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GOOD MORNING TIMES

Economics –PT Shots (MARCH-2019)

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

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1) COUNTRY-BY-COUNTRY (CBC) REPORTS

India and the US can now exchange country-by-country (CbC) reports filed by the ultimate parent corporations based in either of the countries.

Significance and impact:

1. This will reduce the compliance burden on their subsidiaries operating out of these countries. 2. The agreement would enable both the countries to exchange CbC reports filed by the ultimate parent entities of international groups in the respective jurisdictions, pertaining to the financial years commencing on or after January 1, 2016.

Provisions wrt CbC reports:

- The Income Tax Act requires Indian subsidiaries of multinational companies to provide details of key financial statements from other jurisdictions where they operate. This provides the IT department with better operational view of such companies, primarily with regards to revenue and income tax paid.
- The provision was a part of the base erosion and profit shifting action plan, and later incorporated in IT Act also.

BEPS Action 13 report:

- The BEPS Action 13 report (Transfer Pricing Documentation and Country-by-Country Reporting) provides a template for multinational enterprises (MNEs) to report annually and for each tax jurisdiction in which they do business the information set out therein. This report is called the Country-by-Country (CbC) Report.

2) WEF ENERGY TRANSITION INDEX

World Economic Forum has released its global Energy Transition index. The annual list ranks 115 economies on their ability to balance energy security and access with environmental sustainability and affordability.

- The index considers both the current state of the countries' energy system and their structural readiness to adapt to future energy needs.

Performance of various countries:

1. Sweden retained its top spot on the list, followed by Switzerland and Norway in the second and third positions respectively.
2. The United States, which is placed at the 27th position, was found to have made progress in reducing the use of coal in power generation. It slipped in the rankings by two places due to concerns surrounding affordability of energy to households and regulatory uncertainty on environmental sustainability
3. The developing countries in Asia, on the other hand, showed significant improvements towards universal access to electricity led by India (76), Indonesia (63) and Bangladesh (90).

Key observations on India's performance:

1. India was found to be amongst the countries with high pollution levels and relatively high CO₂ intensity in its energy system. Despite this, the report found that India has made significant strides to improve

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energy access in recent years and currently scores well in the area of regulation and political commitment towards energy transition.

2. While India scored low in terms of system performance, it ranks considerably higher when it comes to readiness to adapt to future energy needs. Overall, India has moved up two places from its 78th position in 2018.

3. India is among the five economies that have managed to improve their rank since last year.

4. In the BRICS bloc of emerging economies, India was ranked second best, only after Brazil.

3) VOLUNTARY RETENTION ROUTE FOR FOREIGN PORTFOLIO INVESTORS

What is VRR?

- It is a new channel of investment available to FPIs to encourage them to invest in debt markets in India over and above their investments through the regular route. The objective is to attract long-term and stable FPI investments into debt markets while providing FPIs with operational flexibility to manage their investments.

When was this route proposed?

- This new investment route was proposed by the central bank in October 2018 at a time the rupee was weakening against the dollar very sharply. There were also talks of a special NRI bond scheme to attract more dollar funds into the economy and stabilise the rupee.

How are they different from the regular FPI investments?

- Guidelines say that investments through VRR will be free of the macro-prudential and other regulatory prescriptions applicable to FPI investments in debt markets, provided FPIs voluntarily commit to retain a required

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minimum percentage of their investments in India for a period of their choice. But the minimum retention period shall be three years, or as decided by RBI.

How much money can an FPI invest through this route?

- Investments under this route as of now shall be capped at Rs 40,000 crore for VRR-GOVT and 35,000 crore per annum for VRR-COPR. But the limit could be changed from time to time based on macro-prudential considerations and assessment of investment demand. There will be separate limits for investment in government securities and investment in corporate debt.

Are there any other facilities for investors through VRR?

- FPIs investing through this route will be eligible to participate in repos for their cash management, provided that the amount borrowed or lent under repo were not to exceed 10 per cent of the investment under VRR. They will also be eligible to participate in any currency or interest rate derivative instrument, OTC or exchange-traded instrument to manage their interest rate risk or currency risk.

4) INDEPENDENT FISCAL COUNCIL

Why in news?

15th Finance Commission's Chairman NK Singh has pitched for an institutional mechanism like a 'Fiscal Council' to enforce fiscal rules and keep a check on the Centre's fiscal consolidation.

Issues in fiscal management

- Poor Budgetary Forecasting: Budgets often overstate revenue projections (15 out of 20 years since fiscal 1998) and understate expenditures (12 out of 20 years since fiscal 1998). According to CAG Report in 2017, the over-ambitious revenue targets combined

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with the lack of transparency in tax administration lead overzealous taxmen resorting to 'irregular' and 'unwarranted' methods to meet targets.

- **Limited Tax Buoyancy:** Faster growth in nominal gross domestic product (GDP) usually leads to faster growth in tax collections. However, in India, tax buoyancy shows no stable pattern and hence, forecasting tax revenues is difficult.
- **Creative Accounting:** Moreover, fiscal deficits are also understated by the use of 'creative accounting' such as 'rolling over' a part of the overall subsidy bill & dues to the states to the next financial year; using PSEs like LIC to purchase divested stakes in the disinvestment process. o Such "creative" accounting has led to a decline in the headline fiscal deficit number but failed to reduce India's public debt to GDP ratio, adversely impacting India's macroeconomic stability.
- **Use of Extra Budgetary Resources (EBR):** Over the years, the Govt's reliance on EBRs- such as funds of stateowned enterprises like LIC, SBI etc - to fund Govt. programmes has increased, but it doesn't appear in real time fiscal deficit numbers. E.g. 61.4% of all capital expenditure outlined in the 2018-19 Budget is to be financed through EBR, up from 54% in 2016-17.
- **Absence of uniform fiscal consolidation rules for centre & states:** o Various cesses and surcharges, in which States' have no share, are becoming a disproportionate portion of overall divisible revenue. This is against the spirit of fiscal federalism and financial devolution process. o For State Govt., Art 293(3) provides a constitutional check over market borrowings while no such restriction is there for the centre. o States have constraints in managing their finances as the RBI controls their deficit and cannot float a

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bond on a state's behalf without the Centre's approval.

- **Non-adherence to Fiscal Responsibility and Budget Management (FRBM) Act targets:** Since 2003 FRBM law came into effect, there have been four pauses in the deficit targets enshrined in it and many occasions where the targets have been flouted.
- **Fiscal Populism:** Political class has the tendency to make fiscal policy over-expansive, which increases burden on future government and thus, has detrimental long-run impacts e.g. loan waivers to farmers, tax waiver to MSMEs etc.
- **Poor institutional infrastructure for monitoring:** CAG has presented its audit report on Compliance of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 but the assessment is only post-facto.

Why fiscal discipline is important?

- **To improve investment:** Pile-up of past domestic debt that severely restricts the ability to finance new investment. If debt becomes unsustainable, there is an increased risk of default & hence, downgrading of sovereign credit ratings by the agencies like CRISIL, Standard & Poor, Moody's etc.
- **Increasing credit availability to private sector:** As more money is lent to government rather than invested in the market, corporate sector is crowded out leading to slower industrial and capital asset growth and potential loss of employment.
- **Control inflation:** Too much of government debt can lead to inflation and reduction in real interest rates. It might prompt people to invest more in gold and real estate, thereby accentuating the problem of poor economic liquidity and black money.

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- Intergenerational parity will be hurt as future generations will have to pay increased taxes to settle the government debt.
- Constitutional Requirement: Article 292 of the Constitution envisages fiscal responsibility in the form of legislation that obliges the government to have a ceiling on debt.

Functions of Independent Fiscal Council

- Prepare multi-year fiscal forecasts for the central and state governments.
- Define a sustainable level of public debt.
- Provide an independent assessment of the central government's borrowing & fiscal performance.
- Government must also consult the council before flouting fiscal deficit targets.

Advantages of an Independent Fiscal Council (IFC)

- IFC's evaluation of budget announcements & forecasts would indicate how realistic government projections are. This would be a check on competitive populism in Indian polity and would increase financial accountability of the government to the Parliament.
- An institutional mechanism for sound fiscal practices will bring in transparency, instill confidence among domestic & foreign investors and improve policy outcomes.
- It will promote the culture of proper disclosures and good accounting practices within the Govt.
- Most fiscal councils across the world are able to discipline lawmakers through 'comply or explain' obligations— requiring governments to at least explain the divergence from the fiscal council's views.
- International experience suggests that a fiscal council improves the quality of debate on public finance, and that, in turn, helps

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build public opinion favourable to fiscal discipline.

- An institutionalized fiscal council would enhance cooperation with Finance Commission and GST Council.

Conclusion

According to International Monetary Fund (IMF), IFCs are now an indispensable part in the design of fiscal frameworks aimed at guiding fiscal policymakers' discretion. An independent fiscal council can bring about much needed transparency and accountability in fiscal processes across the federal polity.

5) SWAP FACILITY

Why in news?

The Reserve Bank of India (RBI) has introduced a \$5-billion dollar-rupee swap facility for the banks to facilitate permanent liquidity support.

Background

- The Reserve Bank of India has various monetary tools to manage liquidity in the financial market.
- Adjusting repo rates and purchasing bonds by conducting open market operations (OMO) are a couple of tools which the RBI uses regularly either to increase or decrease the currency supply in the market.
- However, despite these efforts, there is a liquidity crunch in the market and as a result, this swap facility has been announced to increase the supply of rupees in the market.

Need for this Swap Facility

- Widened Liquidity Deficit
 - o Indian financial markets have been undergoing liquidity problems since the IL&FS crisis emerged last year. The system liquidity is dry to the tune of little more than Rs 1 trillion.

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o This crunch will become more acute in the coming days due to advanced tax outflows (estimated at Rs 1.5 trillion) and the goods and services tax (estimated at Rs 1 trillion), which will suck out liquidity from the system.

o This liquidity will return only in the next financial year as the government starts spending. Till then, rates may shoot up if adequate liquidity support is not given to banks.

o In addition to this, the demand for rupees is expected to spike in the coming weeks as a result of a huge spending towards the upcoming general elections.

- Limitation of Open Market Operations- Banks may not have adequate collateral to pledge to borrow from the RBI because of high SLR (statutory liquidity ratio) and LCR (liquidity coverage ratio) requirement.

- Thus, this liquidity support through dollar purchase would be needed to partially meet the durable liquidity needs of the system

Salient Features of Swap Facility

- Process of Operation- Under the swap, a bank would sell US dollars to the RBI and simultaneously agree to buy the same amount of US dollars at the end of the swap period (March 26, 2019 to March 28, 2022).

- In the auction, the RBI will accept the spot dollars for a small fee (forwards premium), and will commit to provide the dollars three years down the line.

- Maximum limit- The RBI will buy US dollars from banks totaling to \$5 billion. Hence, at an average spot rate of 70 per dollar, the RBI will be able to infuse about Rs. 35,000 crore into the system through this auction process.

- Forward Premium-

o The participating banks have to bid in the auction by quoting a forward premium in

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terms of paisa that they will pay to buy back the dollars.

- o A cut-off premium will be decided by the central bank, based on the bids.

- o For example, if the spot exchange rate is 70 to a dollar and Bank A quotes a premium of 150 paisa and bids for \$25 million. So, the bank will get Rs.175 crore (\$25 million multiplied by the exchange rate of 70). After three years, the bank has to pay back approximately Rs.179 crore (\$25 million multiplied by the exchange rate of 71.5) to the RBI to buy back \$25 million.

Benefits of the Swap Facility

- Reduce interest by banks- with improved liquidity condition with the banks, especially after constrained balance sheets due to double financial repression. This will help customers with cheap loans for homes, cars etc.

- Increase RBI's Foreign Exchange Reserves- the auction will help boost it by another \$5 billion to the current \$400bn corpus. This further improves India's capacity in dealing with hot money outflow and balance of payment crisis.

- Control appreciation of Rupee- as there will be increased supply of Rupee. This will help Indian exporters.

- Reduce financial stress on NBFCs- Lending from the Non-Banking Financial Companies may also increase.

- Lower hedge costs for importers- as increased rupee liquidity is likely to bring down the forward rates.

- Rise in bond yields- as there may be fewer Open Market Operations. Concerns with the Swap Facility

- Limited Impact as only small portion addressed- 5bn \$ is only about 0.3% of bank net demand and time liabilities
- May be helpful more for foreign banks- as the public

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sector banks that need liquidity support the most, may not be in a comfortable position to take benefit of the scheme.

Significance

- Overwhelming response received- Banks offered \$16.31 billion for the proposed swaps of up to \$5 billion. The RBI accepted \$5.02 billion at a cut-off premium of Rs 7.76 for three-year dollars. This has established the instrument as a credible liquidity tool and paving the way for more such auctions in the coming months.
- Development of new instruments- Even if the impact may be limited, this announcement has signaled the intent of the RBI to use and development other instruments to manage liquidity.
- Overcome the challenges of monetary policy transmission- with the limitations of current instruments such as open market operations.

6) SWIFT NORMS

Why in news? Recently the Reserve Bank of India, imposed ₹2 crore penalty on Punjab National Bank for non-compliance of regulatory directions with regard to SWIFT operations.

About SWIFT

- SWIFT stands for the Society for Worldwide Interbank Financial Telecommunications.
- It is a messaging network that financial institutions use to securely transmit information and instructions through a standardized system of codes.
- SWIFT assigns each financial organization a unique code that has either eight characters or 11 characters. The code is called SWIFT code.
- The ₹14,000-crore PNB fraud perpetrated by Nirav Modi was a case of misuse of this SWIFT software.

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Other Measures to Control and Prevent fraud in banking system

- The Central Government has issued "Framework for timely detection, reporting, investigation etc. relating to large value bank frauds" to Public Sector Banks (PSBs), which provides, that
 - o All accounts exceeding Rs. 50 crore, if classified as Non-Performing Assets be examined by banks from the angle of possible fraud, and a report is placed before the bank's Committee for Review of NPAs on the findings of this investigation.
 - o Examination be initiated for wilful default immediately upon reporting fraud to RBI;
 - o Report on the borrower be sought from the Central Economic Intelligence Bureau in case an account turns NPA.
- Fugitive Economic Offenders Act, 2018 has been enacted to deter economic offenders from evading the process of Indian law by remaining outside the jurisdiction of Indian courts. It provides for attachment of property of a fugitive economic offender, confiscation of such offender's property and disentitlement of the offender from defending any civil claim.
- Central Fraud Registry (CFR), based on Fraud Monitoring Returns filed by banks and select financial institutions, has been set up by RBI as a searchable online central database for use by banks.
- Establishment of National Financial Reporting Authority as an independent regulator for enforcement of auditing standards and ensuring the quality of audits.
- In addition, Instructions to Public Sector Banks to:
 - o Decide on publishing photographs of wilful defaulters, in terms of RBI's instructions.
 - o Follow RBI's framework for dealing with loan frauds and Red Flagged Accounts,

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- o Implement RBI guidelines to prevent skimming of ATM/debit/credit cards.
- o Ensure legal audit of title documents in respect of large value loan accounts,
- o Strictly ensure rotational transfer of officials/employees.
- Constitution of an expert panel by the RBI to examine what is ailing banking operations resulting in increasing cases of big frauds. The panel has been tasked to recommend measures to fix the systemic loopholes.

7) OFFSHORE RUPEE MARKETS

Why in news?

The Reserve Bank of India has constituted a task force on offshore rupee markets, headed by Usha Thorat, to look into issues related to the markets and recommend appropriate policy measures to ensure the stability of the external value of the rupee.

About Offshore Rupee Markets

- "Offshore" refers to a location outside of one's national boundaries, whether or not that location is land- or water-based.
- Hence, Offshore Rupee market is a rupee denominated market in international market. E.g. Masala bonds are bonds issued outside India but denominated in Indian Rupees, rather than the local currency.
- The focus of RBI's policy efforts has been to align incentives for non-residents to gradually move to the domestic market while at the same time improving market liquidity to promote hedging activity on-shore while announcing setting up of the task force.

Why RBI is focusing on Offshore Rupee Markets?

- Falling Rupee remains a concern- especially on the back of speculation
- To help offshore hedgers hedge their currency risks in India.

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8) CAPITAL GAINS TAX

Why in News?

Capital gains on investments made in India through companies in Mauritius and Singapore became fully taxable from April 1 after the concession period of 2 years ceased to exist.

- India amended the double tax avoidance agreements (DTAA) with the two countries in 2016, to prevent aggressive corporate tax avoidance.
- The loophole in these tax treaties had led to a situation where gains from investments into India from the two countries were taxed neither in India nor in the country where the investing entity was located.
- Now, entity from Mauritius and Singapore will have to pay capital gains tax here while selling shares in a company in India.

Capital Gains Tax

- Any Income derived from a Capital asset movable or immovable is taxable under the head Capital Gains under Income Tax Act 1961.
- Any profit or gain that arises from the sale of a 'capital asset' is a capital gain. This gain or profit is considered as income and hence charged to tax in the year in which the transfer of the capital asset takes place. This is called capital gains tax, which can be short-term or long-term.
- Capital gains are not applicable when an asset is inherited because there is no sale, only a transfer. However, if the asset is sold by the person who inherits it, capital gains tax will be applicable.
- Short-term capital asset: An asset which is held for a period of 36 months or less. Assets like equity or preference shares in a company listed on a recognised stock exchange in India, securities (debentures, bonds, government securities), equity oriented

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mutual funds, zero coupon bonds are considered short term if held for less than 12 months.

- Long-term capital asset: An asset that is held for more than 36 months (24 months for immovable property like land, building). The Long-term capital gain is taxable at 20%.

What is DTAA?

- The DTAA treaty is signed in order to avoid double taxation on the same declared asset in two different countries.
- These DTAAs are made to make a country attractive for investment purpose by providing relief on dual taxation. The relief is provided by exempting income earned overseas from tax in the resident country or by providing credit to the extent wherein taxes have already been paid abroad.
- India has Double Taxation Avoidance Agreement (DTAA) with 88 countries, but presently 85 have been in force.

9) INDIA'S 3RD IT CORRIDOR IN CHINA

Recently India's National Association of Software and Services Companies (NASSCOM) entered into a partnership with China's Xuzhou city (Jiangsu Province) to help develop India's 3rd IT corridor in China. Details

- NASSCOM has already launched two such IT corridors at Dalian, India's first IT hub in China (in Liaoning Province) and Guiyang (in Guizhou province) to tap the burgeoning Chinese IT industry market.
- The first two corridors have paved the way for cooperation in co-create mode in the emerging technologies such as Artificial Intelligence, Internet of Things and Analytics in the Chinese market.
- It will also help to:

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o provide market access to Indian IT firms in the huge Chinese market. India has been demanding China to provide market access to Indian IT and pharmaceutical firms for several years to reduce bilateral trade deficit.

o create more jobs in Xuzhou and India and facilitate talent transfer between the two countries.

o provide a gateway for the Indian IT-small and medium-sized enterprises which are often discouraged in Chinese markets preferences for Chinese state-owned companies along with conditions of size and experience.

10) IND AS

Recently the Reserve Bank of India (RBI) has deferred the implementation of the Ind AS-the new accounting norms, indefinitely as necessary amendments to the relevant law are yet to be made.

Background

• The Ministry of Corporate Affairs (MCA), in 2015, had notified the Companies (Indian Accounting Standards (IND AS)) Rules 2015, which stipulated the adoption and applicability of IND AS in a phased manner beginning from the Accounting period 2016-17.

• The MCA has since issued three Amendment Rules, one each in year 2016, 2017 and 2018 to amend the 2015 rules.

• Earlier the plan was to implement these accounting norms by April 1, 2019, but it was deferred due to o pending legislative amendments to the Banking Regulation Act, 1949. o Inadequate levels of preparedness of many banks in terms of the backend system and the other ecosystem.

Impact of the RBI's move

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- Ratings agencies had pegged capital requirement by public sector banks at ₹1.1 lakh crore in the first quarter of the next financial year, if the new accounting norms were implemented.
- The move will bring huge relief to the banks which are yet to recognise stressed assets and make necessary provisions as that would require higher capital.
- Banks will be getting more time to migrate to the new loan pricing regime which was scheduled to be implemented from April 1.

Why Ind AS is important?

- Ind AS, the new pricing scheme based on an external benchmark, will be applicable for floating rate loans extended to individuals and small businesses.
- Since Indian companies have a far wider global reach now as compared to earlier, the need to converge reporting standards with international standards was felt, which has led to the introduction of IND AS.

About Ind AS

- These are standards that have been harmonised with the globally accepted International Financial Reporting Standards (IFRS) to make reporting by Indian companies more globally accessible.
- National Advisory Committee on Accounting Standards (NACAS) recommends these to the Ministry of corporate affairs, which then notifies it.
- It advocates the 'fair value' method of accounting.
- It also promises clearer disclosures to investors in certain cases.
- It will govern the accounting and recording of financial transactions as well as the

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presentation of statements such as profit and loss account and balance sheet of a company.

- It will not just change the way companies present their numbers, but may also bump up or knock down the profits/losses of firms.
- Ind AS for non-banking financial companies came into effect in 2018.

11) PSBLOANSIN59MINUTES.COM

PSBloansin59minutes.com launched three months ago has emerged as the largest online lending platform, according to a report by global financial firm Credit Suisse.

About the Portal "PSBloansin59min":

- The portal was launched in November to provide credit of up to Rs 1 crore to micro, small and medium enterprises (MSMEs) in just 59 minutes.
- It is one of its kind platforms in MSME segment which integrates advanced fintech to ensure seamless loan approval and management. The loans are undertaken without human intervention till sanction and or disbursement stage.

How it works?

1. The Portal sets a new benchmark in loan processing and reduces the turnaround time from 20-25 days to 59 minutes. Subsequent to this in principle approval, the loan will be disbursed in 7-8 working days.
2. The solution uses sophisticated algorithms to read and analyse data points from various sources such as IT returns, GST data, bank statements, MCA21 etc. in less than an hour while capturing the applicant's basic details.
3. The system simplifies the decision making process for a loan officer as the final output provides a summary of credit, valuation and verification on a user-friendly dashboard in real time.

12) NATIONAL HOUSING BANK

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The Cabinet has approved payment of the face value of the subscribed share capital of Rs.1450 crore in National Housing Bank (NHB) to Reserve Bank of India (RBI) consequent to amendments made to the NHB Act, 1987 in 2018.

Impact:

- The wholesale financing role of NHB will get strengthened with the transfer of ownership to Government, thereby making possible augmented funding support to housing finance companies.
- The change in ownership from RBI to Govt will also segregate RBI's role as banking regulator and as owner of NHB.

About NHB:

- NHB is an All India Financial Institution (AIFI), set up in 1988, under the National Housing Bank Act, 1987.
- It is an apex agency established to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith.

13) FISCAL COUNCIL TO ENFORCE RULES

Why in News?

Stressing on the need to have uniform rules for fiscal consolidation of States and Centre, 15th Finance Commission's Chairman NK Singh has called for institutional mechanism like a 'Fiscal Council' to enforce fiscal rules and keep a check on Centre's fiscal consolidation.

Why do we need a fiscal council?

- Various cesses and surcharges are becoming disproportionate proportion of overall divisible revenue. There should be some mechanism to ensure that the basic spirit of the devolution process should not be

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undercut by clever financial engineering or taking recourse to traditions.

- There is a need for coordination between the finance commission as well as the GST Council. GST Council has no clue of what the Finance Commission is doing and Finance Commission has even lesser clue of what the GST Council is doing.
- Also, for state government liabilities, Article 293 (3) provides a constitutional check over borrowings. But there is no such restriction on the Centre.
- Therefore, it is time to have an alternative institutional mechanism like Fiscal Council to enforce fiscal rules and keep a check on Centre's fiscal consolidation.

Expert committee recommendations:

- In India, two expert committees have advocated the institution of such a council in recent years.
- In 2017, the N.K. Singh committee on the review of fiscal rules set up by the finance ministry suggested the creation of an independent fiscal council that would provide forecasts and advise the government on whether conditions exist for deviation from the mandated fiscal rules.
- In 2018, the D.K. Srivastava committee on fiscal statistics established by the National Statistical Commission (NSC) also suggested the establishment of a fiscal council that could co-ordinate with all levels of government to provide harmonized fiscal statistics across governmental levels and provide an annual assessment of overall public sector borrowing requirements.
- These recommendations follow similar recommendations from the 13th and 14th finance commissions, which also advocated the establishment of independent fiscal agencies to review the government's adherence to fiscal rules, and to provide

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independent assessments of budget proposals.

Way ahead:

- With a complex polity and manifold development challenges, India need institutional mechanisms for prudent fiscal practices.
- An independent fiscal council can bring about much needed transparency and accountability in fiscal processes across the federal polity. International experience suggests that a fiscal council improves the quality of debate on public finance, and that, in turn, helps build public opinion favourable to fiscal discipline.

14) THE SHAPE OF AN URBAN EMPLOYMENT GUARANTEE

Need for an urban employment programme:

- According to the PLFS report, the unemployment problem is especially aggravated in India's cities and towns.
- In urban India the majority of the population continues to work in the informal sector. Hence, India cannot ignore the crisis of urban employment.
- India's small and medium towns are particularly ignored in the State's urban imagination. National-level urban programmes such as the Smart Cities Mission and the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) only benefit a fraction of them.
- Most ULBs are struggling to carry out basic functions because of a lack of financial and human capacity. Further, with untrammelled urbanisation, they are facing more challenges due to the degradation of urban ecological commons.
- In the context of the present employment crises, it is worthwhile considering to

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introduce an employment guarantee programme in urban areas.

Significance:

- Along with addressing the concerns of underemployment and unemployment, such a programme can bring in much-needed public investment in towns to improve the quality of urban infrastructure and services, restoring urban commons, skilling urban youth and increasing the capacity of ULBs.
- Such a programme would give urban residents a statutory right to work and thereby ensure the right to life guaranteed under Article 21 of the Constitution.

Things to be considered:

- To make it truly demand-driven, we have proposed that the ULB receives funds from the Centre and the State at the beginning of each financial year so that funds are available locally.
- Wages would be disbursed in a decentralised manner at the local ULB.
- Given the State's relative neglect of small and medium towns and to avoid migration to big cities, such a programme can cover all ULBs with a population less than 1 million.
- Since it is an urban programme, it should have a wider scope than the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA); this would provide employment for a variety of works for people with a range of skills and education levels
- It can have a new set of "green jobs" which include the creation, restoration/rejuvenation, and maintenance of urban commons such as green spaces and parks, forested or woody areas, degraded or waste land, and water bodies.

Conclusion:

- An urban employment guarantee programme not only improves incomes of

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workers but also has multiplier effects on the economy.

- It will also boost local demand in small towns, improve public infrastructure and services, spur entrepreneurship, build skills of workers and create a shared sense of public goods. Hence, the time is ripe for an employment guarantee programme in urban India.

15) FINANCIAL STABILITY AND DEVELOPMENT COUNCIL (FSDC)

FSDC meeting held recently was chaired by the Union Finance Minister.

About FSDC:

- The Financial Stability and Development Council (FSDC) was constituted in December, 2010. The FSDC was set up to strengthen and institutionalise the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.

- An apex-level FSDC is not a statutory body.

Composition:

- The Council is chaired by the Union Finance Minister and its members are Governor, Reserve Bank of India; Finance Secretary and/or Secretary, Department of Economic Affairs; Secretary, Department of Financial Services; Chief Economic Adviser, Ministry of Finance; Chairman, Securities and Exchange Board of India; Chairman, Insurance Regulatory and Development Authority and Chairman, Pension Fund Regulatory and Development Authority. It also includes the chairman of the Insolvency and Bankruptcy Board (IBBI).

- Recently, the government through a gazette notification, had included ministry of electronics and information technology (MeitY) secretary in the FSDC in view of the

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increased focus of the government on digital economy. **What it does?**

- The Council deals, inter-alia, with issues relating to financial stability, financial sector development, inter– regulatory coordination, financial literacy, financial inclusion and macro prudential supervision of the economy including the functioning of large financial conglomerates. No funds are separately allocated to the Council for undertaking its activities..;

16) GUIDELINES FOR WHITE LABEL ATMS

The Reserve Bank Of India (RBI) has come up with a review of operations of White Label ATMs (WLAs) in the country.

As per the new guidelines, it has been decided to allow:

- The WLA Operators to buy wholesale cash, above a threshold of 1 lakh pieces (and in multiples thereof) of any denomination, directly from the Reserve Bank (Issue Offices) and Currency Chests against full payment.
- The operators to source cash from any scheduled bank, including Cooperative Banks and Regional Rural Banks.
- The operators to offer bill payment and Interoperable Cash Deposit services, subject to technical feasibility and certification by National Payments Corporation of India (NPCI).
- The display advertisements pertaining to non-financial products / services anywhere within the WLA premises, including the WLA screen, except the main signboard. However, it shall be ensured that the advertisements running on the screen disappear once the customer commences a transaction.
- Banks to issue co-branded ATM cards in partnership with the authorised WLA

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Operators and may extend the benefit of 'on-us' transactions to their WLAs as well.

- All guidelines, safeguards, standards and control measures applicable to banks relating to currency handling, and cyber-security framework for ATMs, shall also be applicable to the WLA Operators.

What is White label-ATM?

- Automated Teller Machines (ATMs) set up, owned and operated by non-bank entities are called "White Label ATMs" (WLAs). They provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks.

What was the need to allow non-bank entities for setting up of WLAs?

- Keeping the fact in view that banks won't be able to provide their ATM facilities in each and every place, non-bank entities were allowed by the RBI to set up White Label ATMs. This was done to increase the geographical spread of ATMs and enhance the customer service.

Key facts related:

- Non-bank entities shall commence setting up and operating WLAs only after it has been authorised to do so by the RBI under the Payment and Settlement Systems Act, 2007.
- Taking over of ATMs operated by banks would not be permitted. Entities may ensure to draw a strategic plan for installation of such WLAs based on the criteria set during authorization. White Label ATM Operators (WLAO) may also indicate the value added services it proposes to offer at the WLA while seeking authorisation.
- WLAO is permitted to have more than one Sponsor Bank. All the transactions of WLAs serviced by this Sponsor Bank would be settled through it.
- Cash Management at the WLAs will be the responsibility of the Sponsor Bank, who may

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if required, make necessary arrangements with other banks for servicing cash requirements at various places.

- WLAO may establish connectivity with any of the authorised ATM Network Operators/ Card Payment Network Operators and ensure that the settlement of all the transactions at the WLAs shall be done only in the books of the Sponsor Bank through the ATM Network Operators/ Card Payment Network Operators with whom the WLAO has established connectivity.
- Maintenance and servicing of the WLAs shall be the sole responsibility of the WLAO.

In addition to cash dispensing, ATMs / WLAs may offer many other services / facilities to customers. Some of these services include:

- Account Information.
- Cash Deposit (not permitted at WLAs).
- Regular Bills Payment (not permitted at WLAs).
- Purchase of Re-load Vouchers for Mobiles (not permitted at WLAs).
- Mini / Short Statement Generation.
- PIN change.
- Request for Cheque Book.

17) DOMESTIC SYSTEMICALLY IMPORTANT BANK

RBI categorises IDBI Bank as Private Sector Bank; SBI, ICICI and HDFC remain Systemically Important Banks.

What is a domestic systemically important bank and why is it important?

- D-SIB means that the bank is too big to fail. According to the RBI, some banks become systemically important due to their size, cross-jurisdictional activities, complexity and lack of substitute and interconnection. Banks

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whose assets exceed 2% of GDP are considered part of this group.

Significance:

1. Should such a bank fail, there would be significant disruption to the essential services they provide to the banking system and the overall economy.
2. The too-big-to-fail tag also indicates that in case of distress, the government is expected to support these banks. Due to this perception, these banks enjoy certain advantages in funding. It also means that these banks have a different set of policy measures regarding systemic risks and moral hazard issues.

Classification:

1. RBI has to disclose names of banks designated as D-SIB. It classifies the banks under five buckets depending on order of importance.
2. Based on the bucket in which a D-SIB is, an additional common equity requirement applies. Banks in bucket one need to maintain a 0.15% incremental tier-I capital from April 2018. Banks in bucket three have to maintain an additional 0.45%.
3. All the banks under D-SIB are required to maintain higher share of risk-weighted assets as tier-I equity.

Need:

1. It was observed during the global financial crisis that problems faced by certain large and highly interconnected financial institutions hampered the orderly functioning of the financial system, which in turn, negatively impacted the real economy.
2. Government intervention was considered necessary to ensure financial stability in many jurisdictions. Cost of public sector intervention and consequential increase in moral hazard required that future regulatory policies should aim at reducing the

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probability of failure of SIBs and the impact of the failure of these banks.

18) MINIMUM SUPPORT PRICE FOR MINOR FOREST PRODUCE

The Union Ministry of Tribal Affairs has launched the revised scheme “Mechanism for Marketing of Minor Forest Produce (MFP) through Minimum Support Price (MSP) & Development of Value Chain for MFP”

Background

- The MSP for MFP scheme was first launched in 2013 but largely remained a non-starter in most tribal dominant states due to severe gaps in its implementation process.
- It is centrally sponsored scheme aimed to ensure fair and remunerative prices to MFP gatherers.
- It provides direct benefits to the tribal by institutionalizing various avenues in the value chain of MFP such as training, sustainable collection, procurement, value addition, infrastructure, marketing etc.
- The ministry has now issued revised guidelines to cover the gaps in its implementation process.

Revised Guidelines

- Implementation Framework- would include the ministries of tribal affairs at centre and state level along with agencies such as TRIFED, District Implementation Unit and Primary Level Procurement at Haat Bazaars etc. Now, the system would be decentralised with collectors made responsible for the scheme implementation.
- Federation of SHGs- Self Help Groups for procurement and other activities would be developed through a hierarchy within a federation of SHGs at the National, State and District levels.

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- Value Addition Centres- would be established to improve the rates tribals get for the produce collected by them
- Risk Management Matrix- to identify, pre-empt under-performance and support SHGs which may not function as per expectations which will be put in place
- Monitoring and Oversight- through audit and IT-enabled Management information system (MIS)
- Convergence- The Scheme will leverage convergences with various Central and State Ministries, Departments, Agencies and PSUs such as 39 aspirational districts with majority tribal population under Niti Aayog.

Significance of this scheme

- Social Security - Minor Forest Produce (MFP) collection and marketing holds critical importance for tribals as they spend a major portion of their time on it and derive a major portion of their income from it. By providing the guaranteed minimum support price, this scheme protects them from distress sale of their produce.
- Skill upgradation- through trainings would be given to the MFP gatherers.
- Sustainable Development- Tribals traditionally have had an interest in forest conservation and development. Hence, by promoting their interest and well-being, the upkeep of forests is also taken care off.

Related News

- The Ministry of Tribal Affairs has also launched following schemes/ initiatives-
 - o TRIFOOD project of TRIFED and Ministry of Food Processing Industries- Under this, Tertiary value addition center will be set up in some districts. The traditional Mahua tribal drink will be mainstreamed and marketed all over the Country.
 - o Friends of TRIBES Initiative- for CSR initiatives led by TRIFED

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- o DBT Scholarship portal of Ministry of Tribal Affairs
- o Van Dhan Vikas Karyakram- The Van Dhan Vikas Kendra would act as common facility centres for procurement cum value addition to locally available Minor forest produce. Also, various skill up gradation trainings have been conducted for the MFP gatherers

19) HYDRO POWER SECTOR

The Union government has approved various measures to promote hydropower sector.

Measures approved

- Declaration of Large hydropower projects (LHPs, i.e. >25 • MW) as renewable energy projects.
- Hydro Purchase Obligation as a separate entity within Non-Solar Renewable Purchase Obligation for DISCOMS- The HPO shall cover all LHPs commissioned after this order.
- Tariff rationalization measures for bringing down hydropower tariff such as providing flexibility to the developers to determine tariff by back loading of tariff after increasing project life to 40 years, increasing debt repayment period to 18 years and introducing escalating tariff of 2%.
- Budgetary support for funding flood moderation component of hydropower projects
- Budgetary support to Cost of enabling infrastructure i.e. roads and bridges.

Efficacy of these measures

- Increase the share of renewable energy in the total energy mix of the country and will help India achieve target of 175 GW of renewable energy by 2022.
- As renewable energy is eligible for priority sector lending it would ensure easier availability of loans for large hydro power projects

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- Hydro projects generate employment for local people in remote hilly and backward areas and creates infrastructure which lead to overall development of the area
- Storage based hydro power projects improve the ground water recharge and thereby improve the ground water level. It is understood that groundwater levels have significantly improved after the Indira Sagar Storage Project in Madhya Pradesh. Recommendations of Standing Committee on Energy for promotion of Hydro Power-
- Expedite land acquisition and R&R (Resettlement and Rehabilitation) process related to hydro power projects to provide fair deal for the affected people as well as to fast track the hydro power projects.
- To integrate and fast track the process of various clearances granted by the Ministry of Environment and Forest to avoid time and cost overrun in hydro power projects. Establishment of special cell to monitor and expedite the matters pending in the Supreme Court and National Green Tribunal (NGT).
- Availability of long term loan at cheaper interest rate- to ensure hydro power viability, since out of 16 stalled hydro power projects, 10 are stalled due to financial constraints.
- Review the water cess imposed by the states- as it further burden the already stressed sector. The Committee found that imposition of water cess is not fair considering the provision of 12% of free power to the respective States from the hydropower projects.
- Role of Central Public Sector Undertakings- The present share of Private Sector in hydropower is only 7.5%. The State governments should involve Central PSUs to enter into joint venture with private sector to harness hydropower.

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- Creation of enabling infrastructure- State Governments with the help of Central Government should take this responsibility needed for construction of hydropower projects. Pradhan Mantri Gram Sadak Yojana could be utilized by the states in this regard.

Way Forward

- For optimum utilization of India's hydro potential, there is a need for formulation of an enabling policy and taking this task on a mission mode with a timeline as it has already been done in case of development of solar and other renewable sources
- The cooperation and coordination between the Central and the State Governments is a pre-requisite.

Hydro Energy Sector: Initiatives So Far

- National Electricity Policy, 2005: The policy lay emphasis on full development of the feasible hydro potential in the country.
- Hydro Power Policy, 2008: Under this transparent selection criteria to be followed by the States for awarding sites to private developers.
- National Rehabilitation & Resettlement Policy, 2007: It aims to minimize displacement and addressing special needs of Tribal and vulnerable sections who get displaced due to Developmental Projects.
- Tariff Policy, 2016: Policy aims to promote Hydro power generation including Private sector participation to provide adequate peaking reserves, reliable grid operation and integration of variable Renewable Energy sources.

Issues faced by hydropower sector

- Lack of enabling infrastructure- such as roads, bridges to access remote areas where such potential sites are available.

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- Delay due to land acquisition- for dam, power house etc.
- Delay due to environment and forest clearances.
- Rehabilitation and Resettlement-which invite opposition from locals for employment, extra compensation etc. It also creates law and order problems like blasting, muck disposal.
- Cultural/ Religious Issues- sentiments attached with rivers
- Political will- lacks political traction due to long gestation period, Inter-state issues, especially over Riparian rights. E.g. Mullaperiyar Dam (between Kerala and Tamil Nadu)
- High Tariff of Hydro Projects- as compared to other sources of power (conventional as well as renewable sources) mainly due to construction of complex structures which have long gestation period, unavailability of loans of lower interest rate & longer tenures, high R&R cost, infrastructure etc.
- Financing Issues- High cost of Finance and lack of long tenure funding for hydropower projects.
- Levying of water cess by the States- e.g. J&K

20) NATIONAL INVESTMENT AND INFRASTRUCTURE FUND

Off late, the National Investment and Infrastructure Fund (NIIF) has been adopting various approaches to mobilize resources for funding infrastructure projects.

About NIIF

- NIIF is India's first sovereign wealth fund that seeks to create long-term value for domestic and international investors seeking investment in Greenfield, Brownfield and Stalled infrastructure projects.
- This fund will invest only in commercially viable projects, which can pay back returns.

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- NIIF is registered with SEBI as a Category II Alternative Investment Fund with a planned corpus of Rs. 40,000 crore.
 - It is a quasi-sovereign wealth fund, where 49 percent stake is with the Government and the rest held by marquee foreign and domestic investors such as Abu Dhabi Investment Authority, Temasek and HDFC Group.
 - It is run as a professional body with a full time CEO. But, Governing Council headed by Finance Minister oversees the activities.
- Different Approaches adopted by NIIF**
- Investment through different types of funds-
 - o Master Fund- for primarily investing in operating assets in core infrastructure sectors such as roads, ports, airports, power etc.
 - o Fund of Funds- for investing with experienced fund managers who have a strong track record and enable them to attract further institutional investors to invest in their funds.
 - o Strategic Fund- aimed at growth and development stage investments in projects/companies in a broad range of sectors that are of economic and commercial importance and are likely to benefit from India's growth trajectory over the medium to long-term
 - Monetization of assets- by converting non-revenue generating assets into sources of revenue.
 - Tapping Sovereign Funds- by channelizing money of other countries into India. E.g.-
 - o Partnering with Abu Dhabi Investment Authority (ADIA) focused on ports, terminals, transportation and logistics businesses in India.
 - o India and the UK announced joint UK-India Fund, namely a Green Growth Equity Fund that aims to leverage private sector

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investment to invest in green infrastructure projects in India.

- Directly Investing in Infrastructure- by using the revenue generating through its various sources. Some examples are-
 - o Partnered with HDFC in an investment platform for mid-income and affordable housing in India.
 - o Acquired IDFC Infrastructure Finance Limited from IDFC.

Significance of NIIF

- Given its implementation is being done by experts, the working and management of its resources is being done with professionalism and strategic long-term vision.
- It will help move forward various stalled projects as well as greenfield projects. This in turn, help companies to reduce their outstanding loans, thus help reducing bank bad loans. It helps in overall stimulation of the economy.
- It has adopted a different approach to go about its business and is advancing more aggressively than many such institutions created earlier like IFCI (1948), IDFC (1997)

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