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Economics –PT Shots (MARCH-2020)

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

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1) NCS (NATIONAL CAREER SERVICE)

The Parliamentary Standing Committee on Labour in its report has flagged the under-utilisation of funds by the Union Labour and Employment Ministry, which was yet to spend almost 20% of its 2019-2020 Budget (revised estimate) as on February 10. The report noted that utilisation of funds for the National Career Services (NCS) scheme of the Ministry, which facilitates job-seekers, was the worst compared to other schemes.

About NCS (NATIONAL CAREER SERVICE): It is one of the mission mode projects under the umbrella of E-Governance Plan. It works towards bridging the gap between job-seekers and employers, candidates seeking training and career guidance and agencies providing training and career counselling by transforming the National Employment Service. NCS provides a host of career-related services such as dynamic job matching, career counselling, job notifications, vocational guidance, information on skill development courses, internships and alike.

The focus areas for the National Career Service platform are listed below:

1. Enhancing career and employment opportunities.
2. Counselling and guidance for career development.
3. Focusing on decent employment
4. Enhancing female labour force participation.
5. Encouraging entrepreneurial endeavours.

2) TASK FORCE ON SUSTAINABLE PUBLIC PROCUREMENT (SPP)

A Task Force on Sustainable Public Procurement (SPP) has been constituted by Department of Expenditure.

The terms of reference for the Task Force:

• Review international best practices in the area of SPP

• List the current status of SPP in India across Government organizations

• Prepare a draft Sustainable Procurement Action Plan

• Recommend an initial set of product/service categories (along with their specifications) where SPP can be implemented Sustainable Public Procurement

• Sustainable Public Procurement is a process by which public authorities seek to achieve the appropriate balance between the three pillars of sustainable development - economic, social and environmental - when procuring goods, services or works at all stages of the project.

o By promoting and using SPP, public authorities can provide industry with real incentives for developing green materials, technologies and products.

• In recent decades, governments across the world have become increasingly conscious about the adverse and undesirable impact of their purchases on society and environment, and are adopting SPP practices facilitated by legal reforms and policy guidelines.

Objectives of SPP:

• Reducing adverse environmental and social impacts as a result of procurement decision.
• Reducing air & water pollution and waste generation.
• Promoting health and safety in communities
• Creating employment and business opportunities for disadvantageous group, MSEs and local industries
• Encouraging suppliers to foster a commitment to local communities.
• Encourage industry to prepare for future clean and green market scenario. Sustainable public procurement and India
• Currently, in India, there is no public procurement law at the national level. However, some public sector entities and government departments have started internalizing environmental and energy efficiency criteria in their procurement decisions.
• Draft Public Procurement Bill-2012, stated that procurement evaluation criteria may include the characteristics of the subject matter of procurement, such as the functional characteristics of goods or works and the environmental characteristics of the subject matter.
• Also, Thirteenth Finance Commission emphasized the need for incentivizing growth of India with lower environmental and resource footprint. In this respect, SPP is a necessary tool for fulfilling the stated commitment of the country towards a green and inclusive growth.
• The draft National Resource Efficiency Policy 2019 emphasizes on SSP as an action agenda.

Challenges in implementing SPP

• Lack of capacity and proper legal framework: Procurement officials are often risk averse and could be hesitant to implement sustainable procurement without a clear legitimization and policy direction.
• Consumers' consumption behavior: Implementation of SPP, in practice, requires a change in consumers' attitude towards the sustainable consumption of products and services.
o UJALA programme is successful because consumers understood the benefits of using LED.
• Best value for money: Unless there is explicit provision for considering the financial gains of environmental alternatives (though improved durability and lower operating costs) over the lifetime of a product, service or development, decisions will continue to be based on upfront costs and immediate benefits.
• Production process-related elements in SPP: Procurers have to draw a distinction between the environmental impact of a product and those linked to the process in which it is produced.
• SPP can prevent the market proliferation of sustainable alternatives: If SPP-demand for product A results in an increase to its retail price, this will discourage other purchasers from selecting it, who will then end up buying a less environmentally-preferable alternative.

Way forward

In India, 30% of the GDP per annum is spent on public procurement. Given the massive size of public spending, public sector in India can be a prime driver towards sustainable production and consumption and can create environmental and economic benefits. For this-
• National policy on SPP with well-defined complementary actions, such as identifying priority areas, enhancing capacity and running awareness campaigns should be formulated at earliest.

• There is a need to convince various stakeholders such as policy-makers, suppliers, procurement officials and general public that sustainable goods are beneficial over a long-term.

3) Merger OF PUBLIC SECTOR BANKS

Government has approved the amalgamation of ten Public Sector Banks (PSBs). At present, India has 18 stateowned banks compared with 27 in 2017. After the merger, the number will further come down to 12.

Benefits of Bank Consolidation

• Cost benefits as larger banks offer better economies of scale, efficiency, cost of funding, risk diversification.

• Revenue benefits (economies and scope for large deals): Banks' prudential norms limit the size of lending by banks as banks take risks as per banks' size. Hence to invest in large projects, large banks with huge lending capacity are needed, to meet India's aspirations of a $5 trillion GDP economy.

• The adoption of technologies across the amalgamating banks, access to a wider talent pool, and a larger database would lead PSB's to be in a position to gain competitive advantage by leveraging analytics in a rapidly digitalising banking landscape.

• Consolidation would help create banks with scale comparable to global banks and capable of competing effectively in India and globally enhancing their competitiveness.

• Customer service: Larger size of the Bank will help the merged banks to offer more products and services and help in integrated growth of the Banking sector.

• Human Resource: The wide disparities between the staff of various banks in their service conditions and monetary benefits will narrow down.

• Improve regulation: Monitoring and control of a smaller number of banks will be easier after mergers.

Issues with Bank consolidation

• Too big to fail: When a big bank books huge loss or crumbles, there will be a big jolt in the entire banking industry. Its repercussions will be felt everywhere.

o In fact, large global banks collapsed during the global financial crisis, while, small banks have survived the crisis due to their nimbleness and the niche areas they operate in.

• May impact recovery of loans: Merger of public sector banks raises a considerable risk to the recovery process, which may differ from one bank to another. In the case of stressed assets, the creditors' pool could be common, which may include several of the merged public sector banks while their hierarchy in the list of creditors would vary.

• Banks having different setup: It brings with it issues not only of cultural and managerial alterations, but also various financial conflicts, that could affect lending as well as recovery. Conflicts might arise in the area of systems and processes too.

• Not necessarily beneficial: A study covering 20 years of bank consolidation in industrial countries found it "beneficial up to a relatively small size, but there is little evidence that mergers yield economies of scope, or gains in managerial efficiency". India's past experience too has been mixed so far.

Way Forward

• While Narasimham Committee (1998) on banking reforms had also recommended the merger of strong public sector banks and selective closure of weak ones, bank merger alone does not improve performance matrix. The reform has to go hand in hand with other reform measures. E.g. EASE Index which ranks PSBs on parameters such as responsible banking, financial inclusion, credit offtake and digitization.

• Also, to address issues arising during transition phase, it is necessary that resources be dedicated towards engaging competent teams to oversee and resolve issues arising out of such a transition phase.

• Consolidation should be done as per requirements to promote efficiency and competitiveness rather than just to merge under-performing banks with better performing ones.

4) Input Tax Credit

Restrictions imposed on the input tax credit, used by business establishments to reduce their tax liability, on inward supplies under the Central Goods and Services Tax Act have been challenged in the Rajasthan High Court with the plea that the amendment made to a rule to introduce the provision had imposed "unreasonable and arbitrary" conditions.

What's the issue?

The amended Rule 36 (4) of the CGST Rules, 2017, provides that the input tax credit can be availed only when a supplier of goods updates and uploads online the details of supplies through each of the bills. The petition now contended that the right to avail of credit could not be taken away by imposing the restrictions contained in the provisions of Section 43A of the Act, which was yet to be notified, through rules.

What is Input Tax Credit (ITC)?

It is the tax that a business pays on a purchase and that it can use to reduce its tax liability when it makes a sale. In simple terms, input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount.

Exceptions: A business under composition scheme cannot avail of input tax credit. ITC cannot be claimed for personal use or for goods that are exempt.

Concerns over its misuse:

1. There could be possibility of misuse of the provision by unscrupulous businesses by generating fake invoices just to claim tax credit.
2. As much as 80% of the total GST liability is being settled by ITC and only 20% is deposited as cash.
3. Under the present dispensation, there is no provision for real time matching of ITC claims with the taxes already paid by suppliers of inputs.
4. The matching is done on the basis of system generated GSTR-2A, after the credit has been claimed. Based on the mismatch highlighted by GSTR-2A and ITC claims, the revenue department sends notices to businesses.
5. Currently there is a time gap between ITC claim and matching them with the taxes paid by suppliers. Hence there is a possibility of ITC being claimed on the basis of fake invoices.

Need of the hour- real time updates: To fill the gap, a new return filing system has been proposed. Once it becomes operational, it would become possible for the department to match the ITC claims and taxes paid on a real time basis. The revenue department would then analyse the large number of ITC claims to find out if they are genuine or based on fake invoices and take corrective action.

5) Kurzarbeit scheme

Amid the all-round disruption caused to the economy by the novel coronavirus outbreak, a concern across the world is the possibility of loss of jobs. Germany's Kurzabeit is being mentioned time and again in this context. Also, the German cabinet is planning to extend the benefit of short-time work allowance by the first half of April through legislation.

About Kurzarbeit: Kurzarbeit is German for "short-work". The policy provides for a short-time work allowance, called kurzarbeitgeld, which partially compensates for lost earnings during uncertain economic situations. The policy was rolled out during the 2008 economic crisis while its origins date back as far as the early 20th century, before and after World War I.

How it works?

1. The scheme aims to address workers who are impacted by loss of income due to shortened work hours during such times.
2. They can apply for short-term work benefits under the scheme, with the government stepping in to pay employees a part of their lost income.
3. This helps the companies retain their employees instead of laying them off, and allows the latter to sustain themselves for a period of up to 12 months.

Quantum of payment: Payment under Kurzarbeit is calculated on the basis of net loss of earnings. As per Germany's Federal Agency for Work, short-time employees generally receive about 60 per cent of the flat-rate net wage, In case there is at least one child in the house of the short-time worker, he/she receives 67 per cent of the flat-rate net wage.

6) RBI releases new guidelines for payment aggregators

As per the new guidelines:

1. Capital requirements for payment aggregators has been reduced to Rs 15 crore at the time of application for the licence.
2. This needs to be increased to Rs 25 crore within three years of operations.
3. Existing non-bank entities offering payment aggregation (PA) services shall apply for authorisation on or before June 30, 2021.
4. Pure-play payment gateway companies would be separated as an entity and would be identified as technology service providers for banks and non-banks.
5. PAs have also been asked to adhere to strict security guidelines, adhere to all KYC (Know Your Customer) and AML (Anti Money Laundering) rules.
6. The guidelines have also mandated that PAs need to check their merchant customers are not involved in selling of prohibited or fake items.
7. The central bank has also asked PAs to set up designated nodal offices to deal with customer grievance.
8. The RBI has prohibited PAs from allowing online transactions to be done with ATM pin as the second factor of authentication, which few payment gateway companies were offering as a service.

Who are payment aggregators?

These are players who integrate with e-commerce companies and connect them with banks. They receive payments on behalf of these companies and transfer the money to their accounts.

Background: Entities like Billdesk, CCAvenue, Firstdata, Razorpay, Cashfree, Paytm Payment Gateway and others are offering payment services to ecommerce companies. Given the largescale adoption of digital payments and emergence of so many players, the RBI expressed interest in regulating the space.

7) BASEL III NORMS

Implementation of Basel-III were deferred by a year to January 2023, due to Covid-19 pandemic.

The Basel III accord

• Basel III accord is a set of financial reforms that was developed by the Basel Committee on Banking Supervision (BCBS), with the aim of strengthening regulation, supervision, and risk management within the banking industry.

• Due to the impact of the 2008 Global Financial Crisis on banks, Basel III was introduced to improve the banks' ability to handle shocks from financial stress and to strengthen their transparency and disclosure.

• Basel III norms were finalised in 2017. Its implementation date has been postponed several times.

• The guidelines focus on four banking parameters: capital, leverage, funding and liquidity.

• **Basel-III norms:**

o Minimum capital requirements for banks is 4.5% of common equity, as a percentage of the bank's riskweighted assets. (Currently 2% under Basel II).

o Leverage Ratio: It is ratio of Tier 1 capital by the average total consolidated assets of a bank. Under this, banks are required to hold a leverage ratio in excess of 3%. It was introduced under Basel-III.

o Basel III introduced two liquidity ratios. Liquidity Coverage Ratio and the Net Stable Funding Ratio.

✓ The Liquidity Coverage Ratio requires banks to hold sufficient highly liquid assets that can withstand a 30-day stressed funding scenario as specified by the supervisors.

✓ Net Stable Funding Ratio (NSFR) requires banks to maintain stable funding above the required amount of stable funding for a period of one year of extended stress.

8) DIRECT TAX VIVAD SE VISHWAS ACT, 2020

Parliament passed Direct Tax Vivad se Vishwas Act, 2020.

Key Features of the Act

• The Act provides an opportunity to taxpayers to settle direct tax disputes by paying due taxes with complete waiver of interest and penalty till June 30. (Earlier March 31, extended due to Covid-19 lockdown).

• It is applicable to all the appeals/petitions filed by taxpayers or the income tax department, with the following forums: Commissioner of Income-tax (Appeals); Income-tax Appellate Tribunal; High Court; or Supreme Court as on the 31st day of January, 2020 irrespective of whether demand in such cases is pending or has been paid. o Also, Income tax cases being arbitrated abroad are eligible under the Act.

• Pending appeal may be against disputed tax, interest or penalty. o In case of disputed tax, taxpayers shall be allowed a complete waiver of interest and penalty if they pay entire amount of tax in dispute up to June 30, 2020, after which amount payable shall be increased by 10% of disputed tax. o Where tax arrears relate to disputed interest or penalty only, then 25% of disputed penalty/interest shall have to be paid if payment is made by June 30, 2020, beyond which it shall be enhanced to 30%.

• Once the dispute is settled under the Act, taxpayer shall get the following immunities o Such cases cannot be reopened in any other proceeding by any tax authority or designated authority; o Opting for the scheme shall not amount to conceding the tax position and tax authority cannot claim that taxpayer has conceded to the decision on the disputed issue.

• **Disputes not covered under the Act:**

o where prosecution has been initiated before the declaration is filed,

o which involve persons who have been convicted or are being prosecuted for offences under certain laws (such as the Indian Penal Code), or for enforcement of civil liabilities, and o involving undisclosed foreign income or assets

Expected benefits of the Act

• Fast-track dispute resolution: The Act is expected to resolve 90% of 4.83 lakh direct tax cases worth Rs 9.32 lakh crore that are currently locked up in various appellate forums.

• To meet the shortfall in direct-tax collections: The disputed direct tax arrears amount to ₹9.32-lakh crore. Considering that the actual direct tax collection in FY2018-19 was ₹11.37-lakh crore, the disputed tax value constitutes nearly one-year direct tax collection.

• Save time, energy and resources: Tax disputes consume copious amount of time, energy and resources both on the part of the Government as well as taxpayers. Moreover, they also deprive the Government of the timely collection of revenue. Therefore, there is an urgent need to provide for resolution of pending tax disputes.

9) LLP SETTLEMENT SCHEME

Ministry of Corporate Affairs launched Limited Liability Partnership (LLP) settlement Scheme, 2020.

• LLP Settlement Scheme allows a one-time condonation of delay in filing statutorily required documents with the Registrar and to gain immunity from prosecution.

• The Scheme shall come into force on the 16th March, 2020 and shall remain in force up to 13th June, 2020. This is part of governments efforts to promote ease of doing business.

About LLP

• LLPs are a flexible legal and tax entity that allows partners to benefit from economies of scale by working together while also reducing their liability for the actions of other partners.

• LLPs are registered under the Limited Liability Partnership Act 2008.

• Mutual rights and duties of the partners within LLP are governed by an agreement between the partners and the LLP.

• LLP can continue its existence irrespective of changes in partners and no partner is liable on account of the independent or un-authorized actions of other partners.

• LLP contains elements of both 'corporate structure' as well as 'partnership firm structure', hence called as hybrid between company and partnership.

• A difference between LLP and joint stock company is that, the internal governance structure of a company is regulated by statute (i.e. Companies Act, 1956) whereas for LLP by contractual agreement between partners.

10) States asked to use cess fund to help construction workers

The union government has asked all states to dip into the ₹52,000 crore Construction Cess fund to give financial and allied benefits to

the construction workers through direct benefit transfer (DBT).
• The central advise comes as Corona outbreak spreads and the country is facing an unprecedented lockdown hampering livelihood of millions of informal workers.
• The advisory comes under Section 60 of the Building and Other Construction Workers (BOCW) Act, 1996.
• The amount to be granted to construction workers may be decided by the respective state governments and Union territories.

What is a cess?

• A cess is levied on the tax payable and not on the taxable income. In a sense, for the taxpayer, it is equivalent to a surcharge on tax.
• A cess can be levied on both direct and indirect taxes. The revenue obtained from income tax, corporation tax, and indirect taxes can be allocated for various purposes.
• The proceeds of all taxes and cesses are credited in the Consolidated Fund of India (CFI), an account of the Government of India. Difference between tax and cess? Unlike a tax, a cess is levied to meet a specific purpose; its proceeds cannot be spent on any kind of government expenditure. While the tax proceeds are shared with the States and Union Territories according to the guidelines by the Finance Commission, the cess proceeds need not be shared with them. Recent examples of cess are: infrastructure cess on motor vehicles, clean environment cess, Krishi Kalyan cess (for the improvement of agriculture and welfare of farmers), and education cess.

11) FULLY ACCESSIBLE ROUTE FOR G-SECS

Reserve Bank of India has introduced a separate channel called Fully Accessible Route (FAR) to enable nonresidents to invest in specified Government of India dated securities.

About Fully Accessible Route (FAR)

• Under this route, non-resident investors can invest in specified government securities without any investment ceilings.
• These securities attract no foreign portfolio investor (FPI) limits. FPI limit in all other G-secs is 6 per cent.
• Domestic investors can also invest in these.
• It was earlier announced in Union budget 2020-21.
• There are other two mechanisms for foreign investors:
o Medium-Term Framework where FPI limit on G-sec is 6% and on SDLs is 2%.
o Voluntary Retention Route, which allows investors easier rules in return for a commitment to remain invested for a longer period. It encourages Foreign Portfolio Investors to undertake long-term investments in Indian debt markets.

Government Security (G-Sec)

• A G-Sec is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the Government's debt obligation.
• Such securities are either
o short term
✓ Called treasury bills
✓ Maturities of less than one year.
✓ presently issued in three tenors, namely, 91-day, 182 day and 364 day
✓ There are also cash Management Bills (CMBs) which have a maturity of less than 90 days.
o long term
✓ Called Government bonds or dated securities
✓ Maturity of one year or more

• In India,
o the Central Government issues both treasury bills and bonds or dated securities while,
o the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs).
• G-Secs carry practically no risk of default and, hence, are called risk-free gilt-edged instruments.
• Major players in the G-Secs market include commercial banks Primary Dealers, insurance companies, co-operative banks, regional rural banks, mutual funds, provident and pension funds.
• Retail investors including individuals are allowed participation on "non-competitive" basis in select auctions of dated Government of India (GoI) securities and Treasury Bills.

12) TAXING GLOBAL TECHNOLOGY COMPANIES

The government has expanded the scope of equalization levy to all overseas e-commerce transactions originating from India in the amended Finance Bill 2020.
• India will levy an equalisation levy of 2% on sales made by foreign e-commerce companies in the country. This will impact those companies that don't have a base in India, but sell their goods here.
o Equalisation Levy is a direct tax, which is withheld at the time of payment by the service recipient
• The levy would be imposed on those companies that have a turnover or sales of over Rs 2 crore in the previous year o Also, the compliance of the levy has been shifted to the non-resident service provider.
• Now, expanded scope stretches beyond goods and services supplied to Indian residents and includes supplies to any person using an Indian Internet Protocol (IP) address.
o For example, a foreign citizen availing services, whilst visiting India and using the Indian IP address is also covered.

Need for such rules

• Uniqueness of digital e-commerce model
o Under the traditional model, an MNC is liable to pay tax in the jurisdiction of its' Permanent Establishment or the jurisdiction where the source of income exists.
o However, digital service sectors derive the income from users located in different jurisdictions, and in most cases, these lack a physical presence in countries where customers are located.
• Large User Base: Foreign tech companies have a large number of users, and so a significant economic presence (SEP) in India. This in turn leads to revenue generation through data but these companies don't pay appropriate taxes on this revenue.
• Revenue generation: It is being hoped that this equalization levy will generate almost $ 100 billion worth of global taxes.

Challenges in implementation

• Nexus: Prevalence of nexus between the global tech giants and the lower tax jurisdictions.
• Data: The challenge is how to estimate the value created from the generation of data through digital products and services.
o There seems to be no global consensus on how the global technology firms should be taxed.
• Characterisation of profits: As to how to determine and attribute profit to India operations of these technology firms, i.e. the profit that is earned from activities in India.
• Compliances: Unlike the earlier levy (on advertising), now the foreign e-commerce operator will be required to make

compliances in India which could also raise potential challenges.

• Possible legal challenges: There are chances of legal challenges on extra-territoriality as the provisions seeks to cover non-resident to non-resident transactions which use India data. Also, the regulation may come in conflict with some bilateral and multilateral treaties.

o The current Double tax avoidance treaties (DTAAs) override the amended definition of Business Connection that includes the concept of Significant Economic Presence (SEP).

Way forward

Experts tracking the digital ecosystem have agreed that a comprehensive digital tax code which is consistent internationally has to be the solution in the long-term. Till such an ecosystem takes shape, continuous multistakeholder engagement encompassing governments as well as companies could be adopted.

Global Scenario

• Australia—Turnover tax called digital services tax is proposed to be introduced which may be levied on income of large multinationals providing advertising space, trading platforms, and the transmission of data collected about users.

• New Zealand—Amazon tax is proposed to tax books and goods bought online.

• Uganda—Tax on social media wherein users of WhatsApp, Twitter, Facebook will pay a fee.

• OECD has considered the Action Plan 1 called “Addressing the tax challenges of the Digital Economy" as part of its Base Erosion and Profit Shifting Project (BEPS).

• France has implemented tax on large technology companies with large annual global revenue called GAFA (Google Apple Facebook Amazon) Tax.

13) ELECTRONICS MANUFACTURING

Recently, Union Cabinet has approved three schemes for electronics sector namely:

• A production-linked incentive manufacturing scheme.

• Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS).

• Electronics Manufacturing Clusters (EMC) 2.0.

About the Schemes

• Production-linked incentive manufacturing scheme

o It aims to boost domestic production and attract investment in mobile phone manufacturing, specified electronic components, including assembly, testing, marking and packaging (ATMP) units.

o It shall extend an incentive of 4% to 6% on incremental sales (over base year) of goods manufactured in India and covered under target segments, to eligible companies, for a period of five years subsequent to the base year as defined.

o As a result, the domestic value addition for mobile phones is expected to witness 35- 40% jump by 2025 from 20-25% now.

• Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS)

o It offers financial incentive of 25% of capital expenditure for the manufacturing of goods that constitute the supply chain of an electronic product.

o The scheme is the successor of earlier incentive scheme namely Modified Incentive Special Package Scheme (M-SIPS).

✓ In order to compensate for disadvantages in domestic manufacturing, M-SIPS was launched which provides for capital subsidy of 25% for Electronics Industry located in non-SEZ area and 20% for those in SEZ areas.

o The incentives will be available for investment made within 5 years from the date of acknowledgement of application.

o The scheme is expected to bring new investments in Electronics Sector to the tune of at least Rs. 20,000 crore.

• Electronics Manufacturing Clusters (EMC) 2.0.

o The Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme would support setting up of both Electronics Manufacturing Clusters (EMCs) and Common Facility Centers (CFCs).

o The scheme will provide financial assistance up to 50% of the project cost subject to ceiling of ₹70 crore per 100 acres of land for setting up of Electronics Manufacturing Cluster projects. For Common Facility Centre (CFC), financial assistance of 75% of the project cost subject to a ceiling of ₹75 crore will be provided.

• The schemes collectively are expected to attract new investments worth at least ₹50,000 crore in the sector, while generating more than five lakh direct and 15 lakh indirect jobs.

Need to boost electronics manufacturing

• Target NET ZERO imports: Electronics goods weigh heavily on the country's trade deficit and are one of the top three items imported in India.

• Rapidly increasing demand: Demand for electronic goods is increasing with a Compound Annual Growth Rate (CAGR) of 22% and is expected to touch 400 Billion USD by 2020.

• Digital security: Domestic manufacturing is essential for securing data which has implications both for privacy and national security.

• Complement other schemes: Domestic manufacturing plays a key role in boosting initiatives like BharatNet, Smart cities, National Knowledge Network (NKN) and also give a fillip to 'Make in India.'

Challenges to the sector

• Unavailability of affordable credit: Schemes like Electronic Development Fund (EDF) which aimed to increase availability of credit have not completely fructified.

o EDF was set up as a "Fund of Funds" to participate in professionally managed "Daughter Funds" which in turn provided risk capital to companies developing new technologies in the area of electronics.

• Product Standard: There are gaps between global product standards and those manufactured in India.

• Ancillary Infrastructure: Outside the factory, infrastructure bottlenecks such as logistics, port capabilities etc. continue to trouble manufacturers.

• Productivity Gap: Prevalent skill gap in population translates to productivity gap in production cycle.

Way forward

In pursuance of National Policy on Electronics, 2019, these three schemes collectively aim to resolve aforesaid challenges by improving infrastructure (EMC 2.0), easing the credit flow (Production incentive scheme) and encouraging capacity expansion (SPECS). These steps can be complemented by steps like Reviving and revising schemes like the Electronic Development Fund (EDF) to increase credit availability, considering industry demands like waiver of collateral on loans taken to setup machinery among others.

National Policy on Electronics 2019

• Policy envisions positioning India as a global hub for Electronics System Design and Manufacturing (ESDM).

• It replaces the National Policy of Electronics 2012 (NPE 2012).

Salient Features of the Policy

• Create eco-system for globally competitive ESDM sector

• Provide incentives and support for manufacturing of core electronic components.

• Provide special package of incentives for mega projects which are extremely high-tech and entail huge investments, such as semiconductor facilities display fabrication, etc.

• Promote Industry-led R&D and innovation in all subsectors of electronics, including grass root level innovations and early stage Start-ups in emerging technology areas such as 5G, loT/ Sensors, Artificial Intelligence (Al) etc.

• Provide incentives and support for significantly enhancing availability of skilled manpower, including re-skilling.

• Create Sovereign Patent Fund (SPF) to promote the development and acquisition of IPs in ESDM sector.

• Promote trusted electronics value chain initiatives to improve national cyber security profile.

Electronic Manufacturing Clusters (EMC)

• The scheme was created in 2012 with an objective to build and create requisite infrastructure ecosystem for electronics manufacturing.

• Under EMC scheme, 20 Greenfield EMCs and 3 Common Facility Centres (CFCs) have been approved across 15 states of the country.

14) MINERAL LAWS (AMENDMENT) BILL, 2020

Parliament recently passed The Mineral Laws (Amendment) Bill, 2020 for amendments in Mines & Mineral (Development and Regulation) Act 1957 and The Coal Mines (Special Provisions) Act, 2015.

Key Provisions

• Composite license for prospecting and mining: A new type of license, called prospecting license-cum-mining lease has been introduced.

o Currently, separate licenses are provided for prospecting and mining of coal and lignite, called prospecting license, and mining lease, respectively. Prospecting includes exploring, locating, or finding mineral deposit.

o The new type of license will be a composite license providing for both prospecting and mining activities.

• Removal of restriction on end-use of coal: Companies will be free to use extracted mineral both for captive use of end use plants (power, steel, cement etc.) and commercial sale in the open market.

• Eligibility criteria for auction of coal and lignite blocks: The companies which do not possess any prior coal mining experience in India but are financially strong and or have mining experience in other minerals or in other countries can now participate in auction of coal/lignite blocks

• Reallocation after termination of the allocations: Such mines may be reallocated through auction or allotment as may be determined by the central government. The central government will appoint a designated custodian to manage these mines until they are reallocated.

• Prior approval of the central government is not required in granting of reconnaissance permit, prospecting license or mining lease in respect of the minerals, in certain cases: These cases are- o an allocation order has been issued by the Central Government.

o a notification of reservation of area has been issued by the Central Government or the State Government.

• Advance action for auction: State Governments have been allowed for taking an advance action for auction of the mining lease before the expiry of the lease period.

• Transfer of statutory clearances to new bidders: The various approvals, licenses, and clearances given to the previous lessee will be extended to the successful bidder for a period of two years.

Benefits

• Broadening the playing field: The act will enable companies, which do not have any mining experience or which are not engaged in a specified end-use, to make bids in auctions alongside the established players in the market.

• Decrease in coal Imports: The effective mining sector will lead India to use its own natural reserves, instead of importing coal.

• Efficient process of allocation: A bidding company may now bid for a prospecting licence-cum-mining lease for coal and lignite as well, thereby streamlining the process of allocation.

• Removal of Superfluous Approvals: Several approvals carried out by the Central Government at various stages in turn resulted in delays and repetition of the approval process.

• Smoother Transitions: Certain provisions have been introduced in the MMDR Act which will facilitate easy transfer of mining operations by the competent authority from one allottee to another.

• Attracting Investment: Companies having mining experience in other countries can now participate in auction of coal/lignite blocks.

• Promoting Ease of Doing Business: The act deregulates the mining sector and clearly focuses on making it more profitable.

Issues

• Dilution of Eligibility Criteria: Mining sector is a very specific sector which requires expertise and by removing prior experience restriction the evaluation of bidders will become difficult.

• Natural resources can be misused: With removal of the end use restriction along with allowing 100% FDI can result in misuse by foreign players.

• Could be detrimental for Environment: Increasing usage of coal for energy or for manufacturing of power and over mining may result in environment degradation. Polluter's pay principle is also missing.

• Future of Coal India Ltd. is in doubt: Opening up of the sector for private players may end monopoly of Coal India and government may lose its strategic asset.

15) What are Additional Tier-1 bonds?

The Association of Mutual Funds in India (AMFI) has written to the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) to allow fund houses a temporary write down of additional tier 1 bonds of Yes Bank to avoid a huge hit on the net asset value of schemes that hold such bonds.

Implications: This assumes significance as many fund houses stand to lose thousands of crores if the additional tier 1 bonds are completely written off.

Background: Under the Based III framework, banks' regulatory capital is divided into Tier 1 and Tier 2 capital. Tier 1 capital is subdivided into Common Equity (CET) and Additional Capital (AT1).

What are Additional Tier-1 bonds?

They are a type of unsecured, perpetual bonds that banks issue to shore up their core capital base to meet the Basel-III norms.

Key features:

1. These have higher rates than tier II bonds.
2. These bonds have no maturity date.
3. The issuing bank has the option to call back the bonds or repay the principal after a specified period of time.
4. The attraction for investors is higher yield than secured bonds issued by the same entity.
5. Individual investors too can hold these bonds, but mostly high net worth individuals (HNIs) opt for such higher risk, higher yield investments.
6. Given the higher risk, the rating for these bonds is one to four notches lower than the secured bond series of the same bank. For example, while SBI's tier II bonds are rated AAA by Crisil, its tier I longterm bonds are rated AA+.

However, it has a two-fold risk:

1. First, the issuing bank has the discretion to skip coupon payment. Under normal circumstances it can pay from profits or revenue reserves in case of losses for the period when the interest needs to be paid.
2. Second, the bank has to maintain a common equity tier I ratio of 5.5%, failing which the bonds can get written down. In some cases there could be a clause to convert into equity as well. Given these characteristics, AT1 bonds are also referred to as quasi-equity.

Differences between Common Equity (CET) and Additional Capital (AT1):

Equity and preference capital is classified as CET and perpetual bonds are classified as AT1. Together, CET and AT1 are called Common Equity. By nature, CET is the equity capital of the bank, where returns are linked to the banks' performance and therefore the performance of the share price. However, AT1 bonds are in the nature of debt instruments, which carry a fixed coupon payable annually from past or present profits of the bank.

How RBI can take over the regulation of any bank?

There is an additional trigger in Indian regulations, called the 'Point of Non-Viability Trigger' (PONV).

• In a situation where a bank faces severe losses leading to erosion of regulatory capital, the RBI can decide if the bank has reached a situation wherein it is no longer viable.

• The RBI can then activate a PONV trigger and assume executive powers.

• By doing so, the RBI can do whatever is required to get the bank on track, including superseding the existing management, forcing the bank to raise additional capital and so on.

• However, activating PONV is followed by a write down of the AT1 bonds, as determined by the RBI.

16) Solar Charkha Mission

Based on the Expression of Interest (EOI), a total of 10 proposals have been approved under Mission Solar Charkha till date which is expected to benefit about 13784 artisans/workers.

About Solar Charkha Mission:

1. Launched in 2018.

2. It is a Ministry of Micro Small & Medium Enterprises (MSME) initiative launched during June 2018.
3. The Khadi and Village Industries Commission (KVIC) would implement the programme.
4. It seeks to generate employment in rural areas and contribute to the green economy.
5. The mission will entail a subsidy of Rs 550 crore in the initial two years for 50 clusters and every cluster will employ 400 to 2000 artisans.
6. The scheme also aims at linking five crore women across the country to the initiative.
7. The mission is expected to create one lakh jobs during the first two years.

The objectives of the Scheme are as follows:
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1. To ensure inclusive growth by generation of employment, especially for women and youth, and sustainable development through solar charkha clusters in rural areas.
2. To boost rural economy and help in arresting migration from rural to urban areas.
3. To leverage low-cost, innovative technologies and processes for sustenance.

Significance of the mission: These solar charkhas are to be operated using solar power which is a renewable energy source. It will help in development of Green Economy as it is an environment friendly programme. It will also generate sustainable employment for the artisans.
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