes to cap the security deposit to a maximum of two months of rent in case of residential properties.

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- Amount of rent: In case of tenancies, which are governed under the existing rent control legislations, the landlord can't increase or determine the rent without the approval of the rent control tribunals.

- o The draft Act tries to address the issue of how rent can be increased.

- Vacation of house: There are only limited grounds through which a landlord can evict a tenant as the present rules favour tenants more.

- o The 2019 Act seeks to penalize recalcitrant tenants for refusing to move out of their rental properties after the agreed-upon rental period expires.

- Rent agreement: The draft Act also makes it mandatory for tenants and landlords to enter into a written agreement while taking or giving a property on rent.

- Grievance redressal mechanism: As proposed by the model Act, it comprise of the rent authority, rent court and rent tribunal, in cases of disputes.

- Obligations on both the Parties: A landlord cannot cut off or withhold essential supplies or services such as electricity and water under the new Act.

Way Ahead

With nearly 30% of households in urban areas staying in rented accommodation, this regulation will have a significant impact on the rental market. For the past several years, yield on residential investment has not been commensurate with the risks involved with the rental housing sector. Next step would be to convince states to adopt this model Act.

The need of the hour is to provide an enabling framework for emerging business models like co-living, while providing a time-bound dispute resolution mechanism for traditional tenancy formats. The government has an opportunity to make this a more

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comprehensive and enabling legislation to achieve the Housing for All objective by 2022.

Need for the Act

- As per the census 2011 about 1.1 crore houses are lying vacant thus, the Model Act would bring these into the rental market, and would promote the growth of the rental housing segment.

- The existing rent control laws are restricting the growth of rental housing and discourage owners from renting out their vacant houses due to fear of repossession.

- Therefore, the Act will bring in transparency and accountability in the existing system and balance the interests of both the property owner and tenant in a judicious manner.

3) CORPORATE SOCIAL RESPONSIBILITY (CSR)

Recently, President's assent was given to the Companies Amendment Act, 2019 to provide specific penal provision in case of non-compliance of Corporate Social Responsibilities Rules.

About Corporate Social Responsibility

- The Companies Act, 2013 is a landmark legislation that made India the first country to mandate and quantify CSR expenditure. The inclusion of CSR is an attempt by the government to engage the businesses with the national development agenda.

- Section 135 of the Act lays down rules for CSR activity in India.

- It mandates that every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on CSR activities.

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- The CSR activities in India should not be undertaken in the normal course of business and must be with respect to any of the 17 activities of CSR mentioned in Schedule VII of the act.
- Recently, the report of a High-Level Committee (HLC) on Corporate Social Responsibility, set up under Injeti Srinivas in 2018 to review the existing framework submitted its report.

Findings of the HLC

- CSR expenditure by companies: The total CSR expenditure by companies has increased substantially by 44% from the year 2014-15 to 2015-16 and thereafter marginally declined in the year 2016-17. It has further dipped by 6.9% in the year 2017-18.
- CSR compliance: The compliance percent has decreased from 72% in 2016-17 to 57% in 2017-18. Some of the major reasons reported for underspending the prescribed amount on CSR are:
 - o Problems in identifying a suitable project,
 - o Selection of suitable implementing agency
 - o Multi-year projects, etc.
- CSR expenditure across areas or subjects: Out of the total expenditure on CSR activities, the projects related to education and health have received maximum CSR funds almost every year post 2014-15 followed by projects related to rural development.
- Contribution to Central Government funds: At present, CSR funds can be contributed to PM National Relief Fund, Swachh Bharat Kosh, Clean Ganga Fund and any other fund set up by Central Government. The contributions to these funds have been in small proportion (approx. 5.6%) of the total CSR expenditures for the years 2014-15 to 2017-18.

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- Local area spending & Geographical disparity in CSR: A major share of the total CSR fund available in a particular year is getting distributed in a few states, mainly due to the location of the Companies.
 - o A state-wise analysis of CSR expenditure reveals that the states like Maharashtra, Karnataka, Andhra Pradesh, Gujarat, Tamil Nadu and Delhi have received approximately 40 % of the total expenditure on CSR, whereas States like Jharkhand, Bihar, Chhattisgarh and Uttar Pradesh are receiving only 9% of the total expenditure towards CSR.
 - o The North East Region and areas affected by Left wing extremism are receiving a miniscule proportion of the total CSR expenditure.

CSR: Examples in India

- The Tata Group conglomerate in India carries out various CSR projects, most of which are community improvement and poverty alleviation programs. Through self-help groups, it is engaged in women empowerment activities, income generation, rural community development, and other social welfare programs.
- Ultratech Cement, India's biggest cement company is involved in social work across 407 villages in the country aiming to create sustainability and self-reliance.
- The ITC's e-Choupal program, aims to connect rural farmers through the internet for procuring agriculture products, covers 40,000 villages and over four million farmers. Its social and farm forestry program assists farmers in converting wasteland to pulpwood plantations.

Major Highlights of the Amendment Act 2019

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- The Act mandates that companies transfer unspent CSR money in a financial year to an escrow account meant for CSR for three years, after which any unspent amount must be transferred to a fund specified by the government.
- Strengthening enforcement provisions that enable the SFIO (serious Fraud Investigation Office) to ensure speedy and more effective enforcement, including actions of disgorgement.
- Act also highlights the importance of companies having verifiable registered physical addresses and makes it mandatory that companies have a physical address.
- The Act aims for declogging the National Company Law Tribunals (NCLTs) through the shifting of routine matters, from the NCLT to the central government.
- The Act also recategorizes 16 compoundable offences, such as failure to file returns and issuance of shares at a discount, as civil defaults where adjudicating officers of the central government may levy penalties.

CSR is a concept that suggests that it is the responsibility of the corporations operating within society to contribute towards economic, social and environmental development that creates positive impact on society at large. **Primary objective of CSR:** To promote responsible and sustainable business philosophy at a broad level and encourage companies to come up with innovative ideas and robust management systems.

3) MULTIDIMENSIONAL POVERTY INDEX (MPI)

Recently, 2019 global Multidimensional Poverty Index (MPI) was released.

About Multidimensional Poverty Index (MPI)

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- It was developed in 2010 by the Oxford Poverty and Human Development Initiative (OPHI) and the United Nations Development Programme (UNDP).
- The global Multidimensional Poverty Index (MPI) is an international measure of acute multidimensional poverty covering over 100 developing countries.
- The MPI goes beyond income as the sole indicator for poverty, by exploring the ways in which people experience poverty in their health, education, and standard of living. It captures both the incidence and intensity of poverty.
 - o The MPI assesses poverty at the individual level.
 - o If someone is deprived in three or more of ten (weighted) indicators, the global index identifies them as 'MPI poor', and the extent – or intensity – of their poverty is measured by the percentage of deprivations they are experiencing.
- The global MPI can be used to create a comprehensive picture of people living in poverty, and permits comparisons both across countries and world regions, and within countries by ethnic group, urban/rural area, subnational region, and age group, as well as other key household and community characteristics.
- It complements the international \$1.90 a day poverty rate by showing the nature and extent of overlapping deprivations for each person.
- The 2019 update of the global MPI covers 101 countries—31 low income, 68 middle income and 2 high income.

India specific Findings

- Improvement
 - o India lifted 271 million people out of poverty (640 million to 369 million) between 2006 and 2016, recording the fastest reductions in the multidimensional poverty

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index values during the period with strong improvements in areas such as “assets, cooking fuel, sanitation and nutrition.

o India's MPI value reduced from 0.283 in 2005-06 to 0.123 in 2015-16.

o Among the four Indian states with the most acute MPI — Bihar, Jharkhand, Uttar Pradesh and Madhya Pradesh — Jharkhand has made the most progress.

o India reduced:

✓ deprivation in nutrition from 44.3% in 2005-06 to 21.2% in 2015-16,

✓ child mortality from 4.5% to 2.2%,

✓ people deprived of cooking fuel from 52.9% to 26.2%,

✓ deprivation in sanitation from 50.4% to 24.6%,

✓ deprivation of drinking water from 16.6% to 6.2 %,

✓ access to electricity as deprivation from 29.1% to 8.6%,

✓ housing from 44.9% to 23.6%

o Overall, India was among three countries where poverty reduction in rural areas outpaced that in urban areas is an indicator of propoor development.

Limitations of MPI

• The indicators may not reflect capabilities but instead reflect outputs (such as years of schooling) or inputs (such as cooking fuel).

• The health data are relatively weak and overlook some groups' deprivations, especially for nutrition.

• In some cases careful judgments were needed to address missing data.

• Intra-household inequalities may be severe, but these could not be reflected.

• MPI goes well beyond a headcount ratio to include the intensity of poverty, it does not measure inequality among the poor, although decompositions by groups can be used to

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reveal group-based inequalities. • Estimates presented are based on publicly available data and cover various years between 2007 and 2018, which limits direct cross-country comparability.

What does MPI value shows?

• The MPI value summarizes information on multiple deprivations into a single number. This value varies from 0 to 1.

• It shows the proportion of deprivations that a country's poor people experience out of the total possible deprivations that would be experienced if every person in the society were poor and deprived in every indicator.

• It is calculated by multiplying the poverty headcount by the intensity of poverty.

Global Findings

• Across 101 countries, 1.3 billion people -23.1 %- are multidimensionally poor out of which half of the multidimensionally poor people are children under age 18 and third are children under age 10.

• Children are more prone to multidimensional poverty than adults. Multidimensionally poor children are concentrated more in the SubSaharan Africa and the South Asia. These two regions account for 85 per cent of multidimensionally poor population of the world.

• Two-thirds of multidimensionally poor people live in middle-income countries.

• There is little or no association between economic inequality (measured using the Gini coefficient) and the MPI value.

• The report identifies 10 countries, with a combined population of around 2 billion people, to illustrate the level of poverty reduction, and all of them have shown statistically significant progress. o The 10 countries are Bangladesh, Cambodia, Democratic Republic of Congo, Ethiopia,

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Haiti, India, Nigeria, Pakistan, Peru and Vietnam.

4) ROAD SAFETY

As per the data placed by the Government in the Parliament, road accidents in India killed 400 or more deaths, on a daily average, in each of the three years between 2015 to 2017.

About Road Safety

- Road safety has become a serious public health issue in India, given the increasing number of casualties due to road accidents.
- There are serious costs associated with road accidents such as-
 - o Economic Cost: Planning Commission of India stated that over 3% of India's GDP is lost to road accidents annually, and this amounted to 3.8 lakh crore rupees in 2016.
 - o Social Cost:
 - ✓ Pedestrians constitute 19 percent of total deaths in road accidents in India. They are the most vulnerable road users as they have lesser protection in case of road accidents.
 - ✓ Loss of family member, especially earning member leads to poverty and social distress. Moreover, disabilities occurred in accident lead to loss of human productivity and stigma.
 - o Administrative Cost: includes traffic management, enforcement of law, resource costs (clearance of damage property) and insurance administration.
- Thus, it is crucial that road safety is addressed on an urgent basis. Further, in many of the larger states, deaths due to road accidents have increased in recent times.

Issues in addressing road safety

- Increasing number of vehicles on roads in many areas- due to following factors like increasing urbanisation and migration in the country.

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- Increasing vulnerability of pedestrians- due to factors such as-
 - o Designated footpaths are routinely encroached by parked vehicles and shops especially in urban area, force the pedestrians to walk on roads.
- Indifference towards good Samaritan approach: There is a lack of helping hand approach among people at the time of accidents. This is due to consequential legal hearing and repeated appearances in the police station for investigation.
- Needs coordination between different stakeholders- In a federal set up much depends on efforts of States to mobilise data on road accidents.
 - o World Health Organisation (WHO) recommends countries to have a national urban maximum speed limit of 50 km/hour. But some states like Uttar Pradesh fall below this bracket with a 40 km/hour limit while those in Andhra Pradesh and Maharashtra can go up to 65 km/hour
- Inadequate implementation of provisions- by the enforcement agencies, due to which there is lower number of prosecutions of law-breakers. It does not allow effective deterrent to be created in the minds of violators.
- Improper road engineering- due to which the road infrastructure in India suffers from poor design quality, poor visibility leading to higher chances of accidents.

Steps taken to improve road safety in India

- Pradhan Mantri Surakshit Sadak Yojana launched with initial funding of about Rs 2,000 crore which will eliminate dangerous spot from highways.
- Recently government made it mandatory for two-wheeler from April 2019 onward to have Anti-Break lock System in order to improves control over the vehicle at the event of emergency braking.

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- Government had signed the Brasilia declaration in 2015, committing to reduce road accident and fatality by half.
- The Union Government issued guidelines to be followed by hospitals, police and all other authorities for the protection of Good Samaritans.
- Draft National Action Plan aimed at halving number of road accident deaths by 2020.
- Passage of Motor Vehicle (Amendment) Act, 2019.

Suggestions to enhance road safety include

- Policy shift towards applied scientific study for roads instead of widening and expending the length and coverage of road is need of hour. A combination of scientific investigation of road crashes, rigorous data analysis and interventions across engineering, enforcement, education, and trauma care are the key to road safety in India.
- o S. Sunder committee 2007 on road safety highlighted the need for scientific study of road infrastructure, which includes effective road engineering solutions at the design stage, rectification of accident hot spots etc.
- o It also advocated the establishment of Directorate of Road Safety and Traffic Management for advocacy in changing road safety scenario.
- Safe system approach of World Health Organisation recognised that people's role in road safety cannot be eliminated completely by penalisation methods, rather the policy approach should be shifted towards education and awareness for all the strata of society.
- Modernise the vehicle technology such as collision-avoidance systems, (semi-)autonomous vehicles, stability control, improved road-vehicle interaction, automatic

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braking systems and air cushion technology and speed limiters on fleet vehicles.

- Good transport and National Freight Policy should be implemented to ease-out the traffic burden on passenger vehicles.
- Teaching life-saving first-aid to people likely to be first on the scene of a road traffic accident could have a similar effect. o According to the WHO, a project to teach first-aid skills to people in parts of Cambodia and in northern Iraq has seen encouraging results in landmine-related deaths. With just basic supplies and no ambulances, mortality fell from 40% to 9%.
- For effective road safety in the country, new policies and actions should be based on Brasilia Declaration of 2015, which call for rethinking the transport policies in order to favour more sustainable methods and modes of transport.

Motor Vehicle (Amendment) Act, 2019

The act has amended the Motor Vehicles Act, 1988 to provide for road safety. It has been passed in the Parliament.

Some of its key provisions are-

- Compensation for road accident victims: The central government will develop a scheme for cashless treatment of road accident victims during golden hour. The Bill defines golden hour as the time period of up to one hour following a traumatic injury, during which the likelihood of preventing death through prompt medical care is the highest.
- Compulsory insurance: The Act requires the central government to constitute a Motor Vehicle Accident Fund, to provide compulsory insurance cover to all road users in India.
- It sets up a National Road Safety Board that will advise the government on road design

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and motor vehicle safety. • Good samaritans: The Act defines a good samaritan as a person who renders emergency medical or non-medical assistance to a victim at the scene of an accident.

• Offences and penalties: The Act increases penalties for several offences under the Act. For example, the maximum penalty for driving under the influence of alcohol or drugs has been increased from Rs 2,000 to Rs 10,000.

• Recall of vehicles: The Act allows the central government to order for recall of motor vehicles if a defect in the vehicle may cause damage to the environment, or the driver, or other road users.

5) GOVERNMENT E-MARKETPLACE

Recently, the Steel Authority of India Limited (SAIL) becomes the first Central Public Sector Enterprise to enter into MoU with the Government e-Marketplace (GeM).

Background

• The Government e Marketplace (GeM), launched in 2016, is an online market platform to facilitate procurement of goods and services by various Ministries and agencies of the Government. o It owes its genesis to the recommendations of two Groups of Secretaries made to the Prime Minister in January 2016.

o The portal was developed by the Directorate General of Supplies and Disposals (DGS&D) with technical support of NeGD (MeitY).

o It has been envisaged by Government of India as the National Procurement Portal of India and is directly monitored by the PMO office.

o Procurement on GeM has been authorized by General Financial Rules by making necessary changes in government rules.

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o 24 States and UTs have signed a formal MoU with GeM to formalize this arrangement.

• Before the GeM, the government bodies used to procure goods and services based on fixed-rate contracts and tenders through the director-general for supplies and disposal (DGS&D).

• The GeM leverages technology to make government procurement contact-less, paperless and cashless.

o Based on its stellar performance, it was awarded the South Asia Procurement Innovation Award in 2016.

o Recently, it also launched a service for the original equipment manufacturers (OEM) of the goods that are procured through the portal to help them track the movement of their products.

Issues with the procurement process before GeM-

• Decentralised Procurement- India spends an estimated 20% of GDP on public procurement and most of it was procured in a decentralized manner.

o But these purchases in small quantities lose the benefits of economies of scale.

o Also, they are vulnerable to malpractices because it is very difficult to monitor thousands of small transactions.

o The Small suppliers, too, find it difficult to reach buyers in other parts of the country without layers of intermediaries, pushing up their costs.

• Lack of diverse options for procurement- due to limited product categories (160-400) and services were not offered. It also led to inflated pricing for 1-2 years.

• Small domain of prospective sellers- due to limited base of 4000 vendors. Also, the registration and tendering process was

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opaque and time-consuming, with the possibility of vendor buyer nexus.

- The payment was done manually with long timelines (1-6 months).

Advantages with GeM

- Brought a transparent procurement regime- by eliminating human interface in vendor registration, order placement and payment processing, to a great extent. Being an open platform, GeM offers no entry barriers to bonafide suppliers who wish to do business with the Government.
 - o Seamless processes and online time-bound payment has given confidence to the vendors and reduced their 'administrative' cost involved in pursuing officers for timely payment.
- Reduction in inefficiencies-
 - o by replacing the archaic DGS&D with a staff of more than 1,800 to a lean, tech-led GeM which has just 50 employees.
 - o by eliminating multiple levels of manual, sequential verification and decision-making, leading to dramatic reductions in lead-time in government procurement. It has brought down the delivery time from 30-60 days earlier to 10-15 days.
 - o Vendor registration time has shrunk from 30 days to under 10 minutes.
- Broadened the scope of procurement- as it has brought a unique feature by offering both products and services on GeM. Product categories have multiplied from under 400 in the early months to 3,500 now.
- Has brought machine-driven, competitive pricing-
 - o Instead of procurement rates fixed for one or two years, now it's dynamic and market-linked.
 - o It has led to cheaper procurements. E.g. As a category, automobile has been the biggest hit, with an instant 12 per cent discount.
 - o It has led to aggregating purchases. E.g. five states together bought 1

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lakh smart phones, which helped the government to negotiate for bigger discounts.

- Has promoted entrepreneurship and created jobs- The vendor base has become more diverse and inclusive, with an emphasis on supporting startups and MSMEs. E.g. a small company selling patented nasal filters to tackle air pollution got a bulk order from traffic police in Delhi and Chandigarh, due to GeM.
- o It has eliminated intermediaries and guaranteed prompt release of payment.
- Has brought new rating system and comparison-
 - o Initially, prices on GeM were higher than other e-commerce sites like Flipkart. Now a tool has been introduced, where prices on GeM could be easily compared with those on other ecommerce sites.

Challenges with GeM

- Implemented in a short time span- the government had to come with various versions like GeM 1.0, GeM 2.0 and GeM 3.0. The resistance to change by various stakeholders was not addressed and the renewal of rate contracts was stopped arbitrarily.
- Lack of access in remote areas- Although the rates and timelines have come down and the system is stabilising but in remote areas where order is small, delivery is an issue.
- Platform can be made more user-friendly- The small businesses find it hard to use the platform due to complex user interface of the portal.
- Issues of counterfeits- as there are instances of fake product delivery. Recently, the government has brought some provisions where after three such instances those vendors can be banned. But it needs to be streamlined further.

Way Forward

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- The government needs to address the issues reported by the industry, especially the small players, to effectively use the platform.
- By expanding the scope of GeM further, the government's flagship schemes like Make in India and Start Up India can also witness growth.
- The GeM has set an ambitious target to achieve Gross Merchandise Value (GMV) equivalent to 4-5% of India's GDP. If 15-25 % savings are realized on this volume of procurement, it will free up enormous sums, which the government can use to finance its development and poverty alleviation programs.
- If pursued to its logical conclusion, GeM would eventually emerge as the National Public Procurement Portal, keeping in tune with the Global best practices.

6) REGULATORY SANDBOX

The Insurance Regulatory and Development Authority of India (IRDAI) will soon allow the use of regulatory sandbox (RS) to promote new, innovative products and processes in the industry.

About IRDAI sandbox:

- For the IRDAI sandbox, an applicant should have a net worth of Rs 10 lakh and a proven financial record of at least one year.
- Companies will be allowed to test products for up to 12 months in five categories.
- Applicants can test products for up to a period of one year in five categories – insurance solicitation or distribution, insurance products, underwriting, policy and claims servicing.

What is a regulatory sandbox?

- A regulatory sandbox is a safe harbour, where businesses can test innovative products under relaxed regulatory conditions. Typically, participating companies release

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new products in a controlled environment to a limited number of customers for a limited period of time.

Significance and benefits of a regulatory sandbox:

- The “regulatory sandbox” will help fintech companies launch innovative products at a lower cost and in less time.
- The sandbox will enable fintech companies to conduct live or virtual testing of their new products and services.
- These companies will also be able to test the viability of the product without a wider and expensive rollout.
- It will help companies to experiment with fintech solutions, where the consequences of failure can be contained and reasons for failure analysed.

Need:

- According to NITI Aayog, India is one of the fastest growing fintech markets globally, and industry research has projected that \$1 trillion, or 60% of retail and SME (small and medium sized enterprises) credit, will be digitally disbursed by 2029.
- The Indian fintech ecosystem is the third largest in the world, attracting nearly \$6 billion in investments since 2014. Fintech or financial technology companies use technology to provide financial services such as payments, peer-to-peer lending and crowdfunding, among others.
- Therefore, in order to protect customers and safeguard the interests of all stakeholders, and streamline their influence on the financial system, there is need for a regulatory and supervisory framework for fintech firms.

7) NEW CODE ON WAGES

The Code on Wages Bill, 2019 passed in Lok Sabha, which seeks to define the norms for

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fixing minimum wages that will be applicable to workers of organised and unorganised sectors, except government employees and MGNREGA workers.

- The bill will amalgamate the Payment of Wages Act, 1936, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, and the Equal Remuneration Act, 1976.

Background:

- The code on wages is one of the four codes that would subsume 44 labour laws with certain certain amendments to improve the ease of doing business and attract investment for spurring growth.
- The four codes will deal with wages, social security, industrial safety and welfare, and industrial relations.

What are the determining factors?

- As per the Bill, minimum wages will be linked only to factors such as skills and geographical regions.
- Present status: At present, minimum wages are fixed on the basis of categories such as skilled, unskilled, semi-skilled, high skilled, geographical regions, and nature of work such as mining and are applicable for 45 scheduled employments in the central sphere and 1709 scheduled employments in states.
- As per the new Bill, the minimum wages across the country would be only linked to factors of skills and geographical regions, while the rest of the factors have been removed.

Floor Wage:

- A National Floor Level Minimum Wage will be set by the Centre to be revised every five years, while states will fix minimum wages for their regions, which cannot be lower than the floor wage.
- The current floor wage, which was fixed in 2017, is at Rs 176 a day, but some states have

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minimum wages lower than it such as Andhra Pradesh (Rs 69) and Telangana (Rs 69).

Key highlights:

- Coverage: The Code will apply to all employees. The central government will make wage-related decisions for employments such as railways, mines, and oil fields, among others. State governments will make decisions for all other employments.
- Wages include salary, allowance, or any other component expressed in monetary terms. This does not include bonus payable to employees or any travelling allowance, among others.
- Floor wage: According to the Code, the central government will fix a floor wage, taking into account living standards of workers. Further, it may set different floor wages for different geographical areas. Before fixing the floor wage, the central government may obtain the advice of the Central Advisory Board and may consult with state governments.
- The minimum wages decided by the central or state governments must be higher than the floor wage. In case the existing minimum wages fixed by the central or state governments are higher than the floor wage, they cannot reduce the minimum wages.
- Fixing the minimum wage: The Code prohibits employers from paying wages less than the minimum wages. Minimum wages will be notified by the central or state governments. This will be based on time, or number of pieces produced. The minimum wages will be revised and reviewed by the central or state governments at an interval of not more than five years. While fixing minimum wages, the central or state governments may take into account factors such as:
 - (i) skill of workers, and

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(ii) difficulty of work.

• **Overtime:** The central or state government may fix the number of hours that constitute a normal working day. In case employees work in excess of a normal working day, they will be entitled to overtime wage, which must be at least twice the normal rate of wages.

• **Payment of wages:** Wages will be paid in

(i) coins,

(ii) currency notes,

(iii) by cheque,

(iv) by crediting to the bank account, or

(v) through electronic mode.

The wage period will be fixed by the employer as either:

(i) daily,

(ii) weekly,

(iii) fortnightly, or

(iv) monthly.

• **Deductions:** Under the Code, an employee's wages may be deducted on certain grounds including:

(i) fines,

(ii) absence from duty,

(iii) accommodation given by the employer, or

(iv) recovery of advances given to the employee, among others. These deductions should not exceed 50% of the employee's total wage.

• **Determination of bonus:** All employees whose wages do not exceed a specific monthly amount, notified by the central or state government, will be entitled to an annual bonus. The bonus will be at least:

(i) 8.33% of his wages, or

(ii) Rs 100, whichever is higher. In addition, the employer will distribute a part of the gross profits amongst the employees. This will be distributed in proportion to the annual wages of an employee. An employee can

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receive a maximum bonus of 20% of his annual wages.

• **Gender discrimination:** The Code prohibits gender discrimination in matters related to wages and recruitment of employees for the same work or work of similar nature. Work of similar nature is defined as work for which the skill, effort, experience, and responsibility required are the same.

• **Advisory boards:** The central and state governments will constitute advisory boards. The Central Advisory Board will consist of:

(i) employers,

(ii) employees (in equal number as employers),

(iii) independent persons, and

(iv) five representatives of state governments. State Advisory Boards will consist of employers, employees, and independent persons. Further, one-third of the total members on both the central and state Boards will be women. The Boards will advise the respective governments on various issues including:

(i) fixation of minimum wages, and

(ii) increasing employment opportunities for women.

Significance:

• This is expected to effectively reduce the number of minimum wage rates across the country to 300 from about 2,500 minimum wage rates at present.

• Codification of labour laws will remove the multiplicity of definitions and authorities, leading to ease of compliance without compromising wage security and social security to workers.

• It is expected to provide for an appellate authority between the claim authority and the judicial forum which will lead to speedy, cheaper and efficient redressal of grievances and settlement of claims as that of earlier.

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Key Issues and Analysis:

- Central government may set a national minimum wage. Further, it may set separate national minimum wages for different states or regions. In this context, two questions arise:

- (i) the rationale for a national minimum wage, and

- (ii) whether the central government should set one or multiple national minimum wages.

- States have to ensure that minimum wages set by them are not lower than the national minimum wage. If existing minimum wages set by states are higher than the national minimum wage, they cannot reduce the minimum wages. This may affect the ability of states to reduce their minimum wages if the national minimum wage is lowered.

- The time period for revising minimum wages will be set at five years. Currently, state governments have flexibility in revising minimum wages, as long as it is not more than five years. It is unclear why this flexibility has been removed, and five years has been set for revision.

- The Equal Remuneration Act, 1976, prohibits employers from discriminating in wage payments as well as recruitment of employees based on gender. While the Code prohibits gender discrimination on wage-related matters, it does not include provisions regarding discrimination during recruitment.

Need for a national minimum wage:

- One argument for a national minimum wage is to ensure a uniform standard of living across the country. At present, there are differences in minimum wages across states and regions.

- Such differences are attributed to the fact that both the central and state governments set, revise and enforce minimum wages for the employments covered by them.

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- The introduction of a national minimum wage may help reduce these differences and provide a basic standard of living for all employees across the country.

8) SOVEREIGN BONDS

The government has announced its plans to raise a portion of its gross borrowing from overseas markets. With the help of Reserve Bank of India (RBI), the government will finalise the plans for the overseas issue of sovereign bonds by September.

What exactly are sovereign bonds?

- A bond is like an IOU. The issuer of a bond promises to pay back a fixed amount of money every year until the expiry of the term, at which point the issuer returns the principal amount to the buyer. When a government issues such a bond it is called a sovereign bond.

Why is India borrowing in external markets in external currency?

- Indian government's domestic borrowing is crowding out private investment and preventing the interest rates from falling even when inflation has cooled off and the RBI is cutting policy rates.

- If the government was to borrow some of its loans from outside India, there will be investable money left for private companies to borrow; not to mention that interest rates could start coming down.

- A sovereign bond issue will provide a yield curve — a benchmark — for Indian corporates who wish to raise loans in foreign markets. This will help Indian businesses that have increasingly looked towards foreign economies to borrow money.

- Globally, and especially in the advanced economies where the government is likely to go to borrow, the interest rates are low and, thanks to the easy monetary policies of

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foreign central banks, there are a lot of surplus funds waiting for a product that pays more.

- In an ideal scenario, it could be win-win for all: Indian government raises loans at interest rates much cheaper than domestic interest rates, while foreign investors get a much higher return than is available in their own markets.

What is the controversial part?

- The current controversy relates to India's sovereign bonds that will be floated in foreign countries and will be denominated in foreign currencies.
- This would differentiate these proposed bonds from either government securities (or G-secs, wherein the Indian government raises loans within India and in Indian rupee) or Masala bonds (wherein Indian entities — not the government — raise money overseas in rupee terms).
- The difference between issuing a bond denominated in rupees and issuing it in a foreign currency (say US dollar) is the incidence of exchange rate risk.
- If the loan is in terms of dollars, and the rupee weakens against the dollar during the bond's tenure, the government would have to return more rupees to pay back the same amount of dollars. If, however, the initial loan is denominated in rupee terms, then the negative fallout would be on the foreign investor.

Why are so many cautioning against this move?

- The volatility in India's exchange rate is far more than the volatility in the yields of India's G-secs (the yields are the interest rate that the government pays when it borrows domestically). This means that although the government would be borrowing at "cheaper" rates than domestically, the eventual rates

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(after incorporating the possible weakening of rupee against the dollar) might make the deal costlier.

- Borrowing outside would not necessarily reduce the number of government bonds the domestic market will have to absorb. That's because if fresh foreign currency comes into the economy, the RBI would have to "neutralise" it by sucking the exact amount out of the money supply. This, in turn, will require selling more bonds. If the RBI doesn't do it then the excess money supply will create inflation and push up the interest rates, thus disincentivising private investments.
- Based on the unpleasant experience of other emerging economies, many argue that a small initial borrowing is the thin end of the wedge. It is quite likely that the government will be tempted to dip into the foreign markets for more loans every time it runs out of money. At some point, especially if India does not take care of its fiscal health, the foreign investors will pull the plug on fresh investments, creating dire consequences for India.

9) WHY IS INDIA OPTING FOR OVERSEAS BONDS?

The government has announced its plans to raise a portion of its gross borrowing from overseas markets. The government and the Reserve Bank of India (RBI) will reportedly finalise the plans for the overseas issue of sovereign bonds by September. While several commentators have argued that this is a risky move, the government itself is convinced that it will help boost private investment in the country.

What are the benefits of an overseas bond issue?

- The government has been arguing that the quantum of its borrowing within India is

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'crowding out' the private sector. In other words, it is saying that government borrowing is at such a level that there are not enough funds available for the private sector to adequately meet its credit and investment needs.

- If the private sector cannot borrow adequately, then it cannot invest as it wants to, and that cripples one major engine of economic growth.

- Therefore, borrowing overseas allows the government to raise funds in such a way that there is enough domestic credit available for the private sector.

What are the risks?

- With this, India might follow the path of some Central and South American countries such as Mexico and Brazil. In the 1970s, several of these countries borrowed heavily overseas when the global market was flush with liquidity. But then, when their currencies depreciated sharply a decade later, these countries were in big trouble as they could not repay their debt.

- India is not likely to be viewed as a risky proposition by the international market and so is likely to fetch an attractive rate for the bonds. Cheap and plentiful funds, however, should not encourage the government to borrow too heavily from abroad.

- This would also lead to a quicker increase to its foreign exchange reserves, which would lead to a stronger rupee at a time when it is already appreciating against the dollar. A stronger rupee would encourage imports at a time when the government is trying to curb them, and discourage exports at a time when they are being encouraged.

- On the other hand, a rupee depreciation for whatever external reason would prove even more disastrous as it would make it far more expensive for India to repay its external debt.

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- Another problem with an overseas bond issue is that the government would not be able to inflate itself out of trouble. That is, in the domestic market, if the government does ever reach the stage where it is finding it difficult to repay its debt, it can simply print more money, let inflation rise quickly and repay its debt. This is not an option in an overseas bond issue. The Indian government cannot print foreign currency to repay its debt.

What is an overseas bond issue?

- A government bond or sovereign bond is a form of debt that the government undertakes wherein it issues bonds with the promise to pay periodic interest payments and also repay the entire face value of the bond on the maturity date. So far, the government has only issued bonds in the domestic market.

10) BASEL NORMS

An assessment of compliance with Basel Norms was recently conducted by the Regulatory Consistency Assessment Programme (RCAP). RCAP is part of the Basel committee.

- The assessment focused on the completeness and consistency of the domestic regulations in force on 7 June 2019, as applied to commercial banks in India, with the Basel large exposures framework.

Background:

- Basel Committee on Banking Supervision (BCBS) is the primary global standard setter for the prudential regulation of banks, has 45 members, comprising central banks and bank supervisors from 28 jurisdictions.

Key findings:

- The Reserve Bank of India's (RBI) norms on large exposures for banks are not only compliant with the Basel requirements, they are stricter in some areas as well.

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• This is highest possible grade. In some other respects, the Indian regulations are stricter than the Basel large exposures framework. For example, banks' exposures to global systemically important banks are subject to stricter limits, in line with the letter and spirit of the Basel Guidelines, and the scope of application of the Indian standards is wider than just the internationally active banks covered by the Basel framework.

What are Basel guidelines?

- Basel guidelines refer to broad supervisory standards formulated by group of central banks- called the Basel Committee on Banking Supervision (BCBS). The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called Basel accord.
- Basel is a city in Switzerland which is also the headquarters of Bureau of International Settlement (BIS).
- The purpose of the accords is to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.

BASEL-I:

- Introduced in 1988.
- Focused almost entirely on credit risk, it defined capital and structure of risk weights for banks.
- The minimum capital requirement was fixed at 8% of risk-weighted assets (RWA).
- India adopted Basel 1 guidelines in 1999.

BASEL-II:

- Published in 2004. The guidelines were based on three parameters:
 1. Banks should maintain a minimum capital adequacy requirement of 8% of risk assets.
 2. Banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that is credit and increased disclosure

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requirements. The three types of risk are- operational risk, market risk, capital risk.

3. Banks need to mandatory disclose their risk exposure to the central bank.

Basel III:

- In 2010, Basel III guidelines were released. These guidelines were introduced in response to the financial crisis of 2008.
- Basel III norms aim at making most banking activities such as their trading book activities more capitalintensive.
- The guidelines aim to promote a more resilient banking system by focusing on four vital banking parameters viz. capital, leverage, funding and liquidity.
- Presently Indian banking system follows Basel II norms.

11) CORE INVESTMENT COMPANIES (CICS)

The Reserve Bank has constituted a working group that will review the regulatory and supervisory framework for core investment companies.

- The six-member working group is to be headed by Tapan Ray, non-executive chairman, Central Bank of India and former secretary, Ministry of Corporate Affairs.
- The terms of reference of the working group include examination of the current regulatory framework for CICs in terms of adequacy, efficacy and effectiveness of every component thereof and suggest changes therein.

Background:

- In August 2010, RBI had introduced a separate framework for the regulation of systemically important core investment companies (CICs), recognising the difference in the business model of a holding company relative to other non-banking financial companies.

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What are Core Investment Companies (CICs)?

- CICs are non-banking financial companies with asset size of ₹100 crore and above which carry on the business of acquisition of shares and securities, subject to certain conditions.
- CICs, which are allowed to accept public funds, hold not less than 90% of their net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies.
- Investments of CIC in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its net assets as mentioned in clause.
- Exemption: CICs having asset size of below Rs 100 crore are exempted from registration and regulation from the RBI, except if they wish to make overseas investments in the financial sector.

What do the term public funds include? Is it the same as public deposits?

- Public funds are not the same as public deposits. Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. However, even though public funds include public deposits in the general course, it may be noted that CICs/CICs-ND-SI cannot accept public deposits.

Need:

- This Concept was originated in order to safeguard NBFCs which are formed for group investments from stringent RBI procedures.

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12) TRADE INFRASTRUCTURE FOR EXPORT SCHEME (TIES)

The Department of Commerce has approved financial assistance for three trade promotion centres under the 'Trade Infrastructure for Export Scheme (TIES)'.

- These centres are located in Manipur, Tamil Nadu and Madhya Pradesh.

About TIES:

- The scheme replaces a centrally sponsored scheme — Assistance to States for creating Infrastructure for the Development and growth of Exports (ASIDE).
- The objective of the TIES is to enhance export competitiveness by bridging gaps in export infrastructure, creating focused export infrastructure and first-mile and last-mile connectivity.
- Eligibility: The Central and State Agencies, including Export Promotion Councils, Commodities Boards, SEZ Authorities and Apex Trade Bodies recognised under the EXIM policy of Government of India; are eligible for financial support under this scheme.
- The scheme would provide assistance for setting up and up-gradation of infrastructure projects with overwhelming export linkages like the Border Haats, Land customs stations, quality testing and certification labs, cold chains, trade promotion centres, dry ports, export warehousing and packaging, SEZs and ports/airports cargo terminuses.

13) DISINVESTMENT

The finance minister in the budget 2019-2020, highlighted that the government would not only reinstate the process of strategic disinvestment of Air India, but would offer more CPSEs for strategic participation by the private sector.

- Announcements in Budget 2019-2020-

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o The target for disinvestment receipts has increased to Rs 1.05 trillion for FY20, from Rs 90,000 crore in the interim Budget earlier this year.

o The government's stake in non-financial public sector units (PSUs) can go below the majority stake of 51 per cent. Instead of holding a direct stake of 51 per cent in PSUs, "government-controlled institutions" can chip in the remaining sum, which the government will look to divest.

• The Government is looking for asset monetisation from land and property of various PSUs. The Department of Investment and Public Asset Management is in the process of appointing a panel of six transaction advisors who will help it with sale of noncore assets of PSUs.

Methods of Disinvestment

• Stock market: Initial Public Offering (IPO), Further Public Offering (FPO), and Offer for sale (OFS) offer are such methods through the stock markets.

• Institutional Placement Program (IPP): only Institutions can participate in the offering.

• Exchange Traded Fund (ETF)- it allows simultaneous sale of government stake in various CPSEs across diverse sectors through single offering. It provides a mechanism to monetize its shareholding in those CPSEs, which form part of the ETF basket. Currently, it consists of (i) CPSE-ETF and (ii) Bharat-22 ETF

• Strategic Disinvestment: o It is the sale of substantial portion of the Government shareholding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage along with transfer of management control.

o It intended for efficient management of Government investment in CPSEs. Various programmes like addressing issues such as

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capital restructuring, dividend, bonus shares, made as part of this policy.

o Progress was made in respect of the 28 cases of Strategic Disinvestment approved by the Government, which are at different stages, with three companies strategically sold off during FY 2018-19.

About Disinvestment

• Disinvestment refers to the government selling or liquidating its assets or stakes in PSE (public sector enterprise). • The Department for investment and public asset management (DIPAM) under Ministry of finance is the nodal agency for disinvestment

• The new economic policy 1991 indicated that PSUs had shown a negative rate of return on capital employed due to- o Subsidized price policy of public sector undertakings; o Under-utilisation of capacity; o Problems related to planning and construction of projects; o Problems of labour, personnel and management; and o Lack of autonomy.

• In this direction, the Government adopted the 'Disinvestment Policy' with main objectives-

- o To reduce the financial burden on the Government
- o To improve public finances
- o To introduce, competition and market discipline
- o To fund growth
- o To encourage wider share of ownership
- o To depoliticise non-essential services

14) BANNING OF UNREGULATED DEPOSIT SCHEMES ACT, 2019

President gave assent to the Banning of Unregulated Deposit Schemes Act, 2019, to put in place a mechanism to secure poor depositors/investors from Ponzi schemes.

Background

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- Ponzi schemes, over the years have been a menace in the country. Rose Valley, Saradha, IMA Jewels scam in Bengaluru—are among the major scams in the recent past.
- The Act covers existing gaps in legislation that had been exploited by various parties to siphon large amounts of money away from small investors.
- In particular, it amends three laws, i.e.,
 - o The Reserve Bank of India Act, 1934
 - o The Securities and Exchange Board of India Act, 1992 and
 - o The Multi-State Co-operative Societies Act, 2002.

Major Highlights of the Act

- **Deposit:** The Act defines a deposit as an amount of money received through an advance, a loan, or in any other form, with a promise to be returned with or without interest.
 - o Further, the Act defines certain amounts which shall not be included in the definition of deposits such as amounts received in the form of loans from relatives and contributions towards capital by partners in any partnership firm.
- **All deposit-taking schemes are required to be registered with the relevant regulator:** Currently, nine regulators oversee and regulate various deposit-taking schemes. These include: The Reserve Bank of India, the Securities and Exchange Board of India, the Ministry of Corporate Affairs etc.
- **Bans Unregulated deposit scheme:** A deposit-taking scheme is defined as unregulated if it is taken for a business purpose and is not registered with the regulators listed in the Act.
- **Competent Authority:** The Act provides for the appointment of one or more government officers, not below the rank of Secretary to the

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state or central government, as the Competent Authority, who can provisionally attach the property of the deposit taker, as well as all deposits received.

- **Designated Courts:** The Act provides for the constitution of one or more Designated Courts in specified areas who can direct the Competent Authority to sell the property and equitably distribute the money realised among the depositors. The Court will seek to complete the process within 180 days of being approached by the Competent Authority.
- **Central database:** The Act provides for the central government to designate an authority to create an online central database for information on deposit takers.
- **Offences and penalties:** The Act define three types of offences, and penalties related to them. These offences are:
 - o Running (advertising, promoting, operating or accepting money for) unregulated deposit schemes,
 - o Fraudulently defaulting on regulated deposit schemes, and
 - o Wrongfully inducing depositors to invest in unregulated deposit schemes by willingly falsifying facts.

Way Ahead

The new Act basically aims to speed up the process of justice after a scam is noticed. While that is important, what is more important is to nip these schemes in the bud. For this, the SEBI and Reserve Bank of India need to be more vigilant, aware of Ponzi schemes while they are getting popular and spreading, and act on them fast.

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