

17 October, 2023

Willful Default and NPA

Context: Banks are likely to see a rise in intentional loan defaults following the RBI's new guidelines, after a Rs 50,000 crore increase in fiscal 2023.

- By March 2023, wilful defaults surged by about Rs 50,000 crore to reach Rs 353,874 crore in 16,883 accounts, up from Rs 304,063 crore and 14,899 accounts in March 2022.
- Leading banks, such as State Bank of India (SBI), reported 1,921 wilful default accounts totaling Rs 79,271 crore. Other major banks, including Punjab National Bank, Union Bank, Bank of Baroda, and IDBI Bank, also reported significant wilful defaults.
- Banks have taken legal actions against 36,150 Non-Performing Asset (NPA) accounts to recover Rs 926,492 crore by March 2023.
- Anticipated RBI guidelines may reclassify many of these NPAs as wilful defaults.
- Non-Performing Assets (NPAs) reached a 10-year low of 3.9 percent in March 2023 and are expected to further decrease to 3.6 percent by March 2024, as per the RBI's Financial Stability Report.

RBI's Definition of Wilful Default

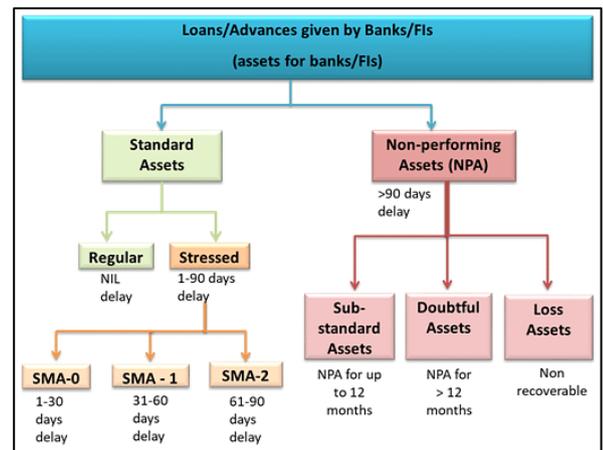
- The RBI classifies a 'wilful default' when a borrower fails to meet repayment obligations despite having the financial capability to do so.
- The RBI proposed new guidelines in September 2023, requiring lenders to classify a borrower as a 'wilful defaulter' within six months of the account becoming an NPA.
- An Identification Committee, established by lenders, will examine evidence of wilful default.
- However, wilful defaulters may be eligible for compromise settlements, as per the RBI's circular dated June 8, 2023.
- Nationalized banks and SBI account for 77 percent of total wilful defaults.

Compromise Settlements and Technical Write-Offs

- Compromise settlement is a negotiated agreement where the borrower pays less than the total amount due, resulting in a one-time reduction of the lender's dues.
- Banks had previously approved numerous compromise settlements with substantial write-offs, leading to significant losses between 2000 and 2014.
- The RBI now mandates a minimum cooling period of at least 12 months before making fresh exposures to borrowers who underwent compromise settlements.
- This change in policy surprised the banking sector as it represents a shift in the central bank's stance on wilful defaulters and compromise settlements.

Changing RBI Policies

- The RBI had earlier excluded wilful defaulters from compromise settlements as per the 'Prudential Framework for Resolution of Stressed Assets' issued on June 7, 2019.
- The recent change in the framework allows compromise settlements for wilful defaulters, which has raised concerns about public trust in the banking sector and depositor confidence.
- The new policy may undermine the credibility of the banking sector.
- It came in response to various judgments, orders from the Supreme Court, and feedback from banks and stakeholders.
- The central bank's shifting stance on wilful defaulters has created uncertainty in the banking industry.



Angel Tax

Context: Amid notices to start-ups, the CBDT has instructed its officers not to scrutinize angel tax provisions for DPIIT-recognized start-ups.

- The tax department issued a directive last week.
- The directive instructs field officials not to perform verification for recognized start-ups.
- The directive specifically relates to cases concerning Section 56 (2) (viib) of the Income-tax Act.
- This section was amended in the Finance Act of 2023, extending the angel tax levy to non-resident investors as well.

What are the new directives?

- The CBDT issued a directive due to the scrutiny notices sent to start-up companies through CASS.

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- The directive specifies that a procedure has been established for assessing recognized start-up companies by the DPIIT, and no verification is necessary for these startups regarding angel tax-related notices.
- This clarification from the tax department addresses concerns raised by many start-ups regarding scrutiny notices for angel tax.
- The CBDT outlines two scenarios:
 - If a start-up is selected for scrutiny solely for the applicability of section 56 (2) (viib) of the Income-tax Act, no verification is required during the assessment process, and the contention of the recognized start-up on this matter will be accepted without further scrutiny.
 - If a start-up is chosen for scrutiny on multiple issues, including section 56 (2) (viib) of the Income-tax Act, the applicability of section 56 (2)(viib) will not be pursued during the assessment proceedings for that start-up.

What is Angel Tax?

- Angel tax is an income tax imposed at a rate of 30.6 percent.
- It is applied when unlisted companies issue shares to investors at a price exceeding their fair market value.
- Initially, it was only imposed on investments by resident investors.
- However, the Finance Act of 2023 extended angel tax to include non-resident investors.
- The tax is intended to prevent money laundering issues.
- It primarily targets non-compliance with tax requirements, particularly among new businesses.
- It is levied on private companies that receive share premiums significantly above the fair market value, aiming to regulate investments and ensure fair valuation.

Changes in Budget 2023-24

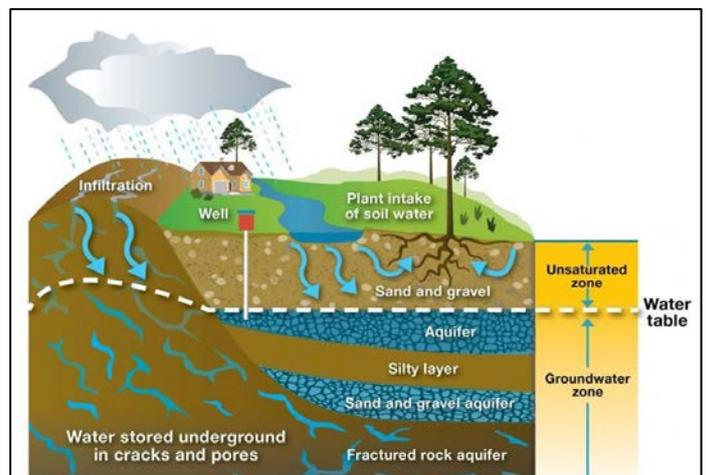
- The Finance Act 2023 extended the scope of angel tax to foreign investors for start-ups.
- DPIIT-recognized start-ups were exempted from the angel tax levy.
- Final valuation rules for foreign and domestic investors were introduced, addressing the valuation of CCPS and unquoted equity shares.
- For non-resident investors, five valuation methods were prescribed.
- Investors from 21 countries, including the US, UK, and France, were exempted from angel tax for non-resident investments in Indian start-ups.
- Notably, investors from countries like Singapore, Netherlands, and Mauritius were not included in the exemption list.

The High Cost of Cheap Water

Context: The report, named "The High Cost of Cheap Water," was unveiled by the World Wide Fund for Nature (WWF) on World Food Day, which falls on October 16.

Key findings

- The global water crisis poses a severe threat, amounting to \$58 trillion, equivalent to 60% of global GDP.
- Water and freshwater ecosystems offer substantial economic benefits, with unseen benefits estimated at around \$50 trillion annually.
- Degradation of rivers, lakes, wetlands, and aquifers endangers their economic value and essential roles in sustaining food security and human health.
- Unsustainable agricultural practices, including excessive water use and floodplain occupation, pose primary threats.
- Agriculture accounts for over 70% of the world's freshwater consumption.
- Loss of wetlands and an 83% decline in freshwater wildlife populations contribute to water shortages and food insecurity.
- Protecting and restoring rivers and floodplains, adopting sustainable land use practices, and embracing sustainability in the food industry are essential for food security.
- Healthy water ecosystems play a vital role in climate adaptation by mitigating floods, building resilience to droughts, and sustaining deltas.



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Groundwater Crisis in India

- In November 2020, 33% of wells monitored by the CGWB saw water levels decline by 0-2 meters compared to the average of the previous decade (2010-2019).
- Several major metro cities have experienced significant declines in their water tables over the years:
 - **Kolkata:** Water tables dropped by 7 to 20 meters since 2000.
 - **Ghaziabad:** A significant decline of 12 meters since 2016.
 - **Gurgaon:** Water levels decreased by 5 meters since 2018.
 - **Noida:** Experienced a notable drop of 17 meters since 2016.
 - **Greater Noida:** Saw a decrease of 6 meters since 2016.
 - **Delhi:** Water tables decline by 0.5 to 2 meters annually.
- India is the world's largest user of groundwater, accounting for a quarter of global groundwater withdrawal.
- Approximately 48% of the water supply in Indian cities is dependent on groundwater.
- India has over 4,400 statutory towns and cities with about 400 million residents, and this population is expected to grow by up to 300 million by 2050.
- Unregulated groundwater use and population growth could lead to seasonal water shortages for 3.1 billion people and perpetual water shortages for almost a billion by 2050.
- This situation could jeopardize water and food security and contribute to poverty in urban areas, even with ongoing infrastructure development.

WWF

- The World Wide Fund for Nature (WWF), established in 1961, was originally known as the World Wildlife Fund and retains that name in Canada and the United States.
- WWF is a prominent international NGO dedicated to wilderness preservation and minimizing human impact on the environment.
- As the world's largest conservation organization, WWF boasts a vast global support base of over five million individuals.
- Operating in more than 100 countries, WWF actively backs approximately 3,000 environmental and conservation projects worldwide.
- WWF's commitment to conservation is evident through its substantial investments, having allocated over \$1 billion to support 12,000 conservation initiatives since 1995.
- In 2020, WWF's funding sources were as follows: 65% from individuals and bequests, 17% from government entities such as the World Bank, DFID, and USAID, and 8% from corporate contributions.

NEWS IN BETWEEN THE LINES

Cheriyapani



About Cheriyapani:

- The ferry operating the **India-Sri Lanka** route is named '**Cheriyapani**'.
- The ferry service commenced on **October 14, 2023**.
- It operates between **Nagapattinam in Tamil Nadu, India** and **Kank esanthurai in Jaffna, Northern Sri Lanka**.

Historical Maritime Linkage:

- Maritime connection between India and Sri Lanka has a rich history, with services like the **Indo-Ceylon Express** or **Boat Mail** operating from **Chennai to Colombo** from the early **1900s** until **1982** when it was halted due to the Sri Lankan civil war.

United Nations Security Council



Recently, the **United Nations Security Council (UNSC)** has given its approval for a multinational security mission to Haiti.

About UNSC:

- The United Nations Security Council (UNSC) was established by the UN Charter in **1945** and is one of the **six principal organs** of the United Nations.
- Besides the UNSC, the United Nations has five other principal organs, which are the **General Assembly (UNGA)**, the **Trusteeship Council**, the Economic and Social Council, the **International Court of Justice** and the **Secretariat**.
- The UNSC's primary responsibility is to **maintain international peace and security**, making it a crucial entity in global affairs.
- The UNSC consists of **15 members**. This includes **five permanent members (P5)** and **ten non-permanent members** elected for two-year terms.
- India, as a non-permanent member, joined the UNSC for the eighth time in **2021** and will hold its position for two years (2021-22). Non-permanent seats are elected by the General Assembly.

Headquarters: New York, USA

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69th National Film Awards



Today, the President of India (Smt. Droupadi Murmu) will confer the **69th National Film Awards** in New Delhi.

About:

- **Established:** 1954
- **Purpose:** Awarded for "Outstanding contribution to the growth and development of Indian cinema." It is governed by the Directorate of Film Festivals since 1973.

Awards:

- **Best Feature Film:** 'The Nambi Effect,' directed by **R. Madhavan**, has been honored as the Best Feature Film for 2021.
- **Best Actor:** **Allu Arjun** received the Best Actor Award for his role in '**Pushpa: The Rise.**'
- **Best Actresses:** **Alia Bhatt** and **Kriti Sanon** share the Best Actress Award for their performances in '**Gangubai Kathiawadi**' and '**Mimi,**' respectively.
- **Best Supporting Actors:** **Pallavi Joshi** and **Pankaj Tripathi** were recognized as the Best Supporting Actress and Actor for '**Kashmir Files**' and '**Mimi,**' respectively.
- **Best Film on National Integration:** '**The Kashmir Files,**' directed by **Vivek Agnihotri**, received the **Nargis Dutt award** for the Best Film on National Integration.
- **Best Non-Feature Film:** '**Ek Tha Gaon,**' directed by **Srishti Lakhera**, was named the Best Non-Feature Film of the Year.
- **Best Hindi Film:** '**Sardar Udham Singh,**' a biographical historical drama directed by **Shoojit Sircar**, received the Best Hindi Film award.
- **Best Child Artist:** **Bhavin Rabari** received the **Best Child Artist Award** for the Gujarati film '**Chhello Show.**'

Jaderi Namakatti



Recently, Jaderi Namakatti was granted the **Geographical Indications (GI) tag** by the **Geographical Indications Registry** in Chennai.

About Jaderi Namakatti:

- Jaderi Namakatti refers to **clay sticks** that are **white in color**.
- They are typically available in a **finger-like shape** with a **smooth texture**.
- The making of **Jaderi Namakatti** is a traditional craft.
- Jaderi Namakatti is associated with the **village of Jaderi**, located in the **Tiruvannamalai** district of **Tamil Nadu**, India.
- It is used to **adorn the foreheads of idols, men and temple elephants**.

Place in News

Sinai Peninsula

Location: Located in northeastern **Egypt**, the **Sinai Peninsula** is a **triangular landmass**.

Geographic Boundaries:

- North: Bordered by the **Mediterranean Sea**.
- East: Shares its boundary with **Israel** and the **Gaza Strip**.
- West: Adjacent to the **Suez Canal**, leading to the **African part of Egypt**.
- South: Borders the **Red Sea**.
- Southeast: Bordered by the **Gulf of Aqaba**.

Maritime Borders: Egypt shares maritime borders in the Sinai with **Jordan** and **Saudi Arabia**.

Historical Significance:

- The Sinai Peninsula was part of **British-ruled Egypt** in the late **19th century**.
- It was occupied by Israeli forces during the **Six-Day War** in June **1967**.
- In **1982**, the peninsula was returned to Egypt under the terms of a peace treaty signed in **1979**.

Geographical Features: Known for its diverse geography, including **mountain ranges, deserts, plateaus** and **coastal regions**.



POINTS TO PONDER

- ❖ Which institution has raised more than ₹1000 crore via social bonds? – **NABARD**
- ❖ Which state has signed Rs 2000 crore deal with ropeway construction company Poma Group in London? – **Uttarakhand**
- ❖ Which state is the host of 'Pitra Paksha Mela' event? – **Bihar**
- ❖ Which institution released a report titled 'India Ageing Report 2023'? – **UNFPA**
- ❖ Which International Film Festival is named as "Pearl of The Silk Road"? - **Tashkent International Film Festival**

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