INSIGHTSIAS

SIMPLIFYING IAS EXAM PREPARATION

INSTA PT 2021 EXCLUSIVE

ECONOMY

JUNE 2020 – JANUARY 2021

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Schemes / Government Initiatives

1. Faceless tax scheme

In the Union Budget 2019, the Finance Minister proposed the introduction of a scheme of faceless e-assessment.

- The faceless assessment of tax will **'honour honest income tax payers in the country'.**
- All income tax appeals, ranging from e-allocation of appeals, to e-communication of notices, e-verification, e-enquiry and e-hearing will take place online.
- It is an attempt to remove individual tax officials' discretion and potential harassment for income tax payers.
- The scheme allows for appropriate cases where a certain hearing is necessary, so then after following protocols, a hearing is given.
- The main objective is to **remove physical interaction as much as possible.**
- The **National e-Assessment Center** in Delhi will be governing authority for all communication with taxpayers under the faceless assessment scheme.

2. New Industrial Development Scheme for Jammu & Kashmir (J&K IDS, 2021)

Government of India has formulated New Industrial Development Scheme for Jammu & Kashmir (J&K IDS, 2021) for the development of Industries in the UT of Jammu & Kashmir.

About the scheme:

J&K IDS, 2021 is a **Central Sector Scheme**. The scheme aims to take industrial development to the block level in UT of J&K, **which is first time in any Industrial Incentive Scheme of the Government of India.**

- The financial outlay of the proposed scheme is Rs.28400 crore for the **scheme period 2020-21 to 2036-37.**
- Scheme while encouraging new investment, also **nurtures the existing industries in J&K** by providing them working capital support at the rate of 5% for 5 years.

Objective:

Main purpose of the scheme is to generate employment which directly leads to the socio-economic development of the region.

- It **aims at** development of Manufacturing as well as Service Sector Units in J&K.

Key Features of the Scheme:

- Scheme is made **attractive for both smaller and larger units.**
- It attempts for a **more sustained and balanced industrial growth in the entire UT.**
- Scheme has been simplified **on the lines of ease of doing business** by bringing one major incentive- GST Linked Incentive- that will ensure less compliance burden without compromising on transparency.
- **It is not a reimbursement or refund of GST** but gross GST is used to measure eligibility for industrial incentive to offset the disadvantages that the UT of J&K face.

3. Insolvency and Bankruptcy Code (IBC)

What is insolvency and bankruptcy?

Insolvency is a situation where individuals or companies are unable to repay their outstanding debt.

Bankruptcy is a situation whereby a court of competent jurisdiction has declared a person or other entity insolvent, having passed appropriate orders to resolve it and protect the rights of the creditors. It is a legal declaration of one's inability to pay off debts.

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About the IBC:
The Insolvency and Bankruptcy Code, 2016 (IBC) is the bankruptcy law of India which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy.

Insolvency Resolution: The Code outlines **separate insolvency resolution processes for individuals, companies and partnership firms.**
For companies, the process will have to be completed in 180 days, which may be extended by 90 days, if a majority of the creditors agree. For start-ups (other than partnership firms), small companies and other companies (with asset less than Rs. 1 crore), resolution process would be completed within 90 days of initiation of request which may be extended by 45 days.

The Insolvency and Bankruptcy Code (Amendment) Act, 2019 has increased the mandatory upper Time limit of 330 days including time spent in legal process to complete resolution process.

Insolvency regulator: The Code establishes the **Insolvency and Bankruptcy Board of India**, to oversee the insolvency proceedings in the country and regulate the entities registered under it. The Board will have 10 members, including representatives from the Ministries of Finance and Law, and the Reserve Bank of India.

Insolvency professionals: The insolvency process will be managed by licensed professionals. These professionals will also control the assets of the debtor during the insolvency process.

Bankruptcy and Insolvency Adjudicator: The Code proposes two separate tribunals to oversee the process of insolvency resolution, for individuals and companies: (i) the **National Company Law Tribunal** for Companies and Limited Liability Partnership firms; and (ii) the **Debt Recovery Tribunal** for individuals and partnerships.

4. Section 32A of Insolvency and Bankruptcy Code (IBC)
SC has upheld section 32A of Insolvency and Bankruptcy Code (IBC).

What is Section 32A?
- Section 32A provides that Corporate Debtor shall not be prosecuted for an offence committed prior to commencement of Corporate Insolvency Resolution Process (CIRP) once Resolution Plan has been approved by Adjudicating Authority (AA).
- The section further provides that no action shall be taken against property of Corporate Debtor covered under such a Resolution Plan.

What did the Supreme Court say in its judgment?
In its judgment, the apex court, while upholding the validity of Section 32 A of IBC, said
- It was important for the IBC to attract bidders who would offer reasonable and fair value for the corporate debtor to ensure the timely completion of corporate insolvency resolution process (CIRP).
- Such bidders must also be granted protection from any misdeeds of the past since they had nothing to do with it.
- Such protection must also extend to the assets of a corporate debtor, which form a crucial attraction for potential bidders and helps them in assessing and placing a fair bid for the company, which, in turn, will help banks clean up their books of bad loans.

5. Pre-packs under Insolvency regime
The Ministry of Corporate Affairs (MCA) has set up **a committee** to look into the possibility of including what are called **"pre-packs" under the current insolvency regime** to offer faster insolvency resolution under **the Insolvency and Bankruptcy Code (IBC).**

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So, what is a pre-pack?

Also called as a **pre-packaged insolvency,** It is **an agreement for the resolution of the debt of a distressed company.**

- It is done through **an agreement between secured creditors and investors** instead of a public bidding process.
- The process **needs to be completed within 90 days** so that all stakeholders retain faith in the system.

Benefits of a pre-pack:

1. **Faster**: This process would likely be completed much faster than the traditional **Corporate Insolvency Resolution Process (CIRP)** which requires that the creditors of the distressed company allow for an open auction for qualified investors to bid for the distressed company.
2. It would act as an important **alternative resolution mechanism to the CIRP** and would help **lower the burden on the National Company Law Tribunal (NCLT).**
3. In the case of pre-packs, **the incumbent management retains control of the company until a final agreement is reached.** This is necessary because **Transfer of control from the incumbent management to an insolvency professional as is the case in the CIRP** leads to disruptions in the business and loss of some high-quality human resources and asset value.
4. Also, a financially distressed company **can continue its operations during the period** leading to a formal default, and even thereafter, without the resultant reputational risks, business disruptions, or value erosion.

What are some of the drawbacks of pre-pack?

Reduced transparency compared to the CIRP as financial creditors would reach an agreement with a potential investor privately and not through an open bidding process.

- This could lead to **stakeholders such as operational creditors raising issues of fair treatment when financial creditors reach agreements** to reduce the liabilities of the distressed company.

Unlike in the case of **a full-fledged CIRP which allows for price discovery,** in the case of a pre-pack the NCLT would only be able to evaluate a resolution plan based on submissions by the creditors and the investor.

Do we need pre-packs?

Yes. It is because **slow progress in the resolution of distressed companies** has been one of the key issues raised by creditors regarding **the CIRP** under the IBC.

6. Atmanirbhar Bharat Rojgar Yojana (ABRY)

Atmanirbhar Bharat Rojgar Yojana (ABRY) aims to boost employment in formal sector and incentivize creation of new employment opportunities during the Covid recovery phase under **Atmanirbhar Bharat Package 3.0.**

About the Atmanirbhar Bharat Rojgar Yojana (ABRY):

- Under this, **Government of India will provide subsidy for two years** in respect of new employees engaged on or after 1st October, 2020 and up to 30th June, 2021.
- Government will pay both 12% employees' contribution and 12% employers' contribution i.e. 24% of wages towards EPF in respect of new employees in establishments employing upto 1000 employees for two years.
- Government will pay only employees' share of EPF contribution i.e. 12% of wages in respect of new employees in establishments employing more than 1000 employee for two years.

Eligibility:

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- An employee drawing monthly wage of less than Rs. 15000/- who was not working in any establishment registered with the Employees' Provident Fund Organisation (EPFO) before 1st October, 2020 and did not have a Universal Account Number or EPF Member account number prior to 1st October 2020 will be eligible for the benefit.
- Any EPF member possessing Universal Account Number (UAN) drawing monthly wage of less than Rs 15000 who made exit from employment during Covid pandemic from March 1, 2020, to September 30, 2020, and did not join employment in any EPF covered establishment up to September 30 will also be eligible to avail benefit.

7. Code on Wages Act

- Representatives of industry bodies, had requested the Labour Ministry to hold back implementation of **new definition of wages,** which would **increase social security deductions and reduce the take-home pay of workers.**
- The new definition of wages is part of **the Code on Wages, 2019** passed by Parliament. The new definition would result in a major cut in take-home salaries and also place a burden on employers.

About the Code on Wages Act:
The code will amalgamate the Payment of Wages Act, 1936, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965, and the Equal Remuneration Act, 1976.

- The wage code **universalises the provisions of minimum wages and timely payment of wages to all employees,** irrespective of the sector and wage ceiling.
- It ensures **the "right to sustenance"** for every worker and intends to increase the legislative protection of minimum wage from existing about 40% to 100% workforce.
- It also introduces the concept of **statutory floor wage** which will be computed based on minimum living conditions and extended qualitative living conditions across the country for all workers.
- While fixing the minimum rate of wages, the central government shall divide the concerned geographical area into **three categories – metropolitan area, non-metropolitan area and the rural area.**
- **Wages include** salary, allowance, or any other component expressed in monetary terms. This does not include bonus payable to employees or any travelling allowance, among others.
- The **minimum wages decided by the central or state governments must be higher than the floor wage.**
- **Payment of wages:** Wages will be paid in (i) coins, (ii) currency notes, (iii) by cheque, (iv) by crediting to the bank account, or (v) through electronic mode. The wage period will be fixed by the employer as either: (i) daily, (ii) weekly, (iii) fortnightly, or (iv) monthly.

8. Make in India policy

The Ministry of Railways had written to the Department for Promotion of Industry & Internal Trade (DPIIT) seeking **exemption for procuring certain medical items manufactured outside India,** particularly medicines used in the treatment of COVID-19 and cancer.

What's the issue?
In the existing **'Make in India' policy,** there is no window available to procure such items from the suppliers who may not meet **the Local Content Criteria required for Class-I and Class-II Local Supplier category.**

1. Class-I is a local supplier or service provider whose goods, services or works offered for procurement have local content equal to or more than 50%.
2. Class-II is a supplier or service provider whose goods, services or works offered for procurement have local content of more than 20% but less than 50%.

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Only these two categories of suppliers shall be eligible to bid in the procurement of all goods, services or works and with estimated value of purchases of less than ₹200 crore.

About 'Make in India' Policy:
On September 25, 2014, the Indian government announced the 'Make in India' initiative to encourage manufacturing in India and galvanize the economy with dedicated investments in manufacturing and services.

Targets:
1. To increase the manufacturing sector's growth rate to 12-14% per annum in order to increase the sector's share in the economy.
2. To create 100 million additional manufacturing jobs in the economy by 2022.
3. To ensure that the manufacturing sector's contribution to GDP is increased to 25% by 2022 (revised to 2025) from the current 15-16%.

Outcomes so far:
1. **Foreign direct investment (FDI) has increased** from $16 billion in 2013-14 to $36 billion in 2015-16 **but it has not increased further and is not contributing to Indian industrialisation.**
2. **FDIs in the manufacturing sector are becoming weaker than before.** It has come down to $7 billion in 2017-18 as compared to $9.6 billion in 2014-15.
3. FDIs in the service sector is $23.5 billion, more than three times that of the manufacturing sector.
4. India's share in the global exports of manufactured products remains around 2% which is far less than 18% share of China.

9. DakPay

It is a new **digital payment application launched by the Department of Posts and the India Post Payments Bank (IPPB).**
- DakPay is a suite of digital financial and assisted banking services provided through the postal network to cater to the financial needs of various sections of society, particularly those living in rural areas.
- The services include free-of-cost money receipts and transfers at doorsteps, and scanned QR codes, to make payments for a range of utility and banking services.

10.Production-linked incentive (PLI) scheme

The Central government has unveiled a **production-linked incentive (PLI) scheme** to encourage domestic manufacturing investments in **10 more sectors.**

The 10 sectors include:
Food processing, telecom, electronics, textiles, speciality steel, automobiles and auto components, solar photo-voltaic modules and white goods, such as air conditioners and LEDs.

About the PLI scheme:
To make India a manufacturing hub, **the government had announced the PLI scheme for mobile phones, pharma products, and medical equipment sectors.**
- Notified on April 1, 2020 as a part of **the National Policy on Electronics.**
- It proposes **a financial incentive to boost domestic manufacturing and attract large investments in the electronics value chain.**

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What the scheme seeks to achieve?
1. Make domestic manufacturing competitive and efficient.
2. Create economies of scale.
3. Make India part of global supply chain.
4. Attract investment in core manufacturing and cutting edge tech.
5. Competitive manufacturing would in turn lift exports.

Key features of the scheme:
- The scheme shall extend an incentive of 4% to 6% on incremental sales (over base year) of goods manufactured in India and covered under target segments, to eligible companies, **for a period of five (5) years with financial year (FY) 2019-20 considered as the base year for calculation of incentives.**
- The Scheme will be implemented through a Nodal Agency which shall act as **a Project Management Agency (PMA)** and be responsible for providing secretarial, managerial and implementation support and carrying out other responsibilities as assigned by MeitY from time to time.

What kind of investments will be considered?
All electronic manufacturing companies which are either Indian or have a registered unit in India will be eligible to apply for the scheme.
These companies can either create a new unit or seek incentives for their existing units from one or more locations in India.
- However, **all investment done by companies on land and buildings for the project will not be considered** for any incentives or determine eligibility of the scheme.

11.Atal Beemit (Bimit) Vyakti Kalyan Yojana

Launched by the Employee's State Insurance (ESI) in 2018.
Aim: It aims to financially support those who lost their jobs or rendered jobless for whatsoever reasons due to changing employment pattern.

Eligibility criteria for availing the relief were relaxed in August 2020, as under:
1. The **payment of relief has been enhanced** to 50% of average of wages from earlier 25% of average wages payable upto maximum 90 days of unemployment.
2. Instead of the **relief becoming payable** 90 days after unemployment, it shall become due for payment after 30 days.
3. The Insured Person should have been insurable employment for a minimum period of 2 years before his/her unemployment and should have contributed for not less than 78 days in the contribution period immediately preceding to unemployment and minimum 78 days in one of the remaining 3 contribution periods in 02 years prior to unemployment.

12.Agriculture Infrastructure Fund

It is a new **pan India Central Sector Scheme.**
- **The scheme shall provide a medium - long term debt financing facility** for investment in viable **projects for post-harvest management Infrastructure and community farming assets** through interest subvention and financial support.
- The duration of the Scheme shall be from FY2020 to FY2029 (10 years).

Eligibility:
Under the scheme, **Rs. One Lakh Crore will be provided by banks and financial institutions as loans** to Primary Agricultural Credit Societies (PACS), Marketing Cooperative Societies, FPOs, SHGs, Farmers, Joint Liability Groups (JLG), Multipurpose Cooperative Societies, Startups etc.

Interest subvention:

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All loans under this financing facility will have **interest subvention of 3% per annum up to a limit of Rs. 2 crore.** This subvention will be available for a maximum period of seven years.

Credit guarantee:
- Credit guarantee coverage will be available for eligible borrowers from this financing facility under Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) scheme for a loan up to Rs. 2 crore.
- In case of FPOs the credit guarantee may be availed from the facility created under FPO promotion scheme of Department of Agriculture, Cooperation & Farmers Welfare (DACFW).

Management of the fund:
- It will be managed and monitored through an online Management Information System (MIS) platform.
- The National, State and District level Monitoring Committees will be set up to ensure real-time monitoring and effective feed-back.

13.National Small Savings Fund (NSSF)
- A "National Small Savings Fund" (NSSF) in the Public Account of India has been established with effect from 1.4.1999.
- All small savings collections are credited to this Fund.
- Similarly, all withdrawals under small savings schemes by the depositors are made out of the accumulations in this Fund.
- The balance in the Fund is invested in Central and State Government Securities.
- The investment pattern is as per norms decided from time to time by the Government of India.
- The Fund is administered by the Government of India, **Ministry of Finance** (Department of Economic Affairs) under **National Small Savings Fund** (Custody and Investment) Rules, 2001, framed by the President under Article 283(1) of the Constitution.
- The objective of NSSF is to de-link small savings transactions from the Consolidated Fund of India and ensure their operation in a transparent and self-sustaining manner.
- Since NSSF operates in the public account, **its transactions do not impact the fiscal deficit of the Centre directly**.
- As an instrument in the public account, the balances under NSSF are direct liabilities and constitute a part of the outstanding liabilities of the Centre.
- The NSSF flows affect the cash position of the Central Government.

14.Country of Origin in GeM platform
Government e-Marketplace (GeM) has brought in certain changes to promote **'Make in India' and 'Aatmanirbhar Bharat'.**
1. It is now mandatory for sellers to enter **the Country of Origin** while registering all new products on GeM.
2. **'Make in India' filter** has now been enabled on the portal. Buyers can choose to buy only those products that meet the minimum 50% local content criteria.

GeM is a state-of-the-art **national public procurement platform of Ministry of Commerce and Industries**, that has used technology to remove entry barriers for bonafide sellers and has created a vibrant e-marketplace with a wide range of goods and services.

GeM facilities:
1. Listing of products for individual, prescribed categories of Goods/ Services of common use.
2. Look, estimate, compare and buying facility on dynamic pricing basis.
3. Market place buying of majority of common User Items.

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4. Buying Goods and Services online, as and when required.
5. Transparency and ease of buying.
6. Useful for low value buying and also for bulk buying at competitive price using Reverse Auction/ e-bidding.
7. Continuous vendor rating system.
8. Return policy.

Who can buy/purchase through GeM?

All Central government and State Government Ministries/Departments including its attached/subordinate offices, Central and State autonomous bodies, Central and State Public Sector Units and local bodies etc. are authorized to make procurement through GeM portal.

Who can sell on GeM?

The "Seller(s)" on GeM will be the OEMs (Original Equipment Manufacturers) and/or their authorized channel partner(s)/ resellers (having any general authorization / dealership of the OEM to sell their product in open market) and e- Marketplaces.

15.Essential Commodities (Amendment) Bill, 2020

Parliament passed the Essential Commodities (Amendment) Bill, 2020.

- The Essential Commodities (Amendment) Bill 2020 has provisions to remove commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes from the list of essential commodities.
- The EC (Amendment) Bill 2020 aims to remove fears of private investors of excessive regulatory interference in their business operations.
- In situations such as war, famine, extraordinary price rise and natural calamity, such agricultural foodstuff can be regulated.

Essential Commodities Act (ECA):

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- The **Essential Commodities Act** (**ECA**) is an act of the Parliament of India that was established to ensure the delivery of certain commodities or products, the supply of which, if obstructed due to hoarding or black marketing, would affect the normal life of the people.
- The ECA was enacted in 1955 and has since been used by the Government to regulate the production, supply, and distribution of a whole host of commodities that it declares 'essential' to make them available to consumers at fair prices.
- Additionally, the government can also fix the minimum support price (MSP) of any packaged product that it declares an "essential commodity".
- The list of items under the Act includes **drugs, fertilizers, pulses, and edible oils, as well as petroleum and petroleum products.**

Powers of Central Government under the **Essential Commodities Act, 1955**:

- **The central government can designate certain commodities as essential commodities.**
- The central government may **regulate or prohibit the production, supply, distribution, trade, and commerce of such essential commodities**.

16.Merchandise Exports from India Scheme (MEIS)

A **limit has been imposed on total rewards** under the Merchandise Exports from India Scheme (MEIS).

A scheme designed to **provide rewards to exporters to offset infrastructural inefficiencies and associated costs**. The Duty Credit Scrips and goods imported/ domestically procured against them shall be freely transferable. The Duty Credit Scrips can be used for:

- Payment of Basic Customs Duty and Additional Customs Duty specified under sections 3(1), 3(3) and 3(5) of the Customs Tariff Act, 1975 for import of inputs or goods, including capital goods, except items listed in Appendix 3A.
- Payment of Central excise duties on domestic procurement of inputs or goods,
- Payment of Basic Customs Duty and Additional Customs Duty specified under Sections 3(1), 3(3) and 3(5) of the Customs Tariff Act, 1975.

Merchandise Exports from India Scheme (MEIS) under **Foreign Trade Policy of India (FTP 2015-20)** is one of the two schemes introduced in Foreign Trade Policy of India 2015-20, as a part of Exports from India Scheme (The other scheme is **Service Exports from India Scheme (SEIS)).**

- The **rewards are given by way of duty credit scrips to exporters.**
- The MEIS is **notified by the DGFT** (Directorate General of Foreign Trade) and **implemented by the Ministry of Commerce and Industry.**

Objective of the scheme:
To offset infrastructural inefficiencies and associated costs involved in export of goods/products, which are produced/manufactured in India, especially those having **high export intensity, employment potential and thereby enhancing India's export competitiveness.**

MEIS replaced the following five other similar incentive schemes present in the earlier Foreign Trade Policy 2009-14:

1. Focus Product Scheme (FPS).
2. Focus Market Scheme (FMS).
3. Market Linked Focus Product Scheme (MLFPS).
4. Infrastructure incentive scheme.
5. Vishesh Krishi Gramin Upaj Yojna (VKGUY).

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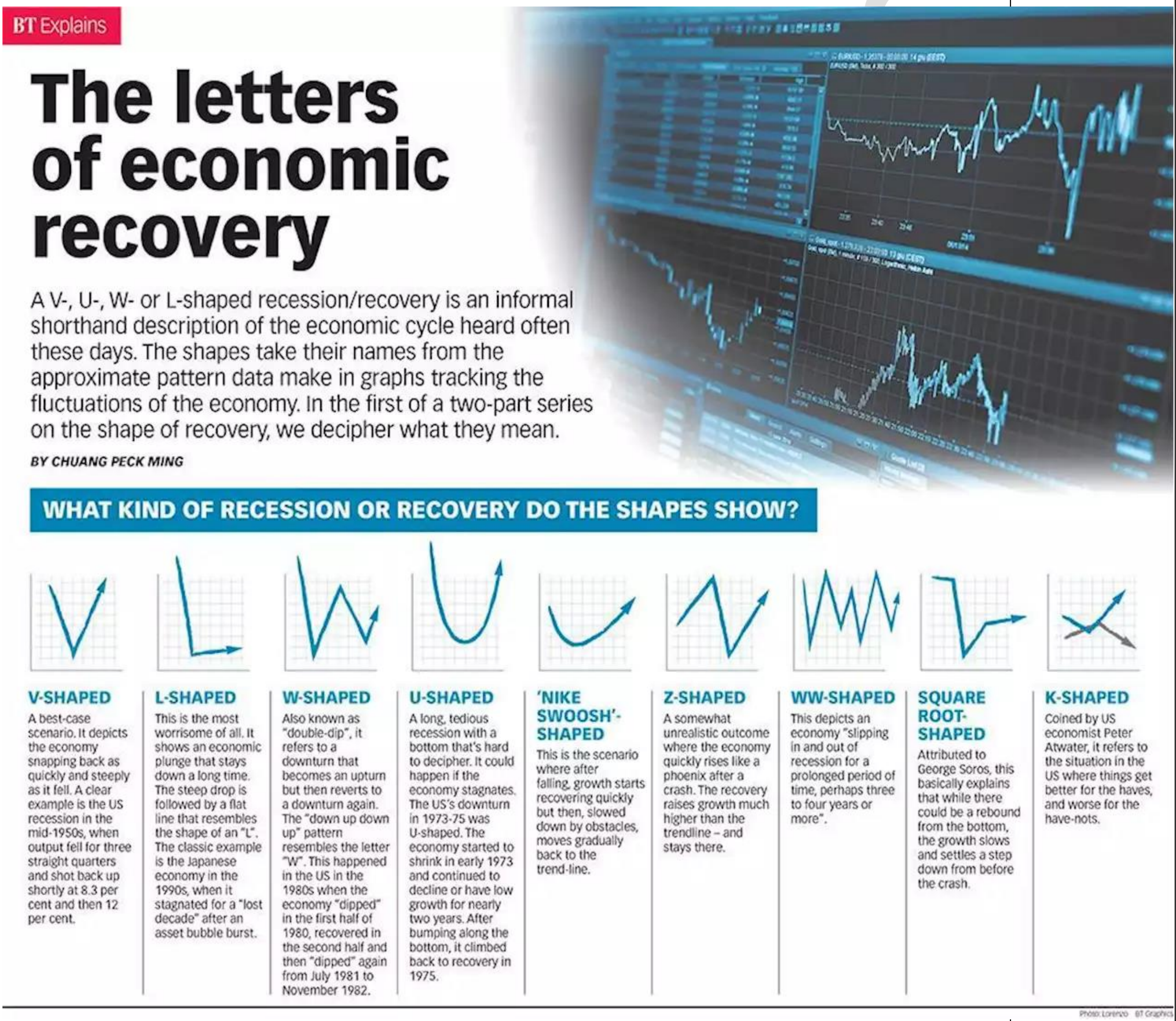
Indian Economy and Issues relating to planning, mobilization of resources, growth, development and employment

1. K-shaped Economic Recovery

A K-shaped recovery happens when **different sections of an economy recover at starkly different rates.**

- Households at the top of the pyramid are likely to have seen their in- comes largely protected, and savings rates forced up during the lockdown, increasing 'fuel in the tank' to drive future consumption.
- Meanwhile, households at the bottom are likely to have witnessed permanent hits to jobs and incomes.



What are the macro implications of a K-shaped recovery?

- Upper-income households have benefitted from higher savings for two quarters.
- Households at the bottom have experienced a permanent loss of income in the forms of jobs and wage cuts; this will be a recurring drag on demand, if the labour market does not heal faster.

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- To the extent that COVID has triggered an effective income transfer from the poor to the rich, this will be demand-impeding because the **poor have a higher marginal propensity to consume (i.e. they tend to spend (instead of saving) a much higher proportion of their income.**

2. Core Sector

- **The eight core sector industries include** coal, crude oil, natural gas, refinery products, fertiliser, steel, cement and electricity
- The eight core industries comprise nearly 40% of the weight of items included in the Index of Industrial Production (IIP).
- The eight Core Industries in decreasing order of their weightage: Refinery Products> Electricity> Steel> Coal> Crude Oil> Natural Gas> Cement> Fertilizers.

3. Overheating of an economy

- Overheating of an economy occurs when its **productive capacity is unable to keep pace with growing aggregate demand**.
- It is generally characterised by a below-average rate of economic growth, where **growth is occurring at an unsustainable rate**.
- Boom periods are often characterised by overheating in the economy.
- An economy is said to be overheated when inflation increases due to prolonged good growth rate and the producers produce in excess thereby creating excess production capacity.
- The main reason behind overheating is insufficient supply allocation because of excess spending by the people due to increase in consumer wealth.

Effects:

- Overheating is generally preceded by lower than average economic growth.
- **Demand pull inflation** occurs as suppliers try to capitalize on the excess demand which cannot be met via existing production constraints.
- These higher prices tend to reduce aggregate demand and exports (since goods and services become more expensive abroad) leading to reduced consumption.
- Central banks often simultaneously tighten monetary policy in response to increased inflationary pressures, reducing investment expenditure, which in tandem with decreased consumption, can lead to economic recession.

4. Technical recession

Recently, the Reserve Bank of India (RBI) said the country had entered into **a technical recession** in the first half of 2020-21.

What is a technical recession?

It refers to **the sequential decline in GDP for the past two quarters.** This presents **economic contraction** since the GDP measures the value of all goods and services produced in a country during a specific period of time, in other words, the total expenditure in the economy.

- **Typically, recessions last for a few quarters. If they continue for years, they are referred to as "depressions".** But a depression is quite rare; the last one was during the 1930s in the US.

5. Borrowing by States

Borrowing by the Government of India and Borrowing by States are defined under **Article 292 and 293 of Constitution of India** respectively.

Article 293 of Constitution of India "Borrowing by States":

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1. Subject to the provisions of this article, the **executive power of a State extends to borrowing within the territory of India** upon the **security of the Consolidated Fund of the State** within such limits, if any, as may from time to time be **fixed by the Legislature of such State** by law and to the giving of guarantees within such limits, if any, as may be so fixed.
2. The **Government of India** may, subject to such conditions as may be laid down by or under any law made by Parliament, **make loans to any State** or, so long as any limits fixed under Article292 are not exceeded, **give guarantees in respect of loans raised by any State**, and any sums required for the purpose of making such loans shall be charged on the Consolidated Fund of India.
3. A State may not without the consent of the Government of India raise any loan if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government, or in respect of which a guarantee has been given by the Government of India or by its predecessor Government.

Why states need centre's permission while borrowing? Is it mandatory for all states?
Article 293(3) of the Constitution requires states to obtain the Centre's consent in order to borrow **in case the state is indebted to the Centre over a previous loan.**
- This consent can also be granted subject to certain conditions by virtue of **Article 293(4).**
- In practice, the Centre has been exercising this power in accordance with the recommendations of **the Finance Commission.**

Every single state is currently indebted to the Centre and thus, **all of them require the Centre's consent in order to borrow.**

Does the Centre have unfettered power to impose conditions under this provision?
Neither does the provision itself offer any guidance on this, nor is there any judicial precedent that one could rely on.
- Interestingly, even though **this question formed part of the terms of reference of the 15th Finance Commission,** it was **not addressed in its interim report.**

So, when can the centre impose conditions?
The Centre can impose conditions **only when it gives consent for state borrowing,** and it can only **give such consent when the state is indebted to the Centre.**

6. Fiscal deficit

The Union Government's fiscal deficit widened to ₹9.53 lakh crore, or close to **120% of the annual budget estimate,** at the end of October 2020.

Reasons behind this:
- The deficit widened mainly due to **poor revenue realisation.**
- The **lockdown had significantly impacted business activities** and in turn contributed to sluggish revenue realisation.

What is the fiscal deficit?
It is **the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the total expenditure.**
- In other words, fiscal deficit is **"reflective of the total borrowing requirements of Government".**

Impact of high fiscal deficit:
In the economy, **there is a limited pool of investible savings.** These savings are used by financial institutions like banks to lend to private businesses (both big and small) and the governments (Centre and state).

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- **If the fiscal deficit ratio is too high,** it implies that there is a lesser amount of money left in the market for private entrepreneurs and businesses to borrow.
- Lesser amount of this money, in turn, leads to **higher rates of interest charged on such lending.**
- A high fiscal deficit and higher interest rates would also mean that **the efforts of the Reserve Bank of India to reduce interest rates are undone.**

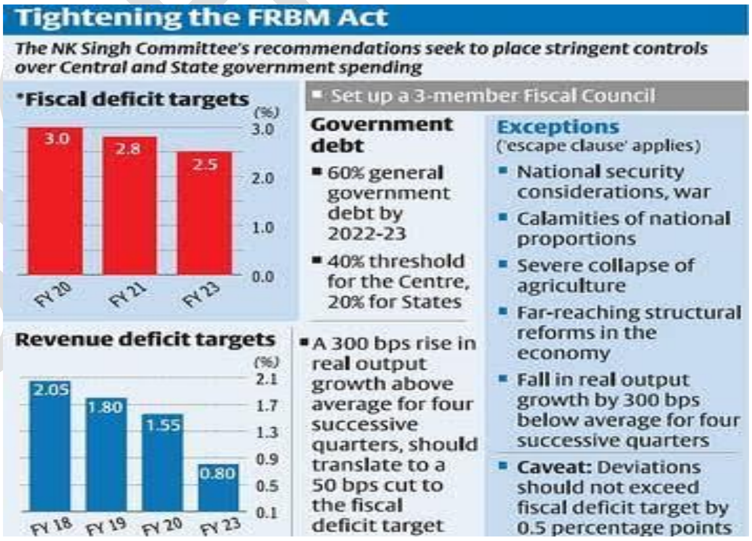
What is the acceptable level of fiscal deficit for a developing economy?
For a developing economy, where private enterprises may be weak and governments may be in a better state to invest, fiscal deficit could be higher than in a developed economy.

- Here, governments also have to invest in both social and physical infrastructure upfront without having adequate avenues for raising revenues.
- In India, **the FRBM Act** suggests bringing **the fiscal deficit down to about 3 percent of the GDP is the ideal target.** Unfortunately, successive governments have not been able to achieve this target.

What is an escape clause?
The "escape clause" allows the government to breach its fiscal deficit target by 0.5 percentage points at times of severe stress in the economy, including periods of structural change and those when growth falls sharply.

What is government borrowing?
Borrowing is a loan taken by the government and falls under **capital receipts** in the Budget document.
Usually, Government borrows through issue of government securities called **G-secs and Treasury Bills.**

How does increased government borrowing affect govt finances?
Bulk of government's fiscal deficit comes from its interest obligation on past debt.



- If the government resorts to larger borrowings, more than what it has projected, then its interest costs also go up risking higher fiscal deficit. That hurts government's finances.
- Larger borrowing programme means that the public debt will go up and especially at a time when the GDP growth is subdues, it will lead to a higher debt-to-GDP ratio.

Fiscal Consolidation:
Fiscal Consolidation refers to the policies undertaken by Governments (national and sub-national levels) to reduce their deficits and accumulation of debt stock.
FISCAL CONSOLIDATION is a process where government's FISCAL health is getting improved and is indicated by reduced FISCAL deficit. Improved tax revenue realization and better aligned expenditure are the components of FISCAL CONSOLIDATION as the FISCAL deficit reaches at a manageable level.

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7. Fiscal Policy

- Fiscal policy is the guiding force that helps the government decide how much money it should spend to support the economic activity, and how much revenue it must earn from the system, to keep the wheels of the economy running smoothly.
- Through the fiscal policy, the government of a country **controls the flow of tax revenues and public expenditure** to navigate the economy.
- If the government receives more revenue than it spends, it runs a surplus, while if it spends more than the tax and non-tax receipts, it runs a deficit.

Main objectives of Fiscal Policy in India:

- **Economic growth:** Fiscal policy helps maintain the economy's growth rate so that certain economic goals can be achieved.
- **Price stability:** It controls the price level of the country so that when the inflation is too high, prices can be regulated.
- **Full employment:** It aims to achieve full employment, or near full employment, as a tool to recover from low economic activity.

What is the difference between fiscal policy and monetary policy?

- **The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.**
- The **primary objective of monetary policy is to maintain price stability while keeping in mind the objective of growth**.
- In May 2016, the Reserve Bank of India (RBI) Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.
- The amended RBI Act also provides for the **inflation target to be set by the Government of India, in consultation with the Reserve Bank, once in every five years.**
- **RBI primarily factors in retail inflation while making its bi-monthly monetary policy.**

On the other hand, under the fiscal policy, the government deals with taxation and spending by the Centre.

Importance of Fiscal Policy in India:

- In a country like India, fiscal policy plays a key role in elevating the rate of capital formation both in the public and private sectors.
- Through taxation, the fiscal policy helps mobilise considerable amount of resources for financing its numerous projects.
- Fiscal policy also helps in providing stimulus to elevate the savings rate.
- The fiscal policy gives adequate incentives to the private sector to expand its activities.
- Fiscal policy aims to minimise the imbalance in the dispersal of income and wealth.

8. Counter-cyclical fiscal policy

While counter-cyclical fiscal policy is necessary to smooth out economic cycles, it becomes critical during an economic crisis.

Relevance of Counter-cyclical Fiscal Policy:

Indian Kings used to build palaces during famines and droughts to provide employment and improve the economic fortunes of the private sector. Economic theory, in effect, makes the same recommendation: in a recessionary year, Government must spend more than during expansionary times. Such **counter-cyclical fiscal policy stabilizes the business cycle by being contractionary (reduce spending/increase taxes) in good times and expansionary (increase spending/reduce taxes) in bad times. On the other hand, a pro-cyclical fiscal policy is the one wherein fiscal policy**

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reinforces the business cycle by being expansionary during good times and contractionary during recessions.

9. Fiscal prudence

- In simple words, **fiscal prudence is Spending within budget.**
- For any economy to mature, fiscal prudence is critical. If the government continues to spend way more than its revenues, it will either have to print more currency or borrow from the market to meet the shortfall. Printing currency will fuel inflation and, at times, hyper-inflation.
- In a bid to avoid these scenarios and mandate fiscal prudence, the Government of India passed the Fiscal Responsibility and Budget Management (FRBM) Act in 2003. Its objective was to institutionalise fiscal prudence and reduce the country's fiscal deficit in such a manner that it gradually moves towards balancing the Budget.

10. Adjusted gross revenue (AGR)

The Supreme Court has allowed telecom companies **10 years' time to pay their adjusted gross revenue (AGR) dues to the government.**

What is AGR?

Adjusted Gross Revenue (AGR) is **the usage and licensing fee that telecom operators are charged by the Department of Telecommunications (DoT)**. It is divided into spectrum usage charges and licensing fees, pegged between 3-5 percent and 8 percent respectively.

How is it calculated?

As per DoT, the charges are calculated based on all revenues earned by a telco – including non-telecom related sources such as deposit interests and asset sales.

What are issues associated? When it all began?

The telecom sector was **liberalised under the National Telecom Policy, 1994** after which licenses were issued to companies in return for **a fixed license fee.**

However, to provide relief from the steep fixed license fee, **the government in 1999 gave an option to the licensees to migrate to the revenue sharing fee model.**

- Under this, mobile telephone operators were required to **share a percentage of their AGR with the government as annual license fee (LF) and spectrum usage charges (SUC). License agreements** between the Department of Telecommunications (DoT) and the telecom companies define the gross revenues of the latter.

The dispute between DoT and the mobile operators was mainly on **the definition of AGR.**

- The DoT argued that AGR includes all revenues (before discounts) from both telecom and non-telecom services. The companies claimed that AGR should comprise just the revenue accrued from core services and not dividend, interest income or profit on sale of any investment or fixed assets.

11. Gross value added (GVA)

It is a **measure of total output and income in the economy**. It provides the rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services. It also gives sector-specific picture like what is the growth in an area, industry or sector of an economy.

GVA is sector specific while **GDP is calculated by summation of GVA of all sectors of economy with taxes added and subsidies are deducted.**

While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective. **Both measures**

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need not match because of the difference in treatment of net taxes.

A sector-wise breakdown provided by the GVA measure can better help the policymakers to decide which sectors need incentives/stimulus or vice versa.

12.Gross Domestic Capital Formation (GDCF)

- Capital is the produced means of production or it is called produced wealth by which more wealth is possible in the economy directly and indirectly.
- **Capital formation means creation of physical assets and non- physical capital consisting of public health efficiency, visible and no visible capital.**
- **Gross domestic capital formation is the addition to the capital stock within the domestic territory of a country during a year.**
- Gross domestic capital formation includes all expenses made by household, business people and Govt, adding new durable goods to the fixed capital stock of a country.
- These assets are in the form of infrastructure such as buildings, roads canals, bridges, means of transport, machinery and other equipments.

13.Monetisation of assets

- Asset Monetization involves **creation of new sources of revenue by unlocking of value of hitherto unutilized or underutilized public assets**. Internationally, it is recognized that public assets are a significant resource for all economies.
- The objective of the asset monetization programme of the Government of India (GOI), is to **unlock the value of investment made in public assets** which have not yielded appropriate or potential returns so far, create hitherto unexplored sources of income for the company and its shareholders, and contribute to a more accurate estimation of public assets which would help in better financial management of government/public resources over time.
- The Cabinet Committee on Economic Affairs, had approved monetisation of assets of POWERGRID, a Public Sector Undertaking (PSU) under Ministry of Power, through Infrastructure Investment Trust (InvIT) model.
- The Budget 2019-20 emphasized investment led growth and indicated that new and innovative financial instruments including Infrastructure Investment Trusts (InvITs), have been launched as part of the brown field asset monetization strategy for augmenting infrastructure investment.
- The InvIT would provide an opportunity to the general public and institutional investors such as Pension Funds, Mutual Funds, to benefit from this investment opportunity and participate in the growth of Indian Infrastructure Sector.

14.Trends in the Economy

a) **India's tax system is regressive with heavy dependence on indirect tax**. This would be clear by mapping the **gross** tax revenue (of both centre and states)-as reproduced below. **Indirect-tax-to-GDP ratio remains consistently higher than that of direct tax-to-GDP** (2011-12 series, current prices). In the OECD countries, the average share of direct tax is about two-third of the total tax, while it is a little over one-third in India.

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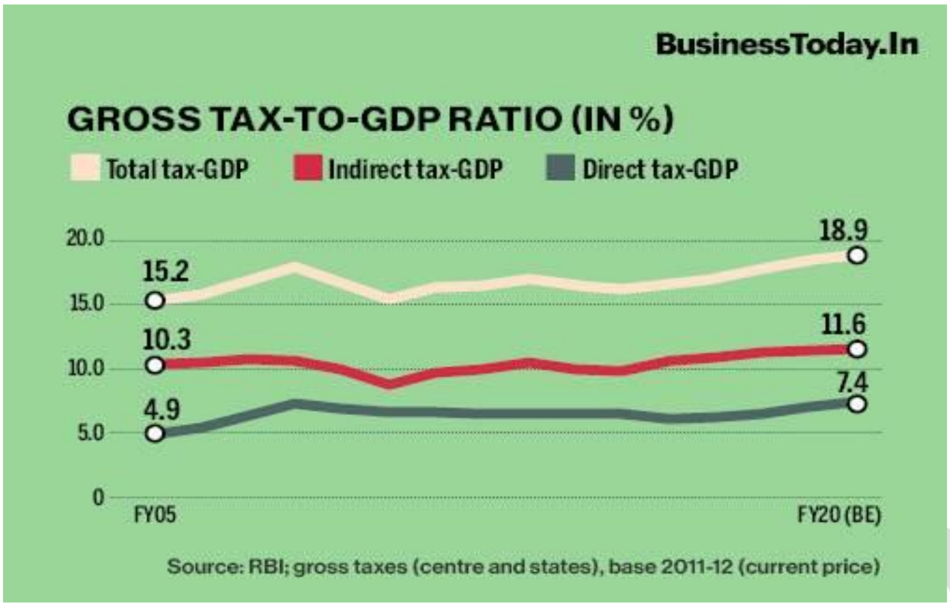
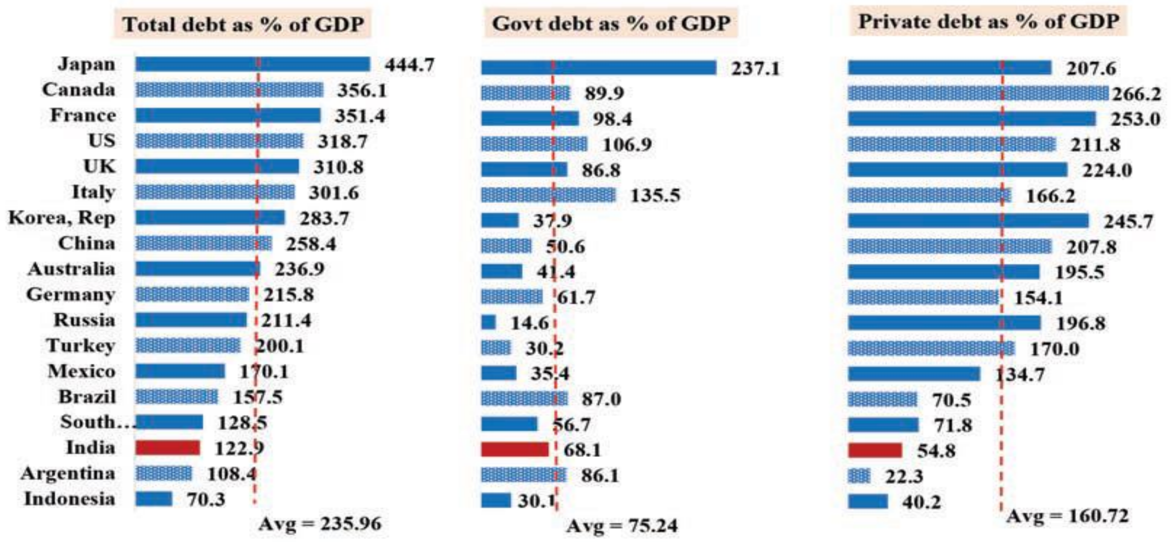


b) **India's public debt-to- GDP** has been significantly low compared to high global debt levels. A cross-country comparison of debt levels points out that for India, the government debt level as a proportion of GDP is equal to the median in the group of G-20 OECD countries and in the group of BRICS nations. India's overall debt levels as a per cent of GDP are the lowest amongst the group of G-20 OECD countries and also among the group of BRICS nations. Moreover, **public debt and overall debt level for India has declined since 2003** and has been stable since 2011.



c) The **Government's debt portfolio** is characterized by very low foreign exchange risk as the external debt is only 2.7 per cent of GDP (5.9 per cent of total Central Government liabilities). Of the total public debt, 70 per cent is held by the Centre. As the central government is entrusted with the responsibility of macro-economic management, this distribution of debt between the centre and states is desirable because of the incentive compatibility that it generates. The long maturity profile of India's public debt (issuance of longer tenure bonds) along with a small share of floating rate debt (floating rate debt of Central Government is less than 5 per cent of public debt) tends to limit rollover risks, and insulates the debt portfolio from interest rate volatility.

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Figure 19: Composition of General Government public debt

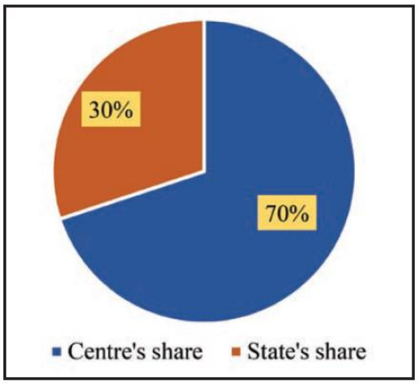
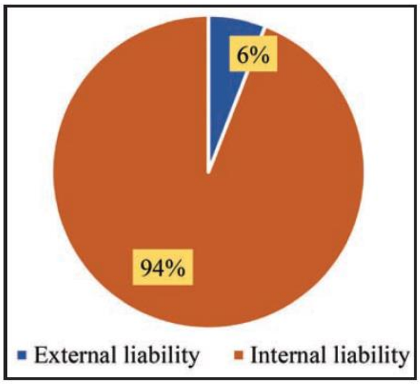
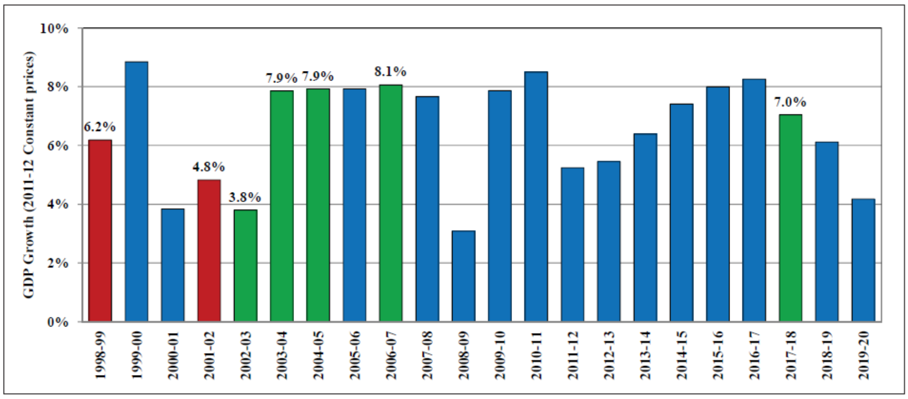


Figure 20: Composition of Central Govt. debt



d) There is no clear pattern between changes in GDP growth and sovereign credit rating changes.

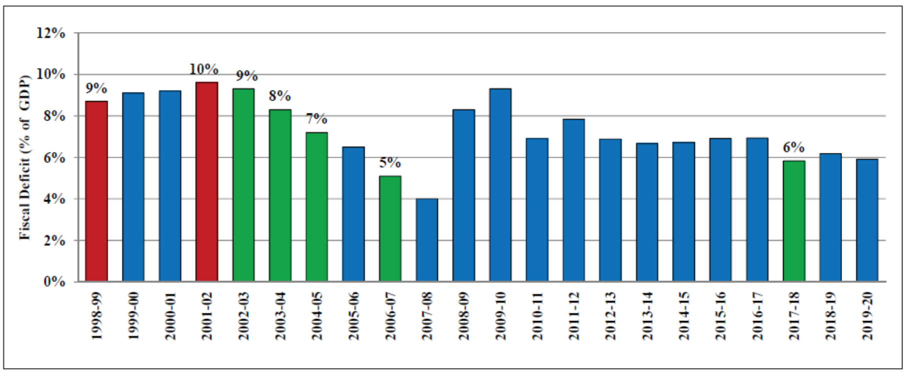
Figure 36: India's GDP Growth (2011-12 Constant Prices) and Sovereign Credit Rating Changes



Note: Red signifies year of rating downgrade. Green signifies year of rating upgrade.
Source: MoSPI and RBI

e) All sovereign credit ratings upgrades occurred in years that witnessed lower fiscal deficit as compared to the previous year.

Figure 37: India's Fiscal Deficit (as per cent of GDP) and Sovereign Credit Rating Changes



Note: Red signifies year of rating downgrade. Green signifies year of rating upgrade.
Source: RBI

f) **India's gross domestic expenditure on R&D (GERD) is lowest amongst other largest economies.** The government sector contributes a disproportionate large share in total GERD at three times the average of other largest economies. However, the business sector's

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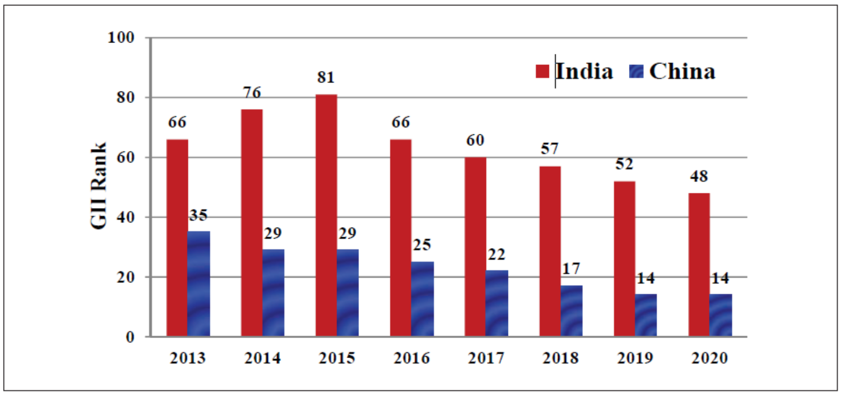
contribution to GERD is amongst the lowest. The business sector's contribution to total R&D personnel and researchers also lags behind that in other large economies.

Figure 24: GII Performance (2013-20)



Source: GII database

g) Government's primary source of earning money is from taxes and non-tax revenues. Direct taxes include income tax, real property tax, personal property tax, or taxes on assets; while some of the indirect tax modes include GST, customs duty and tax deducted at source (TDS).

On the other hand, **non-tax revenue** is the recurring income earned by the government from sources other than taxes. **The top receipts under this are interest and dividends and profits received from public sector companies.**

After the new indirect tax regime was introduced in 2017, the Centre's major source of indirect tax collection changed to GST.

In 2020-21, **28.5% of the revenue came from GST followed by corporate tax** and personal income tax, 28.1% and 28.3% respectively.

h) The Incremental Capital-Output Ratio (ICOR) is the ratio of investment to growth which is equal to the reciprocal of the marginal product of capital. **The higher the ICOR, the lower the productivity of capital** or the marginal efficiency of capital. The ICOR can be thought of as a measure of the inefficiency with which capital is used.

In FY19 (2018-19), the implicit incremental capital-output ratio (ICOR) was 4.6. This is relatively high because of deficient capacity utilisation.

Historically, India's average ICOR during the three-year period from FY17 to FY19 has averaged 4.23.

i) The Scheduled Commercial Bank's NPAs can be recovered through the following channels

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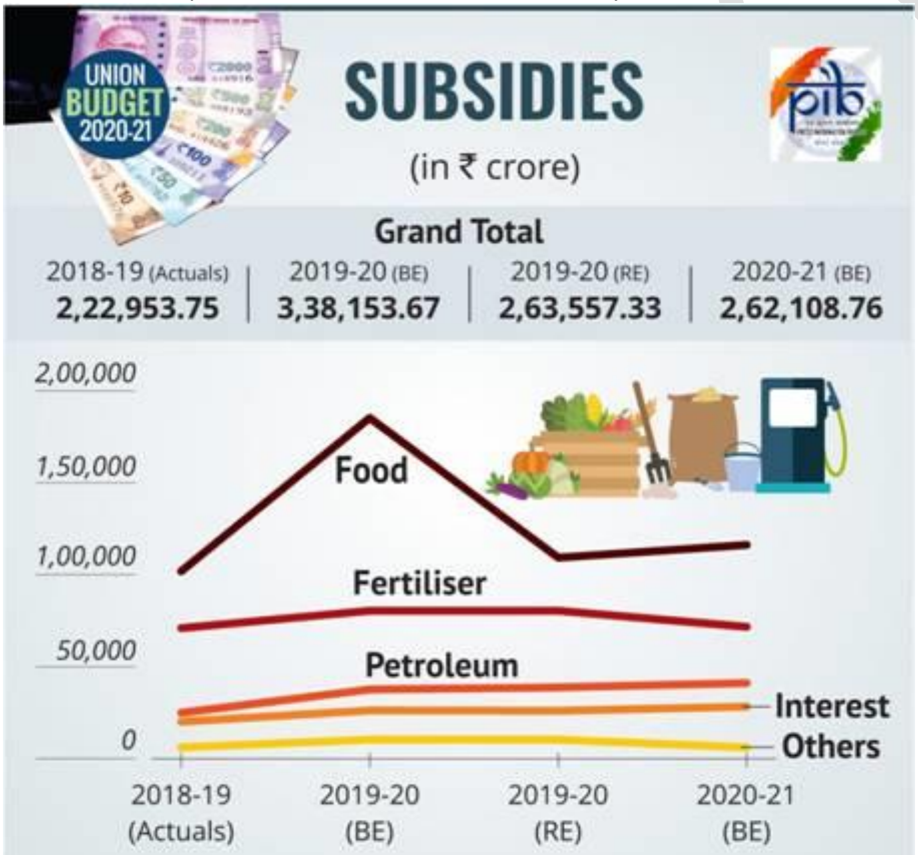
RECOVERY THROUGH VARIOUS MECHANISMS (₹ CR)

	2017-18			2018-19		
	Amount involved	Recovery	Recovery %	Amount involved	Recovery	Recovery %
DRT	1,33,095	7,235	5	3,06,499	10,574	3
SARFAESI	81,879	26,380	32	2,89,073	41,876	14
IBC	9,929	4,926	50	1,66,600	70,819	43
Lok Adalat	45,728	1,800	4	53,506	2,816	5
Total	2,70,631	40,341	15	8,15,678	1,26,085	15

All the data above are from RBI publication- Trend and Progress of Banking

j) Government expenditure on subsidies in the last 5 years



k) Government's Disinvestment target

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DISINVESTMENT TARGETS, RARELY ACHIEVED

YEAR	DISINVESTMENT TARGET (BE, Rs CRORE)	ACTUAL DISINVESTMENT RECEIPTS (Rs CRORE)	ACTUALS AS A PROPORTION OF BE (%)
2006-2007	3840	0	0.00
2007-2008	41651	3392	8.14
2008-2009	1165	2	0.17
2009-2010	1120	4306	384.46
2010-2011	40000	22275	55.69
2011-2012	40000	1145	2.86
2012-2013	30000	2193	7.31
2013-2014	40000	1589	3.97
2014-2015	43425	222	0.51
2015-2016	41000	12853	31.35
2016-2017	36000	21433	59.54
2017-2018	100000	100195	100.20
2018-2019	80000	85045	106.31
2019-2020	105000	50304	47.91
2020-2021*	210000	17957.7	

Data for all years except 2020-21 from the website of the Controller General of Accounts (CGA). Data for the current year from the Ministry of Finance

l) **Sectors which attracted maximum foreign inflows during 2019-20** include **services** ($7.85 billion), computer software and hardware ($7.67 billion), telecommunications ($4.44 billion), trading ($4.57 billion), automobile ($2.82 billion), construction ($2 billion), and chemicals ($one billion), the Department for Promotion of Industry and Internal Trade (DPIIT) data showed.

Foreign direct investment into India rose 13% to $49.97 billion in FY20 from $44.36 billion a year earlier.

Singapore remained the top source of FDI, accounting for $14.67 billion, followed by Mauritius at $8.24 billion

Among states, **Maharashtra garnered the highest share of FDI** at 30% with investments clocking $7.26 billion. Karnataka and Delhi followed with 18% and 17% share, respectively.

In India **Brownfield investment is more dominant** than in the world. If investments tend to be in the form of mergers and acquisitions, it is known as brownfield investment.

NOTES

Banking Sector / Financial Sector

1. Bad Bank

The idea of setting up a bad bank is to resolve the growing problem of non-performing assets (NPAs), or loans on which borrowers have defaulted.

- Technically, **a bad bank is an asset reconstruction company (ARC) or an asset management company that takes over the bad loans of commercial banks, manages them and finally recovers the money over a period of time.**
- The bad bank is **not involved in lending and taking deposits**, but helps commercial banks clean up their balance sheets and resolve bad loans.
- The takeover of bad loans is normally below the book value of the loan and the bad bank tries to recover as much as possible subsequently.

Why be concerned about bad loans?

- Indian banks' pile of bad loans is a huge drag on the economy.
- It's a drain on banks' profits. Because profits are eroded, public sector banks (PSBs), where the bulk of the bad loans reside, cannot raise enough capital to fund credit growth.
- Lack of credit growth, in turn, comes in the way of the economy's return to an 8% growth trajectory. Therefore, the bad loan problem requires effective resolution.

Benefits:

- This helps banks or FIs clear-off their balance sheets by transferring the bad loans and focus on its core business lending activities.
- Large debtors have many creditors. Hence bad bank could solve the coordination problem, since debts would be centralised in one agency.
- It can effect speedier settlements with borrowers by cutting out individual banks.
- It can drive a better bargain with borrowers and take more stringent enforcement action against them.
- It can raise money from institutional investors rather than looking only to the Government.

2. Limited Liability Partnership (LLP)

Govt. to amend LLP Act to spur ease of business.

- **Decriminalising various offences and permitting LLPs to issue non-convertible debentures** are among the changes being proposed under the Limited Liability Partnership (LLP) Act.

What is a LLP?

A **Limited Liability Partnership (LLP)** is a partnership in which some or all partners have limited liability. It therefore exhibits elements of partnerships and corporations.

- In an LLP, **one partner is not responsible or liable for another partner's misconduct or negligence.**

Salient features of an LLP:

- An LLP is a body corporate and legal entity separate from its partners. It has perpetual succession.
- Being the separate legislation (i.e. LLP Act, 2008), the provisions of Indian Partnership Act, 1932 are not applicable to an LLP and it is **regulated by the contractual agreement between the partners.**
- Every Limited Liability Partnership shall use the words "Limited Liability Partnership" or its acronym "LLP" as the last words of its name.

Composition:

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Every LLP shall have at least two designated partners being individuals, at least one of them being resident in India and all the partners shall be the agent of the Limited Liability Partnership but not of other partners.

Need for and significance LLP:

- LLP format is an alternative corporate business vehicle that provides the benefits of limited liability of a company but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm.
- This format would be quite useful for small and medium enterprises in general and for the enterprises in services sector in particular.
- Internationally, LLPs are the preferred vehicle of business particularly for service industry or for activities involving professionals.

3. HC upholds arrest provision in CGST Act for tax evasion

Section 69 in **the Central Goods and Service Tax (CGST) Act** gives power to authorities to arrest any person if there is "reason to believe" that he has committed tax evasion.

- This provision was upheld by Delhi HC recently.

What's the issue?

A petition filed in the court claimed that:

Section 69 being of criminal nature, it could not have been enacted under **Article 246A of the Constitution.**

- A person under the CGST Act can only be arrested, if the amount of tax evasion is more than ₹2 crore.
- All offences in which tax evasion is less than ₹5 crore are bailable and only grave offences involving tax evasion of ₹5 crore and above are non-bailable and cognisable.

What has the Court said?

- Both Sections 69 and 132 of the CGST Act are "constitutional and fall within the legislative competence of Parliament".
- The court remarked that the scope of **Article 246A is "significantly wide" as it not only empowers both Parliament and State Legislatures to levy or enact GST Act**, but also grants the power to make all laws 'with respect to' GST.

4. Lottery, gambling and betting taxable under GST Act: SC

- The court held that **lottery, betting and gambling were "actionable claims"** and came within the definition of **'goods' under Section 2(52) of the Central Goods and Services Tax Act, 2017.**
- The Court said **the levy of GST on lotteries did not amount to "hostile discrimination".**

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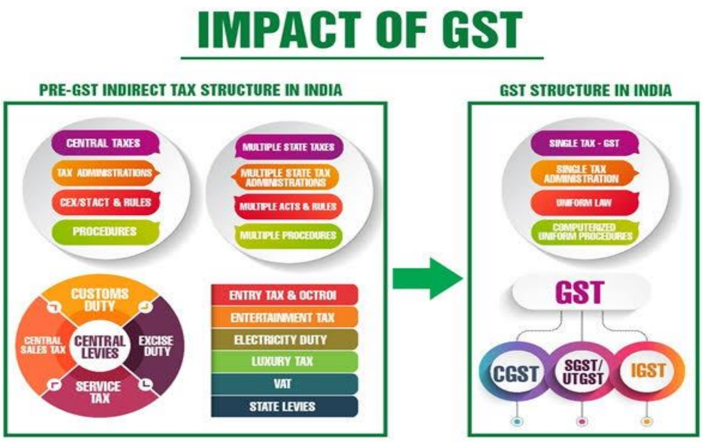
5. GST: physical verification of premises is now mandatory



The government has introduced **mandatory physical verification of business premises for the purposes of obtaining GST registration.**

- The move is aimed at controlling the menace of GST fake invoice frauds.
- Now there must be in-person verification before registration is granted to an applicant. Further, in case an applicant opts for Aadhaar authentication, he will undergo biometric-based Aadhaar authentication at one of the facilitation Centres notified by the Commissioner.

6. GST Compensation

The modalities of the compensation cess were specified by **the GST (Compensation to States) Act, 2017.**

This Act assumed that the GST revenue of each State would grow at 14% every year, from the amount collected in 2015-16, through all taxes subsumed by the GST.

- **A State that had collected tax less than this amount in any year would be compensated for the shortfall.** The amount would be paid every two months based on provisional accounts, and adjusted every year after the State's accounts were audited by the Comptroller and Auditor General.

This scheme is valid for five years, i.e., till June 2022.

Compensation cess fund:

A compensation cess fund was created from which States would be paid for any shortfall. An additional cess would be imposed on certain items and this cess would be used to pay compensation.

- The items are pan masala, cigarettes and tobacco products, aerated water, caffeinated beverages, coal and certain passenger motor vehicles.

The GST Act states that **the cess collected and "such other amounts as may be recommended by the [GST] Council" would be credited to the fund.**

7. Off-budget borrowing

Most governments want to restrict their fiscal deficit to a respectable number.

One of the ways to do this is by resorting to **"off-budget borrowings".**

- Such borrowings are a way for the Centre to finance its expenditures while keeping the debt off the books — so that it is not counted in the calculation of fiscal deficit.

What are off-budget borrowings?

Off-budget borrowings are **loans that are taken not by the Centre directly, but by another public institution which borrows on the directions of the central government.**

- Such borrowings are used to fulfil the government's expenditure needs.
- But since the liability of the loan is not formally on the Centre, **the loan is not included in the national fiscal deficit.**

This helps keep the country's fiscal deficit within acceptable limits.

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Off-budget financing by its nature isn't taken into account when calculating fiscal indicators. But the cost is borne by the budget through some mechanism or the other. Such financing tends to hide the actual extent of government spending, borrowings and debt and increase the interest burden.

The government's began harnessing funds from outside the Budget to service its Budget commitments since 2016-17. The size of this initiative has grown more than two-fold in a few years, and now nears 1% of gross domestic product. **What began with food security, off-Budget financing now caters heavily to a range of core spending areas.**

Off-Budget spending may remain high, or rise, in 2021-22. The reason: the **National Small Savings Fund, which is the biggest source for such spending**, is growing faster than ever. In a year when average incomes have not grown much, people have poured money into savings for social security.

OFF-BUDGET FUNDING IN FY17
REVENUE SPENDING:
1. Deferred fertilizer arrears/bills through special banking arrangements
2. Food subsidy bills/arrears of Food Corp. of India through borrowings
3. Accelerated Irrigation Benefit Program through National Bank for Agriculture and Rural Development borrowing

CAPITAL SPENDING
1. Indian Railway Finance Corp. borrowing for railway projects
2. Power Finance Corp funding of power projects

8. Secured Overnight Financing Rate (SOFR)

SBI does deals using SOFR as benchmark.

- SOFR is a secured interbank overnight interest rate and reference rate.
- The overnight rate is generally the interest rate that large banks use to borrow and lend from one another in the overnight market.
- It is based on the Treasury repurchase market (repo), Treasuries loaned or borrowed overnight.

9. Asset under management (aum)

First time in more than a decade, **assets under management (AUM)** of non-banking financial companies (NBFCs) are set to grow again at a relatively subdued 5-6% next fiscal.

- The turnaround will be led by larger entities with stronger parentage.

What are Assets under management?
It measures **the total market value** of all the financial assets which a financial institution manages on behalf of its clients and themselves.

- AUM is an indicator of the size and success of a given fund house.

10. Businesses with monthly turnover of over ₹50 lakh to pay at least 1% GST liability in cash

Central Board of Indirect Taxes and Customs (CBIC) has introduced **Rule 86B in Goods and Services Tax (GST) rules** which restricts use of **input tax credit (ITC)** for discharging GST liability to 99 per cent.

- As per the new rule, Businesses with monthly turnover of over ₹50 lakh will have to **mandatorily pay at least 1 per cent of their GST liability in cash.**

Exceptions under the new rule:

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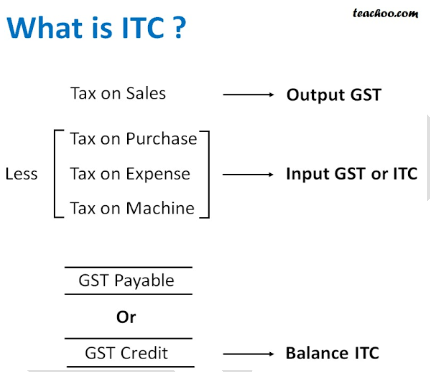
This restriction will not apply where the managing director or any partner have paid more than ₹1 lakh as income tax or the registered person has received a refund amount of more than ₹1 lakh in the preceding financial year on account of unutilised input tax credit.

Rationale behind this move?
The idea remains to prevent misutilisation of credit by businesses taking fake credits.

What's the issue now?
There are fears that the mandatory cash payment would adversely affect small businesses, increase their working capital requirement and make GST a more complex indirect tax system.

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

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



11.Zero coupon bonds

The government has recapitalised Punjab & Sind Bank by issuing the lender Rs 5,500-crore worth of **non-interest bearing bonds** valued at par.
- These are special types of **zero coupon bonds** issued by the government after proper due diligence and these are issued at par.

What are these special type of zero coupon bonds?
- These are **"non-interest bearing, non-transferable special GOI securities"**.
- They have a maturity of 10-15 years and issued specifically to Punjab & Sind Bank.
- These recapitalisation bonds are special types of bonds **issued by the Central government specifically to a particular institution.**
- It is **not tradable, it is not transferable.**
- It is held at the **held-to-maturity (HTM) category** of the bank as per the RBI guidelines. Since it is held to maturity, it is **accounted at the face value (and) no mark-to-market will be there.**

How do they differ from traditional bonds?
Though zero coupon, **these bonds are different from traditional zero coupon bonds on one account —** as they are being issued at par, there is no interest; in previous cases, since they were issued at discount, they technically were interest bearing.

12.Negative yield bonds

Recently China sold negative-yield debt for the first time.
- 5-year bond was priced with a yield of –0.152%, and the 10-year and 15-year securities with positive yields of 0.318% and 0.664%.

What are they?
These are **debt instruments that offer to pay the investor a maturity amount lower than the purchase price of the bond.**
- Can be issued by central banks or governments.
- Here, **investors pay interest to the borrower to keep their money with them.**

Then, why do Investors buy such bonds?

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- Such instruments are usually in demand during times of stress and uncertainty. This is to protect their capital from significant erosion.
- From currency fluctuations to deflation, there are scenarios in which purchasers of negative-yield bonds can come out ahead.

Relationship between Bond Price and Yield:
A bond's **price moves inversely with its yield or interest rate;** the higher the price of a bond, the lower the yield.
The reason for the inverse relationship between price and yield is due, in part, to **bonds being fixed-rate investments.**

1. Investors might sell their bonds if it's expected that interest rates will rise in the coming months and opt for the higher-rate bonds later on.
2. Conversely, bond investors might buy bonds, driving the prices higher, if they believe interest rates will fall in the future because existing fixed-rate bonds will have a higher rate or yield.

What is the key factor driving this demand today?

1. It is the **massive amount of liquidity injected by the global central banks** after the pandemic began that has driven up prices of various assets including equities, debt and commodities.
2. Many investors could also be temporarily parking money in negative-yielding government debt for the purpose of **hedging their risk portfolio in equities.**

13.Additional Tier-1 bonds

Securities and Exchange Board of India has tightened its regulations of additional tier-1 bonds or AT-1 bonds and ensured that these risky instruments are less accessible to retail investors.

Changes introduced:

- Banks can issue these bonds only on electronic platform.
- Only institutional investors could subscribe to them.
- There shall be a minimum allotment size and trading lot size of ₹1 crore.

(An institutional investor is a company or organization that invests money on behalf of other people. Mutual funds, pensions, and insurance companies are examples.)

What are Additional Tier-1 bonds?
Under the **Basel III framework,** banks' regulatory capital is divided into **Tier 1 and Tier 2 capital.**

- **Tier 1 capital** is subdivided into **Common Equity (CET) and Additional Capital (AT1).**

AT1 bonds are a type of **unsecured, perpetual bonds** that banks issue to shore up their core capital base to meet the Basel-III norms.

Key features:

- These have **higher rates than tier II bonds.**
- These bonds have no maturity date.
- The issuing bank has **the option to call back** the bonds or repay the principal after a specified period of time.
- The attraction for investors is **higher yield** than secured bonds issued by the same entity.
- **Individual investors too can hold these bonds,** but mostly high net worth individuals (HNIs) opt for such higher risk, higher yield investments.
- Given the higher risk, **the rating for these bonds is one to four notches lower than the secured bond series** of the same bank.

Mutual funds (MFs) are among the largest investors in perpetual debt instruments, and hold over Rs 35,000 crore of the outstanding additional tier-I bond issuances of Rs 90,000 crore.

However, it has a two-fold risk:

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

Given these characteristics, AT1 bonds are also referred to as **quasi-equity**.

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

Equity and preference capital is classified as CET and perpetual bonds are classified as AT1.

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

14.Development Finance Institution (DFI)

The government plans to set up a Development Finance Institution (DFI).

Need for:

- To mobilise the ₹111 lakh crore required for funding of the ambitious **national infrastructure pipeline.**
- To **enhance credit rating of projects.** It would fund projects where others are not willing to enter because of the risks involved.

DFIs in India

Development banks are financial institutions that **provide long-term credit for capital-intensive investments** spread over a **long period and yielding low rates of return**, such as urban infrastructure, mining and heavy industry, and irrigation systems.

Development banks are also known as term-lending institutions or development finance institutions.

Features of development banks:

1. Such banks often lend at low and stable rates of interest to promote long-term investments with considerable social benefits.
2. **Fund generation:** To lend for long term, development banks require correspondingly long-term sources of finance, usually obtained by issuing long-dated securities in capital market, subscribed by long-term savings institutions such as pension and life insurance funds and post office deposits.
3. **Support by the government:** Considering the social benefits of such investments, and uncertainties associated with them, development banks are often supported by governments or international institutions.
4. Such support can be in the form of **tax incentives and administrative mandates** for private sector banks and financial institutions to invest in securities issued by development banks.

In 1955, the World Bank prompted the Industrial Credit and Investment Corporation of India (ICICI) — the parent of the largest private commercial bank in India today, ICICI Bank — as a collaborative effort between the government with majority equity holding and India's leading industrialists with nominal equity ownership to finance modern and relatively large private corporate enterprises. In 1964, IDBI was set up as an apex body of all development finance institutions.

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15.Ponzi Scheme

- A Ponzi scheme is a form of fraud that lures investors and pays profits to earlier investors with funds from more recent investors.
- The scheme leads victims to believe that profits are coming from product sales or other means, and they remain unaware that other investors are the source of funds.
- The scheme is named after Charles Ponzi, who became notorious for using the technique in the 1920s.

Key Provisions in the Banning of Unregulated Deposit Schemes Act, 2019:

1. **Substantive banning clause** which bans Deposit Takers from promoting, operating, issuing advertisements or accepting deposits in any Unregulated Deposit Scheme.
2. **Creation of three different types of offences,** namely, running of Unregulated Deposit Schemes, fraudulent default in Regulated Deposit Schemes, and wrongful inducement in relation to Unregulated Deposit Schemes.
3. **Severe punishment and heavy pecuniary fines** to act as deterrent.
4. **Provisions for disgorgement or repayment of deposits** in cases where such schemes nonetheless manage to raise deposits illegally.
5. **Attachment of properties / assets by the Competent Authority,** and subsequent realization of assets for repayment to depositors.
6. **Creation of an online central database,** for collection and sharing of information on deposit-taking activities in the country.

16.Non-banking financial companies- microfinance institutions (NBFC-MFIs)

The share of NBFC-MFIs (microfinance institutions) in the overall microfinance sector has come down to a little more than 30% as **several large MFIs had converted into Small Finance Banks.**

What are NBFC- MFIs?

NBFC MFI is **a non-deposit taking NBFC** (other than a company licensed u/s 25 of the Indian Companies Act, 1956) that meets the following conditions:

1. **Minimum Net Owned Funds (NOF)** of Rs.5 crore. (For those registered in the North Eastern Region of the country, Rs. 2 crore is required as minimum NOF).
2. At least 85% of its Total Net Assets are in the nature of **"Qualifying Assets."**

What are Qualifying Assets?

"Net assets" are total assets excluding cash, bank balances, and money market instruments.

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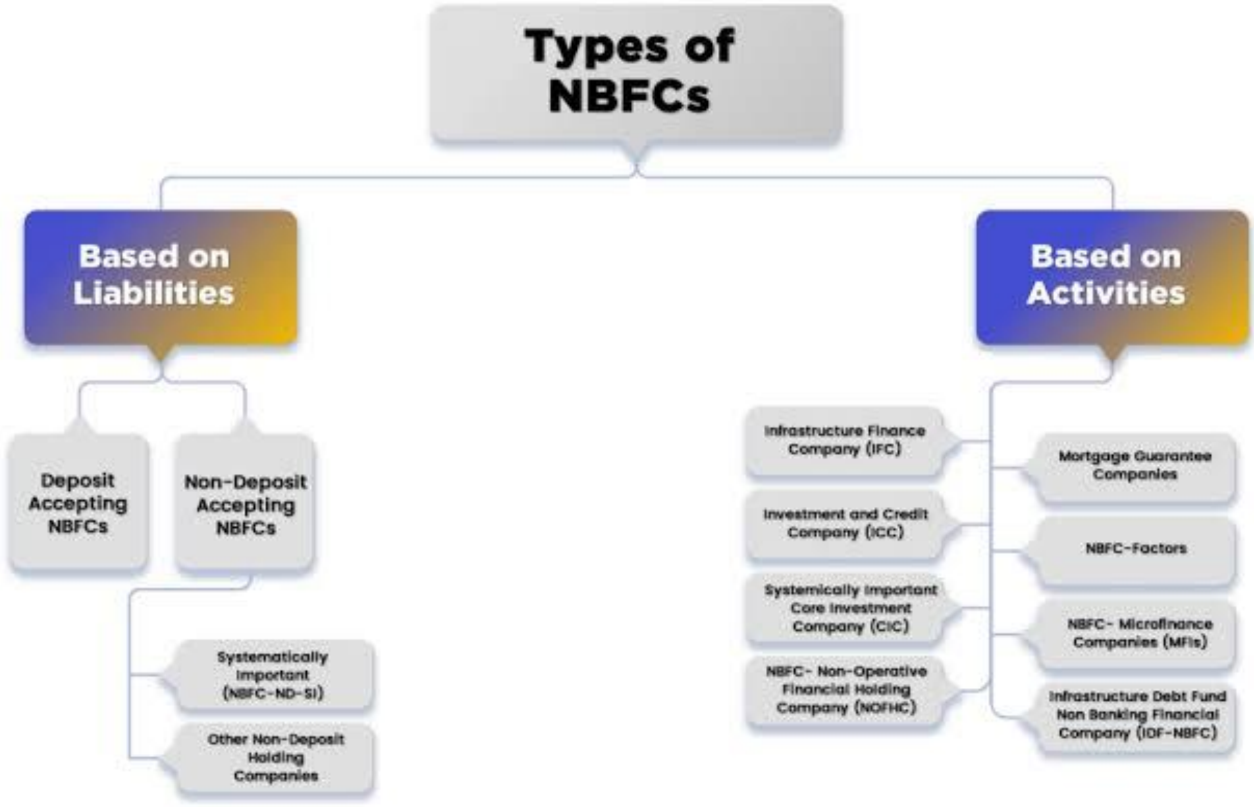
"Qualifying assets" are those assets which have a substantial period of time to be ready for its intended use or sale.



17.Private sector banks reforms

The **Reserve Bank of India (RBI)** had constituted **an Internal Working Group (IWG)** to review **the extant ownership guidelines and corporate structure for private sector banks in India.**

- It was headed by **Dr. Prasanna Kumar Mohanty,** Director, Central Board of RBI.

The terms of reference of included:

1. Review of the eligibility criteria for individuals/ entities to apply for banking license.
2. Examination of preferred corporate structure for banks and harmonisation of norms.
3. Review of norms for long-term shareholding in banks by the promoters and other shareholders.

18.Targeted Long term repo operation (TLTRO)

The Reserve Bank of India (RBI) conducted on-tap targeted long-term repo operations (TLTRO) for an amount of Rs 1 lakh crore to ensure comfortable liquidity conditions in the system.

The LTRO is a tool under which the central bank provides one-year to three-year money to banks at the prevailing repo rate, accepting government securities with matching or higher tenure as the collateral.

Feature	LTRO	Term Repo
Interest rate	Fixed and at repo rate	Variable, depending upon auctions but higher than repo rate.
Term structure	1 year or 3 year	3 to 28 days
Individual bank's bid size	No restriction on the maximum amount of bidding by individual bidders.	0.75% of the banks' NDTL.
Disbursal	Auction (e-Kuber)	Auction (e-Kuber)
Applicants	Scheduled commercial banks	Scheduled commercial banks
Collateral	Same as under LAF	Same as under LAF
Total fund injections	Limit to be determined by the RBI	Limit to be determined by the RBI

How is it different from LAF and MSF?

- While the RBI's current windows of liquidity adjustment facility (LAF) and marginal standing

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facility (MSF) offer banks money for their immediate needs ranging from 1-28 days, the LTRO supplies them with liquidity for their 1- to 3-year needs.
- LTRO operations are intended to prevent short-term interest rates in the market from drifting a long way away from the policy rate, which is the repo rate.

Why is it important?
As banks get long-term funds at lower rates, their cost of funds falls.
- In turn, they reduce interest rates for borrowers.
- LTRO helped RBI ensure that banks reduce their marginal cost of funds-based lending rate, without reducing policy rates.
- LTRO also showed the market that RBI will not only rely on revising repo rates and conducting open market operations for its monetary policy, but also use new tools to achieve its intended objectives.

What is MSF?
Under the MSF, banks can borrow overnight at their discretion by dipping into **the statutory liquidity ratio (SLR).**
- It is a window for scheduled banks to borrow overnight from the RBI in an emergency situation when interbank liquidity dries up completely.
- This scheme was launched by RBI while reforming the monetary policy in 2011-12.
- It is **a penal rate** at which banks can borrow money from RBI when they are completely exhausted of all borrowing assistance.

19.Open market operations (OMO)
Open market operations is the sale and purchase of government securities and treasury bills by RBI or the central bank of the country.
The objective of OMO is to regulate the money supply in the economy.
  - It is one of **the quantitative monetary policy tools.**

How is it done?
RBI carries out the OMO through commercial banks and **does not directly deal with the public.**

OMOs vs liquidity:
- When the central bank wants to infuse liquidity into the monetary system, it will buy government securities in the open market. This way it provides commercial banks with liquidity.
- In contrast, when it sells securities, it curbs liquidity. Thus, the central bank indirectly controls the money supply and influences short-term interest rates.

RBI employs two kinds of OMOs:
Outright Purchase (PEMO) – this is permanent and involves the outright selling or buying of government securities.
Repurchase Agreement (REPO) – this is short-term and are subject to repurchase.

20.Operation Twist
'Operation Twist' is **RBI's simultaneous selling of short-term securities and buying of long term securities through open market operations (OMO).** Under this mechanism, the short-term securities are transitioned into long-term securities.

How does RBI manage 'Operation Twist'?
- This operation involves buying and selling government securities simultaneously in order to bring down long-term interest rates and bolster short-term rates.

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- There is **an inverse relationship between the bond prices and their yields.** As the central bank buys long-term securities (bonds), their demand rise which in turn pushes up their prices.
- However, the bond yield comes down with an increase in prices. Yield is the return an investor gets on his (bond) holding/investment.
- The interest rate in an economy is determined by yield. Thus, **lower long-term interest rates mean people can avail long-term loans** (such as buying houses, cars or financing projects) at lower rates.
- This also **results in a dip in the expected returns from long-term savings which tilts the balance from saving towards spending.** Hence, cheaper retail loans can help encourage consumption spending which is the largest GDP component in the economy.

Bond yield is the return an investor gets on that bond or on a particular government security. The major factors affecting the yield is the monetary policy of the Reserve Bank of India, especially the course of interest rates, the fiscal position of the government and its borrowing programme, global markets, economy, and inflation.

Benefits:

- **Fixed income investors** with higher exposure to long term debt will **benefit from easing yield of long-term bonds.**
- **Consumers/borrowers** will also profit from 'Operation Twist' as **the retail loans will now get cheaper.**
- **Cheaper retail loans mean a boost in consumption and spending in the economy** which in turn will revive growth.

21.Government security (G-Sec)

The Reserve Bank of India (RBI) purchases **Government securities** under **Open Market Operations (OMO)**.

The Reserve Bank of India (RBI) recently said that it will give small investors direct access to its government securities trading platform.

What are govt securities?

A government security **(G-Sec)** is **a tradeable instrument issued by the central government or state governments.**

Key features:

- It **acknowledges the government's debt obligations.**
- Such securities **can be both short term** (treasury bills — with original maturities of less than one year) or **long term** (government bonds or dated securities — with original maturity of one year or more).
- The **central government issues both:** treasury bills and bonds or dated securities.
- **State governments issue only bonds or dated securities,** which are called **the state development loans.**
- Since they are issued by the government, they carry no risk of default, and hence, are called **risk-free gilt-edged instruments.**
- **FPIs are allowed to participate** in the G-Secs market within the quantitative limits prescribed from time to time.

Why are G-secs volatile?

G- Sec **prices fluctuate** sharply in the secondary markets. Factors affecting their prices:

- **Demand and supply** of the securities.
- **Changes in interest rates** in the economy and other macro-economic factors, such as, liquidity and inflation.

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- **Developments in other markets** like money, foreign exchange, credit and capital markets.
- Developments **in international bond markets,** specifically the US Treasuries.
- Policy actions by RBI like change in repo rates, cash-reserve ratio and open-market operations.

22.Cess

It is a form of **tax levied or collected by the government for the development or welfare of a particular service or sector**.

- It is **charged over and above direct and indirect taxes.**
- Cess **collected for a particular purpose cannot be used for or diverted to other purposes.**
- It is **not a permanent source of revenue** for the government, and it is discontinued when the purpose levying it is fulfilled.

Examples:
Education Cess, Swachh Bharat Cess, Krishi Kalyan Cess etc.

What is the difference between tax and cess?

- Cess is different from taxes such as income tax, GST, and excise duty etc as **it is charged over and above the existing taxes.**
- While **all taxes go to the Consolidated Fund of India (CFI),** cess may initially go to the CFI but has to be used for the purpose for which it was collected.
- **If the cess collected in a particular year goes unspent,** it cannot be allocated for other purposes. The amount gets carried over to the next year and can only be used for the cause it was meant for.

A **surcharge — or additional charge — is essentially a tax levied on a tax**. It is calculated on payable tax, not on income generated. So a surcharge of, say, 10 per cent on an existing tax rate of 30 per cent effectively raises the total tax rate to 33%.

23.Credit default swap

- It is an example of **a credit derivative transaction** where **credit protection is bought and sold.**
- In a Credit Default Swap (CDS), **one party agrees to pay another party periodic fixed payments in exchange for receiving 'credit event protection',** in the form of a payment, **in the event that a third party or its obligations are subject to one or more pre-agreed adverse credit events over a pre-agreed time period.**
- **Typical credit events include** bankruptcy, failure to pay, obligation acceleration, restructuring, and repudiation/moratorium.

24.Participatory Notes

Participatory Notes or P-Notes (PNs) are financial instruments **issued by a registered foreign institutional investor (FII)** to an overseas investor who wishes to invest in Indian stock markets without registering themselves with the market regulator, **the Securities and Exchange Board of India (SEBI).**

Key points:

- P-Notes are **Offshore Derivative Investments (ODIs)** with equity shares or debt securities as underlying assets.
- They provide **liquidity to the investors** as they can transfer the ownership by endorsement and delivery.
- While the FIIs have to report all such investments each quarter to SEBI, **they need not disclose the identity of the actual investors.**
- **The P-Note holder also does not enjoy any voting rights in relation to security/shares referenced by the P-Note.**

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What are govt & regulator's concerns?
The primary reason why P-Notes are worrying is because of **the anonymous nature of the instrument** as these investors could be beyond the reach of Indian regulators.
Further, there is a view that **it is being used in money laundering** with wealthy Indians, like the promoters of companies, using it to bring back unaccounted funds and to manipulate their stock prices.

25.Sin goods and sin tax

Sin goods are goods which consider harmful to society.
Example of sin goods: Alcohol and Tobacco, Candies, Drugs, Soft drinks, Fast foods, Coffee, Sugar, Gambling and Pornography.

What is sin tax?
It is placed on goods that adversely affect health, most notably tobacco and alcohol.

Regulation in India:
According to the current GST rate structure, some of the sin goods that attract a cess include cigarettes, pan masala and aerated drinks. Apart from sin goods, luxury products like cars also attract a cess.

26.Contingency Fund (CF) of the central bank

Under what provisions does the central government receive money from the RBI?
As per **Section 47 of the RBI Act,** profits or surplus of the RBI are to be transferred to the government, after making various contingency provisions, public policy mandate of the RBI, including financial stability considerations.

What is the Contingency Fund (CF)?
This is a specific provision meant for meeting unexpected and unforeseen contingencies.

- This includes depreciation in the value of securities, risks arising out of monetary/exchange rate policy operations, systemic risks and any risk arising on account of the special responsibilities enjoined upon the Reserve Bank.

This **amount is retained within the RBI.**

RBI's risk provision accounts:
The central bank's main risk provision accounts are Contingency Fund, Currency and Gold Revaluation Account (CGRA), Investment Revaluation Account Foreign Securities (IRA-FS) and Investment Revaluation Account-Rupee Securities (IRA-RS).

What's the CGRA account?
The Currency and Gold Revaluation Account (CGRA) is maintained by the Reserve Bank to take care of currency risk, interest rate risk and movement in gold prices.

- Unrealised gains or losses on valuation of foreign currency assets (FCA) and gold are not taken to the income account but instead accounted for in the CGRA.
- CGRA provides a buffer against exchange rate/ gold price fluctuations. It can come under pressure if there is an appreciation of the rupee vis-à-vis major currencies or a fall in the price of gold.

What are IRA-FS and IRA-RS accounts?
The unrealised gains or losses on revaluation in foreign dated securities are recorded in **the Investment Revaluation Account Foreign Securities (IRA-FS).**
Similarly, the unrealised gains or losses on revaluation is accounted for in **Investment Revaluation Account-Rupee Securities (IRA-RS).**

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27.Priority Sector Lending (PSL)

The Reserve Bank of India has assigned **priority sector lending (PSL)** status to **India's startup sector.**

What is Priority Sector Lending?

- It means those sectors which the Government of India and Reserve Bank of India consider as important for the development of the basic needs of the country and are to be given priority over other sectors.
- The banks are mandated to encourage the growth of such sectors with adequate and timely credit.

RBI guidelines for PSL for scheduled commercial banks:

40% of the total net bank credit should go to a priority sector advances.

1. 10% of the priority sector advances or 10% of the total net bank credit, whichever is higher should go to weaker section.
2. 18% of the total net bank credit should go to agricultural advances. Within the 18 percent target for agriculture, a target of 8 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner.
3. 7.5% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher should go to Micro enterprises.

Priority Sector includes the following categories:

1. Agriculture
2. Micro, Small and Medium Enterprises (MSME)
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others

Regional Rural Banks (RRBs) will have a target of 75 per cent of their outstanding advances for priority sector lending.

Priority Sector Lending Certificates (PSLCs):

Priority Sector Lending Certificates (PSLCs) are **a mechanism to enable banks to achieve the priority sector lending target and sub-targets by purchase of these instruments in the event of shortfall.** This also incentivizes surplus banks as it allows them to sell their excess achievement over targets thereby enhancing lending to the categories under priority sector.

28.Payments Infrastructure Development Fund (PIDF)

In an effort to give a push to **digital payments** across the country, the Reserve Bank of India (RBI) set up **a Payment Infrastructure Development Fund (PIDF)**.

All you need to know about the fund:

Objective: This fund has been created to encourage acquirers to deploy point of sale (PoS) infrastructure, both physical and digital, in tier-3 to tier-6 centres and north eastern states.
Contributions to the fund: The RBI has made an initial contribution of Rs 250 crore covering half the fund. The **remaining will come from the card issuing banks and card networks operating in the country.**

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Management: The fund will be **governed through an advisory council** but it will be **managed and administered by the RBI.**
The fund is also in line with the measures proposed by **the vision document on payment and settlement systems in India 2019-2021.**

Acceptance Development Fund:
In a similar move, the RBI had also proposed to set up an Acceptance Development Fund which will be used **to develop card acceptance infrastructure across small towns and cities.**
The Fund will be used **to ensure growth of card acceptance infrastructure** such as swipe machines across the country particularly in Tier III and Tier VI cities.

29.Rights issue

It is **an offering of shares made to existing shareholders** in proportion to their existing shareholding.

- Companies often offer shares in a rights issue at **a discount on the market price.**
- Rights issues are **used by companies seeking to raise capital without increasing debt.**
- Shareholders are **not obliged to purchase shares offered in a rights issue.**

Why companies go for rights issue?
For a rights issue, **there is no requirement of shareholders' meeting** and an approval from the board of directors is sufficient and adequate. Therefore, **the turnaround time for raising this capital is short and is much suited for the current situation** unlike other forms that require shareholders' approval and may take some time to fructify.

30.Banking Regulation (Amendment) Bill, 2020

Passed in Lok Sabha.

- The Bill proposes amendments to **the Banking Regulation Act, 1949.**
- The central government aims to bring **cooperative banks under the supervision of the Reserve Bank of India (RBI).**

Key changes:

- Now, Provisions applicable to banking companies will also applicable to cooperative banks. This ensures that cooperative banks are equally subject to better governance and sound banking regulations through the Reserve Bank of India (RBI).
- With the amendments, **RBI will be able to undertake a scheme of amalgamation of a bank without placing it under moratorium.**
- It will help **the central bank to develop a scheme to ensure the interest of the public, banking system, account holders in the bank and banking company's proper management,** without disrupting any banking functionalities.
- The amendments also allow **cooperative banks to raise money via public issues and private placements of equity or preference shares as well as unsecured debentures,** with the central's bank's nod.

However, **the changes will not:**

1. Affect the existing powers of the state registrars of co-operative societies under state laws.
2. Apply to Primary Agricultural Credit Societies (PACS) or co-operative societies whose primary object and principal business is long-term finance for agricultural development, and which do not use the words "bank", "banker" or "banking".

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31.Cooperative banks under RBI

Cooperative banks are under the regulatory framework of the Reserve Bank of India (RBI) by amending the seven-decade old **Banking Regulation Act.** The amendments will ***apply to all urban co-operative banks and multi-state cooperative banks.***

As per the changes:

1. Cooperative banks will be audited according to RBI's norms.
2. RBI can supersede the board, in consultation with the state government, if any cooperative bank is under stress.
3. Appointments of chief executives will also require permission from the banking regulator, as is the case for commercial banks.

How cooperative banks were regulated so far?

Cooperative banks were under the dual control of the **Registrar of Cooperative Societies and RBI**. While the role of registrar of cooperative societies includes incorporation, registration, management, audit, supersession of board and liquidation, RBI is responsible for regulatory functions such maintaining cash reserve and capital adequacy, among others.

What are co-operative banks?

- Co-operative banks are ***financial entities established on a co-operative basis and belonging to their members.*** This means that the ***customers of a co-operative bank are also its owners.***
- Co-operative banks are broadly classified into **urban or rural co-operative banks** based on their region of operation.
- UCBs and, among the rural co-operatives, State co-operative banks and district central co-operative banks, are registered either under the **Co-operative Societies Act** of the State concerned or under the **Multi State Co-operative Societies Act, 2002.**
- Banking laws were made applicable to co-operative societies since March 1, 1966.

32.Domestic Systemically Important Insurers (D-SIIs)

Three insurers- Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC) and New India Assurance Co.- have been recognised as **Domestic Systemically Important Insurers (D-SIIs) for 2020-21.**

By?

Insurance Regulator and Development Authority of India (IRDAI).

What are D- SIIs?

D-SIIs refer to insurers of such size, market importance and domestic and global inter-connectedness whose distress or failure would cause a significant dislocation in the domestic financial system.

- D-SIIs are perceived as insurers that are **'too big or too important to fail' (TBTF).**
- Therefore, the continued functioning of D-SIIs is critical for the uninterrupted availability of insurance services to the national economy.

How are they classified?

To identify such insurers and put them to enhanced monitoring mechanism, **IRDAI has developed a methodology for identification and supervision of D-SIIs.**

The parameters, as per the methodology, include:

1. Size of operations in terms of total revenue, including premium underwritten and the value of assets under management.
2. Global activities across more than one jurisdiction.

Implications:

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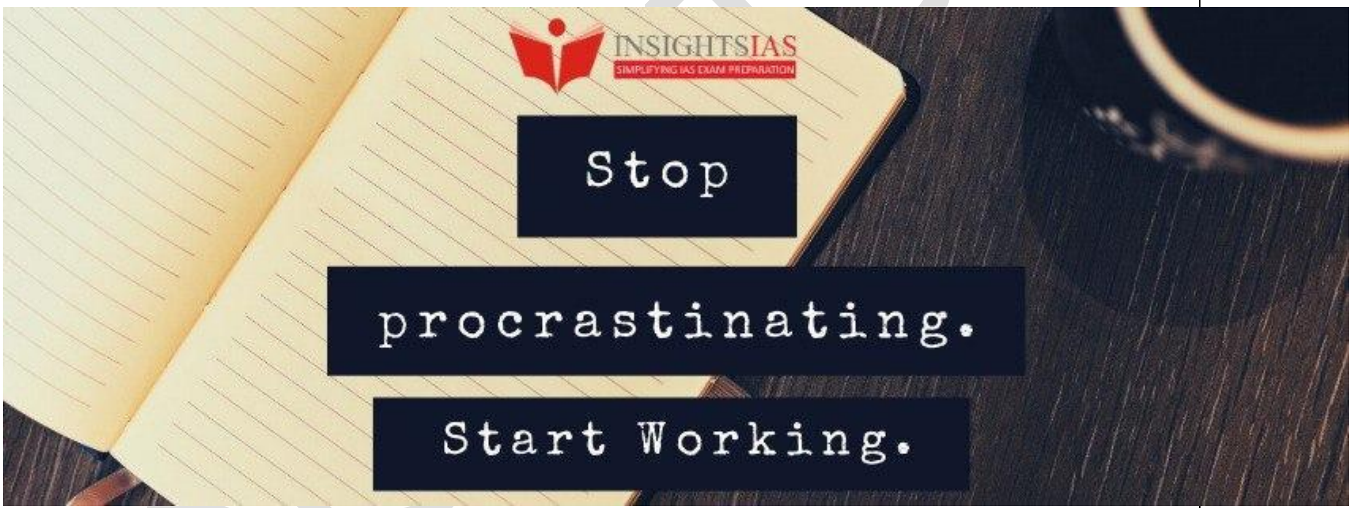
- The three insurers will now be subjected to enhanced regulatory supervision.
- They have also been asked to raise the level of corporate governance, identify all relevant risks and promote a sound risk management culture.

33.Leverage ratio for banks

- The Reserve Bank had relaxed the leverage ratio (LR) for banks to help them boost their lending activities.
- Leverage Ratio must be disclosed on a quarter-end basis. Banks must meet the minimum Leverage Ratio requirement at all times, RBI said.
- **The leverage ratio is defined as the capital measure divided by the exposure measure, expressed as a percentage.** The capital measure is tier 1 capital and the exposure measure includes both on-balance sheet exposure and off-balance sheet items.
- **The leverage ratio measures a bank's core capital to its total assets.** The ratio uses tier 1 capital to judge how leveraged a bank is in relation to its consolidated assets. Tier 1 assets are ones that can be easily liquidated if a bank needs capital in the event of a financial crisis. So, it is basically **a ratio to measure a bank's financial health.**
- The higher the tier 1 leverage ratio, the higher the likelihood of the bank withstanding negative shocks to its balance sheet.
- The leverage ratio is used as a tool by central monetary authorities to ensure the capital adequacy of banks and place constraints on the degree to which a financial company can leverage its capital base.



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External Sector

1. Bilateral Investment Treaty

- A **bilateral investment treaty** (**BIT**) is an agreement establishing the **terms and conditions for private investment** by nationals and companies of one state in another state. This type of investment is called **foreign direct investment (FDI).**
- BITs are established through trade pacts.
- Most BITs grant investments—made by an investor of one Contracting State in the territory of the other—a number of guarantees, which typically include **fair and equitable treatment**, protection from expropriation, free transfer of means and full protection and security.
- The distinctive feature of many BITs is that they allow for an **alternative dispute resolution** mechanism, whereby an investor whose rights under the BIT have been violated could have recourse to international arbitration, often under the auspices of the **International Centre for Settlement of Investment Disputes (ICSID),** rather than suing the host State in its own courts. This process is called **investor-state dispute settlement (ISDS).**
- NGOs have spoken against the use of BITs, stating that they are essentially designed to protect foreign investors and do not take into account obligations and standards to protect the environment, labour rights, social provisions or natural resources.

2. International Association of Insurance Supervisors (IAIS)

The International Financial Services Centres Authority (IFSCA) obtained membership of International Association of Insurance Supervisors (IAIS).

About IAIS:

- Established in 1994, the IAIS headquartered in Switzerland is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions, constituting 97% of the world's insurance premiums.
- It is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector.
- The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.
- In recognition of its collective expertise, the IAIS is routinely called upon by the G20 leaders and other international standard setting bodies.

3. International Financial Services Centres Authority (IFSCA)

The International Financial Services Centres Authority (IFSCA) has introduced **a framework for "Regulatory Sandbox".**

What is a regulatory sandbox?

It is a safe harbour, where businesses can test innovative products under relaxed regulatory conditions.

- Typically, participating companies release new products in a controlled environment to a limited number of customers for a limited period of time.

Now, under the new framework released by IFSCA:

- The Regulatory Sandbox **shall operate within the IFSC located at GIFT City.**
- Entities operating in the **capital market, banking, insurance and financial services space** shall be granted certain facilities and flexibilities to experiment with **innovative FinTech solutions** in a live environment with a limited set of real customers for a limited time frame.
- These features shall be **fortified with necessary safeguards for investor protection and risk mitigation.**

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About the International Financial Services Centres Authority:
- It is a statutory body established in 2020.
- It works under the Department of Economic Affairs, Ministry of Finance.
- Headquartered in Gandhinagar, Gujarat.

Roles and functions:
- Its main function is to develop and regulate the financial products, financial services and financial institutions located/performed in the International Financial Services Centres in India.
- The Authority is empowered to exercise the powers of RBI, SEBI, IRDAI and PFRDA in respect of financial services, financial products and financial institutions performed/located in the international financial services centres in the country.

Composition:
Chairperson, one Member each to be nominated by the Reserve Bank of India (RBI), the Securities Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA), two members to be dominated by the Central Government and two other whole-time or full-time or part-time members.
- They will have a three-year term subject to reappointment.

4. International Financial Services Centres (IFSC)
An IFSC caters to **customers outside the jurisdiction of the domestic economy.**
- Such centres deal with flows of finance, financial products and services across borders.
- London, New York and Singapore can be counted as global financial centres.

Services an IFSC can provide:
- Fund-raising services for individuals, corporations and governments.
- Asset management and global portfolio diversification undertaken by pension funds, insurance companies and mutual funds.
- Wealth management.
- Global tax management and cross-border tax liability optimization, which provides a business opportunity for financial intermediaries, accountants and law firms.
- Global and regional corporate treasury management operations that involve fund-raising, liquidity investment and management and asset-liability matching.
- Risk management operations such as insurance and reinsurance.
- Merger and acquisition activities among trans-national corporations.

Can an IFSC be set up in a special economic zone (SEZ)?
The **SEZ Act 2005** allows setting up **an IFSC in an SEZ or as an SEZ** after approval from the central government.

IFSCs in India:
The first IFSC in India has been set up at **the Gujarat International Finance Tec-City (GIFT City)** in Gandhinagar.

5. Special economic zones (SEZs) in India
- A special economic zone (SEZ) is an area in which the business and trade laws are different from the rest of the country.
- SEZs are located within a country's national borders, and their aims include increased trade balance, employment, increased investment, job creation and effective administration.

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- The main objectives of the SEZ Scheme is generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities along with the development of infrastructure facilities.
- **All laws of India are applicable in SEZs unless specifically exempted as per the SEZ Act/ Rules.**
- Sales in the Domestic Tariff Area from the SEZ units are treated as if the goods are being imported and are subject to payment of applicable customs duties.
- SEZs were introduced to India in 2000, following the already successful SEZ model used in China. Prior to their introduction, India relied on export processing zones (EPZs) which failed to make an impact on foreign investors. By 2005, all EPZs had been converted to SEZs.
- **The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure.**
- **Exemption from Minimum Alternate tax (MAT) was withdrawn w.e.f. 1.4.2012.**

6. Current account surplus

India may record a current account surplus in FY21. This is because there is moderation in import due to under heating of the economy triggered by the Covid-19 crisis.

- This crisis is different from what the world witnessed during **the taper tantrum.**

What is the taper tantrum?

Taper tantrum phenomenon refers to the 2013 collective reactionary response that triggered a spike in US treasury yields, after investors learned that the US Fed was slowly putting brakes on its quantitative easing (QE) program. This led to a surge in inflation to high double digits emerging economies.

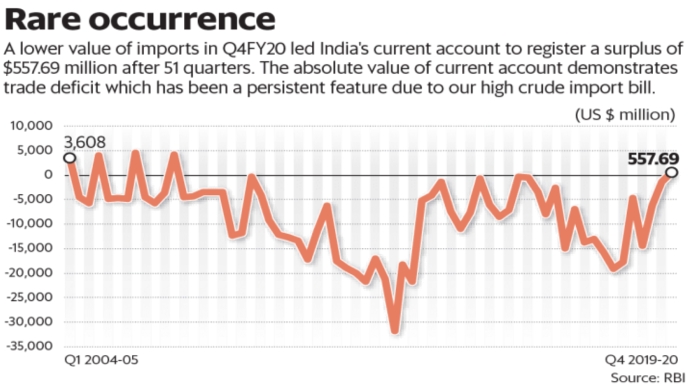
What is the Current Account?

The current account captures **the net trade in goods and services, net earnings on investments, and net transfer payments over a period of time,** typically a year or a quarter.
Essentially, net trade in goods and services is a major component of the current account.

Relevance:

The current account provides important information about the **economic condition of a country**, and a higher balance of the current account usually corresponds to higher exports than imports, indicating a healthy inflow of foreign exchange reserves.

What's India's current account like now?



- India's current account has largely been in deficit due to the higher value of imports compared to exports. Some of the major items we import are crude oil, gold, and electronic items.
- Limited domestic production and issues related to competitiveness of our domestic industry such as land and labour laws, high cost of capital and taxes resulted in stiff competition from cheap imports coming from countries such as China.
- Consequently, our trade deficit with these countries has increased which has had an adverse impact on our current account balances and has come at the expense of our domestic manufacturers.

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A surplus is not a good thing always, then?
A current account surplus **implies a higher inflow of forex than outflow.**
It helps with **an increase in reserves** which is critical for maintaining financial and external sector stability.
- However, in the current situation, an improvement in our current account is coming from lower levels of imports which coincides with muted domestic demand.

7. Line of Credit (LOC)
Delhi, Male ink $400-mn pact for connectivity.
- The **line of credit (LoC)** will fund **the Greater Male Connectivity Project (GMCP).**

What is Line of Credit (LOC)?
The Line of Credit is **not a grant but a 'soft loan'** provided on concessional interest rates to developing countries, which has to be repaid by the borrowing government.
- The LOCs also helps to promote exports of Indian goods and services, as 75% of the value of the contract must be sourced from India.

8. Foreign Contribution (Regulation) Act, 2020
The Union Home Ministry has asked **all NGOs seeking foreign donations to open a designated FCRA account at the State Bank of India's New Delhi branch.**

Background:
In September, 2020 **the Foreign Contribution (Regulation) Act, 2020** was amended by Parliament and a new provision that makes it mandatory for all non-government organisations and associations to receive foreign funds in a designated bank account at SBI's New Delhi branch was inserted.

The **Foreign Contribution (Regulation) Amendment Bill, 2020** seeks to amend the Foreign Contribution (Regulation) Act, 2010. It regulates the **acceptance and utilisation** of foreign contribution by individuals, associations and companies.

- The FCRA is meant to regulate the acceptance and use of foreign contributions and to prevent their use for activities detrimental to national interest.
- This includes gifts and monetary contributions from foreign sources, whether in Indian or foreign currency.
- Organisations which wish to receive foreign donations must have a definite cultural, economic, educational, religious or social programme, and must register under the Act, and receive a clearance from the government.

Amendments in the Bill:
- It seeks to prohibit 'public servants' from receiving any foreign funding.
- Reduce the use of foreign funds to meet administrative costs by NGOs from the existing 50 per cent to 20 per cent.
- It seeks to "prohibit any transfer of foreign contribution to any association/person".
- Make Aadhaar cards a mandatory identification document for all office-bearers, directors and other key functionaries of NGOs or associations eligible to receive foreign donations.

9. Currency Swap Arrangement
- With an objective to strengthen financial stability and economic cooperation, the Reserve Bank of India had revised ***the framework on currency swap arrangement for SAARC countries till 2022.***
- ***What is this Currency Swap Arrangement (CSA)?***

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- This is an arrangement, between two friendly countries, which have regular, substantial or increasing trade, to basically involve in **trading in their own local currencies**, where both pay for import and export trade, at the pre-determined rates of exchange, without bringing in third country currency like the US Dollar.
- In such arrangements ***no third country currency is involved, thereby eliminating the need to worry about exchange variations.***
- Currency swap agreement can be bilateral or multilateral.

- ***Significance of the agreement:***
  1. The currency swap agreement is an important measure in improving the **confidence in the Indian market** and it would not only enable the agreed amount of capital being available to India, but it will also **bring down the cost of capital for Indian entities** while accessing the foreign capital market.
  2. The swap arrangement should aid in bringing **greater stability to foreign exchange and capital markets** in India. With this arrangement in place, prospects of India would further improve in tapping foreign capital for country's developmental needs. This facility will enable the agreed amount of foreign capital being available to India for use as and when the need arises.

10.Forex reserves

Forex reserves are **external assets in the form of gold, SDRs (special drawing rights of the IMF) and foreign currency assets** (capital inflows to the capital markets, FDI and external commercial borrowings) accumulated by India and **controlled by the Reserve Bank of India.**

Why they are important?

1. **Supporting and maintaining confidence in the policies for monetary and exchange rate management** including the capacity to intervene in support of the national or union currency.
2. It will also **limit external vulnerability** by maintaining foreign currency liquidity to absorb shocks during times of crisis or when access to borrowing is curtailed.

What's the significance of rising forex reserves?

- The rising forex reserves give a lot of comfort to the government and the Reserve Bank of India in **managing India's external and internal financial issues** at a time when the economic growth is set to contract by 1.5 per cent in 2020-21.
- It's **a big cushion in the event of any crisis on the economic front** and enough to cover the import bill of the country for a year.
- The rising reserves have also helped **the rupee to strengthen against the dollar.**

Where are India's forex reserves kept?

- **The RBI Act, 1934** provides the overarching legal framework for deployment of reserves in different foreign currency assets and gold within the broad parameters of currencies, instruments, issuers and counterparties.
- As much as 64 per cent of the foreign currency reserves is held in the **securities like Treasury bills of foreign countries,** mainly the US.
- 28 per cent is **deposited in foreign central banks.**
- 7.4 per cent is also **deposited in commercial banks abroad**.
- **India also held 653.01 tonnes of gold** as of March 2020, with 360.71 tonnes being held overseas in safe custody with the Bank of England and the Bank for International Settlements, while the remaining gold is held domestically.

11.Special Drawing Right (SDR)

The Special Drawing Right (SDR) is an **interest-bearing international reserve asset** created by the IMF in 1969 to supplement other reserve assets of member countries.

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The SDR is based on a basket of international currencies comprising the **U.S. dollar, Japanese yen, euro, pound sterling and Chinese Renminbi**. It is not a currency, nor a claim on the IMF, but is potentially a claim on freely usable currencies of IMF members.

The value of the SDR is not directly determined by supply and demand in the market, but is set daily by the IMF on the basis of market exchange rates between the currencies included in the SDR basket.

It can be held and used by member countries, the IMF, and certain designated official entities called "prescribed holders"—**but it cannot be held, for example, by private entities or individuals**.

Its status as a reserve asset derives from the commitments of members to hold, accept, and honor obligations denominated in SDR. The SDR also serves as the unit of account of the IMF and some other international organizations.

12.International Comparison Program

The **World Bank** has released new **Purchasing Power Parities (PPPs)** for reference year 2017, under **International Comparison Program (ICP),** that adjust for differences in the cost of living across economies of the World.

What is ICP?

International Comparison Program (ICP) is **the largest worldwide data-collection initiative,** under the guidance of **UN Statistical Commission (UNSC).**

- The goal is of producing **Purchasing Power Parities (PPPs)** which are vital for converting measures of economic activities to be comparable across economies.
- Along with the PPPs, the ICP also produces **Price Level Indices (PLI) and other regionally comparable aggregates of GDP expenditure.**
- The next ICP comparison will be conducted for reference year 2021.

India and the ICP:

- India has **participated in almost all ICP rounds since its inception in 1970.**
- The **Ministry of Statistics and Programme Implementation** is **National Implementing Agency (NIA)** for India, which has the responsibility of planning, coordinating and implementing national ICP activities.
- India has also been **a co-Chair of the ICP Governing Board along with Statistics Austria for the ICP 2017 cycle.**

13.Capital Adequacy Ratio (CAR)

- The capital-to-risk weighted assets ratio, also known as the Capital Adequacy Ratio (CAR) is the ratio of a **bank's capital in relation to its risk weighted assets and current liabilities**. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.
- The risk weighted assets take into account credit risk, market risk and operational risk.
- The Basel III norms stipulated a capital to risk weighted assets of 8%. As per RBI guidelines, banks are required to maintain a minimum Capital to Risk-weighted Assets (CRAR) of 9%.

14.Basel guidelines

Basel guidelines refer to broad supervisory standards formulated by group of central banks- called **the Basel Committee on Banking Supervision (BCBS).** The set of agreement by the BCBS, which mainly focuses on risks to banks and the financial system are called **Basel accord.**

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- **Basel is a city in Switzerland** which is also **the headquarters of Bureau of International Settlement (BIS).**
- The purpose of the accords is **to ensure that financial institutions have enough capital on account to meet obligations and absorb unexpected losses.**

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

BASEL-II:
Published in **2004**.
The guidelines were based on three parameters:
- Banks should maintain a minimum capital adequacy requirement of 8% of risk assets.
- Banks were needed to develop and use better risk management techniques in monitoring and managing all the three types of risks that is credit and increased disclosure requirements. The three types of risk are- operational risk, market risk, capital risk.
- Banks need to mandatory disclose their risk exposure to the central bank.

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

15.Washington Consensus
- **The Washington Consensus refers to a set of free-market economic policies** supported by prominent financial institutions such as the International Monetary Fund, the World Bank, and the U.S. Treasury. A British economist named John Williamson coined the term Washington Consensus in 1989.
- The ideas were intended to help developing countries that faced economic crises. In summary, The Washington Consensus recommended structural reforms that increased the role of market forces in exchange for immediate financial help. Some examples include free-floating exchange rates and free trade.

16.Anti-Dumping Duty
- An anti-dumping duty is a **protectionist tariff** that a domestic government imposes on foreign imports that it believes are priced below fair market value.
- Dumping is a process wherein a company exports a product at a price that is significantly lower than the price it normally charges in its home (or its domestic) market.
- **Directorate General of Trade Remedies (DGTR)** conducts anti-dumping investigations, under the **Customs Tariff Act, 1975** and the rules made thereunder, on the basis of a duly substantiated application filed by the domestic industry alleging dumping of goods into the country causing injury to the domestic industry.
- The basic intent of anti-dumping measures is to eliminate injury caused to the domestic industry by the **unfair trade practice of dumping and to create a level playing field for the domestic industry.**

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Infrastructure: Energy, Ports, Roads, Airports, Railways etc.

1. National Infrastructure Pipeline (NIP)

- In the budget speech of 2019-2020, Finance Minister announced an outlay of Rs 100 lakh Crore for infrastructure projects over the next 5 years.
- **NIP is a first-of-its-kind initiative to provide world-class infrastructure across the country and improve the quality of life for all citizens.**
- It will improve project preparation, attract investments (both domestic & foreign) into infrastructure, and will be crucial for attaining the target of becoming a $5 trillion economy by FY 2025.
- Covers both **economic and social infrastructure projects.**

Important recommendations and observations made by Atanu Chakraborty taskforce:

- Investment needed: ₹111 lakh crore over the next five years (2020-2025) to build infrastructure projects and drive economic growth.
- Energy, roads, railways and urban projects are estimated to account for the bulk of projects (around 70%).
- The centre (39 percent) and state (40 percent) are expected to have an almost equal share in implementing the projects, while the private sector has 21 percent share.
- Aggressive push towards asset sales.
- Monetisation of infrastructure assets.
- Setting up of development finance institutions.
- Strengthening the municipal bond market.

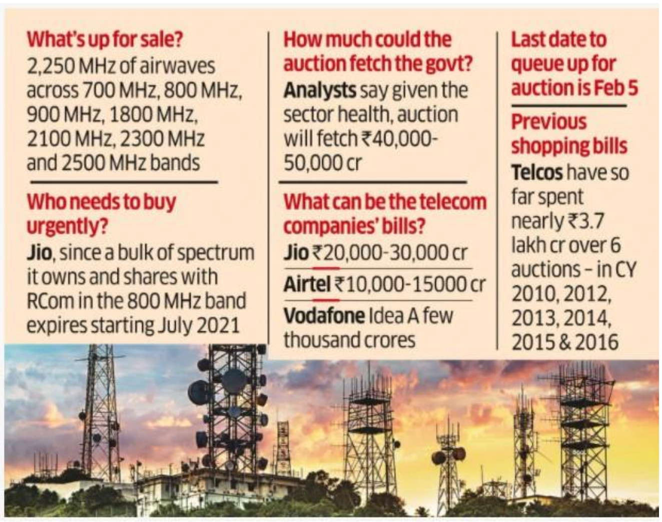
2. Spectrum auctions

A spectrum auction is a process whereby a government uses an auction system to sell the rights to transmit signals over specific bands of the electromagnetic spectrum and to assign scarce spectrum resources.

Spectrum auctions in India

Devices such as cellphones and wireline telephones require signals to connect from one end to another. These **signals are carried on airwaves**, which must be sent at designated frequencies to avoid any kind of interference.

- The **Union government owns all the publicly available assets within the geographical boundaries of the country, which also include airwaves.**
- With the expansion in the number of cellphone, wireline telephone and internet users, the need to provide more space for the signals arises from time to time.
- To sell these assets to companies willing to set up the required infrastructure to transport these waves from one end to another, the **central government through the Department of Telecommunications (DoT) auctions** these airwaves from time to time.
- **These airwaves are called spectrum**, which is subdivided into bands which have varying frequencies.
- All these airwaves are sold for a certain period of time, after which their validity lapses, which is generally set at 20 years.



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The likely bidder for the spectrum

All three private telecom players, **Reliance Jio Infocomm, Bharti Airtel, and Vi** are eligible contenders to buy additional spectrum to support the number of users on their network.

- **Apart from these three,** new companies, **including foreign companies**, are also eligible to bid for the airwaves.
- **Foreign companies, however, will have to either set up a branch in India and register as an Indian company, or tie up with an Indian company** to be able to retain the airwaves after winning them.

3. Renewable Energy Park

Prime Minister Narendra Modi laid the foundation stone for **the 30,000 MW project in Gujarat's Kutch district,** billed as **the largest of its kind in the world.**

- The project site is about 25 km from **Khavda,** which is **the last point that can be accessed by civilians in the area.**

The renewable energy park will have two zones:

1. A 49,600-hectare hybrid park zone that will accommodate wind and solar power plants of 24,800 MW capacities.
2. An exclusive wind park zone spread over 23,000 hectares.

Who will set up the wind and solar projects in this park?

- Allotted to Solar Energy Corporation of India (SECI) to set up wind projects under the competitive bidding route policy.
- Power Grid Corporation of India will evacuate the power produced at this park.

Renewable energy capacity of India:

- RENEWABLE ENERGY HAS A SHARE OF **23.39% IN THE TOTAL INSTALLED GENERATION CAPACITY** IN THE COUNTRY i.e. 368.98 GW (Upto 29th February, 2020).
- India now at **5TH GLOBAL POSITION for overall installed renewable energy capacity.**
- RENEWABLE ENERGY INSTALLED CAPACITY INCREASED **226% IN LAST 5 YEARS.**

4. National Investment and Infrastructure Fund (NIIF)

The government had set up **the ₹40,000 crore NIIF in 2015** as an investment vehicle for funding commercially viable greenfield, brownfield and stalled infrastructure projects.

- **NIIF's mandate** includes investing in areas such as energy, transportation, housing, water, waste management and other infrastructure-related sectors in India.
- **NIIF currently manages three funds** each with its distinctive investment mandate. The funds are registered as **Alternative Investment Fund (AIF) with the Securities and Exchange Board of India (SEBI).**

NIIF Investors:

- The NIIF signed the first investment deal of worth USD 1 billion with the Abu Dhabi Investment Authority (ADIA) in October 2017. **The ADIA became the first-ever international investor in the NIIF's master fund.**
- The Indian Government holds a 49% share in the NIIF. Domestic investors such as ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Life are the other notable investors in the NIIF.
- The Asian Infrastructure Investment Bank in June 2018 announced to invest USD 200 million.

The three funds are:

1. **Master Fund:** Is an infrastructure fund with the objective of primarily investing in operating assets in the core infrastructure sectors such as roads, ports, airports, power etc.

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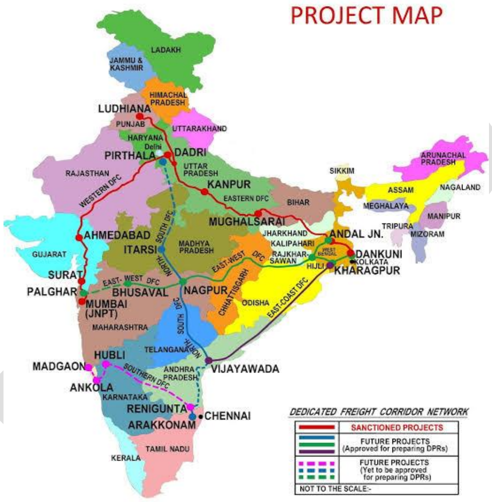
2. **Fund of Funds:** Managed by fund managers who have good track records in infrastructure and associated sectors in India. Some of the sectors of focus include Green Infrastructure, Mid-Income & Affordable Housing, Infrastructure services and allied sectors.
3. **Strategic Investment Fund:** Is registered as an Alternative Investment Fund II under SEBI in India. The objective is to invest largely in equity and equity-linked instruments. It will focus on green field and brown field investments in the core infrastructure sectors.

5. Dedicated Freight Corridor

- Under the **Eleventh Five Year Plan** of India (2007–12), the Ministry of Railways started constructing a new Dedicated Freight Corridor (DFC) in two long routes, namely the **Eastern and Western freight corridors**.
- The two routes cover a total length of 3,360 kilometres (2,090 mi), with the **Eastern Dedicated Freight Corridor stretching from Ludhiana in Punjab to Dankuni in West Bengal** and the **Western Dedicated Freight Corridor from Jawaharlal Nehru Port in Mumbai to Dadri in Uttar Pradesh.**
- **Dedicated Freight Corridor Corporation of India Limited (DFCCIL)** is a Public Sector Undertaking (PSU) corporation run by the Government of India's Ministry of Railways to undertake planning, development, and mobilisation of financial resources and construction, maintenance and operation of the "Dedicated Freight Corridors" (DFC).



- The DFCCIL was registered as a company under the Companies Act 1956 in 2006.

6. Central Electricity Regulatory Commission (CERC)

- CERC is **a statutory body** functioning under **Sec 76 of the Electricity Act 2003.**
- It was initially constituted under the Electricity Regulatory Commissions Act, 1998 in the year 1998.
- The Commission intends to promote competition, efficiency and economy in bulk power markets, improve the quality of supply, promote investments and advise government on the removal of institutional barriers to bridge the demand supply gap and thus foster the interests of consumers.

7. Gujarat Maritime Cluster

Gujarat Maritime Board (GMB) has been trying to develop such **a maritime cluster** at GIFT City in the state capital Gandhinagar through its subsidiary Gujarat Ports Infrastructure and Development Company Ltd (GPIDCL).

What is a maritime cluster?
It is an agglomeration of firms, institutions, and businesses in the maritime sector that are geographically located close to each other.

- This concept is new to India, but these clusters have been driving some of the most competitive ports of the world like Rotterdam, Singapore, Hong Kong, Oslo, Shanghai, and London.

Unique institutions at the Gujarat Maritime Cluster:

- **Gujarat Maritime University** will be set up.
- Within this, **an Alternate Dispute Resolution (ADR) Centre** will be set up.

- This centre will provide an option to Indian players seeking to avoid availing the services of international alternate dispute resolution hubs which entail huge costs, time, and travel.
- The cluster is also expected to house the office of **the Director General of Shipping.**

8. Natural Gas Marketing Reforms

The Cabinet has approved the reforms to push the usage of Natural Gas.

The reforms:

- The government will initiate **standardised e-bidding** for bringing transparency in the price of Natural Gas in the country.
- **Affiliate companies will be allowed to participate in the bidding process** in view of the open, transparent and electronic bidding.

About Natural Gas:

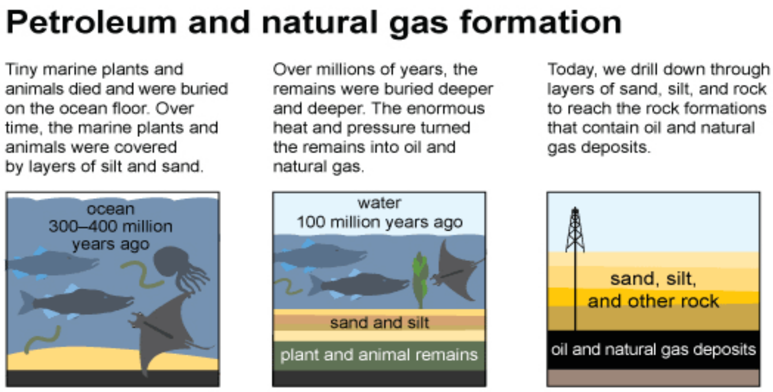
Natural gas is **the cleanest fossil fuels among the available fossil fuels.**

- It is a **naturally occurring hydrocarbon gas** mixture **consisting primarily of** methane, but commonly including varying amounts of other higher alkanes, and sometimes a small percentage of carbon dioxide, nitrogen, hydrogen sulfide, or helium.
- It is **a potent greenhouse gas** itself when released into the atmosphere, and **creates carbon dioxide during oxidation.**

Fossil Fuel Emission Levels
- Pounds per Billion Btu of Energy Input

Pollutant	Natural Gas	Oil	Coal
Carbon Dioxide	117,000	164,000	208,000
Carbon Monoxide	40	33	208
Nitrogen Oxides	92	448	457
Sulfur Dioxide	1	1,122	2,591
Particulates	7	84	2,744
Mercury	0.000	0.007	0.016

Source: EIA - Natural Gas Issues and Trends 1998



Source: Adapted from National Energy Education Development Project (public domain)

Uses:

- It is used as a feedstock in the manufacture of fertilizers, plastics and other commercially important organic chemicals as well as used as a fuel for electricity generation, heating purpose in industrial and commercial units.
- Natural gas is also used for cooking in domestic households and a transportation fuel for vehicles.

9. India's first seaplane project

India's first seaplane service began in **Gujarat.**

- It will **connect Sabarmati Riverfront in Ahmedabad to the Statue of Unity in Kevadia.**
- The service will be **operated by Spicejet Airlines.**
- Unlike a conventional aircraft, **a seaplane can land both on a waterbody and on land.**

Environmental concerns:

The water aerodrome is not a listed project/activity in the Schedule to **the Environmental Impact Assessment Notification, 2006 and its amendments.**

- However, the Expert Appraisal Committee was of the opinion that the activities proposed under **the water aerodrome project may have a similar type of impact as that of an airport.**

May affect Shoolpaneshwar Wildlife Sanctuary:

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- The sanctuary is located at an approximate aerial distance of 2.1 km from the proposed project site.

Positive impact on the environment:
During seaplane operations, there will be **turbulence created in the water while takeoff and landing of seaplanes.**
- This will lead to more operation process i.e. **mixing of oxygen in the water.**
- This will have a positive impact on the aquatic ecosystem near seaplane operations **increasing oxygen content and decreasing carbon content in this system.**

How are these services regulated?
Inland Waterways Authority of India (IWAI) will manage the Project of Seaplane in Inland Waterways and **Sagarmala Development Company Limited (SDCL)** will manage the Projects of seaplane in Coastal Areas.
- IWAI and SDCL will coordinate with the Ministry of Shipping, flight operators, Ministry of Tourism as well as DGCA.

10.BOT, HAM and EPC projects

1. **Build Operate and Transfer (BOT) Annuity model:**

- Under this, a developer builds a highway, operates it for a specified duration and transfers it back to the government.
- The government starts payment to the developer after the launch of commercial operation of the project.

2. **Engineering, Procurement and Construction (EPC) Model:**

- Under this model, **the cost is completely borne by the government.**
- Government invites bids for engineering knowledge from the private players. Procurement of raw materials and construction costs are met by the government.

3. **The Hybrid Annuity Model (HAM):**

- In India, the new HAM is a mix of BOT Annuity and EPC models.
- As per the design, the government will contribute to 40% of the project cost in the first five years through annual payments (annuity). The remaining payment will be made on the basis of the assets created and the performance of the developer.
- Here, the developer has **to raise the remaining 60% in the form of equity or loans. There is no toll right for the developer.**
- **Revenue collection would be the responsibility of NHAI.**

11.Coal Gasification and Liquefaction

What is coal gasification?
It is **the process of producing syngas,** a mixture consisting carbon monoxide (CO), hydrogen (H_2), carbon dioxide (CO_2), natural gas (CH_4), and water vapour (H_2O).
- During gasification, coal is blown with oxygen and steam while also being heated under high pressure. During the reaction, oxygen and water molecules oxidize the coal and produce syngas.

Benefits of gasification:
1. Transporting gas is a lot cheaper than transporting coal.
2. Help address local pollution problems.
3. Has greater efficiency than conventional coal-burning because it can effectively use the gases twice: the coal gases are first cleansed of impurities and fired in a turbine to generate

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electricity. The exhaust heat from the gas turbine can be captured and used to generate steam for a steam turbine-generator.

Concerns and challenges:

Coal gasification is one of the **more water-intensive forms of energy production.**

There are also **concerns about water contamination, land subsidence and disposing of waste water safely.**

What is coal liquefaction?

Also called **Coal to Liquid (CTL) technology,** it is **an alternative route to produce diesel and gasoline** and makes economic sense only in a world of high crude oil prices.

- The **process involves** gasification of coal, which in turn will produce synthetic gas (a mix of $CO+H_2$). The synthetic gas can be liquefied to its fuel equivalent in presence of cobalt/iron-based catalysts at higher pressure and temperature.
- However, **liquefied coal emits twice as much CO_2 as burning oil. It also emits a large volume of SO_2.**

Benefits of liquefaction:

The CO_2 emissions are more readily and cheaply captured from CTL plants than from conventional coal-fired power stations. The captured CO_2 can be transported and injected into underground storage reservoirs (a procedure known as “carbon capture and storage”—CCS—or “geosequestration”).

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Reports / Ranking / Committees / Awards / Events

1. India Innovation Index

Second edition of the NITI Aayog's India Innovation Index has been released.

Best performers

Four of the five highest scoring major States in the India Innovation Index are from the south

Rank	Major States	Score
1	Karnataka	42.5
2	Maharashtra	38.03
3	Tamil Nadu	37.91
4	Telangana	33.23
5	Kerala	30.58
6	Haryana	25.81
7	Andhra Pradesh	24.19
8	Gujarat	23.63
9	Uttar Pradesh	22.85
10	Punjab	22.54

About the index:

The index attempts to create an extensive framework for the continual evaluation of the innovation environment of states and union territories in India and intends to perform the following three functions:

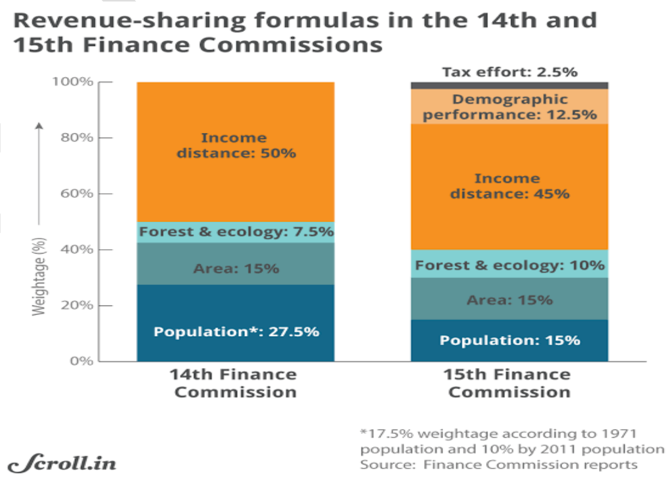
- Ranking of states and UTs based on their index scores.
- Recognizing opportunities and challenges.
- Assisting in tailoring governmental policies to foster innovation.

The Index is calculated as the average of the scores of its two dimensions – Enablers and Performance.

- The Enablers are the factors that underpin innovative capacities, grouped in five pillars: (1) Human Capital, (2) Investment, (3) Knowledge Workers, (4) Business Environment, and (5) Safety and Legal Environment.
- The Performance dimension captures benefits that a nation derives from the inputs, divided in two pillars: (6) Knowledge Output and (7) Knowledge Diffusion.

2. Fifteenth Finance Commission

The **Fifteenth Finance Commission** led by **Chairman N K Singh,** submitted its **Report to the President of India.**



Terms of reference (ToR):

1. Apart from the **vertical and horizontal tax devolution, local government grants, disaster management grant**, the Commission was also asked to examine and recommend **performance incentives for States** in many areas like power sector, adoption of DBT, solid waste management etc.
2. The Commission was also asked to examine whether a separate mechanism for funding of defence and internal security ought to be set up and if so how such a mechanism could be operationalised.

Finance Commissions generally submit their reports for a five-year duration. The 15th FC, however, was given an extension of a year due to uncertainties in key macro areas (new monetary policy framework, GST, bankruptcy code, demonetisation, etc.).

What is the Finance Commission?

The Finance Commission is **a constitutionally mandated body that is at the centre of fiscal federalism.**

NOTES

- **Set up under Article 280 of the Constitution,** its core responsibility is to evaluate the state of finances of the Union and State Governments, recommend the sharing of taxes between them, lay down the principles determining the distribution of these taxes among States.

The recommendations of the Finance Commission are implemented as under: -

- **Those to be implemented by an order of the President:** The recommendations relating to distribution of Union Taxes and Duties and Grants-in-aid fall in this category.
- **Those to be implemented by executive orders:** Other recommendations to be made by the Finance Commission, as per its Terms of Reference

Cess and surcharge is not part of the divisible pool. However, it's not in the hands of the Finance Commission to cap it. This requires a constitutional amendment. It was in 2000 during the period of (then PM) Atal Bihari Vajpayee when there was a constitutional amendment that kept cess and surcharge outside the divisible pool. **If cess and surcharge are to be part of the divisible pool, there has to be a constitutional amendment.**

Between the 14th and 15th (Finance Commissions), the incidence of cess and surcharge has gone up.

3. Kamath panel report

K.V. Kamath Committee report on recommendations to bail out sectors affected by the COVID-19 pandemic.

When was the committee setup?

In August 2020, RBI set up a committee headed by K.V. Kamath on restructuring of loans impacted by the Covid-19 pandemic.

- The Committee was tasked to recommend parameters for one-time restructuring of corporate loans.

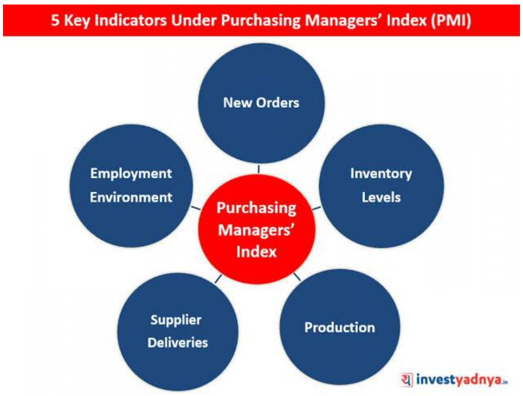
Recommendations made by the Committee:

- **Graded approach** to restructuring of stressed accounts based on severity of the impact on the borrowers- Banks can classify the accounts into mild, moderate and severe as recommended by the committee.
- **Five financial parameters to gauge the health of sectors facing difficulties-** total outside liabilities to adjusted tangible networth, total debt to earnings before interest, taxes, depreciation, and amortization (Ebitda), debt service coverage ratio (DSCR), current ratio and average debt service coverage ratio (ADSCR).

4. Purchasing Manager's Index (PMI)

PMI is an indicator of business activity- in the **manufacturing and services sectors.**

It is a survey-based measure that asks the respondents about **changes in their perception about key business variables as compared with the previous month.**



The PMI is a number from 0 to 100:

- PMI above 50 represents an expansion when compared to the previous month;
- PMI under 50 represents a contraction, and
- A reading at 50 indicates no change.

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5. Consumer Price Index for Industrial Workers (CPI-IW)

The Labour and Employment Ministry has revised the base year of the Consumer Price Index for Industrial Workers (CPI-IW) from 2001 to 2016.

- This was revised to reflect the changing consumption pattern, giving more weightage to spending on health, education, recreation and other miscellaneous expenses, while reducing the weight of food and beverages.

Uses of CPI-IW: It is used for measuring inflation in retail prices and is also used to regulate the dearness allowance (DA) of government staff and industrial workers, as well as to revise minimum wages in scheduled employments.

The **Labour Bureau**, an attached office of the M/o Labour& Employment, has been **compiling Consumer Price Index for Industrial Workers** every month on the basis of retail prices collected from 317 markets spread over 88 industrially important centres in the country.

6. State of Food Security and Nutrition in the World 2020 (SOFI 2020)

The **State of Food Security and Nutrition in the World** is **an annual flagship report jointly prepared by:**

1. Food and Agriculture Organization.
2. International Fund for Agricultural Development.
3. United Nations Children's Fund.
4. World Food Programme.
5. World Health Organization.

Objective of the report: To inform on progress towards ending hunger, achieving food security and improving nutrition and to provide in depth analysis on key challenges for achieving this goal in the context of the 2030 Agenda for Sustainable Development.

A new feature of SOFI 2020 is **a detailed analysis of the "cost and affordability of healthy diets around the world".**

India-specific observations:

1. Hundreds of millions of people in India above **the international poverty line of $1.90 purchasing power parity (PPP) per person per day** cannot afford a healthy or nutritious diet.
2. This analysis confirms the fact that **the problem of poor nutrition in India is largely on account of the unaffordability of good diets,** and not on account of lack of information on nutrition or tastes or cultural preferences.

NOTES

Departments / Agencies

1. National Company Law Appellate Tribunal

Constituted under **Companies Act, 2013.**

Functions:

It hears appeals against the orders of:

1. NCLT under Section 61 of the Insolvency and Bankruptcy Code, 2016 (IBC).
2. Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC.
3. The Competition Commission of India (CCI).

Composition:

The **President of the Tribunal and the chairperson and Judicial Members of the Appellate Tribunal** shall be **appointed after consultation with the Chief Justice of India.**

The Members of the Tribunal and the Technical Members shall be appointed on the recommendation of a Selection Committee consisting of:

1. Chief Justice of India or his nominee—Chairperson.
2. A senior Judge of the Supreme Court or a Chief Justice of High Court— Member.
3. Secretary in the Ministry of Corporate Affairs—Member.
4. Secretary in the Ministry of Law and Justice—Member.
5. Secretary in the Department of Financial Services in the Ministry of Finance— Member.

Eligibility:

1. **Chairperson** – Should be/been judge of the Supreme Court or should be/been Chief Justice of the High Court.
2. **Judicial Member** – Is/has been a judge of a High Court or is a judicial member of a tribunal for 5 years or more.
3. **Technical member**- Person with proven ability, integrity and standing having special knowledge and experience of 25 years or more (in specified areas).

Term:

Term of office of chairperson and members is 5 years and they can be reappointed for additional 5 years.

2. Indian Banks' Association (IBA)

Formed in 1946.

- It is a representative body of management of banking in India operating in India - an association of Indian banks and financial institutions based in Mumbai.
- IBA was formed for development, coordination and strengthening of Indian banking, and assist the member banks in various ways including implementation of new systems and adoption of standards among the members.

Members:

With an initial membership representing 22 banks in India in 1946, IBA currently represents 237 banking companies operating in India.

3. Insurance Ombudsman

The **Insurance Regulatory and Development Authority of India (IRDAI)** has advised public sector general insurers to appoint a nodal officer each for **insurance ombudsman offices** to ensure proper and timely disposal of complaints.

About Insurance Ombudsman:

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The Insurance Ombudsman scheme was created by the Government of India for individual policyholders to have their complaints settled out of the courts system in a cost-effective, efficient and impartial way.

Who can approach?
Any person who has a grievance against an insurer, may himself or through his legal heirs, nominee or assignee, make a complaint in writing to the Insurance ombudsman.

One can approach the Ombudsman with complaint only if:
One has first approached insurance company with the complaint and;
1. They have rejected it
2. Not resolved it to satisfaction or
3. Not responded to it at all for 30 days

And the value of the claim including expenses claimed should not be above Rs 30 lakhs.

Appointment of Ombudsman:
The Ombudsman is a person in the insurance industry, civil or judicial services, and is appointed by the insurance council.
- The serving term of the Insurance Ombudsman is three years.

The settlement process:
Recommendation:
The Ombudsman will act as mediator and
- Arrive at a fair recommendation based on the facts of the dispute
- If you accept this as a full and final settlement, the Ombudsman will inform the company which should comply with the terms in 15 days

Award:
If a settlement by recommendation does not work, the Ombudsman will Pass an award within 3 months of receiving all the requirements from the complainant and which will be binding on the insurance company.

Once the Award is passed:
The Insurer shall comply with the award within 30 days of the receipt of award and intimate the compliance of the same to the Ombudsman.

4. India Energy Modeling Forum

Jointly launched by **NITI Aayog and United States Agency for International Development (USAID)** under the US–India Strategic Energy Partnership.
Composition: The forum would include knowledge partners, data agencies and concerned government ministries.

The Forum aims to:
1. Provide a platform to examine important energy and environmental related issues;
2. Inform decision-making process to the Indian government;
3. Improve cooperation between modelling teams, government, and knowledge partners, funders;
4. Facilitate exchange of ideas, ensure production of high-quality studies;
5. Identify knowledge gaps at different levels and across different areas;
6. Build capacity of Indian institutions.

What is Energy Modelling?

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Energy modeling or energy system modeling is the process of building computer models of energy systems in order to analyze them.

- Such models often employ scenario analysis to investigate different assumptions about the technical and economic conditions at play.
- Outputs may include the system feasibility, greenhouse gas emissions, cumulative financial costs, natural resource use, and energy efficiency of the system under investigation.

What are Energy Modelling Forums (EMF)?

The Energy Modelling Forum (EMF) in USA was **established in 1976 at Stanford University** to connect leading modelling experts and decision makers from government, industry, universities, and other research organizations.

- The forum provides an unbiased platform to discuss the contemporary issues revolving around energy and environment.

5. Deputy Governors of RBI

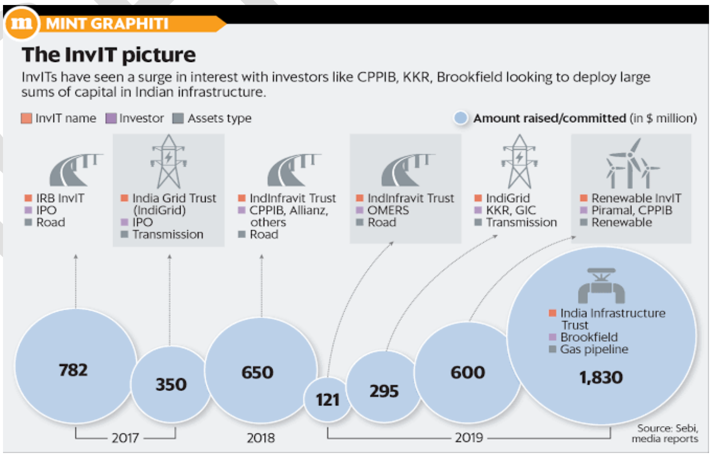
The Appointments Committee of the Cabinet approves the appointment of Deputy Governor of RBI.

How many deputy Governors are there in RBI?

As per the RBI Act, the central bank should have **four deputy governors --** two from within the ranks, one commercial banker and another an economist to head the monetary policy department.

- The deputy governor appointments are made for an initial period of three years and the person is eligible for reappointment.

6. Infrastructure Investment Trusts (InvITs)



- It is **a Collective Investment Scheme** similar to a mutual fund, which **enables direct investment of money from individual and institutional investors in infrastructure projects** to earn a small portion of the income as return.
- The InvITs are **regulated by the SEBI (Infrastructure Investment Trusts) Regulations, 2014.**

Structure of InvITs:

They have a trustee, sponsor(s), investment manager and project manager.

- Trustee (certified by Sebi) has the responsibility of inspecting the performance of an InvIT.
- Sponsor(s) are promoters of the company that set up the InvIT.
- **Investment manager** is entrusted with the task of supervising the assets and investments of the InvIT.
- Project manager is responsible for the execution of the project.

How does it benefit the investor?

- InvITs enable investors to buy a small portion of the units being sold by the fund depending upon their risk appetite.

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- Given that such trusts comprise largely of completed and operational projects with positive cash flow, the risks are somewhat contained.
- Unitholders also benefit from favourable tax norms, including exemption on dividend income and no capital gains tax if units are held for more than three years.

NOTES

Miscellaneous

1. Non-price competition

- Non-price competition refers to competition between companies that focuses on benefits, extra services, good workmanship, product quality – plus all other features and measures that do not involve altering prices.
- It contrasts with price competition, in which rivals try to gain market share by reducing their prices.
- Non-price competition is often adopted by the competing players in a sector in order to prevent a price war, which can lead to a damaging spiral of price cuts.

2. Data Localisation Norms

The **National Payments Corporation of India (NPCI)** has allowed **WhatsApp** to start its payments service in the country in a 'graded' manner. NPCI has given its nod to WhatsApp to offer payments services via **the Unified Payments Interface.**

What is UPI?

Unified Payments Interface or UPI is an immediate real-time payment system **developed by the National Payments Corporation of India (NCPI)**.

It was **introduced in April 2016** as a pilot project and is **regulated by the Reserve Bank of India (RBI).**

As per the data- localisation norms set by RBI:

1. While there is no bar on the processing of payment transactions outside India, **the Payment System Operators (PSOs)** will have to ensure **the data is stored only in India after the processing.**
2. **In case the processing is done abroad,** the data should be deleted from the systems abroad and brought back to India not later than the one business day or 24 hours from payment processing, whichever is earlier. The same should be stored only in India.
3. The **data stored in India can be accessed for handling customer disputes**, whenever required.
4. **The payment system data may be shared with an overseas regulator** if required, but with the approval of RBI.
5. **Some banks, especially foreign, that had been permitted to store the banking data abroad may continue to do so.** However, in respect of domestic payment transactions, the data shall be stored only in India.

The data stored domestically must include:

- End-to-end transaction details and information related to payment or settlement transaction collected or processed as part of a payment.
- Information such as customer name, mobile number, email, Aadhaar number, PAN number.
- Payment sensitive data such as customer and beneficiary account details; payment credentials such as OTP, PIN, Passwords.

3. Nobel Prize in Economics

The 2020 Nobel Prize in Economic Sciences has been awarded to Paul R. Milgrom and Robert B. Wilson **"for improvements to auction theory and inventions of new auction formats."**

What you need to know about the 'Auction theory'?

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The outcome of an auction (or procurement) depends on three factors:

1. Auction's rules, or format.
2. Highest bid.
3. Uncertainty.

Using auction theory, it is possible to explain how these three factors govern the bidders' strategic behaviour and thus the auction's outcome.

- The theory can also show how to design an auction to create as much value as possible.

4. Trademark

In layman's language, it is **a visual symbol which may be a word signature, name, device, label, numerals or combination of colours** used by one undertaking **on goods or services or other articles of commerce** to distinguish it from other similar goods or services originating from a different undertaking.

The legal requirements to register a trademark under the Act are:

1. The selected mark should be capable of being represented graphically (that is in the paper form).
2. It should be capable of distinguishing the goods or services of one undertaking from those of others.
3. It should be used or proposed to be used mark in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services and some person have the right to use the mark with or without identity of that person.

Different types of trademarks that may be registered in India:

1. Any name (including personal or surname of the applicant or predecessor in business or the signature of the person), which is not unusual for trade to adopt as a mark.
2. An invented word or any arbitrary dictionary word or words, not being directly descriptive of the character or quality of the goods/service.
3. Letters or numerals or any combination thereof.
4. The right to proprietorship of a trademark may be acquired by either registration under the Act or by use in relation to particular goods or service.
5. Devices, including fancy devices or symbols
6. Monograms
7. Combination of colors or even a single color in combination with a word or device
8. Shape of goods or their packaging
9. Marks constituting a 3- dimensional sign.
10. Sound marks when represented in conventional notation or described in words by being graphically represented.

Registrar:

The **Controller General of Patents, Designs and Trade Marks** heads the TRADE MARKS Registry offices and functions as **the Registrar of TRADE MARKS.**

What is Intellectual Property Appellate Board (IPAB)?

- It was **constituted on September 15, 2003** by the Indian Government to hear and resolve the appeals against the decisions of the registrar under **the Indian Trademarks Act, 1999 and the Geographical Indications of Goods (Registration and Protection) Act, 1999.**
- Since April 2, 2007, IPAB has been authorized to hear and adjudicate upon the appeals from most of the decisions, orders or directions made by **the Patent Controller under the Patents Act. Therefore, all pending appeals of Indian High Courts under the Patents Act were transferred to IPAB.**

NOTES

Organization of an IPAB Bench:
Each Bench of the IPAB includes a Judicial Member and a Technical Member. The qualifications for appointment as a technical member of the IPAB are mentioned in The Trade Marks Act and the Patents Act.