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Economics – 2019

GOOD MORNING TIMES

NOV- 2018



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Economics – PT Shots (NOVEMBER-2018)

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TOPIC GENERAL STUDIES 3: ECONOMICS- ECONOMIC DEVELOPMENT- GOV POLICIES
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1. ENTRAL BOARD OF THE RBI

- The RBI Board recently entered the news during the public spat between the central bank and the Finance Ministry. One of the reasons for the disagreement was the government's alleged threat of invoking **Section 7 of the RBI Act**.
- **Section 7** basically empowers the government to supersede the RBI Board and issue directions to the central bank if they are considered to be "necessary in public interest".
- **What is the RBI Board?**
- The RBI Board is a body comprising officials from the central bank and the Government of India, including officials nominated by the government.
- According to the RBI, the "general superintendence and direction of the affairs and business of the RBI is entrusted to the Central Board" and the Board exercises all powers and does all acts and things that are exercised by the RBI.
- The Board is also to recommend to the government the design, form and material of bank notes and also when and where they can serve as legal tender.
- **Who sits on the Board?**
- The Board consists of official directors, who include the Governor and up to four Deputy Governors, non-official directors, who include up

to ten directors from various fields and two government officials, and one director from each of four local boards of the RBI. • The Governor and Deputy Governors hold office for not more than five years, the ten directors nominated by the government hold office for four years, and the government officials are to hold a term on the RBI Board as long as the government sees fit.

- According to the RBI Act, the director of the RBI Board cannot be a salaried government official (except for the ones specifically nominated by the government), be adjudicated as insolvent or have suspended payments to creditors, an officer or employee of any bank (again, this does not include the government nominee), or, interestingly, "is found lunatic or becomes of unsound mind".

- **When does the Board meet?**

- The Governor has to call a Board meeting at least six times in a year, and at least once each quarter. A meeting can be called if a minimum of four Directors ask the Governor to call a meeting. The Governor or, if for any reason unable to attend, the Deputy Governor authorised by the him to vote for him, presides the Board meetings. In the event of split votes, the Governor has a second, or deciding vote.

2. TREASURY BILL

- The National Stock Exchange (NSE) has launched an app and web-based platform, 'NSE goBID',

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for retail investors to buy government securities.

- **About 'NSE goBID':**

- The app would allow investors to invest in treasury bills (T-Bills) of 91 days, 182 days and 364 days and various government bonds from one year to almost 40 years.
- The retail investors would be able to make payment directly from their bank accounts using Unified Payments Interface (UPI) and Internet banking.
- While investment could be done almost every week after a one-time registration, the app would be available to all investors registered with NSE's trading members.

- **Significance:**

- The launch assumes significance as government securities are among the safer investment options available to retail investors as such securities are credit risk free instruments while providing portfolio diversification with longer investment durations.

- **What you need to know about Treasury bills?**

- T-bills are short term securities issued on behalf of the government by the RBI and are used in managing short term liquidity needs of the government.
- 91-day T-bills are auctioned every week on Wednesday and 182-day and 364-day T-bills are auctioned every alternate week on Wednesdays.
- Treasury bills are issued at a discount and are redeemed at par.

3. PROMPT CORRECTIVE ACTION (PCA) FRAMEWORK

- The 11 state-run banks, which are under the RBI's prompt corrective action (PCA) framework, have seen a 400 basis points increase in

their share of retail loans at 19% in the four years ending September 2018.

- **Background:** • The RBI began to place state-run banks under the PCA framework for the first time in September 2016, when their NPAs soared beyond the regulatory tolerance levels.

- **Negative effects:**

- Banks under the PCA have lost market share to private sector banks in corporate loans and unsecured personal loans, and it will be a Herculean task for the affected banks to claw this back. The PCA framework puts restrictions on weaker banks on many aspects, including fresh lending and expansion, and salary hikes, among others.

- **The 11 banks under the PCA are:** Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Bank of India, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce, Dena Bank and Bank of Maharashtra. These banks together control over 20 per cent of the credit market.

- **What are the types of restrictions?**

- There are two type of restrictions, mandatory and discretionary. Restrictions on dividend, branch expansion, director's compensation, are mandatory while discretionary restrictions could include curbs on lending and deposit. In the cases of two banks where PCA was invoked after the revised guidelines were issued — IDBI Bank and UCO Bank — only mandatory restrictions were imposed.

- Both the banks breached risk threshold 2.

- **What will a bank do if PCA is triggered?**

• Banks are not allowed to re new or access costly deposits or take steps to increase their fee-based income. Banks will also have to launch a special drive to reduce the stock of NPAs and contain generation of fresh NPAs. They will also not be allowed to enter into new lines of business.

• RBI will also impose restrictions on the bank on borrowings from interbank market.

- **Impact:**

• Small and medium enterprises will have to bear the brunt due to this move by RBI. Since the PCA framework restricts the amount of loans banks can extend, this will definitely put pressure on credit being made available to companies especially the MSMEs.

• Large companies have access to the corporate bond market so they may not be impacted immediately. It has been predicted that if more state-owned banks are brought under PCA, it will impact the credit availability for the MSME segment.

- **What is PCA?**

• PCA norms allow the regulator to place certain restrictions such as halting branch expansion and stopping dividend payment. It can even cap a bank's lending limit to one entity or sector.

• Other corrective action that can be imposed on banks include special audit, restructuring operations and activation of recovery plan. Banks' promoters can be asked to bring in new management, too. The RBI can also supersede the bank's board, under PCA.

- **When is PCA invoked?**

• The PCA is invoked when certain risk thresholds are breached.

• There are three risk thresholds which are based on certain levels of asset quality, profitability, capital and the like.

• The third such threshold, which is maximum tolerance limit, sets net NPA at over 12% and negative return on assets for four consecutive years

4. RBI CAN TRANSFER RS 1 LAKH CRORE OF EXCESS RESERVES TO GOVT: REPORT

- According to the 2017-18 annual report of Pradhan Mantri Mudra Yojana (PMMY), though NBFCs sanctioned only over ₹27,000 crore of Mudra loans in FY18 against ₹92,492.68 crore by public sector banks, their year-on-year growth was faster. While NBFC Mudra loan sanctions increased ₹21,562.63 crore from a year ago, state-run banks could raise their Mudra loans by only ₹20,539.01 crore in the same period.

- Impressively, NBFCs not only met their Mudra target of ₹9,050 crore for FY18, but their sanctions for the year were a five-fold jump from the previous year.

- **About the Pradhan Mantri MUDRA Yojana (PMMY) scheme:** The PMMY Scheme was launched in April, 2015. The scheme's objective is to refinance collateral-free loans given by the lenders to small borrowers.

- The scheme, which has a corpus of Rs 20,000 crore, can lend between Rs 50,000 and Rs 10 lakh to small entrepreneurs.
- Banks and microfinance institutions (MFIs) can draw refinance under the MUDRA Scheme after becoming member-lending institutions of MUDRA.
- Mudra Loans are available for non-agricultural activities upto Rs. 10 lakh and activities allied to agriculture such as Dairy, Poultry, Bee Keeping etc., are also covered.
- Mudra's unique features include a Mudra Card which permits access to Working Capital through ATMs and Card Machines.

- **Objectives of the scheme:**

- Fund the unfunded: Those who have a business plan to generate income from a non-farm activity like manufacturing, processing, trading or service sector but don't have enough capital to invest can take loans up to Rs 10 lakh.
- Micro finance institutions (MFI) monitoring and regulation: With the help of MUDRA bank, the network of microfinance institutions will be monitored. New registration will also be done.
- Promote financial inclusion: With the aim to reach Last mile credit delivery to micro businesses taking help of technology solutions, it further adds to the vision of financial inclusion.
- Reduce jobless economic growth: Providing micro enterprises with credit facility will help generate employment sources and an overall increase in GDP.
- Integration of Informal economy into Formal sector: It will help India also grow its tax base as incomes from the informal sector are non-taxed.

5. RBI CAN TRANSFER RS 1 LAKH CRORE OF EXCESS RESERVES TO GOVT: REPORT

- According to Bank of America Merrill Lynch report, the Reserve Bank has “more than adequate” reserves and it can transfer over Rs 1 trillion to the government after a specially constituted panel identifies the “excess capital”.
- The report notes that the central bank can transfer Rs 1 trillion to the government if the transfer is limited to passing excess contingency reserve and can go up to Rs 3 trillion if the total capital is included.

- **How does a central bank like the Reserve Bank of India (RBI) make profits?**

- The RBI is a “full service” central bank — not only is it mandated to keep inflation or prices in check, it is also supposed to manage the borrowings of the Government of India and of state governments; supervise or regulate banks and non-banking finance companies; and manage the currency and payment systems. While carrying out these functions or operations, it makes profits.
 - o Typically, the central bank's income comes from the returns it earns on its foreign currency assets — which could be in the form of bonds and treasury bills of other central banks or top-rated securities, and deposits with other central banks.
 - o It also earns interest on its holdings of local rupee-denominated government bonds or securities, and while lending to banks for very short tenures, such as overnight. It claims a management commission on handling the borrowings of state governments and the central government.
 - o Its expenditure is mainly on the printing of currency notes and on staff, besides the

commission it gives to banks for undertaking transactions on behalf of the government across the country, and to primary dealers, including banks, for underwriting some of these borrowings.

- **What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?**

• Although RBI was promoted as a private shareholders' bank in 1935 with a paid-up capital of Rs 5 crore, the government nationalised it in January 1949, making the sovereign its "owner". • What the central bank does, therefore, is transfer the "surplus" — that is, the excess of income over expenditure — to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.

- **Does the RBI pay tax on these earnings or profits?**

• No. Its statute provides exemption from paying income-tax or any other tax, including wealth tax.

- **How does the government build this surplus into its Budget early in the year?**

• Well before the annual Budget is unveiled, senior RBI and government officials discuss the likely amount which could be transferred. Typically, the government pitches for a higher share of the surplus while the central bank sometimes prefers to set aside funds for contingencies.

• Based on these talks, and calculations such as likely income and earnings, an indicative figure is given to the government, which it puts under the head 'non-tax revenue' in the receipts budget.

- **Is there an explicit policy on the distribution of surplus?**

• No. But a Technical Committee of the RBI Board headed by Y H Malegam, which reviewed

the adequacy of reserves and a surplus distribution policy, recommended, in 2013, a higher transfer to the government.

• Earlier, the RBI transferred part of the surplus to the Contingency Fund, to meet unexpected and unforeseen contingencies, and to the Asset Development Fund, to meet internal capital expenditure and investments in its subsidiaries in keeping with the recommendation of a committee to build contingency reserves of 12% of its balance sheet. But after the Malegam committee made its recommendation, in 2013-14, the RBI's transfer of surplus to the government as a percentage of gross income (less expenditure) shot up to 99.99% from 53.40% in 2012-13.

6. WORLD BANK'S DOING BUSINESS REPORT, 2018

- The World Bank has released its latest Doing Business Report (DBR, 2019). The report ranks 190 economies based on how easy it is to do business there, taking into account trading regulations, property rights, contract enforcement, investment laws, the availability of credit and a number of other factors. The first report was published in 2003.

- **Performance of various countries:**

• The top five overall are: New Zealand, Singapore, Denmark, Hong Kong and Korea. The U.S. ranks 8th, down from 6th last year.

• As per the latest report, Afghanistan had moved up the most, by 16 spots, from 183th in last year's ranking to 167th this year.

• China and India — two economies with the largest populations — are among top 10 improvers this year.

• Afghanistan, Djibouti, Azerbaijan, Togo, Kenya, Côte d'Ivoire, Turkey and Rwanda rounded out the top 10 most improved list. In addition, Djibouti and India are the only economies to make the 10 top most improved list for the second consecutive year.

• **Performance of India:**

• India climbed 23 spots from a year ago to rank 77 out of 190 countries in the World Bank's latest report on the ease of doing business.

• It was also among the top 10 most improved economies along with countries such as China, Djibouti and Azerbaijan.

• The ease of doing business in India improved notably after a series of reforms made it easier for companies to get construction permits, pay taxes and trade across borders.

• **Areas of improvement:**

• Entrepreneurs were able to start a business more easily after India integrated multiple application forms into a general incorporation form. Reforms also "streamlined the process of obtaining a building permit and made it faster and less expensive to obtain a construction permit."

• Last year, the country amended its insolvency and bankruptcy code which prevented willful defaulters from buying up any of their own troubled assets at discounted rates. That strengthened access to credit as "secured creditors are now given absolute priority over other claims within insolvency proceedings".

• Other areas of improvement included simplifying India's complex tax structure that made it easier to pay taxes. Initiatives implemented under the National Trade Facilitation Action Plan 2017-2020 improved the efficiency of

cross-border trading and reduced the time taken to meet compliance requirements.

7. SUPPORT INITIATIVES FOR MSME SECTOR

- The government has launched a historic support and outreach programme for the Micro, Small and Medium Enterprises (MSME) sector. As part of this programme, the Prime Minister of India recently unveiled 12 key initiatives which will help the growth, expansion and facilitation of MSMEs across the country.

• **Significance:**

- There are five key aspects for facilitating the MSME sector. These include access to credit, access to market, technology upgradation, ease of doing business, and a sense of security for employees.

- The 12 initiatives will address each of these five categories.

• **The 12 initiatives include:**

1. 59-minute loan portal to enable easy access to credit for MSMEs. Loans upto Rs. 1 crore can be granted in-principle approval through this portal, in just 59 minutes.
2. A 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans. For exporters who receive loans in the pre-shipment and post-shipment period, there will be an increase in interest rebate from 3% to 5%.
3. All companies with a turnover more than Rs. 500 crores, must now compulsorily be brought on the Trade Receivables e-Discounting System (TReDS). Joining this portal will enable entrepreneurs to access credit from banks, based

on their upcoming receivables. This will resolve their problems of cash cycle.

4. Public sector companies have now been asked to compulsorily procure 25%, instead of 20% of their total purchases, from MSMEs.

5. Out of the 25% procurement mandated from MSMEs, 3% must now be reserved for women entrepreneurs.

6. All public sector undertakings of the Union Government must now compulsorily be a part of GeM. He said they should also get all their vendors registered on GeM.

7. 20 hubs will be formed across the country, and 100 spokes in the form of tool rooms will be established.

8. Clusters will be formed of pharma MSMEs. 70% cost of establishing these clusters will be borne by the Union Government. 9. The return under 8 labour laws and 10 Union regulations must now be filed only once a year.

10. Now the establishments to be visited by an Inspector will be decided through a computerised random allotment.

11. Under air pollution and water pollution laws, now both these have been merged as a single consent. The return will be accepted through self-certification.

12. An Ordinance has been brought, under which, for minor violations under the Companies Act, the entrepreneur will no longer have to approach the Courts, but can correct them through simple procedures.

- **Significance of MSMEs:** Micro-, Small and Medium-sized Enterprises are the backbone of most economies worldwide and play a key role in developing countries.

- According to the data provided by the International Council for Small Business (ICSB), formal and informal Micro-, Small and Medium-sized Enterprises (MSMEs) make up over 90% of all firms and account on average for 60-70% of total employment and 50% of GDP.

- These types of enterprises are responsible for significant employment and income generation opportunities across the world and have been identified as a major driver of poverty alleviation and development.

- MSMEs tend to employ a larger share of the vulnerable sectors of the workforce, such as women, youth, and people from poorer households. MSMEs can even sometimes be the only source of employment in rural areas. As such, MSMEs as a group are the main income provider for the income distribution at the “base of the pyramid”.

- **Other Government schemes to help MSMEs:** The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements efforts of the State Governments through various initiatives.

✓ **Credit and Financial Assistances to MSMEs**

- **Prime Minister's Employment Generation Programme (PMEGP)** is aimed at generating self-employment opportunities through establishment of micro-enterprises in the non-farm sector by helping traditional artisans and unemployed youth.

- **Credit Guarantee Scheme for Micro and Small Enterprises** covers collateral free credit facility (term loan and/or working capital) extended by eligible lending institutions including

Non-Banking Financial Company (NBFC) to new and existing micro and small enterprises up to 2 crore per borrowing unit.

- **Credit Linked Capital Subsidy Scheme (CLCSS)** aims at facilitating technology upgradation of the MSME sector.

- The Government has also initiated the **Pradhan Mantri Mudra Yojana** for development and refinancing activities relating to micro industrial units.

✓ **Skill Development and Training**

- **A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE)** to create a framework for start-up promotion through Network of Technology Centres and Incubation and commercialisation of Business Idea Programme.

✓ **Infrastructure**

- **Scheme of Fund for Regeneration of Traditional Industries (SFURTI)**
- **Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP)**

✓ **Marketing Assistance**

- Scheme for providing financial assistance to Khadi institutions under MPDA (Market Promotion Development Assistance).

- MSME Delayed Payment Portal – **MSME Samadhaan**

- Public Procurement Portal for MSEs – **MSME Sambandh**

✓ **Technology Upgradation and Competiveness**

- Financial Support to MSMEs in **ZED (Zero Defect and Zero Effect)** certification to encourage MSMEs to upgrade their quality standards in products and processes with adoption of Zero-Defect production processes and without impacting the environment, etc. Other services

- **National Scheduled Caste and Scheduled Tribe Hub** to provide professional support to SC/ST entrepreneurs.

8. NEW INDEX TO CHECK EASE OF DOING AGRI-BUSINESS

- The centre is planning to develop an online dashboard to track State performances and the Index will be rolled out in January 2019.

• **Ease of Doing Agri-Business Index:**

- The new Ease of Doing Agri-Business Index will rank the States on the basis of reforms in the sector as well as their investment in agriculture, increased productivity, reduction of input costs, and risk mitigation measures.

- The Agri Ministry will consider rewarding the higher performing States both in absolute and incremental terms by linking the performance with allocation from flexi funds made available in various flagship.

- The proposed index will focus on reforms, with marketing reforms (25%) and governance and land reforms (20%) carrying almost half of the weight of the parameters in its scoring system.

• **Parameters:**

- The parameters are process-oriented, and are meant to evolve as and when new reforms or initiatives are proposed.

- Another major parameter which States will be rated on is their success in reducing the cost of farm inputs (20%) by distributing soil health cards and encouraging organic farming and micro-irrigation.

- Risk mitigation measures such as crop and livestock insurance carry a 15% weightage, while increased productivity and investment in agriculture carry a 10% weight each.

- **Way ahead:**

- As agriculture is a State subject, the success of policies and reform initiatives proposed at the Centre is dependent on implementation by the States.
- To ensure that reform agenda of the government is implemented at a desired pace by all State governments, there is a need to develop a competitive spirit between the States.

9. GENDER WAGE GAP HIGHEST IN INDIA

- The International Labour Organization (ILO) has released Global Wage Report 2018-19. As per the report, women are paid the most unequally in India, compared to men, when it comes to hourly wages for labour. On average, women are paid 34% less than men.
- **Highlights of the report:**
 - The gender wage gap has remained unchanged at 20% from 2016 to 2017.
 - In advanced economies (G20), real wage growth declined from 0.9 per cent in 2016 to 0.4 per cent in 2017, meaning near stagnation. By contrast, in emerging economies and developing G20 countries, real wage growth dipped marginally from 4.9 per cent in 2016 and 4.3 per cent in 2017.
 - Inequality is higher in monthly wages, with a gap of 22 per cent.
 - Overall, real wages grew just 1.8 per cent globally (136 countries) in 2017.
 - In most countries, women and men differ significantly in respect of working time – specifically, that part-time work is more prevalent among women than among men.

- **Way Forward:**

- The report advocated that emphasis needs to be placed on ensuring equal pay for women and men.

10. OPERATION GREENS

- Ministry of Food Processing Industries (MoFPI) has approved the operationalisation strategy for Operation Greens. The Strategy will comprise of a series of measures as decided by the Ministry:
 - **Short term Price Stabilisation Measures:**
 - NAFED will be the Nodal Agency to implement price stabilisation measures.
 - MoFPI will provide 50 percent of the subsidy on transportation of Tomato Onion Potato (TOP) Crops from production to storage; and hiring of appropriate storage facilities for TOP Crops.
 - **Long Term Integrated value chain development projects:**
 - Capacity Building of FPOs & their consortium.
 - Quality production.
 - Post-harvest processing facilities.
 - Agri-Logistics.
 - Marketing / Consumption Points.
 - Creation and Management of e-platform for demand and supply management of TOP Crops.
 - **About Operation Greens:**
 - Operation Greens was announced in the Budget speech of 2018-19 with an outlay of Rs 500 crores to stabilize the supply of Tomato, Onion and Potato (TOP) crops and to ensure availability of TOP crops throughout the country round the year without price volatility.
 - **Major objectives of “Operation Greens” are as under:**

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- Enhancing value realisation of TOP farmers by targeted interventions to strengthen TOP production clusters and their FPOs, and linking/connecting them with the market.
- Price stabilisation for producers and consumers by proper production planning in the TOP clusters and introduction of dual use varieties.
- Reduction in post-harvest losses by creation of farm gate infrastructure, development of suitable agrologistics, creation of appropriate storage capacity linking consumption centres.
- Increase in food processing capacities and value addition in TOP value chain with firm linkages with production clusters.
- Setting up of a market intelligence network to collect and collate real time data on demand and supply and price of TOP crops.

- **Significance of Operation greens:**

- Operation Green (OG) wants to replicate the success story of Operation Flood, in fruits and vegetables, starting with three basic vegetables—tomatoes, onions and potatoes (TOP).
- The main objective of OG is to reduce price volatility in these commodities, and thereby helping farmers augment incomes on a sustainable basis, as also provide these basic vegetables to consumers at affordable prices.

11. BLUE REVOLUTION

- Blue Revolution aims at doubling the income of farmers. In the last four & half years, Rs. 1915.33 crore has been released for its implementation.
- Under the Blue Revolution scheme, 29,128 hectares has been developed for aquaculture and fishermen are being benefitted. And 7441 traditional boats have

been modernized and converted into motorized boats.

- The Blue Revolution mission aims at doubling the income of farmers and in the last four & half years, Rs. 1915.33 crore has been released for the implementation of Blue Revolution Schemes.
- The government has approved Rs. 7522 crore Fisheries and Aquaculture Infrastructure Development Fund (FIDF).
- **Fisheries and Aquaculture Infrastructure Development Fund (FIDF):**

- It creates employment opportunities to over 9.40 lakhs fishers/fishermen/ fisher folks and other entrepreneurs in fishing and allied activities.
- It attracts private investment in creation and management of fisheries infrastructure facilities.
- It helps in the creation of fisheries infrastructure facilities both in marine and inland fisheries sectors, which would boost fish production and help achieve target of Rs. 15 million tonne by 2020 under Blue revolution.
- It aims to achieve a sustainable growth of 8% to 9% in a move to augment fish production to the level of about 20 million tonnes by 2022-23.

12. TURGA PUMPED STORAGE

- A Loan Agreement was recently signed between India and Japan on Japanese Official Development Assistance loan for the construction of Turga Pumped Storage (I) of Yen 29.442 Billion (Rs. 1817 crore approximately).

- **About Turga Pumped Storage project:**

- The Turga Pumped Storage Project on Turga nala is a closed loop type Pumped Storage Project located in Purulia district of West Bengal.
- The Turga Pumped Storage Project envisages utilization of rainfall in the catchment of the Turga Nala in Ayodhya hills for peak power generation for a Pumped Storage type project development.
- The project envisages construction of Upper Dam across Turga Nala, a tributary of Subarnarekha river and a water conductor system with an underground Power House on the downstream of Upper Dam and a Lower Dam having intermediate catchment of 4.37 sq. km.
- The objective of the Project is to strengthen the capability to respond to fluctuation in supply and demand of power and to improve stability of the power supply by constructing the pumped storage facilities, thereby contributing to the Industrial Development and Living Standard Improvement in the State of West Bengal.

- **Significance:**

- India and Japan have had a long and fruitful history of bilateral development cooperation since 1958.
- In the last few years, the economic cooperation between India and Japan has steadily progressed.
- This further consolidates and strengthens the Strategic and Global Partnership between India and Japan.

13. NETWORK FOR DEVELOPMENT OF AGRICULTURAL COOPERATIVES IN ASIA AND THE PACIFIC (NEDAC)

- Meeting of General Assembly of Network for Development of Agricultural Cooperatives in Asia

and the Pacific (NEDAC) is being held in New Delhi.

- The general assembly of 22 prominent cooperative organizations from eight countries unanimously decided to focus on C2C and capacity development to meet challenges of climate change as transformative cooperatives.

- **About NEDAC:**

- NEDAC was set up in 1991 by the United Nations' Food and Agriculture Organisation (FAO), the International Cooperative Alliance (ICA) and the International Labour Organisation (ILO).
- NEDAC sensitises Governments in the region on the role of agricultural cooperatives in promoting agricultural and rural development to ensure rural food and livelihood security for millions of people in Asia and Pacific.

14. INDIAN WIND TURBINE CERTIFICATION SCHEME (IWTCS)

- Ministry of New and Renewable Energy, in consultation with National Institute of Wind Energy Chennai, has prepared a draft of new Scheme called Indian Wind Turbine Certification Scheme (IWTCS) incorporating various guidelines.
- **About the Indian Wind Turbine Certification Scheme (IWTCS):**
 - The IWTCS is a consolidation of relevant National and International Standards (IS/IEC/IEEE), Technical Regulations and requirements issued by Central Electricity Authority (CEA), guidelines issued by MNRE and

other international guidelines. It also incorporates various best practices from other countries to ensure the quality of the wind energy projects.

- The draft Scheme enlists the guidelines for the benefit of all the stakeholders from concept to lifetime of wind turbine, including Indian Type Approved Model (ITAM), Indian Type Certification Scheme (ITCS), Wind Farm Project Certification Scheme (WFPCS) and Wind Turbine Safety & Performance Certification Scheme (WTSPCS).

- The IWTCS is envisaged to assist and facilitate the following stakeholders;

- (i) Original Equipment Manufacturers (OEMs)
- (ii) End Users -Utilities, SNAs, Developers, IPPs, Owners, Authorities, Investors and Insurers
- (iii) Certification Bodies
- (iv) Testing Laboratories.

- **Need for a scheme in this context:**

- Wind sector in India is growing at a rapid pace with increased utilization of wind energy for the power development. The modern wind turbines have higher hub heights, larger rotor diameter, higher capacity and improved Capacity Utilization Factor (CUF) along with technological improvements.

- Under these developments, there is a need for comprehensive document which provides the complete technical requirements which shall have to be complied by the wind turbines for the safe and reliable operation by all the stakeholders viz, OEMs, Independent Power Producers (IPPs), wind farm developers, Financial Institutions, Utilities and others. Also, there is a need for

technical regulations which shall facilitate common ground for OEMs, Developers, Investors and Financial Institution for systematic development.

15. INDIA'S FIRST MULTI-MODAL TERMINAL ON INLAND WATERWAYS IN VARANASI

- Prime Minister Narendra Modi recently inaugurated India's first multi-modal terminal on the Ganga river in Varanasi and received the country's first container cargo transported on inland waterways from Kolkata.

- **Key facts:**

- The first consignment containing food and beverage had set sail from Kolkata in the last week of October.

- This is the first of the four multi-modal terminals being constructed on the National Waterway-1 (river Ganga) as part of the World Bank-aided Jal Marg Vikas project of the Inland Waterways Authority of India.

- Benefits of container movement on inland waterways:

- Container cargo transport comes with several inherent advantages. Even as it reduces the handling cost, allows easier modal shift, reduces pilferages and damage, it also enables cargo owners to reduce their carbon footprints.

About Jal Marg Vikas Project:

- **What is it?** • The Jal Marg Vikas Project seeks to facilitate plying of vessels with capacity of 1,500-2,000 tonnes in the Haldia-Varanasi stretch of the River Ganga. The major works being taken up under JMVP are

development of fairway, Multi-Modal Terminals, strengthening of river navigation system, conservancy works, modern River Information System (RIS), Digital Global Positioning System (DGPS), night navigation facilities, modern methods of channel marking etc.

- **Implementation:** The JMVP, which is expected to be completed by March, 2023, is being implemented with the financial and technical support of the World Bank. The project will enable commercial navigation of vessels with the capacity of 1500-2,000 tons on NW-I.
- **Its objective** is to promote inland waterways as a cheap and environment-friendly means of transportation, especially for cargo movement.
- The Inland Waterways Authority of India (IWAI) is the project **implementing agency**.
- **NW 1:**
 - Ganga-Bhagirathi-Hooghly river system from Allahabad to Haldia was declared as National Waterway No.1. The NW-1 passes through Uttar Pradesh, Bihar, Jharkhand and West Bengal and serves major cities and their industrial hinterlands.

16. CITY GAS DISTRIBUTION (CGD) PROJECTS

- Prime Minister Narendra Modi will lay the foundation stone for City

Gas Distribution (CGD) projects across 129 districts to boost availability of gas supply for half of the country's population in 26 states and Union Territories.

- The projects, recently awarded by the Petroleum and Natural Gas Regulatory Board (PNGRB) would cover 65 Geographical Areas (GAs) under the ninth round of bidding.

- **Significance:**

- Government of India has put thrust to promote the usage of environment friendly clean fuel i.e. natural gas as a fuel/feedstock across the country to move towards a gas-based economy.
- Accordingly, development of CGD networks has been focused to increase the availability of cleaner cooking fuel (i.e. PNG) and transportation fuel (i.e. CNG) to the citizens of the country. The expansion of CGD network will also benefit to industrial and commercial units by ensuring the uninterrupted supply of natural gas.

- **Why Natural Gas?**

- Natural gas is a superior fuel as compared with coal and other liquid fuels being an environment friendly, safer and cheaper fuel. Natural Gas is supplied through pipelines just like one gets water from the tap. There is no need to store cylinders in the kitchen and thus saves space.
- Natural Gas (as CNG) is cheaper by 60% as compared with petrol and 45 % w.r.t. Diesel. Similarly, Natural Gas (as PNG) is cheaper by 40 % as compared with market price LPG and price of PNG almost matches with that of subsidised LPG (based on prices in Delhi).

- **PNGRB:**

- The Petroleum and Natural Gas Regulatory Board (PNGRB) was constituted under The

Petroleum and Natural Gas Regulatory Board Act, 2006.

• The Act provide for the establishment of Petroleum and Natural Gas Regulatory Board to protect the interests of consumers and entities engaged in specified activities relating to petroleum, petroleum products and natural gas and to promote competitive markets and for matters connected therewith or incidental thereto. • The board has also been mandated to regulate the refining, processing, storage, transportation, distribution, marketing and sale of petroleum, petroleum products and natural gas excluding production of crude oil and natural gas so as and to ensure uninterrupted and adequate supply of petroleum, petroleum products and natural gas in all parts of the country.

• **Aims and objectives of National Gas Grid**

- To remove regional imbalance within the country with regard to access of natural gas and provide clean and green fuel throughout the country.
- To connect gas sources to major demand centres and ensure availability of gas to consumers in various sectors.
- Development of City Gas Distribution Networks in various cities for supply of CNG and PNG

• **India's natural gas market**

- Share of natural gas in the country's primary energy mix declined from 10% in 2009 to 7% in 2014 compared with the global average of 24%, mainly due to a sharp drop in domestic supplies.
- India's 39 cubic meters (cm) per capita of natural gas consumption in 2015 lags far behind the world average of 469 cm per capita.
- Sector-wise Gas consumption in India in 2017-18: fertilizer (28%), electric power (23%), refinery

(12%), city gas distribution, including transport (16%), and petrochemical industries (8%).

• India's natural gas demand has been mainly affected by lower availability and price affordability; inadequate transmission and distribution infrastructure; and limited gas import facilities.

17. \$200 MILLION LOAN TO IMPROVE STATE HIGHWAYS IN BIHAR.

- The Asian Development Bank (ADB) and the Government of India signed a \$200 million loan to finance widening and upgrading of about 230 Kilometers State Highways in Bihar to all-weather standards with road safety features.
- **Advantages of improved roads under the Project:**
 - It will contribute to savings in vehicle operating cost and travel time.
 - It will reduce vehicle emissions, and
 - It will improve road safety.
- **Asian Development Bank (ADB):**
 - The Asian Development Bank was conceived in the early 1960s as a financial institution that would be Asian in character and foster economic growth and cooperation in one of the poorest regions in the world.
 - It assists its members, and partners, by providing loans, technical assistance, grants, and equity investments to promote social and economic development.
 - ADB is composed of 67 members, 48 of which are from the Asia and Pacific region.
 - Established on 19 December 1966
 - Headquartered — Manila, Philippines
 - Official United Nations Observer
- **Voting rights**

- It is modelled closely on the World Bank, and has a similar weighted voting system where votes are distributed in proportion with members' capital subscriptions.
- United States > Japan > China > India > Australia

18. CAPITAL CONSERVATION BUFFER (CCB)

- Reserve Bank of India (RBI) decided to extend the deadline for implementing last tranche of an additional 0.625% to be set aside as capital conservation buffer, required under the Basel III norms, by a year (upto March 31, 2020).
- **What is Capital Conservation Buffer (CCB)?**
 - It is the mandatory capital that financial institutions are required to hold above minimum regulatory requirement.
 - According to CCB norms, banks will be required to hold a buffer of 2.5% Risk Weighted Assets (RWAs) in the form of Common Equity, over and above Capital Adequacy Ratio of 9%.
 - CCB currently stands at 1.875% and remaining 0.625% was to be met by March 2019.
 - **Significance of CCB**
 - It is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down, as losses are incurred.
 - Regulations targeting the creation of adequate capital buffers are designed to reduce the procyclical nature of lending by promoting the creation of countercyclical buffers as suggested Basel III norms. During credit expansion, banks have to set aside additional capital, while during the credit contraction, capital requirements can be

loosened. Systematically important banks are subject to higher capital requirements.

- The capital buffers increase the resilience of banks to losses, reduce excessive or underestimated exposures and restrict the distribution of capital. These macro-prudential instruments limit systemic risks in the financial system.

- **Why banks are unable to adhere to CCB norms?**

- Mounting pile of stressed assets has resulted into low credit growth, deterioration in asset quality, low profitability of Indian banks & over-reliance on capital infusion from the Government. In order to protect their margins & first meet the basic capital ratios i.e. CRAR of 9%, banks have slowed down the adoption of CCB Basel III norms.

- **Way Forward:** While relaxation of the buffer norms and capital infusion by the government are welcome steps in the time of exigency, it must be ensured that good money is not thrown after bad money. Improving credit discipline and risk management systems are the need of the hour for public sector banks. The governance issues of the banks and their over-enthusiastic lending in the past needs to be addressed.

- **The government should initiate long pending reforms (recommended by the P.J. Nayak Committee):**

- Cede control of nationalized banks and cut its stake below 51%.
- Form an independent Banking Investment Company (BIC) for corporatized governance of PSBs.

• Performance related pay structure and incentives for upper management functionaries.

• **Capital Adequacy Ratio (CAR)**

• $CAR = (\text{Tier I} + \text{Tier II Capital}) / \text{Risk Weighted Assets}$

• Expressed as a percentage of a bank's risk weighted credit exposures.

• Measure of bank's financial strength to ensure that banks have enough cushions to absorb losses before becoming insolvent and losing depositors' funds.

• CAR is required to be 9% by RBI (based on BASEL III norms), where 7% has to be met by Tier 1 capital while the remaining 2% by Tier 2 capital.

Provisioning requirement

• Setting aside a portion of profits, in proportion of risk weighed loans given, to compensate a probable loss due to incomplete loan recovery is called provisioning.

• Like CCB & CAR requirements, provisioning is one of the contingency measures to contain risk.

• Different types of assets have different risk profiles e.g. Government debt has 0% risk weight

• A high-risk weight discourages lending by increasing the capital requirement for lenders.

About BASEL norms

• Basel Committee on Banking Supervision is an international committee formed in 1974 to develop standards for banking regulation.

• It consists of central bankers from 27 countries and the European Union. It is headquartered in the office of Bank for International Settlements (BIS) in Basel, Switzerland.

• It developed a series of policy recommendations known as Basel Accords, which suggested minimum capital requirements to keep bank solvent during the times of financial stress.

• **Types of Bank Capital**

• **Tier I capital (Core Capital):** It consists of money kept as Statutory Liquidity Ratio (SLR), in physical cash form & as share capital and secured loans. At least 6% of CAR must come from Tier 1 capital. This capital can absorb losses without bank ceasing its trading operations.

• **Tier II capital (supplementary capital):** It includes after tax income, retail earnings of the bank, capital in the form of bonds/hybrid instruments & unsecured loans (getting serviced).

• **Tier III capital:** Includes Non-Performing Assets (NPAs), subordinated loans (not getting serviced) & undisclosed reserves from the balance sheet.

19. NON-BANKING

FINANCIAL

COMPANIES (NBFCs)

- The RBI recently allowed banks to provide partial credit enhancement (PCE) to bonds issued by systemically important non-deposit taking NBFCs registered with the RBI and Housing Finance Companies (HFCs) registered with the National Housing Bank.
- Credit enhancement means improving the credit rating of a corporate bond. For example, if a bond is rated BBB, credit enhancement, which is basically an assurance of repayment by another entity, can improve the rating to AA. This is done to provide an additional source of assurance or guarantee to service the bond.
- The move comes at a time when NBFCs and HFCs have requested the government and regulators to

ensure that confidence returns to the market.

- **Current problems with NBFCs**

- Multiple regulatory bodies: RBI doesn't regulate all the NBFC. Other institutions such as NHB (National Housing Bank), SEBI, Insurance Regulatory and Development Authority (IRDAI), etc. are also involved depending on the type of NBFC.

- Difficulties in access to credit

- o There is a reversal of interest rate cycle as interest rates are now going up both domestically and also in the international market. The RBI has steadily hiked interest rates in the recent months.

- o Another fundamental issue is the asset-liability mismatch in the operations of NBFCs as these firms borrow funds from the market — say for 3 or 5 years — and lend for longer tenures — 10 to 15 years. It has led to a situation where the NBFCs are facing a severe liquidity crunch in the short term.

- o the mutual fund is among the biggest fund provider to NBFCs via commercial papers and debentures. These investors are getting reluctant to lend post the IL&FS crisis.

- **Riskier Lending Pattern:**

- o Unlike banks, NBFCs are less cautious while lending. For example, NBFCs have grown their portfolio of small and micro loans in a big way where there are risks of lack of credit history, scale and historically high NPAs.

- o the unsecured loan segment is also on the rise in the NBFC segment.

- Cascading effect of Infrastructure Leasing and Financial Services (IL&FS) default: Default followed by downgrade of IL&FS recently has created a liquidity squeeze for the entire non-banking financial company (NBFC) sector.

- Delayed Projects: Many infrastructural projects financed by NBFCs are stalled due to various reasons like delayed statutory approvals, problems of land acquisition, environmental clearance, etc. which has impacted their financial health.

- **Way Forward for NBFC sector**

- Better Regulatory Regime: The Financial Sector Legislative Reform Commission (FSLRC) recommendation of creating a body with powers to monitor risk-cutting across sectors should be implemented.

- Timely Project clearances: Ensuring timely clearances, especially to infrastructural projects is a must to minimise cost inflation of these projects. Expanding the "Plug and Play" approach to other sectors can be a possible solution.

- **Recent Steps Taken**

- **For IL&FS crisis:**

- o Change in Management: The board of IL&FS was superseded with six new directors after the government moved a petition in the NCLT (National Company Law Tribunal) to remove the previous board of directors.

- o Investigation: Government has also ordered Serious Fraud Investigation Office (SFIO) to investigate into the crisis.

- **For enhancing Liquidity**

- o Relaxation of the Liquidity Coverage Ratio by 2%: It means that banks now have an additional 2% of their deposit base freed up for lending

- o Open Market Operations: The RBI later also enhanced liquidity into the system by purchasing government bonds from the market.
- o Relaxing Asset Securitisation Norms: The RBI has allowed NBFCs to sell or securitise their loan of more than five-year maturity after holding those for six months (Earlier they had to hold these assets for at least one year to do so).

- **About NBFCs**

• **Definition:** A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business.

• It **does not include** any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

• **Systemically important NBFCs:** NBFCs whose asset size is of ₹ 500 cr or more are considered as systemically important NBFCs. Example. Power Finance Corporation Limited (PFCL), Rural Electrification Corporation Limited (RECL), IL&FS, etc.

• **Difference between banks & NBFCs:**

o NBFCs cannot accept demand deposits (but some can accept Time deposit and such NBFCs are called Deposit taking NBFC).

o Unlike banks, CRR does not apply on any NBFCs while a lower SLR of 15% applies only to Deposit taking NBFC.

o NBFC do not form part of the payment and settlement system and cannot issue cheques drawn on itself.

o NBFCs get license under Companies Act, 1956 and Banks under Banking regulation Act.

o Deposit insurance facility is not available to depositors of NBFCs

20. HUMAN CAPITAL INDEX

- Recently, first Human Capital Index (HCI) was released by World Bank.

• About HCI

• The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.

• HCI is part of the World Development Report (WDR). As part of this report, the World Bank has launched a Human Capital Project (HCP).

• Human Capital Project (HCP): A program of advocacy, measurement, and analytical work to raise awareness and increase demand for interventions to build human capital. The HCP has three components:

o Cross-country metric—the Human Capital Index (HCI).

o Program of measurement and research to inform policy action.

o Program of support for country strategies to accelerate investment in human capital.

21. CREDIT RATING AGENCIES

• SEBI has tightened disclosure norms for credit rating agencies (CRAs) after they failed to warn investors on time about the deteriorating credit profile of Infrastructure Leasing and Financial Services Ltd (IL&FS) which underwent a crisis recently.

• The rating agencies will now need to disclose the liquidity position of the company being rated and also check for asset-liability mismatch. This would lead to timely availability of information about the company. This would include parameters such as: Liquid investments or cash balances,

Liquidity coverage ratio, Access to unutilized credit lines and adequacy of cash flows for servicing debt obligation.

- CRAs would also need to disclose the source and rationale if the company is expecting additional funds to deal with its debt.
- In order to promote transparency and to enable the market to best judge the performance of the ratings, the CRA should publish information about the historical average rating transition rates across various rating categories, so that investors can understand the historical performance of the ratings assigned by the CRAs. The transition rate indicates the number of instances when credit ratings have changed over a specified period.

- **Issues with Credit Rating Agencies**

- **Conflict of interest:** The CRA Regulations in India currently recognise only the issuer-pays model, under which, the rating agencies charge issuers of bond and debt instruments a fee for providing a ratings opinion. Thus, this model has an inbuilt conflict of interest.
 - o Another example of conflict of interest is non-rating services such as risk consulting, funds research and advisory services given to issuers for which ratings have been provided.
- **Rating shopping:** It is the practice of an issuer choosing the rating agency that will either assign the highest rating or that has the laxest criteria for achieving a desired rating. Hence, the system does

not permit publishing a rating without the issuer's consent.

- **Less competition:** Credit-rating market in India is oligopolistic, with high barriers to entry. Lack of competition in the market enables CRAs to have longer, well- established relationships with the issuers which can hamper their independence.
- **Poor Rating Quality:** Often ratings are provided on limited information. For e.g. If the issuer decides not to answer some determinant questions, the rating may be principally based on public information. Many rating agencies don't have enough manpower which often leads to poor quality.
- **Independence of the ratings committee:** Over the years, the membership of the ratings committee has shifted from external experts to employees of the ratings agency which has raised concerns about their independence.

- **Suggestions for addressing these challenges**

- **Removal of conflict of Interest:** Moving back to the earlier "subscriber pays" model in which investors pay for the ratings can be a possible approach.
- **More Players:** Rules should be made easier for new players to enter the credit rating space and compete against them.
- **Improve Quality of Ratings:**
 - o SEBI must also assess the predictive ability of the current rating models followed by the agencies. There is a need to invest in high-tech predictive modelling techniques.
 - o Increased remuneration for manpower to attract the best talent must be ensured.
- **Cursory disclosure of all ratings:** CRAs can be asked to provide briefly in their press release to the ratings given by other CRAs to the same

borrower. This can help in discouraging “rating shopping”.

- Legal protection for CRAs: There are instances of Indian CRAs being sued by the company it rates, in a bid to prevent the rating downgrade. The regulator should consider framing laws that allow CRAs to express their rating opinion without fear of being sued.

- Awareness among Investors: Investors should be made aware about the rating process and be asked to conduct a review by themselves too and stop relying solely on the ratings.

- Rotation of rating agencies: SEBI can also explore the possibility of a mandatory rotation of rating agencies by the debt issuers (like corporations are required to change their auditors periodically under the Companies Act, 2013).

- **Credit rating agencies in India:**

- The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 empower SEBI to regulate CRAs operating in India.

- All the credit agencies need to be registered with SEBI in order to operate in India.

- There are seven Credit Rating Agencies registered with SEBI, viz. CRISIL, ICRA, CARE, India Ratings and Research, SMERA, Infomercials and Brickworks.

- **Importance of CRAs**

- They provide retail and institutional investors with information that assists them in determining if debtor will be able to meet their obligations.

- They help investors, customers etc. to get an overall idea of the strength and stability of an organization and enable them to make informed decisions.

- These agencies also help build trust between the investors and the governments by quantifying the level of risk associated with investing in a

particular country. For example-Sovereign credit ratings are given to the national governments which highlight a country's economic and political environment.

- CRAs help strengthening of secondary market by increasing borrower pool.

- Credit ratings ensure a discipline amongst corporate borrowers due to because of this desire to have a good image.

22. NATIONAL FINANCIAL REPORTING AUTHORITY

- Recently, government notified the rules determining the jurisdiction, powers, and functions of the National Financial Reporting Authority (NFRA).

- **Why the need arises for NFRA?**

- The recent failure of ICAI (Institute of Chartered Accountants of India) to spot corporates fraud, raised the demand for setting up of an independent regulator NFRA.

- NFRA was one of the key changes brought by the Companies Act 2013 but its provisions were not notified for the last five years.

- **About the NFRA Rule 2018**

- It will oversee the auditors of banks, insurers, electricity firms and other entities referred to it by the government.

- NFRA can investigate the auditors of:
 - o Listed entities, unlisted entities with paid-up capital of not less than ₹500 crore or annual turnover of over ₹1,000 crore.
 - o Those having aggregate loans, debentures or deposits of not less than ₹500 crore.

- It enables the NFRA to debar erring auditors or audit firms and it can also refer service of an

auditors to Quality Review Board under Chartered Accountants Act.

- **Significance of NFRA**

- With the constitution of NFRA, India is now eligible to become a member of the International Forum of Independent Audit Regulators (IFIAR).
- This shows a distinct shift from self-regulation to an independent oversight of auditors which is line with international best practices.
- NFRA will strengthen the working mechanism of ICAI because it will provide greater assurance that improper conduct will be punished which would further strengthen the functional credibility of ICAI.
- The rising challenges of technology require single minded attention to skill development, now, ICAI will be able to pay more attention to educating and training current and future members.
- Apart from this, NFRA will have a positive impact on current corporate governance regime in the country.

- **What is NFRA?**

- It is established as an independent regulator to oversee the auditing profession and accounting standards.
- It consists of a Chairperson, three full time members and nine part-time members.
- Chairperson and full-time members would be selected through a search-cum-selection committee headed by Cabinet Secretary.

- **ICAI (Institute of Chartered Accountants of India)**

- It is a statutory body established by an Act of Parliament, viz. The Chartered Accountants Act, 1949.
- It functions under the administrative control of the Ministry of Corporate Affairs.

- It conducts CA exams, registers qualified CAs, issues certificates of practice etc.
- It investigates the auditors (Chartered Accountants) of small listed companies (other than entities notified under NFRA rule 2018)
- It will provide recommendation to NFRA. International Forum of Independent Audit Regulators (IFIAR)
- It is an independent audit regulator from 52 jurisdictions representing Africa, North America, South America, Asia, Oceania, and Europe.
- Its aim is to serve the public interest and to enhance investor protection by improving audit quality globally.
- It shares knowledge of the evolving audit environment and the practical experience of independent audit regulatory activity.

23. ADVANCED MOTOR FUELS TECHNOLOGY COLLABORATION PROGRAMME (AMF-TCP)

- Recently, Cabinet was apprised that India is joining Advanced Motor Fuels Technology Collaboration Programme as a member.
- **About AMF TCP**
 - It is one of the International Energy Agency's (IEA) transportation related Technology Collaboration Programme.
 - Its vision is to establish a sustainable transportation system that uses advanced, alternative, and renewable fuels, has reduced emissions and meets needs for personal and goods mobility on a local and global scale.
 - It will help Ministry of Petroleum & Natural Gas to get sound scientific information and technology assessments to make informed decision making about using advanced fuels.

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- Under this, the R&D work is carried out within individual projects called "Annex" which enable members to cooperate in groups that share common interests.
- Other member countries of AMF TCP are USA, China, Japan, Canada, Chile, Israel, Thailand, Republic of Korea etc.

- **About IEA**

- It is an autonomous body within the Organization for Economic Co-operation and Development (OECD) framework established in the wake of 1973 oil crisis.
- It works to ensure reliable, affordable & clean energy for its member countries and beyond.
- Its four main areas of focus are energy security, economic development, environmental awareness, and engagement worldwide.
- An IEA Member country must be a member country of the OECD, but not all OECD members are members of the IEA.
- Apart from 30 members, it has 8 association members including India.
- Requirement for membership:
 - o Crude oil reserves equivalent to 90 days of the previous year's net imports.
 - o A demand restraint program to reduce national oil consumption by up to 10%.
 - o A national plan for Coordinated Emergency Response Measures.
 - o Ensure all oil companies under its jurisdiction report information upon request.
 - o Capability of contributing its share of an IEA collective action.

24. PETROLEUM, CHEMICALS AND PETROCHEMICAL INVESTMENT REGION

- Recently Minister of State for Chemicals & Fertilizers informed

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that Petroleum, Chemicals and Petrochemical Investment Regions (PCPIRs) in India has registered good progress in attracting Investments for Industrial Development and generating employment

- **About PCPIRs**

- PCPIR is based on cluster-based development model for setting up manufacturing facilities for both domestic consumption and exports in Petroleum, Chemicals and Petrochemicals.
- The cluster is combination of production units, logistics handling, environmental protection mechanism and social infrastructure.
- It includes Special Economic Zones, Free Trade Zones Warehousing Zones etc.
- Connectivity to the region is provided by state and central governments through Rail, Road, Ports, Airports and Telecom. The state government will also be responsible for providing facilities of water, road connectivity (state roads), Waste Treatments linkages etc.
- PCPIRs will ensure developing economy of scale in petrochemical sector due to the use of common infrastructure, support services and R&D facilities.
- Chemical and Petrochemical industries generate concerns over environmental degradation. However, PCPIRs follow a robust Environmental Impact Assessment (EIA) mechanism.

25. SEZ POLICY REPORT

- The **Baba Kalyani committee** constituted by the Ministry of Commerce & Industry to study the existing SEZ policy of India submitted its report to the government.

• Performance of SEZ

- As on 31st March, 2018, there were a total of 223 Operational SEZs against 355 notified SEZs in the country.
- Total Investment in SEZs (as on 31st March, 2018) amounted 4.75 lakh crore and it has generated close to 20 lakh jobs.
- Exports from SEZs amounted nearly 5.81 lakh crore in 2017-18, which is higher from 5.23 lakh crore in 2016-17 and 4.67 lakh crore in 2015-16.

• Major Challenges and Solutions

- Unutilised land (more than 25,000 hectares) in SEZs which is due to lack of flexibility to utilise land in SEZs for different sectors. The solution to this challenge is “Optimal utilisation of vacant land in SEZ by allowing flexibility of land use and removing sector specific constraints.”
- Existence of multiple models of economic zones such as SEZ, coastal economic zone, Delhi-Mumbai Industrial Corridor, National Investment and Manufacturing Zone, food park and textile park.
 - o Solution: The group of secretaries of various central government’s departments have recommended “rationalisation” of these models. Moreover, the Department of Industrial Policy and Promotion (DIPP) and the Niti Aayog is going to “develop and master plan for industrial clusters” in order to deal with this challenge.
- Under-utilisation of existing capacity. Currently, SEZ units are not allowed to do “job work” for domestic tariff area (DTA) units. Any area that lies outside of SEZ or any other custom bonded zone in India is known as the DTA. Goods and services going into the SEZ from DTA is treated as exports and goods coming from the SEZ into DTA is treated as imports. It is recommended that “optimal utilisation of existing capacity in SEZ

units” should be done by “allowing job work for DTA”.

- Domestic sales of SEZs face a disadvantage as “they have to pay full customs duty”, as compared to the lower rates with the Association of Southeast Asian Nations (ASEAN) countries due to free-trade agreement (FTA). It is suggested that the “best FTA rates” should be allowed for domestic sales, too.
- Imposition of Minimum Alternate Tax (MAT) on SEZs from April 1, 2012, as well as imposition of income tax on new SEZs and new units from April 1, 2017 and April 1, 2020, respectively. The experts advocated restoration of income tax benefit as well as MAT exemption. Also, there is a need to align changed taxation regime under GST to the SEZ Rules.
- Another challenge has been the “requirement of payment in foreign exchange for services provided by SEZ units to DTA area”. To deal with this problem, it has been suggested an amendment in the definition of “services” in the SEZ Act, 2005.
- Lack of support from the state government when it comes to developing effective single-window system for clearances.
- Other issues: There are other demands of the business and industrial community. These include- grant infrastructure status to buildings of SEZs and industrial parks, permit external commercial borrowing (ECB) for entire SEZ infrastructure, allow a refinancing option through ECB; relax the “risk weightage norms” for the real estate sector.
 - o Moreover, simplification of the process of granting environment clearance by the Union environment ministry and repeal of certain sections of the Urban Land Ceiling Act, 2007 is also demanded.

o The Commerce ministry has been consistently lobbying with the finance ministry to exempt units in the SEZs from the minimum alternate tax, or MAT, imposed on them in 2011.

• Some of the incentives offered under the SEZ policy have been challenged at the WTO by the US and may need to be replaced by other sops.

• Recommendations of the Committee

• Reincarnation of SEZs as employment and Economic Enclaves (3Es): The main focus of the recommendations of the SEZ committee is on migration from export focus to economic and employment growth focus. For this to be achieved, incentives for the manufacturing SEZs have to be based on specific parameters including demand, investment, employment and technology, value addition and inclusivity.

• Other supports for SEZ(3Es)

o Flexibility to enable 3E units to seamlessly support business outside the zone.

o Supply of power directly to units from independent power producer (IPPs) at competitive rates to ensure uninterrupted power supply.

o Fast tracking various approvals through online application process

o Integrating MSMEs with the 3Es and giving additional incentives to zones focusing on priority industries

o Infrastructure status to 3E projects to make cheaper finance available to them

• Connectivity to remote SEZs: Development of last mile and first mile connectivity infrastructure by government should be provided for land parcels which are far from highways and urban agglomerations.

• Replicate Success of ITeS: The success seen by services sector like IT and ITeS has to be promoted in other services sector like health care,

financial services, legal, repair and design services.

• Tax benefits: For services SEZs, tax benefits must be retained including extension of sunset clause, lowering taxes (such as a MAT of 9 per cent and exemption from DDT) for identified strategic services and allowing supplies to domestic market in Indian currency to bring parity between goods and services.

• Ease of doing business: The committee has advocated simpler entry and exit processes using time-bound online approval and dispute resolution through robust arbitration and commercial courts.

• In line with WTO norms and the GST, the Committee recommended to prepare a sunrise list for “focused diversification” such as engineering and design, biotech and healthcare services.

• Align the policy framework to avoid competition among similar schemes of industrial parks, export oriented units, SEZ, national investment and manufacturing zones and sectoral parks and provide ease of doing business to developers and tenants.

• Why China succeeded but India's SEZ had limited success?

There are eight distinguishing features which have contributed to the success of SEZs in China: Unique location, large size, investment friendly attitudes towards non-resident Chinese, attractive incentive packages, liberal Custom procedures, flexible labour laws, a strong domestic market and decentralisation of power in favour of provinces and local authorities for administering the zones.

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• Chinese SEZs had a geographic advantage with most of the SEZs located near the ports unlike the Indian SEZ's that are more in the mainland. Of the five SEZs, Shenzhen, Shantou and Zhuhai are in the Guangdong province, adjacent to Hong Kong — the gateway to China.

• Size is another important factor for SEZ success in China. Each SEZ is well over 1,000 hectares, the minimum recommended area. In India, the EPZs converted into SEZs are not even a third of this.

• Strong domestic market is another important aspect for SEZ success unlike India where Policy impediments to sales in the domestic market hamper large domestic market potential.

• While in China the thrust of SEZs has been to attract foreign investments and modern technology, in India the emphasis has been on exports.

• Decentralisation of power was also a major reason for SEZ success in China. Provincial and local authorities were made partners and stakeholders, by delegating to them powers to approve foreign investment.

• The hire-and-fire policy in SEZs has been one of the biggest attractions for foreign investors in China. All jobs are on labour contract basis, which stand terminated upon the expiry of the terms, which can be fixed/flexible or for a specific job. In contrast, the labour policy in India is worker, rather than investment, oriented.

- **Special Economic Zone (SEZ)** is a specifically delineated duty-free enclave and deemed to be foreign territory for the purposes of trade operations and duties and tariffs. India's SEZ Policy was implemented from 1 April, 2000. Subsequently the Special

Economic Zones Act, 2005 supported by SEZ Rules 2006.

- **The main objectives of the SEZ Act are:**

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment opportunities
- Development of infrastructure facilities

- **The SEZ Rules provide for:**

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ or a unit within it;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self-certification.

- **Approval mechanism and Administrative set up of SEZs:**

The developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. The applicant also has the option to submit the proposal directly to the Board of Approval.

- The Board of Approval chaired by the Secretary, Department of Commerce has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act.

- All the decisions are taken in the Board of Approval by consensus.

26. REVIVAL OF STRESSED THERMAL POWER PLANTS

- An empowered committee headed by cabinet secretary has suggested strong policy measures to revive stressed thermal power plants.
- **Background**
 - Following the Electricity Act which came into force in 2003 there were various developments that encouraged investment in the power sector, out of which 45.48% was installed in private sector. This aggressive capacity addition has led to a widening gap in the overall demand and supply situation.
 - However, an upsurge in demand has been observed, which is growing at more than 6 per cent per year. This is further expected to rise because of various government interventions like Saubhagya, Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS), Power for All, etc.
 - Coal is the single largest source of energy for electricity production since 2, 21,803 MW is installed in thermal (including Coal + Lignite). There are various reasons that have been responsible for stress in some coal-based power plants to serve their debt.
- **Reasons for stress in Power Sector:** The Committee identified following reasons for stress in the power sector-
 - Issues related to coal supply- After the cancellation of 204 coal mines by the Supreme Court in 2014, many of the power projects became stranded without arrangements of adequate fuel supply. In addition, many projects were setup

without firm coal linkages from Coal India Limited (CIL) leading to high cost of generation.

- Slow growth in power demand- Lower than anticipated growth in power demand coupled with a scenario of surplus supply has resulted in under-utilization of thermal power capacity. In addition to this low off-take/ difficulty in selling costlier power are also causing stress in thermal power projects.
- Delayed payments by DISCOM's- Delay in realization of receivables from DISCOMs impairs the ability of project developers to service debt in a timely manner and leads to exhaustion of working capital. In some cases, the DISCOM's have pressed for renegotiating terms of Power Purchase Agreement (PPA). This, coupled with non-payment of penalties / Late Payment Surcharges (LPS) is causing financial stress for such projects.
- Inability of the promoter to infuse equity and service debt- Many projects got delayed due to financial reasons and slow implementation by developers leading to project cost overruns.
- Other Issues include delay in disbursement / non-agreement amongst FIs, Delays in approval of working capital by lenders, Regulatory and contractual disputes, etc.

• Recommendations of the Committee

- Recommendations for Coal Allocation/Supply
 - o Coal linkage for short term PPA: Linkage coal may be allowed to be used against short term PPAs and power be sold through Discovery of Efficient Energy Price (DEEP) portal following a transparent bidding process.
 - o Termination of PPAs: A generator should be able to terminate PPA in case of default in payment from the DISCOM with the facility to use linkage coal for short term PPAs for a period

of maximum of 2 years or until they and another buyer of power under long/medium term PPA, whichever is earlier.

o Procurement by nodal agency: A nodal agency may be designated which may invite bids for procurement of bulk power for medium term for 3 to 5 years in appropriate tranches, against pre-declared linkage by Coal India Limited (CIL).

o PSU as an aggregator of power: National Thermal Power Corporation (NTPC) can act as an aggregator of power, i.e., procure power through transparent competitive bidding process from such stressed power plants and offer that power to the DISCOMs against PPAs of NTPC till such time as NTPC's own concerned plants/units are commissioned.

o E-auction of coal: Ministry of Coal may earmark for power, at least 60 per cent of the e-auction coal, and this should be in addition to the regular coal requirement of the power sector.

o Linkages to be provided at notified prices without bidding: The generator should be required to bid only once, for the procurement of PPA and linkage should be granted at notified price without any further bidding, to the extent of incremental coal production.

- Recommendations to facilitate sale of power of the stressed power plants- Old and high heat rate plants not complying with new environment norms may be considered for retirement in a phased and timebound manner at the same time avoiding any demand/supply mismatch.

- Recommendations on Regulatory & DISCOM payment issues- o Late Payment Surcharge be mandatorily paid in the event of delay in payment by the DISCOM. o PFIs providing the Bill Discounting facility may also be covered by TPA i.e. in case of default by the DISCOM, the RBI

may recover the dues from the account of States and make payment to the PFIs.

- Other recommendations: PPAs, Fuel Supply Agreement and Long-Term Open Access for transmission of power, EC/FC clearances, and all other approvals including water, be kept alive and not cancelled by the respective agencies even if the project is referred to NCLT or is acquired by any other entity.

- **Steps taken by Government to tackle stress in Power Sector**

- Fuel linkages under SHAKTI (Scheme for harnessing & allocating koyla transparently in India).

- Pilot scheme for procurement of 2500 MW power to address the problem of lack of Power Purchase Agreements (PPAs) in the country on competitive basis.

- Rationalization of Coal Escalation Index which will largely take care of the issues of under recovery of the generator's dues.

- Additional cost implication to meet the new environment norms shall be considered for being made pass through in tariff.

- Allowing pass-through of any change in domestic duties, levies, cess, and taxes imposed by the government.

- A new App **PRAAPTI** (Payment Ratification and Analysis in Power Procurement for Bringing Transparency in Invoicing of generators) has been launched to bring more transparency in the payment system by DISCOMs.

- Other steps include DISCOM reforms, Coal linkage rationalization, etc.

27. ENDING APMC MONOPOLY

- Maharashtra became 2nd state after Bihar to end the monopoly of Agricultural Produce Market

Committee (APMC) and allow trade in farm commodities including livestock outside the wholesale markets (mandis).

- **Why do APMCs need reform?**

- **Market Segmentation:** The monopoly of APMCs in agriculture market reduces buyer competition in comparison to integrated markets, as it limits the geographical range of the mandis, number of buyers and sector specialization of buyers. Thus, it limits the income accrued to the farmers
- **High Spatial Price Dispersion:** In India, the ratio of the highest price of a commodity to its lowest price - a measure of price dispersion (Economic Survey 2015-16) - is almost thrice that observed in the US. This indicates that markets are not well integrated and logistics cost is high
- **Cartelization:** Cartelization by traders prevents price discovery mechanisms from functioning in mandis.
- **High Degree of Intermediation:** According to Ashok Dalwai Committee, farmers' share in consumer prices range from 15% to 40% (Ashok Dalwai Committee). Missing credit markets (farmers borrow from intermediaries, conditional to sale of harvest), lack of storage, high transportation & processing costs add to the retail-farmgate wedge. This prevents farmers from realizing higher prices and consumers from buying food at lower prices, lowering overall welfare
- **High License fees + APMC Cess and Taxes:** High commission levied on both farmers and buyers create artificial inflation. Final price to consumer high but benefit does not reach the farmer.
- **Wastage (poor storage and transportation):** APMCs do no value addition in terms of storage and transport facilities leading to high wastage.

Tax money is not utilized properly in creating infrastructure (electronic weighing machines, drying yards, grading & assaying facilities, cold storage etc.) in the mandis

- **Changes Proposed**

- The amendment of the Maharashtra Agricultural Produce Marketing (Development and Regulation) Act, 1963 has deregulated the sale of agri-produce. Thus, first point of sale needn't be an APMC-regulated mandi
- No cess or market fee can be charged on the trades outside the purview of the mandi
- It has also done away with the requirement of separate licenses to trade in different mandis, creating single market in the entire state. This would enable farmers and traders to buy and sell at any mandi without the requirement of the mandatory license.

- **Way Forward**

- **Creating Market Infrastructure:**
 - ☐ Physical integration: Railroad expansion changed the landscape of agricultural markets in US
 - ☐ Digital integration: eNAM (National Agricultural Market). Instead of treating state as single market area, the entire country must be treated as unified market
- **Changing the target market:** Like Maharashtra & Bihar, other states must also modify laws that constrain farmers to sell in local mandis only, especially for perishables. Some complementary measures such as provision of land & financial incentives for private sector-promoted market yards is needed. Farmers can also realize maximum profits by selling the produce directly to food processing units (less rotting & regular supply)
- **Transport and storage infrastructure for perishables:** Currently, only 7000-8000

refrigerated trucks are plying in India, mostly transporting pharmaceuticals & dairy products. Transport of perishable commodities in Reefer trucks & freight subsidy would help in better supply and availability of the produce. At present, India's cold storage capacity is nearly 3.5 cr tonnes, short by 30-40 lakh tonnes, and it needs to be increased

- Establishing Markets of National Importance (MNI): At present, Asia's largest agricultural market at Azadpur, Delhi is the only Market of National Importance (MNI) in the country. More such markets need to be established to boost inter-state trade
- Setting up Farmer Producer Organizations and Cooperatives: It would provide better avenues at collective bargaining to small & marginal farmers. It could also act as a direct marketing channel to supply produce from 'surplus' regions to high demand states
- Restructure Essential Commodities Act: To incentivize corporate companies to invest in trading of agricultural commodities. The exemptions from stockholding limits must be given to exporters, food processors, multiple outlet retailers, large departmental retailers etc.
- Alternative marketing options: such as contract farming, direct marketing through FPOs/cooperatives etc., commodity trading through National Commodity and Derivatives Exchange, e-RaKAM (digital spot trading market), NSEL (where warehouse receipts of commodities are traded) etc.
- Nation-wide Price Dissemination Mechanism: Forward Market Commission (FMC) has set up e-portal AGMARKNET that displays real time wholesale price of agricultural commodities on e-portal connected with APMC markets, Kisan

mandis, Kisan Vikas Kendras (KVKs), State Agricultural Boards etc.

- **About APMCs**

- Presently, the marketing of agricultural commodities is governed by Agricultural Produce Market Committee (APMC) Act enacted by respective State Governments
- The notifies agricultural commodities as well as livestock covered under its ambit
- First sale of crops by farmers - after harvesting - can only take place in APMC authorized mandis (not at the farm gates) through auctions
- Around 6700 principal regulated primary agriculture markets function across the country, each one located at the gap of 462 sq km
- To remove discrepancies in agricultural markets, Central Government proposed Model APMC Act, 2003 and Agricultural Produce and Livestock Marketing (Promotion and Facilitation) Act, 2017

28. BLUE ECONOMY

- Recently Sustainable Blue Economy conference was organized in Nairobi, Kenya.

- **About Blue Economy**

- As per the World Bank, Blue Economy is the sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem.
 - It covers several sectors linked directly or indirectly to the oceans such as fishing, minerals, shipping and port infrastructure, marine biotechnology, marine renewable energy, marine tourism, ocean governance and education.
- Importance of Blue economy
- **Economic:**
 - o Oceans provide 30 percent of oil and gas resources.

o 90% of goods trade takes place through Oceans Sea of Line Communication.

o Ocean contributes \$2.5 trillion to world economy with around 60 million people are employed in fisheries and aquaculture.

o Seabed Mining of polymetallic nodules and polymetallic sulphides to extract nickel, cobalt, manganese and rare earth metals.

• **Environmental:**

o Mangroves and other vegetated ocean habitats sequester 25 percent of the extra CO₂ from fossil fuels, i.e., Blue Carbon.

o Protection of coastal communities from disasters like floods and storms.

o A Sustainable Blue Economy can help to achieve commitments under UN's Sustainable Development Goals 2030, Paris climate agreement 2015 and the UN Ocean Conference 2017.

• **Challenges to Blue Economy**

• Unsustainable development near marine areas: Physical alterations and destruction of marine and coastal habitats & landscapes largely due to coastal development, deforestation, & mining.

o FAO estimates that approximately 57 percent of fish stocks are fully exploited and another 30 percent are over-exploited, depleted, or recovering.

• Marine pollution: It is in the form of excess nutrients from untreated sewerage, agricultural runoff, and marine debris such as plastics. Deep sea mining can cause long term irreversible ecological damage to marine ecosystem.

• Impacts of climate change: Threats of both slow-onset events like sea-level rise and more intense and frequent weather events like cyclones. Long-term climate change impacts on ocean systems like changes in sea temperature, acidity, and major oceanic currents.

• Geopolitical issues: Geopolitical tussle between in various regions like South China Sea, Indian Ocean Region etc. and undermining International Laws like UNCLOS limits the countries from achieving the full potential of Blue Economy.

• Unfair trade practices: Many times, fishing agreements allow access to an EEZ of country to foreign operators. These operators restrict transfer of specific fishing knowledge to national stakeholders leading to low appropriation of fisheries export revenues by national operators. So, the potential for national exploitation of those resources is reduced in the long run.

• Other non-conventional threats: Defense and security related threats like piracy and terrorism combined with natural disasters (Small Island Developing States are particularly vulnerable).

• **Way Forward**

• National investments must be complemented by regional and global cooperation around shared priorities and objectives. Instruments like blue bonds, insurance etc. can be explored.

• Use of science, data, and technology for governance reforms to ensure long-term change.

• Capacity development of coastal communities in form of training and skill development in sustainable use of ocean resources, modern fishing techniques and coastal tourism

• Anticipating and adapting to the impacts of climate change is an essential component of a blue economy approach.

• The effective implementation of the UNCLOS is a necessary aspect of promoting the blue economy concept worldwide. That convention sets out the legal framework within which all activities in the oceans and seas must be carried out, including the conservation and sustainable use of the oceans and their resources.

• Sustainable Blue Economy Conference

- It's the **first global conference** on the sustainable blue economy.
- It was convened by Kenya and co-hosted Canada and Japan.

- **India as a Blue Economy** India is trying to achieve the potential of Blue Economy by promoting the spirit of 'SAGAR-Security and Growth for All in the Region' in Indian Ocean Region.

• Some initiatives by India are:

- **Sagarmala Project:** Sagarmala initiative focus on three pillars of development

- o Supporting and enabling Port-led Development through appropriate policy and institutional interventions.

- o Port Infrastructure Enhancement, including modernization and setting up of new ports.

- o Efficient Evacuation to and from hinterland by developing new lines/linkages for transport (including roads, rail, inland waterways and coastal routes).

- **Coastal Economic Zones:** 14 CEZs are being developed under Sagarmala initiative covering all the Maritime States.

- o CEZs are spatial economic regions comprising of a group of coastal districts or districts with a strong linkage to the ports in that region.

- o CEZ will help to tap synergies of planned economic corridors.

- **Resource exploration:** India in recent times has shifted its focus towards Indian Ocean resource exploration. E.g. India has explored 75000 sq km of Indian Ocean Seabed and is developing technologies (like remotely operated vehicles) for mining the resources

- **International relations and security:** India is cooperating with Indian Ocean littoral countries and projecting itself as 'net security provider' to ensure a safe, secure and stable Indian Ocean Region (IOR). India is also cooperating with extra regional powers like US, Japan in IOR. E.g. Asia-Africa growth corridor, QUAD etc.

29. LEGAL ENTITY IDENTIFIER

- Reserve Bank of India has made Legal Entity Identifier (LEI) code mandatory for all market participants, other than individuals.

• What is LEI?

- It is a 20-character global reference number conceived by G20 that uniquely identifies every legal entity or structure that is party to a financial transaction, in any jurisdiction.

- Internationally LEI is implemented and maintained by Global Legal Entity Identifier Foundation through Local Operation Units (LOU) established by each country independently and voluntarily. • LEI information is publicly available free of charge and It is reviewed, updated and validated annually by LOUs.

- In India entities can obtain LEI from Legal Entity Identifier India Ltd (LEIL) (only LOU of India), subsidiary of The Clearing Corporation of India Ltd, recognized by RBI under Payment and Settlement Systems Act, 2007.

• Need and benefits of LEI in India:

- **Monitoring debt:** Banks are now required to acquire LEI number from the borrower and report it to Central Repository of Information on Large Credit. A consolidated data under LEI mechanism will help banks to monitor debt exposure of corporate borrowers and also prevent multiple

loans against the same collateral, thus helping reduce NPAs

- Money Laundering: Global financial transactions are difficult to track. However, LEI being a unique global identifier, making it mandatory for all transactions regulated by RBI will help identifying the entity party to the transaction easily and accurately.
- Tool for RBI: To gain better insight into corporate actions (particularly M&A activity).
- Other benefits: LEI will improve internal data flow and risk monitoring processes and allow the industry to meet regulatory reporting requirements while minimizing costs.

- **Global Legal Entity Identifier Foundation:**

- It is a not-for-profit organization established by the Financial Stability Board in June 2014.
- It is overseen by the LEI Regulatory Oversight Committee, representing public authorities from around the globe.
- It publishes Global LEI Index.

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