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Contents

March- 2018
Issue-4

SEVEN IMPORTANT ISSUES

1. FINANCE COMMISSION: FRAMEWORK FOR FEDERALISM

Why in News?

The Fifteenth Finance Commission (XV-FC) has been appointed with the terms of reference (ToR) notified in a presidential order dated 27 November 2017. The ToR is significantly different from those of earlier finance commissions. Over the last 70 years, the form and functioning of federalism has constantly evolved. Yet, fiscal federal policymaking has stagnated. It has kept pace neither with the changing politics nor with the economics of the federal set-up.

Introduction

The Finance Commission was established in 1951 by President of India under Article 200 of the Indian Constitution. It was formed to define the financial relations between the central government and state governments. Several provisions to bridge the fiscal gap between the Centre and the States were already enshrined in the Constitution of India, including Article 268, which facilitates levy of duties by the Centre but equips the states to collect and retain the same. Similarly, Articles 269, 270, 275, 282 and 293, among others, specify ways and means of sharing resources between the Union and states. In addition to the above provisions, the Finance Commission serves as an institutional framework to facilitate centre-state transfers.

Article 280 of the Indian Constitution defines the scope of the Commission:

1. The President will constitute a Finance Commission within two years from the commencement of the Constitution and thereafter at the end of every fifth year or earlier, as the deemed necessary by him/her, which shall include a chairman and four other members.
2. Parliament may by law determine the requisite qualifications for appointment as members of the Commission and the procedure of selection.
3. The Commission is constituted to make recommendations to the President about the distribution of the net proceeds of taxes between the Union and states and also the allocation of the same amongst the states themselves. It is also under the ambit of the Finance Commission to define the financial relations between the Union and the States. They also deal with devolution of non-plan revenue resources.

The appointment of the Fifteenth Finance Commission (XV-FC) by a presidential order on 27 November 2017 has come at a time of momentous changes in Indian fiscal federalism. The replacement of the Planning Commission by the National Institution for Transforming India (NITI) Aayog in January 2015, the removal of the distinction between plan and non-plan expenditure in the budgets of the Union and the states from 2017–18 and the 101st constitutional amendment resulting in the introduction of the long-awaited goods and services tax (GST) from 1 July 2017 across the country are game changers in the area of fiscal federalism. Perhaps, such game changing developments did not take place in the period immediately preceding the appointment of any other commission.

Functions of Finance Commission

The main function of a finance commission as mandated in Article 280 of the Constitution is to make recommendations on:

(i) the distribution of net proceeds of divisible pool of taxes between the Union and the states;

(ii) inter se allocation of states' share;

(iii) principles which should govern the grants-in-aid to states by the finance commission; and

(iv) Measures to augment the Consolidated Fund of a state to supplement the resources of panchayats and municipalities.

These constitutionally mandated functions are reproduced as such in the ToR of all the finance commissions. In terms of clause (d) of Article 280, any other matter can be referred to a finance commission in the interest of sound finance. It has become a practice to specify in the ToR certain considerations that a finance commission shall have regard to, among others, while making its recommendations. While the considerations related to only grants till the Sixth Finance Commission, from the seventh onwards, the considerations covered both grants as well as tax devolution. These considerations have become a source of friction between the Union and the states.

The XV-FC has a major task on hand in putting in place a transfer system consistent with the recent changes in fiscal federalism, promoting cooperative fiscal federalism and ensuring fiscal stability.

About 15th Finance Commission

The fifteenth Finance Commission as constituted in Article 280 of the Constitution, w.e.f. 27th November, 2017 shall make its report available by 30th October, 2019. The recommendations of the Commission would cover five year period commencing 1st April 2020 to 2025. The Commission shall use the population data of 2011 while making its recommendations. The 15th Finance Commission was constituted by the government under the chairmanship of Shri N.K. Singh and comprising of the following members, Shri Shaktikanta Das, Dr.Anoop Singh, Dr. Ashok Lahiri and Dr. Ramesh Chand.

Key Issues for Consideration

The three central tasks of the 15th Finance Commission will thus be to strengthen cooperative federalism, frame the incentives needed to shift public spending in the desired direction and do all this without compromising fiscal stability. The inclusion of Sustainable Development Goals (SDGs), disaster management, climate change, progress made in sanitation, solid waste management and bringing in behavioural change to end open defecation among others.

- The tasks before it are unique in the sense that it has to make its recommendations after the rules of fiscal federalism have been profoundly reset by the introduction of the goods and services tax (GST).
- The impact of GST on federal public finances is still not clear. These issues need to be framed against the larger challenge of increasing the Indian tax to gross domestic product ratio.
- Successive finance commissions have increased the proportion of tax revenue that goes to the states—a necessary change given the growing importance of direct taxes as well as the need for higher spending by state governments in local public goods. The First Finance Commission headed by K.C. Neogy had recommended that the states get a tenth of total taxes collected centrally. That share has steadily increased. The 14th Finance Commission headed by Y. V. Reddy recommended that the share of the states should be 42%.
- The terms of reference of the new commission have suggested linking transfers to a range of parameters, such as efforts made to deepen GST, how quickly a state moves towards the replacement level of fertility, eliminating power sector losses, improving the ease of doing business, adoption of direct benefit transfers and progress in sanitation.
- One important change—and a tricky political issue—is the decision to use population according to the 2011 census as the base for calculating the expenditure needs of various states. Even the 14th Finance Commission had been explicitly asked to use the 1971 population numbers while deciding the devolution formula.
- The Fifteenth Finance Commission is also expected to recommend new fiscal targets for the Union and state governments. It can be assumed that the targets will broadly be similar to what the recent fiscal review committee suggested, especially since it was also headed by N.K. Singh.
- A focus on state finances is needed, especially given the recent deterioration in the fiscal parameters of the states. But the finance commission should also not ignore the fiscal health of the Union government, given its importance in the overall macro performance of the Indian economy.
- The deteriorating public debt dynamics caused by the requirements of the power sector's restructuring would be a major area of concern for the 15th Finance Commission. An alternate fiscal scenario would need to be considered to limit the on-budget fiscal deficits to 3 percent by including the power sector. Then, a debt-to-GSDP ratio of 25 percent greatly limits the government's borrowing needs and has the potential to curtail social sector expenditure.

The Commission shall review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the Union and the states and recommend a fiscal consolidation roadmap for sound fiscal management. The Commission shall take into account the responsibility of the central government and state governments to adhere to appropriate levels of general and consolidated government debt and deficit levels, while fostering higher inclusive growth in the country, guided by the principles of equity, efficiency and transparency. The Commission may also examine whether revenue deficit grants be provided at all.

The Impact of the Changes

The Fourteenth Finance Commission (XIV-FC) considered the entire revenue account. Its terms of reference (ToR) did not bind it to look at only non-plan revenue account. The replacement of the Planning Commission, with the removal of the practice of classifying expenditure into plan and non-plan, has conferred full freedom to the XV-FC to look at the entire revenue expenditure in totality, instead of a fragmented view of resource allocations.

The introduction of the GST marks a watershed in the reforms of indirect taxation in the country. It has ushered in an era of sharing a common tax base by the Union and the states in place of exclusive jurisdiction over certain taxes based on the principle of total separation. Furthermore, the GST being a destination-based tax has shifted the tax base from production to consumption. This may impact revenue yield from indirect taxes as between the predominantly producing and consuming states. As the revenue impact of the GST across the states is not yet known, the XV-FC will have the challenging task of addressing this issue as its recommendations are applicable till 2024–25, beyond the five-year duration of compensation scheme for states that may suffer revenue loss, following the introduction of GST.

Besides these major changes, there is a slowdown in the growth of the economy since last year and pressures building up on both the Union and state finances. There are incipient signs of states, which so far, by and large, adhered to the Fiscal Responsibility and Budget Management (FRBM) limits, slipping on them.

Background: 14th Finance Commission

The 14th Finance Commission's recommendations ushered in a new era of fiscal federalism in India. The 14th FFC abandoned the idea of tied aid—in the form of centrally sponsored programmes and grants—and instead trusted states to manage their own fiscal future. Not only did the states get the freedom to prioritize spending, the new formula sharply increased the share—from 32% to 42% of net Union tax receipts—of fiscal resources accruing to states. It further allowed states committing to greater fiscal discipline greater leeway to borrow from the market to fund their development priorities. Effectively, the 14th had sowed the seeds of cooperative federalism as states have been accorded unprecedented fiscal freedom. For the first time, public expenditure is now decisively in the jurisdiction of states.

1. The 14th Finance Commission is of the view that tax devolution should be the primary route for transfer of resources to the states.
2. In understanding the states' needs, it has ignored the plan and non-plan distinctions.
3. According to the Commission, the increased devolution of the divisible pool of taxes is a ``compositional shift in transfers'' – from grants to tax devolution.
4. In recommending a horizontal distribution, it has used broad parameters – population (1971), changes in population since then, income distance, forest cover and area, among others.
5. It has recommended distribution of grants to states for local bodies using 2011 population data with weight of 90 per cent and area with weight of 10 per cent.
6. Grants to states are divided into two area.
   a. One, grant to duly constituted gram panchayats.
   b. Two, grant to duly constituted municipal bodies.
7. The Commission has significantly departed from previous commission vis-a-vis recommendation of the principles governing grants-in-aid to the states by the Centre
8. It has chosen to take the entire revenue expenditure for this purpose. Hence, it has decided to take into account a state's entire revenue expenditure needs without making a distinction between plan and non-plan expenditure.
9. The Commission is of the view that sharing pattern in respect to various centrally-sponsored schemes need to change. It wants the states to share a greater fiscal responsibility for the implementation of such schemes.

Assessment of 14th Finance Commission

Preliminary evidence on the impact of the recommendations of the Fourteenth Finance Commission suggests that there has been an increase in central transfers and social sector expenditures in a number of states in 2015–16. This evidence is biased upwards due to two factors. First, much of the gains have been measured with respect to a low base year. Second, the inferences are affected by systematic differences between actuals, revised estimates and budget estimates. Using a modified base and comparable estimates for 15 major states, it is seen that these are much smaller. Besides, in most states, social services have received a lower priority over economic services in 2015–16.

There is an upward trend in the fiscal deficits of states. The inter-governmental transfer system has become overly complex with different sharing arrangements for different taxes; the spending autonomy of the states, combined with their ability to borrow, has obstructed efforts at consolidating public finances; there is little incentive for states to improve revenue performances and revenue-sharing arrangements have led to pro-cyclical policies at the state level.

The higher devolution under the 14th Finance Commission has seen marginal increases in social sector allocations.There are pressures to increase allocations to the centrally sponsored schemes (CSS) for higher expenditure on health and education. The tax buoyancies have been affected by the transition to the goods and services tax (GST) and the GST compensation to states will continue till 2022. On the horizontal balances, the 15th Finance Commission has the responsibility of equalising the widening gap between richer states and the low-income states. These inequalities have resulted in widely differing social and capital expenditure between the states. A large part of the equalisation effort by the 15th Finance Commission would have to be through grants-in-aid rather than devolution.

On the expenditure side, the 14th Finance Commission included the expenditure incurred on CSS in revenue expenditure. The expenditure was projected as 11.12 percent of GDP against 13.57 percent projected by the states.These major progressive steps were backed by restructuring the CSS allocation ratio from 75:25 to 50:50 to provide greater flexibility and ownership to the states. In turn, the states were mandated to pursue the objectives of zero revenue deficits, fiscal deficit not exceeding 3 percent of GSDP, interest payments-to-revenue receipt ratio not exceeding 10 per cent and debt-to-GSDP ratio not exceeding 25 percent.

Despite these historic steps, there remain challenges. The resource requirements of the power sector remain very high. In some states, the fiscal deficits with power sector allocations have climbed to around 9 percent.

Way Forward

The 15th Finance Commission will review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the Union and the states and recommend a fiscal consolidation roadmap for sound fiscal management, taking into account the responsibilities of the central and state governments. The Commission may also examine whether revenue deficit grants be provided at all. The best way forward would be to adhere to the letter and spirit of the Constitution by balancing the Union and state's revenue powers with expenditure responsibilities listed in the 7th schedule of the Constitution, appreciate the problems raised by stakeholders and attempt to address the contemporary issues relevant to the terms of reference.

Every finance commission has to do a political balancing act. It needs to give more resources to the states given the growing importance of sub-national governments in the Indian political economy. It also needs to ensure that New Delhi is not fiscally constrained given its role in key national public goods such as defence. Federalism can flourish only when it is accompanied by a strong central agency that credibly enforces the rules for a new political economy equilibrium.

General Studies Paper- II

Topic: Functions and responsibilities of the Union and ihe States, issues and challenges pertaining to the federal structure, devolution of powers and finances up to local levels and challenges therein.

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2. REDEFINING OF MICRO, SMALL AND MEDIUM ENTERPRISES

Why in News?

A seminal decision taken by the Union Cabinet in early February 2018 to change the basis of classification of the Micro, Small and Medium Enterprises (MSMEs) bodes well for this important segment of India’s industrial base. The decision will become effective after the bill to amend the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act, 2006) is approved by Parliament and assented to by the President of India.

Introduction

The Union Cabinet has approved change in the basis of classifying Micro, Small and Medium enterprises from ‘investment in plant & machinery/ equipment’ to ‘annual turnover’. This will encourage ease of doing business, make the norms of classification growth oriented and align them to the new tax regime revolving around GST (Goods & Services Tax). According to the Committee of Experts set up by the Ministry of Defence (MoD) in 2015, MSMEs contributed 7.04 per cent to the Gross Domestic Product (GDP) in 2012-13, with a gross value of output of Rs 1,09,976 crore. In the defence sector alone, as many as 6,000 MSME units have been supplying components and sub-assemblies to the public and private sector companies, out of which 800 are engaged with the Defence Research and Development Organisation (DRDO).

All this is set to change with the Union Cabinet’s decision to withdraw the MSMED (Amendment) Bill, 2015, pending in the Lok Sabha, which simply sought to increase the existing monetary limits two to three times and to change the basis of classification from investment in plant and machinery or equipment to annual turnover without making a distinction between manufacturing enterprises and service providers. An enabling provision will be also be made in the MSMED Act, 2006 to permit the central government to vary these limits in future by simply issuing a notification but the revised limits shall not be more than thrice the limits. This will ensure that the monetary limits remain contemporaneous at all times as changing these limits will not require a formal amendment to the MSED Act, 2006, which is a time-consuming and cumbersome process.

The Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of India. It plays a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. It is expected that Indian economy will grow by over 8% per annum until 2020. MSMEs contribute about 45% of India's manufacturing output. The importance of MSMEs and its various socio-economic contribution like employment generation, fostering new entrepreneurship, providing volume to the industry base and contribution to national output and exports of our country was identified. They contribute in GDP and GNP of India. It acts as a breeding ground for entrepreneurs to grow from small to big. MSMEs sector is increasing enormously in India.

The Micro, Small & Medium Enterprises (MSMEs) have been contributing significantly to the expansion of entrepreneurial endeavours through business innovations. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. As per the data available with Central Statistics Office (CSO), Ministry of Statistics & Programme Implementation, the contribution of MSME sector in country's Gross Value Added (GVA) and Gross Domestic Product (GDP), at current prices for the last five years is as below:

Year	Growth (%)	Share of MSME in GVA (%)	Share of MSME in GDP (in %)
2011-12	-	31.86	29.57
2012-13	15.27	32.36	29.94
2013-14	12.27	32.26	29.76
2014-15	9.43	31.86	29.39
2015-16	7.62	31.60	28.77

The contribution of Manufacturing MSMEs in the country's total Manufacturing GVO4 (Gross Value of Output) at current prices has also remained consistent at about 33%, i.e. one- third during the last five years.

Micro, Small & Medium Enterprises

Definitions of Micro, Small & Medium Enterprises in accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

1. **Manufacturing Enterprises-** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The manufacturing enterprises are defined in terms of investment in plant & machinery.
2. **Service Enterprises-** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery/equipment for manufacturing / service enterprises, as under

Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
Service Sector	
Enterprises	**Investment in equipments**
Micro Enterprises	Does not exceed 10 lakh rupees
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 crore rupees

Classification of enterprises based on fixed monetary limits also places newer units at a disadvantage vis-a-vis those set up in earlier years as the former have to invest more for the same type of plant and machinery or equipment. More importantly, self-declaration by enterprises as regards the cost of investment at the time of registration with the authorities concerned entails verification, if deemed necessary by them, adding to the transaction cost.

New System of Classification

The new system of classifying enterprises based on annual turnover will be more reliable, transparent and objective as the qualifying criteria will be verifiable with reference to the data available in the Goods and Services Tax network. This will also reduce transaction costs as it will no more be necessary to carry out any inspection. The revised classification and eligibility thresholds will be as follows:

Type of Enterprise	Annual Turnover
Micro	Not exceeding Rs 5 crore
Small	More than Rs 5 crore but not exceeding Rs 75 crore
Medium	More than Rs 75 crore but not exceeding Rs 250 crore

With the replacement of the restrictive criteria for classification of MSMEs based on cost of investment in plant and machinery or equipment with a more realistic criterion linked with annual turnover, many enterprises that presently do not qualify should come within the ambit of the MSMED Act, 2006 and benefit from a large number of schemes promulgated by the government for this sector from time to time. Existing MSMEs should also be able to invest more in plant and machinery and equipment without losing out on the benefits available to them.

Why Change in Definition Required?

- Firstly, the definition was freezed in 2006. After 12 years, with continued erosion of value of Rupee, the thresholds have become impractical. Adjusting for inflation would have required to enhance the limit by 2-3 times.
- Secondly, many sectors where MSMEs have substantial share such as Pharmaceuticals, Auto-component and food processing among others have been demanding a many-fold increase in the investment limit needed to be compliant of the new mandatory and industrial standards. The de minims investment exceeded at least five crore even if one had low turnover.
- Thirdly, the investment based definition creates an uneven field for older enterprises vis a vis new enterprises. Setting up a unit to produce a product today would require several times more investment than the one set-up ten or twenty years ago to produce the same product with similar quantity. What could be a micro unit because of historical investment figures would become medium or large if set up today. It becomes a barrier for new entrants.
- Finally, to prove that a unit fell in a specific category, the MSMEs ran around CAs to certify the value of plant and machinery. It is alleged that many large enterprises also under-reported the investment, got CA certificate and partook in the public procurement ear-marked for MSEs.

MSMEs and Defence Sector

The main driving force behind the promotion of MSMEs is the Ministry of Micro, Small and Medium Enterprises, the Ministry of Defence also has a lot to offer them specifically in the area of defence offsets as well as projects under the 'Make' procedure and the Defence Technology Fund. The proposed limits on annual turnover will enable a larger number of companies to qualify as MSMEs and benefit from the offset policy while at the same time providing a wider base for foreign companies to choose from. This will also improve the prospects of a larger number of 'Make' projects presently on offer being taken up as the number of MSMEs should increase on account of the change in the basis of classification. It may be recalled that 'Make' projects entail design, development and manufacture of equipment, systems, sub-systems, assemblies, sub-assemblies, major components and upgrades by Indian companies. There are two sub-categories of 'Make' projects:

a) **Make-I (Government Funded):** Projects under 'Make-I' sub-category will involve government funding of 90%, released in a phased manner and based on the progress of the scheme, as per terms agreed between MoD and the vendor.

b) **Make-II (Industry Funded):** Projects under 'Make-II' category will involve prototype development of equipment/system/ platform or their upgrades or their sub-systems/ sub-ssembly/assemblies/ components, primarily for import substitution/innovative solutions, for which no government funding will be provided for prototype development purposes.

Projects with development cost of up to Rs 10 crore and Rs 3 crore are reserved for the MSMEs under these two sub-categories respectively. The change in the basis of classification should enable MSMEs to enhance their capabilities without having to bother about investment in plant and machinery and be in a better position to undertake these projects.

The expanded MSMEs base also improves the prospects for projects funded from the 'Technology Development Fund (TDF)' for development of defence and dual use technologies. These are currently not available with the Indian defence industry or have not been developed so far with the objective of creating an eco-system for enhancing cutting edge technology capability for defence application.

Challenges Faced By MSMEs

MSMEs are very important in the economic growth of India but this sector is not getting sufficient support from the concerned government departments, banks, financial institutions and corporate. Presently, the Indian MSMEs are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. This proves hurdle in the growth path of the MSMEs. MSMEs problems can explain as follows:-

1. **Lack of credit from banks-** The MSME`S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSMEs. The loan providing process of the banks is very long and formalistic.
2. **Competition from multinational companies-** The MSMEs are facing the great competition from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.
3. **Poor infrastructure-** Though, MSMEs are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
4. **Unavailability of raw material and other inputs-** For MSMEs required raw material, skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
5. **Lack of advanced technology-** The owners of MSMEs are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.
6. **Lack of distribution of marketing channels-** The MSMEs are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies. The ineffective advertisement and poor marketing channels leads to a very poor selling.
7. **Lack of training and skill development program-** The training and development programs in respect of MSMEs development concern is very low. So; skilled manpower is not being available to MSMEs. The skill developmental schemes conducted by the government are not sufficient.
8. **Complex labor laws and red-tape-** All the laws related to the all aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult. The various decisions of factory are depend upon the factory commissioner and inspector, so there are so many chances of red tape in the operation of MSMEs.
9. Problems of storage, designing, packing and product display.

Although the performance of the MSME sector has been commendable over the years in terms of employment generation, growth of exports and in bringing about social transformation, a lot more need to be done for their continued growth and sustained development. The issues and constraints that hinder their growth need to be identified and properly addressed.

Potentials in MSMEs

The lots of potentials are available in the field of MSMEs. The prospectus of this sector are explained as under-

1. **Employment generation-** There are numerous possibilities in the field of manufacturing and service rendering of MSMEs. In recent year, the MSMEs are generating different and ample amount of employment in the field of retail and manufacturing sector. The rate of employment generation extended more by promoting the Indian MSME's.
2. **Customer satisfaction oriented-** The MSME'S produce goods according to the needs or expectations of the customers. Primarily, the MSMEs manufacture goods considering the taste and preferences, liking and disliking of the local consumer. So, the MSMEs can be core customer satisfaction oriented.
3. **Minimization of regional imbalance-** The MSMEs can be good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can equally developed through the running of MSME units in such areas. The MSMEs will utilize the work force of rural areas and lead to the removal of regional imbalance.
4. **Enhancement of export-** The MSMEs can be a mean to enhance the export of India. There will be a great demand of Indian product at international level of market. The Indian items like-dari, kaleen, wooden items and other hand-made souvenir articles demanded in the world.
5. **Attraction to the foreign investment –** Though, the Indian MSMEs are the booming field and the growth rate and return on investment is satisfactory. This sector is more responsive than other sector of economy. Therefore, this sector might be a source to attract foreign investment in India.

The roadmap for MSME development should include a target for increase in the share of their contribution from the present 8% to 15% by 2020, a substantial increase in generation of employment avenues up to 50%, an enhancement in MSME contribution in the key public and private industry sector by meeting the growing domestic demand, indigenization and important substitution and growth in foreign exports. The recent 'Make in India' initiative by Government of India would make a substantial impact in the area of indigenization and would also attract sizable foreign investment. Similarly, the 'Digital India' programed offers huge opportunities to MSMEs to participate in big way in the Information and Communication Technology (ICT) sector.

Conclusion

The Micro, Small and Medium Enterprise (MSMEs) are an important sector and plays a critical role in the Indian economy. MSMEs will continue to play a very important and vital role in our economy where the twin problems of unemployment and poverty constitute a major development challenge. There are several challenges in the sector of MSMEs. If the government, banks and financial institutions will take proper initiatives in the sector of MSME and they will take pride while servicing the MSMEs, these challenges can be solved and the economic growth rate of India will be 8-10% for the next decades.

MSMEs over the years have assumed greater significance in our burgeoning national economy by contributing to employment generation and rural industrialization. This sector possesses enough potential and possibilities to push- button accelerated industrial growth in our developing economy and well poised to support national programme like 'Make in India'. This sector has exhibited enough resilience to sustain itself on the strength of our traditional skills and expertise and by infusion of new technologies, capital and innovative marketing strategies. Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for them under a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

General Studies Paper- I

Topic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

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3. FINTECH AND DIGITAL BANKING IN INDIA

Why in News?

In view of the growing significance of FinTech innovations and their interactions with the financial sector as well as the financial sector entities, the Financial Stability and Development Council - Sub Committee (FSDC-SC) decided to set up a working group to look into and report on the granular aspects of FinTech and its implications. Reserve Bank of India set up an inter-regulatory Working Group (WG) to review and reorient appropriately the regulatory framework and respond to the dynamics of the rapidly evolving FinTech scenario. The report of the Inter-Regulatory Working Group on FinTech and Digital Banking summited in February, 2018.

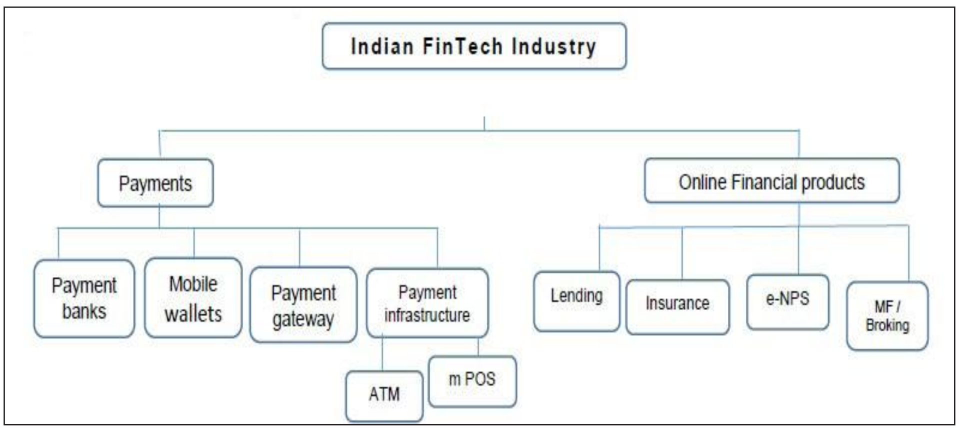
Introduction

The term "FinTech" is a contraction of the words "finance" and "technology". It refers to the technological start ups that are emerging to challenge traditional banking and financial players and covers an array of services, from crowd funding platforms and mobile payment solutions to online portfolio management tools and international money transfers. Financial services, including banking services, are at the cusp of a revolutionary change driven by technological and digital innovations. A rapidly growing number of financial entities and technology firms are experimenting with related technological and financial solutions as well as new products in the financial services field which either modifies the way financial intermediation takes place or leads to disintermediation.

Some of the major FinTech products and services currently used in the market place are Peer to Peer (P2P) lending platforms, crowd funding, block chain technology, distributed ledgers technology, Big Data, smart contracts, Robo advisors, E-aggregators, etc. These FinTech products are currently used in international finance, which bring together the lenders and borrowers, seekers and providers of information, with or without a nodal intermediation agency.

India has a large untapped market for financial service technology startups as 40 percent of the population are currently not connected to banks and 87 percent of payments are made in cash. With mobile usage expected to increase to 64 percent in 2018 from 53 percent currently and internet penetration steadily climbing, the growth potential for FinTech in India cannot be overstated. Moreover, by some estimates, as much as 90 percent of small businesses are not linked to formal financial institutions. These gaps in access to institutions and services offer important scope to develop FinTech solutions (such as funding, finance management) and expand the market base.

According to Financial Stability Board (FSB), of the BIS, "FinTech is technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services". This definition aims at encompassing the wide variety of innovations in financial services enabled by technologies, regardless the type, size and regulatory status of the innovative firm.



FinTech and its Impact on Indian Financial Services

India's FinTech sector may be young but is growing rapidly, fueled by a large market base, an innovation-driven startup landscape and friendly government policies and regulations. Several startups populate this emerging and dynamic sector, while both traditional banking institutions and non-banking financial companies (NBFCs) are catching up. This new disruption in the banking and financial services sector has had a wide-ranging impact.

In India, FinTech has the potential to provide workable solutions to the problems faced by the traditional financial institutions such as low penetration, scarce credit history and cash driven transaction economy. If a collaborative participation from all the stakeholders, viz., regulators, market players and investors can be harnessed, Indian banking and financial services sector could be changed dramatically. FinTech service firms are currently redefining the way companies and consumers conduct transactions on a daily basis.

The Indian FinTech industry grew 282% between 2013 and 2014, and reached USD 450 million in 2015. At present around 400 FinTech companies are operating in India and their investments are expected to grow by 170% by 2020. The Indian FinTech software market is forecasted to touch USD 2.4 billion by 2020 from a current USD 1.2 billion as per NASSCOM. The transaction value for the Indian FinTech sector is estimated to be approximately USD 33 billion in 2016 and is forecasted to reach USD 73 billion in 2020.

Innovations in Digital Banking and Investment Services in India

The form of Retail Financial Services is completely dictated by consumers and as they evolve so will retail financial services. Hence innovation is not a luxury anymore, it's a necessity. Mobile banking companies have come a long way. Innovation in mobile banking has grown in sophistication, using advanced technologies such as touch and voice capabilities and machine learning algorithms. Customers are rapidly adopting technology in their daily lives driven by the growth in internet and mobile penetration, availability of low cost data plans and shift from offline to online commerce. Banks are keeping abreast of their evolving needs and behavior and have enabled access to a wide range of banking and financial services through different digital platforms.

Now that digital innovation practice has reached a critical mass, banks are shifting gears to create a stronger innovation culture via the Internal Social Collaboration platform and adopting cutting edge technologies like Artificial Intelligence, Block Chain and Internet of Things (IOT), among others. Customers are taken into a new world of multi-channel banking, where they can access services from home, at the office, or on-the-go through Mobile Banking, SMS Banking, Phone Banking, ATMs and Net Banking.

Some banks in India are proposing to form a block chain consortium along with other global banks such as SBI, Citi, Deutsche, JP Morgan, Nomura, HSBC, UBS, Barclays, Bank of America, BNP, RBS, Macquarie, Westpac, etc. Some of the banks are also collaborating with Indian IT service providers in areas of voice enabled system for the customers to open new accounts on the basis of Aadhaar authentication. Banks are also collaborating with IT service providers for e-Sign (digital signature) facility to help digitally signing the loan documents. This will help in faster approval process, lesser paper work and lesser paper storage space. Some of the innovations and related initiatives taken by Indian banks in collaboration with FinTech start-ups/ academia and other service providers in the recent past are SBI FinTech IPDaaS Software Developed with IIT-KGP; Zing HR using Microsoft AI; Digital Village; cross border remittances, etc.

Emerging Regulatory and Supervisory Issues in India

FinTech has significant implications for the entire financial system in India. The multiplicity of firms and a mosaic of business models complicate the classification of the various types of activities, products and transactions covered under the FinTech spectrum. The RBI as regulator and supervisor of payment systems has been playing the role as the catalyst / facilitator for innovations in payment systems. The Payment and Settlement System Vision – 2018 also covers this aspect appropriately under the Strategic Initiatives – Responsive Regulation and Effective Oversight. In order to ensure that regulations keep pace with the developments in technology impacting the payment space, the global developments in technology such as distributed ledgers, blockchain, etc. will be monitored and regulatory framework, as required, will be put in place. Further, the payments eco-system is dynamically evolving with the advancements and innovations taking place, particularly in the area of FinTechs. In order to provide a platform for innovators to showcase their models to the industry, particularly in the areas of interest to payment systems and services, the Reserve Bank has organized an innovation contest through the Institute for Development and Research in Banking Technology (IDRBT). Learnings from such interfaces will also be used as inputs for policy adaptations. RBI has taken various initiatives in the technology-enabled banking space as listed below:

- Issued in-principle approvals for Payments Banks, of which some have since been licensed.
- Allowed entry of non-banks in the payments space both as payment system operators and technology service providers.
- Introduced Bharat Bill Payments System (BBPS).
- Published a consultative paper on card payment infrastructure.
- Issued a consultation on Peer to Peer (P2P) lending.
- Issued directions on account aggregators.
- Authorised payment solutions provided by NPCI such as NACH, AEPS, IMPS, Unified Payment Interface (UPI).
- Given in-principle approval for National electronic toll collection project.
- Set up the framework for the electronic Trade Receivables Discounting System (TReDS) to improve flow of funds to MSMEs.

Impact on Financial inclusion

The Government of India and the Reserve Bank are actively promoting financial inclusion with schemes like Jan Dhan Yojana, Aadhaar enrolment and licensing of Payment Banks / Small Finance Banks, to name just a few. The FinTech companies across the nation are taking the advantage of these initiatives for expanding financial inclusion in the following areas by leveraging technology.

Cyber security and FinTech

Since early 1990s (accelerated in 2000s) with entry of New Pvt. Sector banks, the PSU banks have also embraced technology by leaps and bounds in the last decade or so. The advancements in technology and shift in consumer preferences driven by (SMAC – social media, mobility – mobile computing, analytics – big data, cloud computing, etc.) have further brought on opportunities and challenges in terms of their utility/efficiency, complexity of products, deployment architecture,

S. No.	Area of Financial Inclusion	Use of FinTech
1	Augment the government social cash transfer in order to increase the personal disposable income of the poor. It would put the economy on a medium-term sustainable inclusion path.	Easy cash transfer App
2	Banks should make special efforts to step up account opening for females belonging to lower income group under this scheme for social cash transfer as a welfare measure (Sukanya Shiksha Scheme).	Modification to existing bank FinTech App
3	Aadhaar should be linked to each individual credit account as a unique biometric identifier which can be shared with credit information bureau to enhance the stability of the credit system and improve access.	Integration of Aadhaar infrastructure
4	Bank's traditional business model should be changed with greater reliance on mobile technology to improve 'last mile' service delivery.	Enhanced mobile banking
5	Increase the formal credit supply to all agrarian segments through Aadhaar-linked mechanism for Credit Eligibility Certificates (CEC).	Digitisation of land records
6	Corporates should be encouraged to nurture Self Help Groups (SHGs) as part of Corporate Social Responsibility (CSR) initiative.	Loan / Payment App.
7	Replacement of Government's current agricultural input subsidies on fertilizers, irrigation and power by a direct income transfer scheme as a part of second generation reforms.	Direct account transfer App with the help of Aadhaar infrastructure
8	Introducing universal crop insurance scheme by Government covering all crops starting with small and marginal farmers with monetary ceiling of Rs. 2 lakhs.	Crop insurance App
9	To provide credit guarantees in niche areas for micro and small enterprises (MSEs). It would also explore possibilities for counter guarantee and re-insurance.	Multiple guarantee App for agencies
10	Introduction of UID for all MSME borrowers and information from it should be shared with credit bureaus.	UID for MSME App.

accompanied by persistent concerns over consumer protection in this era of instant communication and real time transactions, sometimes through opaque channels. Along with the benefits that the technology advancements have brought in, with increased reach of connectivity (internet) and geo political/macro-economic factors, we are beginning to see another side/dark side of the technology in the form of cyber-attacks. The sophistication of cyber-attacks are on the rise and may well continue in the future with connected devices set to exceed the human population at some point in the future.

The FinTech entities need to have clear procedures for responding to cyber incidents and a mechanism for dynamically recover from cyber threats. Technical progress fosters innovation, but it also entails new risks. At the same time, the primary mandate of the regulator is to protect the users of financial services and the stability of the financial system. In this section, we analyse two issues the regulator needs to focus on:

- The threat of cyber attacks, and
- The risks related to the outsourcing of certain traditional bank activities.

Companies in the banking and financial sectors are prime targets for cyber attacks and the emergence of online services, designed to be simple and interactive, only heightens this risk. There are no historical examples that can be used to construct realistic scenarios. All regulators can do is to take a pragmatic approach, defining plausible attack scenarios and testing the defence mechanisms put in place by digital enterprises.

The second source of risk is the outsourcing of certain tasks in the financial transaction processing chain. Before the technological revolution, it was usual for banks to carry out all tasks in the value chain internally, so that all these tasks were subject to supervisory oversight. These days, this is increasingly rare, both for conventional players and new market entrants. In the case of conventional banks, for example, cost pressures have pushed them to offload some tasks to unregulated entities.

Key Recommendations

- There is a need to have a deeper understanding of various FinTech products and their interaction with the financial sector and, thereby, the implications on the financial system, before regulating this space.
- The regulatory actions may vary from "Disclosure" to "Light-Touch Regulation & Supervision" to a "Tight Regulation and Full-Fledged Supervision", depending on the risk implications.
- Financial sector regulators need to engage with FinTech entities in order to chalk out appropriate regulatory response and with a view to re-align regulation and supervision in response to the changing environment.
- In order to identify and monitor the challenges associated with the development of major FinTech innovations and to assess respond to opportunities and risks arising for the financial system from these innovations, a 'dedicated organizational structure' within each regulator needs to be created.
- Regulatory and legal reforms are essential to enable the sustained development of a digital financial industry for the future.
- Partnerships / engagements among regulators, existing industry players, clients and FinTech firms will enable the development of a more dynamic and robust financial services industry.
- The organizational structure and human resources (HR) practices of regulators have to be reoriented to meet the challenges of innovation, in terms of adapted HR hiring profiles, learning and educational programmes.
- There is a need for a stand-alone data protection and privacy law in the country.
- Banks / Regulated entities may be encouraged to collaborate with FinTech/start-ups to improve their customer experience and operational excellence. They may also consider undertaking FinTech activity in areas such as payments, data analytics and risk management.
- The requirement of increasing the levels of education/ awareness of customers should be highlighted by all market regulators.
- A self-regulatory body for FinTech companies may be encouraged.

Way Forward

Regulation: FinTech powered business should ideally be undertaken by only regulated entities, e.g. banks and regulated payment system providers. The Payment and Settlement Systems Act, 2007 provides for authorisation, regulation and supervision of payments systems by Reserve Bank. The Watal Committee Report has noted that the current law does not impose any obligation on authorised payment systems to provide open access to all PSPs. Globally, the above approach has been recognised and structural changes have been put in place to ensure that the consumers benefit the most from this technology led payments revolution.

Supervision: Technical innovations will have to be monitored in terms of their potential systemic risks. Every FinTech company should invest in fraud prevention. FinTech companies can use technology and analytics to prevent and predict frauds. The onus could be on the FinTech players to utilize their technological expertise and assist/ engage with regulators to draft appropriate guidelines to prevent fraud. There is dearth of coherent data protection and privacy law in the country and it is suggested to bring this to the notice of the financial sector regulators / government.

Government: Some governments and regulators are backing disruptors as a way of introducing more competition and transparency and preserving competitiveness of their financial service industry. The government may consider introducing tax subsidies for merchants that accept a certain proportion of their business revenues from the use of digital payments as opposed to cash.

Consumers: The rise of FinTech has been driven by rising customer expectations for more personalized and digital experiences, increased access to VC funding, reduced barriers to entry and accelerated advancements in technology. The requirement of increasing the levels of education/ awareness of customers should be highlighted by all market regulators as well as the self-regulatory body for FinTech companies.

General Studies Paper- III

Topic: Science and Technology- developments and their applications and effects in everyday life.

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4. CHANGING CONTOURS OF GLOBAL TERROR

Why in News?

Home Minister Rajnath Singh has said radicalisation of the populace, particularly youths, is one of the most challenging problems the world is facing currently. Addressing the fourth counter-terrorism conference – 'Changing Contours of Global Terror', without taking Pakistan's name, said some countries are providing sponsorship and safe havens to terrorists and this has further played a major role in the phenomenal growth of terrorism globally.

Introduction

Terrorism, indeed, has become a global phenomenon posing major threat to international peace, security and stability. Access to advance technology, including cyberspace, sophisticated communications, global funding and military grade weapons has given such groups enormous strength. It is no wonder; therefore, that terrorism constitutes one of the principal challenges at the global, regional and national levels and has become a key factor in national security planning. Terrorism is fundamentally an attack on the state. The rise of religious fundamentalism has introduced a new ideology which sanctifies 'Jehad' (holy war) and 'Fidayeen' (suicide) attacks. This exploits the situation of 'backwardness' and economic disparity of the frustrated youth of society. Terrorism today, therefore, has been transformed into a trans-national, high-tech, lethal and global phenomenon. The response to terrorism needs to be structured accordingly and the decision making process also needs to be modernised.

In the recent few years, perception of 'Global Terrorism' has undergone a massive makeover with the rise of violent armed terror groups especially in the Middle East, South Asia and African continent. This phenomenon could be attributed to the diminishing control in the terror space of the Al-Qaeda leadership, which just a decade ago was the face of terrorism. The shift of AQ Network from the Middle East to South Asia is a phenomenon, which is of serious concern to India. The Boko-Haram-IS alliance primarily seeks to enhance the idea of global jihad with an aggressive brand of terror and footprint of Caliphate into Africa, through innovative measures. International terrorism also implies that such terrorist groups, e.g. JEI, Al Qaida, etc. have an organisation/ network/ linkage in a number of countries. For instance, we have identified terrorists who are nationals from 16 countries, currently operating in J&K.

The New Face of Terrorism

The new face of global terrorism can be most vividly seen in the dramatic change and growth in its infrastructure. The terrorist movement has come a long way from selective recruitment in secret cells to mass recruitment. In addition, the source of recruitment and training is no longer confined to the affected areas but spans the entire globe, with a phenomenal up gradation of weaponry. Funds and finance channels are no longer confined to resources locally mobilized through individual contributions, extortion and crime.

State-of-the-art communication systems are available to the terrorist which is at times better than the ones being used by the counter-terrorist agencies. Access to advanced technology including cyber-space, internet, electronic mail, etc. has provided terrorist groups with a global communication system. It has also provided such groups with an immensely destructive tool which can be potentially crippling for technology based economies.

Another relatively new dimension is the networking of terrorist groups with the criminal underworld including organized crime gangs, gunrunners, smugglers, drug peddlers, with hawala and parallel banking channels being used for ensuring global flows of finance. It has enabled global terrorist groups to use the infrastructure and terrain knowledge of local outfits for launching attacks in countries, despite having no presence in the area.

Emergence of India at the global level is also being challenged by the terrorist groups, due to its vibrant economy and plural character. Devising a strategy to counter these diverse trends is an extremely complex task. India has taken steps for setting up of Joint Working Groups (JWGs) on counter-terrorism/security matters with key countries. Bilateral treaties on Mutual Legal Assistance (MLATs) in criminal matters to facilitate investigation, collection of evidence, transfer of witnesses, location & action against proceeds of crime etc. have been signed with other countries.

The government has to placed security and safety as its top priority.

- To identified several key areas and allocated enough budgetary resources to address this issue.
- To boosted the security-related infrastructure at the border management by launching new schemes.
- To minimize cross-border-infiltration.
- Allocated substantial funds to the police modernisation programmes all over the country with a view to ensure quick and better response mechanisms.
- To raised regional hubs of NSG battalions in important strategic locations, to meet any unforeseen challenges.

Having realized the importance of funds and the necessity to curb its flow, this government introduced demonetization, to choke the funding patterns of various terrorists outfits and effectively curbed the expansionist designs of these outfits.

Terrorism

Terrorism is usually understood as the use or threat of violence to further a political cause. There is no universally agreed definition of terrorism making it a difficult object to quantify. The use or threat of action designed to influence the government or an international governmental organisation or to intimidate the public, or a section of the public; made for the purposes of advancing a political, religious, racial or ideological cause; and it involves or causes:

- serious violence against a person;
- serious damage to a property;
- a threat to a person's life;
- a serious risk to the health and safety of the public; or
- Serious interference with or disruption to an electronic system.

India subdivides terrorism in four major groups:

1. **Ethno-nationalist terrorism -** This form of terror focuses either (a) on creating a separate state within India or independent of India or in a neighboring country, or (b) on emphasising the views/response of one ethnic group against another. Violent Tamil Nationalist groups from India to address the condition of Tamils in Sri Lanka, as well as insurgent tribal groups in North East India are examples of ethno-nationalist terrorist activities.
2. **Religious terrorism -** This form of terror focuses on religious imperatives, a presumed duty or in solidarity for a specific religious group, against one or more religious groups. Mumbai 26/11 terror attack in 2008 from an Islamic group in Pakistan is an example of religious terrorism in India.
   a. **Left-wing terrorism -** This form of terror focuses on economic ideology, where all the existing socio-political structures are seen to be economically exploitative in character and a revolutionary change through violent means is essential. The ideology of Marx, Engel, Mao, Lenin and others are considered as the only valid economic path. Maoist violence in Jharkhand and Chhattisgarh are examples of left wing terrorism in India.
   b. **Right-wing Terrorism-** Right-wing groups generally seek to maintain the status-quo or to return to some past situation that they feel should have been conserved. Sometimes, groups espousing rightist ideologies might assume ethnic/racist character too. They may force the government to acquire a territory or to intervene to protect the rights of an ‘oppressed’ minority in a neighboring country (i.e : the Nazi Party in Germany).
3. **Narcoterrorism -** Narco-terrorism is an interesting concept, which can fall in the category of either ‘Types of Terrorism’ or ‘Means of Terrorism’, depending on how it is defined. This form of terror focuses on creating illegal narcotics traffic zones. Drug violence in northwest India is an example of narco-terrorism in India.
4. **State-sponsored Terrorism:** State-sponsored terrorism or warfare by proxy is as old as the history of military conflict. Walter Laqueur notes that such established practices existed in ancient times. In recent times, some countries have embraced terrorism as a deliberate instrument of foreign policy. One distinction of state sponsored terrorism from other forms of terrorist activity is that it is initiated to obtain certain clearly defined foreign policy objectives

rather than grabbing media attention or targeting the potential audience.

International Terrorism: India's Long Term Strategy and Concerns

Geo-Political Environment and Threat Assessment

It is necessary to examine the environment, both internal and external that exists in India. The prevailing internal environment has a direct bearing on the growth of terrorism in the country and should be examined first. The realities in our context are:

- The fact that our consolidation as a secular, federal and democratic state is still evolving; and that the diversity of our multi-ethnic / multi religious society is often exploited by fundamentalist forces.
- The absence of sufficient employment and unequal development, the resultant poverty and the accompanying frustration, which has encouraged unemployed youth to take up criminal acts and narcotics.
- Ineffective anti - terrorism legislation/ legal frame-work and misplaced judicial-activism.
- "Structural" inadequacies in the state apparatus, namely:
    - Weaknesses in the intelligence structure – human as well as technical.
    - Inadequate modernisation of police, para military and armed forces.
    - Unimaginative media manage-ment and coverage.
    - Reactive response and slow governmental decision-making, lack of clear strategy and policy on Internal Security.

Amongst the existing external environment, the regional / sub continental realities that merit consideration are:

- Our situation between the 'Golden Crescent' and the 'Golden Triangle' leading to a heavy influx of drugs and arms.
- A hostile nuclear Pakistan with a land border of 3,400 km, who sponsors 'state-terrorism' and fundamentalist forces.
- The unresolved border with China (5,800 km), a country that has active military and nuclear co-operation with Pakistan.
- A long sea border (7,700 km), prone to pirating and smuggling.
- A contiguous and porous border with unequal smaller SAARC nations such as Nepal, Bangladesh, Myanmar and Sri Lanka, with accompanying problems such as illegal migration, trade and smuggling in the border belt and the resultant social tensions. Because of its size and capabilities, India is perceived as a big brother whose active cooperation is denounced as so-called 'intervention' and lack of it, as 'indifference'.

On the larger international scene, the factors that impact on terrorism are the following:

- Globalisation has made geographic borders transparent to the flow of ideas, people and also turmoil.
- Technology has extended the reach and capabilities of the terrorists at the global level.
- Economic interests of national and multi-national corporations (MNCs) pre-dominate all other interests. Therefore, unfriendly acts by some of our neighbours are not questioned.
- The lack of international cooperation to undertake anti-terrorist action till the 11 September incident. However, unless implemented and enforced, it is of little use. This, therefore, needs to be converted into an international convention and adopted by all nations.

Long Term Strategy

Following from the above understanding of the nature of international terrorism that faces us today, it is clear that a long-term strategy is required to counter terrorism. It has to be comprehensively addressed on all fronts, political, economic, social and military. This strategy needs to be evolved from our national aims and objectives to protect 'core values'. These core values are:

- Consolidate as a secular, federal democratic state with freedom of speech, equality and justice.
- Protect sovereignty and territorial integrity.
- Promote socio-economic growth and development.

Political / Diplomatic Strategy: International terrorism cannot effectively be fought alone, as has been our experience so far. All nations must join hands to combat it, as is being done for Osama bin Laden and Al Qaida. Pakistan sponsored 'proxy' war must be exposed and international pressure applied. A strong message needs to be conveyed to Pakistan, that we mean business, demonstrated by deeds/actions. All steps to convey this must be implemented such as diplomacy, trade, sports and military.

Internal Strategy: Our policy of meeting political / economic aspirations has succeeded in many cases through the creation of new states and autonomous councils with limited military containment. However, it has not succeeded where 'internal support' has been potent. Therefore, need to move from a policy of appeasement and accommodation to firm action, before the problem spreads:

- Adopt proactive policies to confront the terrorists militarily and at the roots of terrorist ideology – fundamentalists, social evils and sources of terrorism e.g. narcotics / drug trade.
- Enact effective anti-terrorist laws and legal framework.
- Modernise and enlarge intelligence networks.
- Modernise state police and para military forces in training, equipment and ethos.

Economic Dimension: Spread the fruits of development more evenly throughout the country. Locate some of the Public Sector Units in the remote areas even if they are non-profit making.

- Put in a greater developmental effort in the remote, weaker sections of society – which, though a stated policy is not visible at present.
- Reduce demographic displacement resulting in social / ethnic tension such as in Assam and Tripura, through the joint development of sensitive border belts along Nepal, Bangladesh and Myanmar.
- Enhance our economic and military capabilities so as to widen the gap between India and Pakistan sufficiently and act as an economic and military deterrence for Pakistan, which would then realise the futility of trying to catch up.

Social Environment: Promote moderate and secular polity by media, intelligentsia and religious institutions. The path of developing a composite culture as already developed in the Armed Forces may serve as a useful role model.

- Address the outdated education system of Madrassas by quality modernisation and laying down guidelines for uniform syllabii. We cannot continue to recognise religious education such as those in the Madrassas as an entrance-system for universities. Suitable alternatives have to be created.
- Upgrade our communication systems so that television and telecommunication spreads to our remote and border areas, which are currently under constant reach of Pakistan propaganda.
- There should be realistic psychological and information warfare so that the will of the anti-national elements is suffocated and the hearts of the populace are won.

Military Strategy: Need to clearly spell out our counter terrorism strategy / doctrine. This should tackle the causes and not just the symptoms. For example J&K is only a symptom of terrorism and not the cause. The direction of military strategies should be as under:

- The aim of military operations should be to create a secure and suitable environment, so that social, economic and political issues can be addressed effectively. Seeking political solutions to accommodate the aspirations without fully eliminating the terrorists, their structure and support bases only results in a 'firefighting' situation and actually prolongs terrorism. This results in enormous costs, militarily and economically.
- The evolution of a superior intelligence system is imperative. This should encompass human, technical, electronic intelligence, as also modernisation of data processing and dissemination – both external and internal.
  - The first step should be to build-up the military forces and their capabilities (which are not adequate currently) and thereafter consolidation of these capabilities and finally destruction of the militants.
  - A reactive response is not the answer. A reorientation of armed response is required so as to launch proactive and specific surgical military operations.
  - An important element of a proactive effort is to increase the costs of proxy war to Pakistan, by undertaking 'Hot Pursuit Strikes' across the LoC and into Pakistan-Occupied Kashmir (POK).
- Effective surveillance and management of the borders to check infiltration (International Border/ Line of Control), is also necessary. This should be achieved through technical means of surveillance, backed by highly mobile, specialised forces as 'Reaction capability' rather than the present system, which is manpower intensive.
- Foreign-based terrorists have to be hit at their bases, training camps and sanctuaries to end the surrogate terrorism or the proxy war by Pakistan. Special Forces both overt and covert, need to be employed for this task.
- Preventive measures against nuclear, biological and chemical (NBC) and cyber-terrorism.

Conclusion

At present, there is a lack of a consistent and comprehensive policy at the national level. 'Collective Action' to fight by international cooperation is a must, as the economic costs of combating terrorism by a single nation are colossal. Such collective action had not come about till the American-led coalition forces in Afghanistan operated against the Taliban. Collective action is not confined to active combat alone. Simultaneously, foreign sponsors of international terrorism have to be identified and tamed. Collective Action is required continue with the present situation where the Armed Forces bear all the responsibility of dealing with anti-national elements, while other members of society, from the safety of their homes, advocate what they deem to be politically correct measures. A democratic polity and a diverse society such as India do not support stringent measures and anti-terrorist legislation, even when necessary.

Technology enhancement, NBC, cyber-terrorism have given the terrorists unlimited powers and to counter these, we must modernise our security apparatus. There is also a necessity to have institutional security, through an overall improvement in intelligence interception and police efficiency as the list of political targets continues to grow in the urban and industrial field. The citizens of the country also have to be energised to feel responsible for the well-being of the nation and state apparatus alone will not suffice. Ultimately, the roots of terrorism have to be removed through good governance. Political corruption and lack of good governance is a basic contributor to frustration setting in into a society, which is then exploited by unfriendly nations. Needless to say, this has to be addressed immediately by striving to achieve economic well-being, social justice and political aspirations of the populace. The government. of India in tandem with the state governments has adopted a multi-pronged approach to deal with the emerging situation. What we need is a sustained united effort, to identity the terror modules operating in the globe and neutralise them.

General Studies Paper- III

Topic: Role of external state and non-state actors in creating challenges to internal security.

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5. RE-ENERGIZING INDIA-FRANCE RELATIONSHIP

Why in News?

With French President Emmanuel Macron's recent visit to India, India and France outlined concrete steps to broaden the scope of their 20 year-old strategic partnership, signing 14 pacts in areas ranging from defence, security, nuclear energy to the protection of classified information besides agreeing to hold biennial summits between top level leaders of the two countries and an annual bilateral defence dialogue.

Background

India and France have traditionally close and friendly relations. After the collapse of the Soviet Union, Paris and New Delhi shared concerns about U.S. "hyper power." Although their efforts to promote a multipolar world did not seem to bear immediate fruit, France and India drew steadily closer. India's new strategic appreciation of the French connection is rooted in India's recent nuclear history. France was the first to propose finding a way to reconcile India's nuclear weapons program and the global nonproliferation order. In 1998, the two countries entered into Strategic Partnership which is emblematic of their convergence of views on a range of international issues apart from a close and growing bilateral relationship.

France was the first country in the West with which India established a strategic partnership and the first with which India initiated a strategic dialogue after our 1998 nuclear tests when France refrained from imposing sanctions on us. It has ceased arming Pakistan many moons ago. Leaders from no other country have been honoured as many times as chief guests at India's Republic Day celebrations.

The areas of defence cooperation, space cooperation and civil nuclear cooperation constitute the three principal pillars of our Strategic Partnership. Apart from these traditional fields of cooperation, India and France are increasingly engaged in new areas of cooperation like climate change, sustainable growth and development, the International Solar Alliance etc.

India and France support a multi-polar world order. France has continued to support India's claim for permanent membership of the Security Council and the reforms of the United Nations. France has provided consistent support to India's candidature for the membership of Multilateral Export Control regimes, viz. NSG and MTCR. France's support was vital in India's accession to MTCR in June 2016.

India and France have consistently condemned terrorism and have resolved to work together for adoption of the Comprehensive Convention on International Terrorism (CCIT) in the UN. During the visit of then President Hollande in January 2016, India and France also issued a Joint Statement on counter terrorism in which the two countries resolved to step up their bilateral cooperation in this field.

Maritime Cooperation

As maritime security acquires greater salience in India's foreign policy, New Delhi is increasingly looking to leverage its strategic partnerships, particularly with Paris. Although India and France have joined forces on a number of issues since 1998, regional cooperation in the Indo-Pacific has never risen to the top of the agenda. However, this may be about to change.

In response to growing geopolitical turbulence and more aggressive maritime maneuvering, both nations appear eager to expand their strategic engagement. Since Macron's election in 2017, a series of high-level discussions between New Delhi and Paris have focused on the prospects of a stronger maritime security partnership. Macron's visit should lead to a bolstering of India-France maritime cooperation in the Indian Ocean, with more synergy between the two navies in the Gulf area where France has a base (in Abu Dhabi) and better mutual understanding of the implications of a Chinese base in Gwadar.

Defence Cooperation

A pragmatic evaluation of Indo-French defence cooperation over the years. Defence relations with France remained isolated until 1962 despite procurement of arms by India. The Chinese War of 1962 was a major turning point for India's defence policy. The military defeat in 1962 compelled India to modernise her armed forces. The modernisation involved purchase of arms from many countries and France assisted India in this regard wholeheartedly. The initial deals struck with France may not be big in terms of numbers but there was a change of attitude which lay the foundations for a strategic partnership.

Regular exchange of visits at the level of Services Chiefs takes place. The three services also have regular defence exercises; viz. Exercise Shakti- Army, Exercise Varuna- Navy, Exercise Garuda- Air Force. Apart from service-level staff talks, the two sides have a High Committee on Defence Cooperation (HCDC) which meets annually at the level of Defence Secretary and the French Director General of the Directorate of International Relations and Strategy (DGRIS).

Major on-going defence-related projects are the following:

- **Rafale deal:** The Inter-governmental agreement for purchase of 36 Rafale jets by India in flyaway condition was signed in New Delhi on 23 September 2016.
- **P-75 Scorpene Project:** The contract for six Scorpene submarines from M/s DCNS was signed in October 2006. All six vessels will be built under technology transfer at the Mazagaon Docks Ltd. The first three submarine Kalvari, Khanderi and Karanj have been built.

Civil Nuclear Cooperation

The bilateral cooperation agreement for the development of peaceful uses of nuclear energy, which entered into effect on 14 January 2010, defined the framework of cooperation in this field. Two agreements signed on 6 December 2010 complete its legal aspects. Several cooperation projects in the area of nuclear research and safety are in the process of being finalized. The project of building a nuclear power plant in Jaitapur now involves 6 EPRs (European pressurized reactors), with a total capacity of 9900 MW.

For India, France was one of the first countries to have a high degree of cooperation in the strategic area. It was also the first country to have signed the civil nuclear cooperation agreement in 2008 - even before the United States - after the Nuclear Suppliers Group gave a unique waiver to India despite New Delhi not being a signatory to the Nuclear Non-Proliferation Treaty (NPT).

Space Cooperation

India and France have a rich history of cooperation in the field of space going back to fifty years with ISRO and the French Space Agency, CNES carrying on various joint research programmes and launch of satellites. A joint stamp was released to commemorate fifty years of bilateral space cooperation during the visit of PM Modi to France in April 2015. M/s Antrix and M/s Airbus Defence and Space also have signed an MoA for commercial cooperation in June 2016.

GSAT-18 was launched from Arianespace, Kourou on 5 October 2016 which was the twentieth ISRO satellite launched by Arianespace. GSAT-17 was launched from Kourou on 28 June 2017. France continues to be a major supplier of components and equipment for the Indian space programme.

In January 2016, ISRO and CNES signed an Implementing Arrangement (IA) for the joint development of a thermal infrared satellite mission; an IA for the payload of French Argos-IV instrument on India's Oceansat-3 satellite and a Letter of Intent for cooperation in planetary exploration. The jointly developed MeghaTropiques satellite which observes clouds and water vapours over the tropical region continues to be in good health and providing valuable scientific data and the SARAL satellite. French contributions to India's upcoming inter-planetary missions to Mars and Venus are currently under consideration. This year saw new cooperation in satellite launch technology. Apart from its cooperation with India's space agency, ISRO, France is also collaborating with new players of the Indian New Space movement, through CNES partnering with Team Indus' mission to land a rover on the moon's surface in January 2018.

Economic Cooperation

Both India and France have important bilateral investments and trade and commercial cooperation. Almost 1000 French companies are present in India with a total turnover of US$ 20 billion and employing 300,000 people in India. French companies have more than 25 R&D centres in India. France is the ninth largest foreign investor in India with cumulative investment of US$ 5.15 billion from April 2000 to May 2016 which represents 1.5% of the total FDI inflows in India. In France, about 120 Indian companies are present with an estimated investment stock of Euro one billion and employing 7000 people.

In 2016, the total trade in goods between India and France stood at Euro 8.58 billion, registering an increase of 0.49% from 2015. The trade surplus remains in India's favour for the past ten years with Indian exports to France in 2016 standing at Euro 4.67 billion and French exports to India at Euro 3.90 billion.

However, the overall volume of bilateral trade remains low with Indian exports to France being a meagre 1.06% of France's total imports.

France collaborates with India under the latter's "Smart Cities" initiative. French companies specializing in the sustainable urban development sector are already active in around twenty Indian cities (metro, water, etc.). French companies are present throughout the territory of India but are principally concentrated in the large metropolitan cities (Delhi-NCR, Mumbai/Pune, Bengaluru, Chennai, Hyderabad, Ahmedabad, and Kolkata).

International Solar Alliance

The ISA is a major Indo-French initiative with around 56 countries having signed the ISA Framework Agreement and 26 nations having already ratified it. It provides a common platform for cooperation among sun-rich nations with the aim of significantly ramping up solar energy, thereby helping to contain global greenhouse emissions as well as providing clean and cheap energy. It is also the first treaty-based international organization to be based in India.

India and France has co-chaired the first Founding Conference of International Solar Alliance (ISA) in New Delhi. The summit was attended by United Nations Secretary-General Antonio Guterres, Venezuelan President Nicolas Maduro and Bangladesh President Abdul Hamid among other dignitaries from over 50 countries. The summit aims to mobilise $1 trillion of investments needed by 2030 for massive deployment of solar energy.

Global Geopolitics

The underpinnings of global geopolitics are being rapidly altered with China's inexorable rise, the West being consumed by internal problems and Russia, the "America First" priorities of the Trump Administration and growing threats to globalization. This is a time for nations like India and France to take the lead and shape the narratives as well as the emerging institutional frameworks. India faces a number of daunting challenges, both internal and external, but none more so than the rise of China as it seeks to grow in the same neighborhood. That it must compete with a hegemonic nation for resources, power and influence within a challenging geographic and geo-economic space is a reality that India cannot escape. India has precious few tools at disposal to resist China's gravitational pull over nations in its own backyard. It cannot possibly match China in resources and influence given its own lack of capacity and need for infrastructure, so it must team up with partners to offer an alternative model for development and simultaneously raise political costs for China as it goes about building strategic assets and dual-use major infrastructure to project its power in the neighborhood and beyond.

Way Forward

At a time when India is redefining its strategic space in the wider Indo-Pacific, there is great potential in Indo-French collaboration in the Indian Ocean. While India is engaging the United States, Japan, and Australia as part of the "Quad" initiative, a close bilateral partnership with France is evolving in the region, especially in the Western Indian Ocean. French military bases in Djibouti, Abu Dhabi and Reunion Island can be a force multiplier for India, which itself is looking to build naval facilities in Seychelles, Mauritius and Oman. The two nations will be hoping that this sharing of military facilities will lead to greater interoperability between their navies and much closer maritime cooperation including through maritime domain awareness. As China undercuts India's geographical advantages in the Indian Ocean, New Delhi needs partners like Paris to preserve its equities in the region and to continue to play its traditional role of regional security provider. In this context, working towards the eventual goal of interoperable navies that can use each other's naval facilities will certainly result in more effective security architecture in the Indo-Pacific.

General Studies Paper- II

Topic: Bilateral, regional and global groupings and agreements involving India and/or affecting India's interests.

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6. NPA AND ITS RESOLUTION

Why in News?

The Reserve Bank of India's new norms directing banks to start insolvency proceedings on accounts, if stress is not resolved in 180 days, could result in a jump in bad loans. The Reserve Bank of India (RBI) tightened norms for bad loan resolution by setting timelines for resolving large NPAs, failing which banks will have to mandatory refer them for insolvency proceedings. It also withdrew existing debt restructuring schemes such as SDR and S4A. The banking system is grappling with a Rs10 trillion bad loan problem which is still some way from being sorted despite the new bankruptcy framework.

Introduction

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or instalment of principal has remained 'past due' for a specified period of time. The gross non-performing assets (NPAs) of all the banks in the country amounted to Rs 8,40,958 crore in December, led by industry loans followed by services and agriculture sectors. The gross NPAs or bad loans of scheduled commercial banks as on December 31, 2017 due to loans to industry were at Rs 6,09,222 crore, accounting for 20.41 per cent of the gross advances. Gross NPAs of Indian banks, after staying below the Rs.1 lakh-crore mark between FY06 and FY11, began to gallop from FY12. Jumping to Rs.1.4 lakh crore in March 2012, gross NPAs proceeded to rise almost sixfold over the next five years to Rs.7.9 lakh crore by March 2017.

The picture is equally dire if one considers gross NPAs as a proportion of total loans. After hovering below 3% till March 2012, it soared to 10.2% by September 2017, data from RBI's financial stability reports show. In effect, for every Rs.100 in loans advanced by Indian banks over the years, Rs.10 is already in default. Indian banks recognise a loan as an NPA if its interest or principal repayments are overdue for more than 90 days. The bulk of these NPAs have been stockpiled by public sector banks. In March 2017, they held Rs.6.8 lakh crore of the Rs.7.9 lakh crore bad loans; private sector banks held Rs.91,900 crore and foreign banks the rest.

The rating agencies are optimistic that the stock of NPAs may not grow rapidly from here. Crisil expects the stock of gross NPAs for Indian banks to stand at 10.5% by March 2018 and stressed assets to top out at 14%. But provisioning and losses from these NPAs are expected to stretch on for the next year or two.

Current Banking Sector

The performance of the banking sector, Public Sector Banks (PSBs) in particular, continued to be subdued in the current financial year. The Gross Non-Performing Advances (GNPA) ratio of Scheduled Commercial Banks (SCBs) increased from 9.6 per cent to 10.2 per cent between March 2017 and September 2017, whereas, their Restructured Standard Advances (RSA) ratio declined from 2.5 per cent to 2.0 per cent. The Stressed Advances (SA) ratio rose marginally from 12.1 per cent to 12.2 per cent during the same period. GNPA ratio of PSBs increased from 12.5 per cent to 13.5 per cent between March and September 2017. Stressed advances ratio of PSBs rose from 15.6 per cent to 16.2 per cent during the period.

Capital to Risk-weighted Asset Ratio (CRAR) of SCBs increased from 13.6 per cent to 13.9 per cent between March 2017 and September 2017 largely due to an improvement for private sector banks (PVBs). SCBs' Return on Assets (RoA) remained unchanged at 0.4 per cent between March 2017 and September 2017 while their Return on Equity (RoE) declined from 4.3 per cent to 4.2 per cent. Many PSBs have continued to record negative profitability ratios since March 2016.

NPA: Assets classification

Non-Performing Assets (NPAs) are the bad loans of the banks. The criteria to identify such assets have been changing over the time. In order to follow international best practices and to ensure greater transparency, the RBI shifted to the current policy in 2004. Under it, a loan is considered NPA if it has not been serviced for one term (i.e., 90 days). This is known as '90 day' overdue norm. For agriculture loans the period is tied with the period of the concerned crops—ranging from two crop seasons to one year overdue norm. Assets of a bank are classified in terms of its repayment status. Standard assets, substandard assets, doubtful assets and loss assets are classifications of asset quality. For a bank, classification of assets into different categories should be done taking into account credit weaknesses and the extent of dependence on collateral security for realization of dues.

a) **Standard Asset:** Standard Asset is one which does not disclose. Such an asset should not be an NPA.

b) **Sub-standard:** remaining NPAs for less than or equal to 12 months;

c) **Doubtful:** remained in the sub-standard category for a period of more than 12 months; and

d) **Loss assets:** NPA for a period of more than 36 months is treated as a lost asset.

The New Insolvency and Bankruptcy Regime

The Insolvency and Bankruptcy Code, 2016 (IBC) was passed in May 2016. At the time the previous Economic Survey was issued, the new regime was in its very early days. The regulator had just been set up and the basic ecosystem, including the rules governing corporate insolvency/ liquidation and certification of insolvency professionals who could run those transactions, had been newly created. Since then, there has been a significant amount of progress – the entire mechanism for the Corporate Insolvency Resolution Process (CIRP) has been put in place. A number of rules and regulations have been notified to create the institutions and professionals necessary for the process to work. A large number of cases have entered the insolvency process and a few have even exited the process. Over 1,300 insolvency professionals are registered (under three Insolvency Professional Agencies). The first information utility has also started functioning. Over 525 cases of corporate insolvency have been admitted across all the National Company Law Tribunal (NCLT) benches. In addition, 108 voluntary liquidation proceedings and one Fast-Track Corporate Insolvency Resolution have also been initiated.

A major factor behind the effectiveness of the new Code has been the adjudication by the Judiciary. The Code prescribes strict time limits for various procedures under it. In spite of the large inflow of cases to NCLT benches across India, these benches have been able to admit or reject applications for CIRP admissions with few delays. In addition, appellate courts, including the NCLAT, High Courts and the Supreme Court have also disposed appeals quickly and decisively. In this process, a rich case-law has evolved, reducing future legal uncertainty. On 13th June, 2017, the RBI identified 12 large loan defaulters where the Insolvency and Bankruptcy Code (IBC) was initiated.

Resolution of the NPAs

At one hand, while the RBI tried to check the NPAs from rising by announcing new guidelines for the banks, on the other hand, it has also taken several steps to 'resolve' the problem. By February 2017 (since 2014-15), the RBI has implemented a number of schemes to facilitate resolution of the NPAs problem of the banks—briefly discussed below:

- **5/25 Refinancing:** This scheme offered a larger window for revival of stressed assets in the infrastructure sectors and 8 core industries. Under this scheme lenders were allowed to extend the tenure of loans to 25 years with interest rates adjusted every 5 years, so tenure of the loans matches the long gestation period in the sectors. The scheme thus aimed to improve the credit profile and liquidity position of borrowers, while allowing banks to treat these loans as standard in their balance sheets, reducing provisioning costs against NPAs. However, with amortisation spread out over a longer period, this arrangement also meant that the companies faced a higher interest burden, which they found difficult to repay, forcing banks to extend additional loans (called 'evergreening'). This in turn has aggravated the initial problem.
- **ARCs (Asset Reconstruction Companies):** ARCs were introduced to India under the SARFAESI Act (2002), as specialists to resolve the burden of NPAs. But the ARCs (most are privately-owned) finding it difficult to resolve the NPAs they purchased, are today only willing to purchase such loans at low prices. As a result, banks have been unwilling to sell them loans on a large scale. Since (2014) the fee structure of the ARCs was modified (requiring ARCs to pay a greater proportion of the purchase price up-front in cash to the banks) purchases of NPAs by them have slowed down further— only about 5 per cent of total NPAs were sold during 2014-15 and 2015-16.
- **SDR (Strategic Debt Restructuring):** In June 2015, RBI came up with the SDR scheme provide an opportunity to banks to convert debt of companies (whose stressed assets were restructured but which could not finally fulfil the conditions attached to such restructuring) to 51 per cent equity and sell them to the highest bidders—ownership change takes place in it. By end-December 2016, only 2 such sales had materialized, in part because many firms remained financially unviable, since only a small portion of their debt had been converted to equity.
- **AQR (Asset Quality Review):** Resolution of the problem of bad assets requires sound recognition of such assets. Therefore, the RBI emphasized AQR, to verify that banks were assessing loans in line with RBI loan classification rules. Any deviations from such rules were to be rectified by March 2016.
- **S4A (Scheme for Sustainable Structuring of Stressed Assets):** Introduced in June 2016, in it, an independent agency is hired by the banks which decide as how much of the stressed debt of a company is 'sustainable'. The rest ('unsustainable') is converted into equity and preference shares. Unlike the SDR arrangement, this involves no change in the ownership of the company.

Public Sector Asset Rehabilitation Agency (PARA)

To resolve the twin problems of 'balance sheet syndrome' (of the banks as well as the corporate sector), the Economic Survey 2016-17 has suggested the government to set up a public sector asset rehabilitation agency (PARA) —charged with the largest and most complex cases of the 'syndrome'. Such initiatives were successfully able to handle the 'twin balance sheet' (TBS) problems in the countries hit by the South East currency crises of mid- 1990s. As per the survey, the Agency charged with working out the largest and most complex cases. Such an approach could eliminate most of the obstacles currently plaguing loan resolution. By late February 2017, government hinted towards its interest to the idea of PARA. But before the idea takes shape several related issues are to be settled by the government, such as— its funding mechanism; selection of the companies for their balance sheet resolution; recovery mechanism of the banks' NPAs; etc. among others.

SARFAESI Act, 2002.

Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 gives far reaching powers to the banks/ FIs concering NPAs. If borrower of financial assistance makes any default in repayment of loan or any installment and his account is classified as Non performing Asset by secured creditor,then secured creditor may require before expiry of period of limitation by written notice to the borrower for repayment of due in full within 60 days by clearly stating amount due and intention for enforcement. Where he does not discharge dues in full within 60 days, then without intervention of any Court or Tribunal Secured creditor may take possession (including sale,lease,assignment) of secured asset, or takeover management of business of borrower or appoint manager for secured asset or without taking any of these action may also proceed against guarantor or sell the pledged asset, if any.

Resolution of Stressed Assets – Revised Framework

The Reserve Bank of India has issued various instructions aimed at resolution of stressed assets in the economy, including introduction of certain specific schemes at different points of time. In view of the enactment of the Insolvency and Bankruptcy Code, 2016 (IBC), it has been decided to substitute the existing guidelines with a harmonised and simplified generic framework for resolution of stressed assets. RBI withdraws on resolution of stressed assets such as Framework for Revitalising Distressed Assets, Corporate Debt Restructuring Scheme, Flexible Structuring of Existing Long Term Project Loans, Strategic Debt Restructuring Scheme (SDR), Change in Ownership outside SDR and Scheme for Sustainable Structuring of Stressed Assets (S4A) stand withdrawn with immediate effect. RBI sets banks 180-day timeline for bad loan resolution, where exposure is Rs2,000 crore and above, failing which the NPA account has to be referred to the insolvency and bankruptcy code within 15 days.

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

A. Early identification and reporting of stress: The RBI norms entail proactive resolution of stressed assets with lenders needing to finalise the resolution plan as an account slips into special mention account category. SMA category indicates the time period over which repayment on a loan has not been made.

B. Implementation of Resolution Plan: The resolution plan (RP) may involve any actions / plans / reorganization including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership, or restructuring. The RP shall be clearly documented by all the lenders (even if there is no change in any terms and conditions).

In respect of accounts with aggregate exposure of the lenders at Rs.20 billion and above, on or after March 1, 2018 ('reference date'), including accounts where resolution may have been initiated under any of the existing schemes as well as accounts classified as restructured standard assets which are currently in respective specified periods (as per the previous guidelines), RP shall be implemented as per the following timelines:

- If in default as on the reference date, then 180 days from the reference date.
- If in default after the reference date, then 180 days from the date of first such default.

Conclusion

Banks are fundamental to the nation's financial system. The central bank has a critical role to play in ensuring the safety and soundness of the banking system and in maintaining financial stability and public confidence in this system. The Non-Performing Assets have always created a big problem for the banks in India. It is just not only problem for the banks but for the economy too. The money locked up in NPAs has a direct impact on profitability of the bank as Indian banks are highly dependent on income from interest on funds lent.

NPAs but still a lot needs to be done to curb this problem. The NPAs level of our banks is still high as compared to the foreign banks. It is not at all possible to have zero NPAs. The bank management should speed up the recovery process. The problem of recovery is not with small borrowers but with large borrowers and a strict policy should be followed for solving this problem. The government should also make more provisions for faster settlement of pending cases and also it should reduce the mandatory lending to priority sector as this is the major problem creating area. So the problem of NPA needs lots of serious efforts otherwise NPAs will keep killing the profitability of banks which is not good for the growing Indian economy at all.

General Studies Paper- III

Topic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

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7. UNDERSTANDING: DIGITAL PROTECTIONISM

Why in News?

On February last week, 2018, over 200 senior-level participants from governments, internet companies, technical operators, civil society, academia and international organizations from more than forty countries met in Ottawa, Canada, for the second Global Conference of the Internet & Jurisdiction Policy Network, a multi stakeholder organization that was launched in 2012.

Digital Protectionism

For almost a decade, executives, scholars and trade diplomats have argued that filtering, censorship, localization requirements and domestic regulations are distorting the cross-border information flows that underpin the internet.

1. Digital protectionism differs from protectionism of goods and other services because trade in information is different from trade in goods and other services. Information is intangible, highly tradable and some information is a public good which governments must provide and regulate effectively.
2. It will not be easy to set international rules to limit digital protectionism without a shared set of norms and definitions. However, we can only obtain greater clarity with trade disputes and clearer trade rules.
3. The US, EU, and Canada have labeled other countries policies' protectionist, yet their arguments and actions sometimes appear hypocritical.
4. China allegedly has used a wide range of cyber-strategies including distributed denial of service (DDoS) attacks (bombarding a web site with service requests) to censor information flows and impede online market access beyond its borders. WTO members have yet to discuss this issue and the threat it poses to trade norms and rules.
5. Digital protectionism may be self-defeating. Governments that adopt digital protectionist strategies could experience unanticipated side effects, including reduced access to information, internet stability and generativity. Digital protectionism may also undermine human rights and scientific progress.

21st Century Challenge

Digital protectionism looks set to be the 21st century's Corn Laws – a defining debate which will shape the world's trade. Digital protectionism occurs when countries introduce conflicting rules on internet use – limiting trade and data flows across borders. Think China's firewall censoring the internet – forcing users to search with Baidu rather than Google. This firewall means Chinese businesses are unable to access news sites like Bloomberg or the Economist, as well as western social media sites such as Facebook and Twitter. This restriction of information could hinder business success. By regulating data flows across borders, the World Economic Forum has argued digital protectionism could cause significant economic damage and prevent innovation. This splinternet is growing in importance as online trade increases.

The debate over digital protectionism is only in its infancy, but its fast becoming a source of fierce international disagreement. Since 2012, there have been more than 1,000 cases of jurisdictional problems for businesses trading online, caused by legislative changes brought in by governments and courts.

One of the key areas of dispute has been the spread of data across borders, with many countries now considering restrictions on data flows. Russia's parliament has passed a law requiring tech firms such as Google to keep Russian user data within the country. Brazil has also considered similar legislation. While there are security benefits to these policies, the economic costs from digital protectionism are substantial. A splintered internet would restrict the internet's ability to be a source of innovation and make it much harder for companies to expand their business overseas – hitting SMEs and start-ups particularly hard. Small businesses need to be able to trade with confidence and reach more customers around the world, if they are going to benefit the wider economy.

India will enter the $10 trillion club as the first economy to mature during the Fourth Industrial Revolution (4IR). The first three waves — led by Britain, the US and China — featured wealth creation within one's own geography, aided by global resources and labour. This focus on local prosperity and capacity won't change. What will be unique to the Indian story, however, is its regulatory ecosystem around data: the 4IR's raw material. Global trading rules, which China stayed away from till the 21st century, require India to be expansive in its digital integration and traditional offline trade. But as the Washington Consensus develops fatigue, India must infuse energy into a new globalisation project. It should offer its own developmental model that addresses key concerns on cross-border data transfer — one promoting the free flow of information globally, while ensuring local value creation from data.

India: Digital Protectionism

The digital economy has yet to mature. The medium- to long-term effects of protectionist policies on innovation and growth may far outstrip any short-term benefits. For one, data is increasingly critical in a host of conventional industries, from manufacturing to drilling. Onerous data regulations and compliance burdens could cause damage there. Even in the case of China, analysts at the European Centre for International Political Economy have calculated a 1.1 percentage point hit to gross domestic product. Second, multiple studies have shown the importance of innovation clusters. Foreign competition that brings innovation capital helps build those clusters.

India must adopt a nuanced approach while the US and China slug it out. Concerns such as user privacy should be addressed, but collateral damage must be avoided. Taxonomy of data would be useful, with commercial and industrial data treated differently from private data. At both the Central and state levels in India, governments could do much more in this respect. Creating the appropriate ecosystems for innovation will have a far larger pay-off than withdrawing into the protectionism the Narendra Modi government has shown in other sectors of late.

Since the financial crisis, growth in cross-border flows of traditional goods and services has ranged from flat to anaemic. Cross-border data and digital flows, meanwhile, have grown eighty-fold since 2005. India has been playing catch-up since 1991 after decades of protectionism. It has the chance to get in at the ground floor of the digital economy. For India to reach its digital potential, two things are necessary.

- First, it is vital that the digital revolution be widely diffused. Digitization will boost the economy if it includes communities and regions that may have previously been distant from the information and communication technology (ICT) advancement. Now, India trails peers like Indonesia and Thailand in its network readiness.
- Second, it is equally important that sectors be opened up to new digital business models through reductions in regulatory restrictiveness. Despite improvements, India has among the most restrictive regulations for product markets in the Asia-Pacific region. But for countries to reap the digital dividend, there must be space in the economy for new digital competition, experimentation and entrepreneurship—especially in traditionally non-digital sectors.

All the economic growth that can be sparked by digitization will remain a promise if regulators aim to protect incumbent firms from digital competitors, rather than removing red tape that burdens digital entrepreneurs with unnecessary costs or adopting an embracing attitude to every actor, local or foreign.

China's Digital Protectionism

Over the last 30 years, Beijing has aggressively pursued technology-led global dominance. If high impact Chinese academic publications formed 1% of the top Scopus citations in 1997, today they make 20%. Once synonymous with knock-off goods, China now inspires Silicon Valley to mimic its on demand bike rental services. But its digital economy is a testament to well-worn 20th-century statecraft. Protectionism has meant Chinese payment services like Tenpay and Alipay having over 800 million users and a combined market share of nearly 90%. The microblogging site Sina Weibo has 500 million Chinese users — more than Twitter's global user base. The story repeats itself in search (Baidu), local e-commerce (Alibaba, JD.com), local commutes (Didi Dache, Kaundi Dache) and travel and accommodation (Ctrip, Tujia).

In that sense, some participants suggested, China's digital protectionism, while boosting its dominance of high-tech sectors, could backfire in other areas. The rise of big data across a growing number of sectors is helped by jurisdictions such as the United States that allow unfettered data flows. Europe's tough privacy laws also discourage innovation among technology firms; data localization requirements push tech startups to American shores, where compliance costs are lower. Maintaining cross-border data flows with few government restrictions will be important as the digital transformation plays out in traditional sectors. As one participant put it, networks matter: an economy that tries to insulate itself from global data flows by throwing up restrictions to cross-border data-sharing risks cutting itself off rather than protecting its national champions.

To the extent that Chinese digital protectionism gives Beijing an advantage in the global economy, it could also give China an advantage on the battlefield, some participants warned. The United States' edge in military technology is threatened by concerted Chinese advances in areas that could enhance China's cyber capabilities.

The Spectre of Regulations, Censorship and Hacking

The European Union is in the process of introducing new strict data protection and privacy laws, which would have serious consequences for America's tech giants. These new regulations, along with the EU's fierce anti-trust laws and their crack down on tax loopholes, put Silicon Valley on a collision course with Brussels. The EU recently fined Google €2.4bn for abusing its market dominance, although this pales in comparison to the €13bn tax hit they dished out to Apple last year. The disputes between some of American's largest corporations and the world's largest trading bloc will undoubtable create a steep hurdle for any future transatlantic trade deal.

It's not just privacy legislation and censorship which will cause digital trade problems. U.S. Steel has previously accused Chinese state hackers of stealing trade secrets in the manufacture of high-tech steel to benefit Chinese steel companies. U.S. Steel later withdrew their case, but it highlights that outdated intellectual property laws, often written in the 19th century, may not be fit for purpose with threats from cyber-crime and hacking. Creating new legislation, suitable for a digital age will almost certainly become a contentious international debate.

Preventing Digital Protectionism

Digital protectionism matters to the global economy. The rise of regional content blocking, combined with the need for companies to comply with diverse, often conflicting national regulations means digital protectionism is pushing up the cost of trade. These costs could soon filter from the digital to the real economy. 13% of businesses already think digital protectionism is a threat to global trade which governments need to tackle. Analysts at the European Centre for International Political Economy found that for both China and the EU, introducing restrictions on the free flow of data could cause a 1.1 percentage point hit to the GDP growth rate – to put this in context, the EU's economy only grew 1.9% in 2016. As awareness increases and more are affected by these barriers to trade, the proportion of businesses demanding action looks set to increase.

It's important for the future of small businesses these barriers to trade are limited. To prevent an era of digital protectionism, we need global agreement. But creating an inter-governmental organisation would take decades and any agreement is likely to be unacceptable to the internet registrars, coders and engineers who currently run the internet. Perhaps what is needed is a "multi-stakeholder" model? Something like the model used in the creation of the internet, or closer to home how GS1 standards were created – with global agreement – to give us what we know and love today, a common language for business and trade used by over 2 million companies across the globe.

The Future of the Digital Society

The lack of clear transnational cooperation frameworks prevents addressing crime, harassment, incitement to violence and numerous other harmful behaviors affecting citizens in their everyday life. In this context, participants are united in their commitment to reconcile the three objectives of fighting abuses, protecting and promoting human rights and enabling the development of the digital economy. What is needed is defining the rules applying to cross-border communities of hundreds of millions of people with increasingly diverse cultural or social references; ensuring the coexistence of numerous different legal frameworks in cyberspace; and clarifying the respective responsibilities of the different stakeholders in that regard. What is at stake is the collective definition of the digital society we want to build and the development of governance mechanisms to preserve the cross-border nature of the internet and prevent the deepening of existing lines of fracture.

Conclusion

Preserving the cross-border nature of the internet and its benefits will be no easy task and can only be achieved through collaboration and joint action by all stakeholders. What is at stake is nothing less than the digital society we collectively want to build for future generations. While nationalist policies are undergoing a revival, globalization should find new paths through the digitization of the economy. Since they are either immaterial or dematerialized, the flows supporting global business escape restrictive practices. But digital globalization also entails digital protectionism.

India must adopt a nuanced approach while the US and China slug it out. The medium- to long-term effects of protectionist policies on innovation and growth may far outstrip any short-term benefits. These two seemingly conflicting narratives of the world, the geopolitical and the digital, have fundamentally transformed the half century old model of globalisation. This dichotomy is further influenced by the seemingly opposing geopolitical approach of the two leading economic powers, US and China. China's digital protectionism and are US retreat, can be analogous to India's victory in Globalisation 4.0.

General Studies Paper- III

Topic: Awareness in the fields of IT, Space, Computers, robotics, nano-technology, bio-technology and issues relating to intellectual property rights.

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SEVEN SUBJECTIVE QUESTIONS WITH MODEL ANSWERS

Finance Commission: Framework for Federalism

Q1. What are the important functions of Finance Commission? Examine the impact of the recommendations of the Fourteenth Finance Commission and discuss the challenges before the Fifteenth Finance Commission.

Hints:

- The Fifteenth Finance Commission (XV-FC) has been appointed with the terms of reference (ToR) notified in a presidential order dated 27 November 2017. The ToR is significantly different from those of earlier finance commissions.
- The main functions of a finance commission as mandated in Article 280 of the Constitution is to make recommendations on the distribution of net proceeds of divisible pool of taxes between the Union and the states; inter se allocation of states' share; principles which should govern the grants-in-aid to states by the finance commission; and measures to augment the Consolidated Fund of a state to supplement the resources of panchayats and municipalities.These constitutionally mandated functions are reproduced as such in theToR of all the finance commissions.
- Preliminary evidence on the impact of the recommendations of the Fourteenth Finance Commission suggests that there has been an increase in central transfers and social sector expenditures in a number of states in 2015–16. This evidence is biased upwards due to two factors. First, much of the gains have been measured with respect to a low base year. Second, the inferences are affected by systematic differences between actuals, revised estimates and budget estimates.
- The higher devolution under the 14th Finance Commission has seen marginal increases in social sector allocations. There are pressures to increase allocations to the centrally sponsored schemes (CSS) for higher expenditure on health and education. The tax buoyancies have been affected by the transition to the goods and services tax (GST) and the GST compensation to states will continue till 2022.
- On the expenditure side, the 14th Finance Commission included the expenditure incurred on CSS in revenue expenditure. The expenditure was projected as 11.12 percent of GDP against 13.57 percent projected by the states. These major progressive steps were backed by restructuring the CSS allocation ratio from 75:25 to 50:50 to provide greater flexibility and ownership to the states.
- The tasks before XV-FC are unique in the sense that it has to make its recommendations after the rules of fiscal federalism have been profoundly reset by the introduction of the goods and services tax (GST). The impact of GST on federal public finances is still not clear. These issues need to be framed against the larger challenge of increasing the Indian tax to gross domestic product ratio.
- The terms of reference of the new commission have suggested linking transfers to a range of parameters, such as efforts made to deepen GST, how quickly a state moves towards the replacement level of fertility, eliminating power sector losses, improving the ease of doing business, adoption of direct benefit transfers and progress in sanitation.
- One important change and a tricky political issue is the decision to use population according to the 2011 census as the base for calculating the expenditure needs of various states. Even the 14th FinanceCommission had been explicitly asked to use the 1971 population numbers while deciding the devolution formula.
- The deteriorating public debt dynamics caused by the requirements of the power sector's restructuring would be a major area of concern for the 15th Finance Commission. An alternate fiscal scenario would need to be considered to limit the on-budget fiscal deficits to 3 percent by including the power sector. Then, a debt-to-GSDP ratio of 25 percent greatly limits the government's borrowing needs and has the potential to curtail social sector expenditure.

- Every finance commission has to do a political balancing act. It needs to give more resources to the states given the growing importance of sub-national governments in the Indian political economy. It also needs to ensure that New Delhi is not fiscally constrained given its role in key national public goods such as defence. Federalism can flourish only when it is accompanied by a strong central agency that credibly enforces the rules for new political economy equilibrium.

Redefining of Micro, Small and Medium Enterprises

Q2. Two most important elements used to define MSMEs remain turnover and employment. India still does not take into account the number of people employed. Overall, the new definition is a vast improvement over the earlier definition and should help MSMEs to face new challenges in a better frame. Discuss.

Hints:

- The Union Cabinet has approved change in the basis of classifying Micro, Small and Medium enterprises from ‘investment in plant & machinery/equipment’ to ‘annual turnover’. This will encourage ease of doing business, make the norms of classification growth oriented and align them to the new tax regime revolving around GST (Goods & Services Tax).
- The Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic and social development of India. It plays a key role in the development of the economy with their effective, efficient, flexible and in novative entrepreneurial spirit. It is expected that Indian economy will grow by over 8% per an numun till 2020.
- The new system of classifying enterprises based on annual turnover will be more reliable, transparent and objective as the qualifying criteria will be verifiable with reference to the data available in the Goods and Services Tax network. This will also reduce transaction costs as it will no more be necessary to carry out any inspection.
- With the replacement of the restrictive criteria for classification of MSMEs based on cost of investment in plant and machinery or equipment with a more realistic criterion linked with annual turnover, many enterprises that presently do not qualify should come within the ambit of the MSMED Act, 2006 and benefit from a large number of schemes promulgated by the government for this sector from time to time. Existing MSMEs should also be able to invest more in plant and machinery and equipment without losing out on the benefits available to them.
- Many sectors where MSMEs have substantial share such as Pharmaceuticals, Auto-componentand food processing among others have been demanding a many-fold increase in the investment limit needed to be compliant of the new mandatory and industrial standards. The de minims investment exceeded at least five crore even if one had low turnover.
- The investment based definition creates an uneven field for older enterprises vis a vis new enterprises. Setting up a unit to produce a product today would require several times more investment than the one set-up ten or twenty years ago to produce the same product with similar quantity. What could be a micro unit because of historical investment figures would become medium or large if set up today. It becomes a barrier for new entrants.
- Appropriate strategies should be evolved for creation of an enabling ecosystem where these enterprises are able to access the benefits meant for the munder a formal and friendly ecosystem and are further capable of meeting the emerging challenges of a globally competitive order.

FinTech and Digital Banking in India

Q3. What do you understand by Fintech? FinTech has significant implications for the entire financial system in India and will help to achieve the Payment and Settlement System Vision, 2018. Evaluate.

Hints:

- The term “FinTech” is a contraction of the words “finance” and “technology”. It refers to the technological start ups that are emerging to challenge traditional banking and financial players and covers an array of services, from crowd funding platforms and mobile payment solutions to online portfolio management tools and international money transfers.
- Financial services, including banking services, are at the cusp of a revolutionary change driven by technological and digital innovations. A rapidly growing number of financial entities and technology firms are experimenting with related technological and financial solutions as well as new products in the financial services field which either modifies the way financial intermediation takes place or leads to disintermediation.
- India has a large untapped market for financial service technology startups as 40 percent of the population are currently not connected to banks and 87 percent

of payments are made in cash. With mobile usage expected to increase to 64 percent in 2018 from 53 percent currently and internet penetration steadily climbing, the growth potential for FinTech in India cannot be overstated.

- India's FinTech sector may be young but is growing rapidly, fueled by a large market base, an innovation-driven startup landscape and friendly government policies and regulations. Several startups populate this emerging and dynamic sector, while both traditional banking institutions and non-banking financial companies (NBFCs) are catching up. This new disruption in the banking and financial services sector has had a wide-ranging impact.
- In India, FinTech has the potential to provide workable solutions to the problems faced by the traditional financial institutions such as low penetration, scarce credit history and cash driven transaction economy. If a collaborative participation from all the stakeholders, viz., regulators, market players and investors can be harnessed, Indian banking and financial services sector could be changed dramatically. FinTech service firms are currently redefining the way companies and consumers conduct transactions on a daily basis.
- FinTech has significant implications for the entire financial system in India. The multiplicity of firms and a mosaic of business models complicate the classification of the various types of activities, products and transactions covered under the FinTech spectrum.The Payment and Settlement System Vision – 2018 also covers this aspect appropriately under the Strategic Initiatives – Responsive Regulation and Effective Oversight.
- Further, the payments eco-system is dynamically evolving with the advancements and innovations taking place, particularly in the area of FinTechs. In order to provide a platform for innovators to showcase their models to the industry, particularly in the areas of interest to payment systems and services, the Reserve Bank has organized an innovation contest through the Institute for Development and Research in Banking Technology (IDRBT).
- The government of India and the Reserve Bank are actively promoting financial inclusion with schemes like Jan DhanYojana, Aadhaar enrolment and licensing of Payment Banks /Small Finance Banks, to name just a few. The FinTech companies across the nation are taking the advantage of these initiatives for expanding financial inclusion.
- There is a need to have a deeper understanding of various FinTech products and their interaction with the financial sector and, thereby, the implications on the financial system, before regulating this space.

Changing Contours of Global Terror

Q4. Terrorism, indeed, has become a global phenomenon posing major threat to international peace, security and stability. Discuss the efforts to identify terror modules operating in the globe and neutralise them.

Hints:

- Union Home Minister has said radicalisation of the populace, particularly youths, is one of the most challenging problems the world is facing currently. Terrorism, indeed, has become a global phenomenon posing major threat to international peace, security and stability. Access to advance technology, including cyberspace, sophisticated communications, global funding and military grade weapons has given such groups enormous strength. It is no wonder; therefore, that terrorism constitutes one of the principal challenges at the global, regional and national levels and has become a key factor in national security planning.
- Terrorism today, therefore, has been transformed into a trans-national, high-tech, lethal and global phenomenon. The response to terrorism needs to be structured accordingly and the decision making process also needs to be modernised.In the recent few years, perception of 'Global Terrorism' has undergone a massive makeover with the rise of violent armed terror groups especially in the Middle East, South Asia and African continent.
- Emergence of India at the global level is also being challenged by the terrorist groups, due to its vibrant economy and plural character. India subdivides terrorism in four major groups:Ethno-nationalist terrorism, Religious terrorism, Narcoterrorism and state-sponsored terrorism.
- It is necessary to examine the environment, both internal and external that exists in India. The prevailing internal environment has a direct bearing on the growth of terrorism in the country and should be examined first.
- International terrorism cannot effectively be fought alone, as has been our experience so far. All nations must join hands to combat it, as is being done for Osama bin Laden and Al Qaida. Pakistan sponsored 'proxy' war must be exposed and international pressure applied.
- Promote moderate and secular polity by media, intelligentsia and religious institutions. The path of

developing a composite culture as already developed in the Armed Forces may serve as a useful role model. Address the outdated education system of Madrassas by quality modernisation and laying down guidelines for uniform syllabii. We cannot continue to recognise religious education such as those in the Madrassas as an entrance-system for universities. Suitable alternatives have to be created.

- Collective Action to fight by international cooperation is a must, as the economic costs of combating terrorism by a single nation are colossal. Collective Action is required continue with the present situation where the Armed Forces bear all the responsibility of dealing with anti-national elements, while other members of society, from the safety of their homes, advocate what they deem to be politically correct measures. A democratic polity and a diverse society such as India do not support stringent measures and anti-terrorist legislation, even when necessary.

Re-Energizing India-France Relationship

Q5. The engagement between India and France is entering in new era, as the two countries outlined concrete steps to broaden the scope of their 20 year-old strategic partnership. Discuss the nature of relationship between two countries.

Hints:

- With French President Emmanuel Macron's recent visit to India, India and France outlined concrete steps to broaden the scope of their 20 year-old strategic partnership, signing 14 pacts in areas ranging from defence, security, nuclear energy to the protection of classified information besides agreeing to hold biennial summits between top level leaders of the two countries and an annual bilateral defence dialogue.
- In 1998, the two countries entered into Strategic Partnership which is emblematic of their convergence of views on a range of international issues apart from a close and growing bilateral relationship.France was the first country in the West with which India established a strategic partnership and the first with which India initiated a strategic dialogue after our 1998 nuclear tests when France refrained from imposing sanctions on us.
- The areas of defence cooperation, space cooperation and civil nuclear cooperation constitute the three principal pillars of our Strategic Partnership. Apart from these traditional fields of cooperation, India and France are increasingly engaged in new areas of cooperation like climate change, sustainable growth and development, the International Solar Alliance etc.
- India and France support a multi-polar world order. France has continued to support India's claim for permanent membership of the Security Council and the reforms of the United Nations. France has provided consistent support to India's candidature for the membership of Multilateral Export Control regimes, viz. NSG and MTCR. France's support was vital in India's accession to MTCR in June 2016.
- Major on-going defence-related projects are: Rafale deal: The Inter-governmental agreement for purchase of 36 Rafale jets by India in flyaway condition was signed in New Delhi on 23 September 2016 and P-75 Scorpene Project: The contract for six Scorpene submarines from M/s DCNS was signed in October 2006. All six vessels will be built under technology transfer at the Mazagaon Docks Ltd. The first three submarine Kalvari, Khanderi and Karanj have been built.
- The ISA is a major Indo-French initiative with around 56 countries having signed the ISA Framework Agreement and 26 nations having already ratified it.It provides a common platform for cooperation among sun-rich nations with the aim of significantly ramping up solar energy, thereby helping to contain global greenhouse emissions as well as providing clean and cheap energy. India and France has co-chaired the first Founding Conference of International Solar Alliance (ISA) in New Delhi.
- The underpinnings of global geopolitics are being rapidly altered with China's inexorable rise, the West being consumed by internal problems and Russia, the "America First" priorities of the Trump Administration and growing threats to globalization. This is a time for nations like India and France to take the lead and shape the narratives as well as the emerging institutional frameworks.
- At a time when India is redefining its strategic space in the wider Indo-Pacific, there is great potential in Indo-French collaboration in the Indian Ocean. While India is engaging the United States, Japan and Australia as part of the "Quad" initiative, a close bilateral partnership with France is evolving in the region, especially in the Western Indian Ocean. French military bases in Djibouti, Abu Dhabi and Reunion Island can be a force multiplier for India, which itself is looking to build naval facilities in Seychelles, Mauritius, and Oman.

NPA and its Resolution

Q6. The idea to do away with CDR, SDR, S4A, etc, is commendable, as these provisions had become routes used for camouflaging the tainted part of the NPA Resolution. Discuss.

Hints:

- The gross non-performing assets (NPAs) of all the banks in the country amounted to Rs 8,40,958 crore. Led by industry loans followed by services and agriculture sectors. This is the challenge RBI or the government faces when it announces any measures to put things in order. When the Insolvency and Bankruptcy Code (IBC) was not there, the lament was that nothing effective was being done and that there was some modicum of courage missing in the system. Once it came in, the reality hit the corporate sector that if default issues were not resolved, then they would have to pay for it with the ultimate threat being of liquidation. This had the corporates complaining that it was too harsh. Escape routes, however, did exist, with various prevailing schemes of RBI being in force such as CDR, SDR, S4A, etc. Such measures helped to kick the can.
- The same held for bank recapitalisation, when it was pointed out that it was the responsibility of the government to capitalise PSBs as they owned them. When capital was to be infused, critics were quick to retort that the inefficient banks should not be capitalised and that taxpayers' money was being wasted by good money chasing bad banks.
- The latest move by RBI to get in the new revised framework to tackle NPA resolution has met with similar opprobrium. The idea to do away with CDR, SDR, S4A, etc, is commendable, because with a plethora of measures of reconciliation which were not quite able to deliver the results, there was no point in having a series of such schemes. They have, over time, become routes used for camouflaging the tainted part of the loans. It is much simpler to lay down certain standardised ground rules for addressing the issue of NPAs in a time-bound manner, which is important so that the resolution process is quick.
- The new for loans above Rs 5 crore, there has to be a regular monitoring of such exposures where defaults on repayments or interests are slotted into three buckets of three 30-day tranches. This has to be reported to the central repository every week/month, as per the norms laid down for being in default or SMA, respectively. There can be no argument on this norm as it will ensure that there is accountability among lenders.
- Every lender should have a board-approved plan for resolution of stressed assets. This makes it easier that once there is a default with respect to any borrower, all the lenders get to know of it and seek to resolve it based on the options of regularisation of payments, restructuring, change of ownership, sale of asset, etc. By having such rules in place, it makes it less ambiguous, which will make banks take action rather than worry about whether they are doing the right thing or not.
- The resolution plans so formulated are to be complete in all respects and agreed upon by the lenders. If the account is large, then there needs to be an opinion given by credit rating agencies for the residual debt. The process now becomes transparent and would make bankers feel more comfortable. This is a good move as otherwise banks would have an interest in the implementation of the plan as they were involved in such lending. By getting an independent agency to give a verdict, this additional pressure would not be there on bankers.
- The notification says that for amount higher than Rs 2,000 crore as of March 2018 under any of the existing schemes for restructuring, these cases have to be resolved in 180 days. Further, in case resolution plans of large accounts are not implemented as per these timelines, lenders shall file insolvency application, singly or jointly, under the IBC within 15 days from the expiry of the said timeline.
- It must be pointed out that RBI has been exhorting large borrowers to move over to the debt market to meet their requirements rather than the banking system. The practice of lazy borrowing is prevalent in corporate India, where it becomes easier to borrow from the banks than the market where the terms of engagement are tougher due to relationships built with banks. As a corollary, the market is more demanding and requires greater care to be taken when investing money and hence, in a way, sieves out the best.
- There has always been a need to plug a lacuna in the system of the IBC where companies and banks were able to take shelter in the various other reconciliation schemes that were in vogue. This needed to be plugged to give more teeth to the IBC. These different schemes still gave scope for evergreening of loans, which has now been stopped with the mower now being put in motion. This should definitely give more confidence to bankers as well as other stakeholders which were overdue. At the margin, there could be some companies that have entered the NPA zone due to pure economic adversity. But they would have to go through the said laid-down resolution process; and while they could get affected

negatively, it could be considered as the collateral cost, which is unavoidable when there is any bold reform.

Understanding: Digital Protectionism

Q7. How digital protectionism threatens to derail 21st century businesses? Discuss.

Hints:

- A decade ago, Thomas Friedman's "The World is Flat" popularised globalisation as a process where Apple, Dell, IBM, and other giant corporations offshored manufacturing to low-cost economies and outsourced parts and components from suppliers around the globe. China became the world's factory, mass-producing computers, clothes and gadgets for US consumers. Southeast Asia prospered as China's parts warehouse.
- Disruptive digital technologies – the cloud and digitisation, e-commerce, 3D printing, big data, holograms, Internet of Everything and virtual currencies – are revolutionising the economics of global trade and production. They are empowering corporations to dramatically cut costs and encouraging even the smallest of businesses to engage in trade. But the emerging global digital economy is at risk. It lacks the liberalising policies of the Flat World. Rather, digital protectionism is on the rise.
- In the coming decade, globalisation will change in three fundamental ways:
    - First, the patterns of trade will change. Trade is less about the movement of physical goods across borders and more about bits: digital goods, designs and data. The growth driver of trade in the Flat World, trade in parts and components will be made up of electronically shipped designs of 3D-printed products where they be will assembled into final products in automated manufacturing plants near the end-consumer. Flat World's hallmark, regionalised production hubs in East Asia, North America and Europe are transforming into virtual and genuinely global supply chains – yet ones that are no longer than the distance between designer and laptop.
    - Second, the participants in globalisation will diversify. Emerging technologies such as e-commerce, 3D printing and virtual currencies dramatically lower the costs for the still-marginal participants in the global economy – garage entrepreneurs and small businesses – to become global designers, international brands, multimarket exporters and even one-person multinationals running their own supply chain. The cloud compounds these opportunities. Instead of buying massive IT systems, small businesses can now rent cloud-based, pay-per-use services. For example, Etsy, the online marketplace for handmade goods, rents hundreds of Amazon computers every night to analyse big data from a billion monthly views of its website, receiving next-morning data of the types of clothes, furniture, and jewellery that interest users.
    - Third, the efficiency and predictability of trade and production will improve. The emerging technologies help streamline production, upgrade customer contact and shed slack. Mid-size manufacturers from industrial equipment to chemicals and waste management are adopting 3D printing, setting up their own online stores and e-billing systems, listing as suppliers on Alibaba and accepting Bitcoin. Corporations like GE and Ford are 3D printing jet and car parts right where they are assembled into final products, escaping the heartburn of running global supply chains and just-in-time inventories. Mega-retailers like Walmart and Amazon are tapping into the explosive growth of cross-border e-commerce, serving customers in countries where they don't have a physical footprint. Efficiency gains will expand further as the world's one trillion devices get connected to the web: so far.
- The digital economy opens great opportunities for businesses to streamline, scale and trade. At the same time, it is fraught with risk.
    - The Flat World was empowered by good policy – drastic tariff cuts and removal of stringent restrictions on foreign investment in the emerging world and post-communist bloc. The global digital economy has no equivalent. Instead, protectionism is on the rise.
    - Data is the digital economy's guarded crown jewel. Europeans are imposing limits on access to consumer data and its transfer across borders, complicating foreign companies' customer service and marketing. Keen to create new jobs, such emerging markets as Brazil and Vietnam are forcing foreign IT companies to locate servers and build data centres as a condition for market access, a policy that costs companies millions in lost efficiencies. Leading governments are scrambling to prevent protectionist barriers on 3D printable designs.
    - IP protections too are inadequate for the digital era – why couldn't a company in China simply replicate

digital products and 3D printable designs made in the US? The emerging patchwork of national rules on virtual currencies risks territorialising what could be one-world money. Existing models for cross-border payments, customs procedures and distribution and logistics are outdated, too. They are designed for big business that steered the Flat World, not for the digital era or its new players with limited capacities to pay high fees, meet complex regulations, or ship in bulk.

- Just like tariffs that splintered the world in the 19th century, digital protectionism risks balkanising the global digital economy before it even starts, squashing the potential of hundreds of millions to prosper in the global economy and derailing relations between nations.
- In the early 1990s, the Washington Consensus set off a wave of deep trade and investment liberalisation across the developing and post-communist world, paving the way for the Flat World. Now it's time for Washington Consensus II – perhaps better, a Seoul Consensus to celebrate Korea's rapid ascent to a leading digital economy – among thought-leaders, governments, international organisations and think-tanks that would set guidelines for nations' behaviours in the global digital economy.
- Way ahead: A Seoul Consensus would focus policymakers' minds, guide international organization's policy and technical assistance work and empower watchdog groups to keep governments' feet to the fire. It could be backed by a digital trade organization structured much like the OECD—as a forum for dialogue, codes of conduct, independent data gathering and analysis, as well as bottom-up, real-time discussion and feedback on the barriers that companies and consumers face in the digital economy. Dialogue and transparency won't necessarily prevent bad policy, but they are a critical start. No country wanting its companies and citizens to prosper in the 21st century would boycott.

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SEVEN IMPORTANT NATIONAL & INTERNATIONAL NEWS

NATIONAL

1. Annual Survey of India's City-Systems (ASICS)

Urban governance watchdog Janaagraha Centre for Citizenship and Democracy has released the fifth edition of the Annual Survey of India's City-Systems (ASICS). According to the survey Pune, Kolkata, Thiruvananthapuram and Bhubaneswar have the best quality of governance among Indian cities in 2017. The cities were scored based on the quality of laws, policies, institutions and institutional processes that together help govern them. The 23 cities – many of which are part of the government's flagship smart cities mission – scored between 3 and 5.1 on four key components of governance.

ASICS groups questions into four categories: urban planning & design; urban capacities & resources; transparency, accountability & participation; and empowered & legitimate political representation. Pune scored 5.1 out of 10 (all questions are scored on a scale of 0-10). This is in stark contrast to cities in developed countries -- for instance, London and New York scored 8.8 on the same scale.

Major Issues

- Indian cities have a weak urban planning framework and the problem can be addressed by a well-made and executed spatial development plan -- something which is difficult to do, considering there is only one urban planner in Indian cities for every 4 lakh citizens (This number is 48 in the U.S. and 148 in the U.K.).
- Another problem is stability of finances. On average, the cities assessed generated only 39% of the funds they spent; with several cities unable to even cover staff salaries.
- A third major issue is the lack of skilled staff and poor management of human resources.
- Fragmentation of governance and low levels of empowerment of mayors and councillors is another key roadblock to good governance.

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2. e-office Programme

The government has presented the Certificates of Appreciation to 34 ministries and departments for implementation of e-office programme in their respective ministries and departments.

E-Office is one of the mission mode projects under Digital India Programme. The e-Office solution enables core operations of the government at all levels to be performed in a virtual 'paper-less' environment. This application is, thus, a major step in realizing the objective of an open and responsive government. The government intends to make all its' ministries and departments paper-free in the near future. DARPG is committed to implement e-Office across all central ministries and departments. ■

3. Neutrino Project

The India-based Neutrino Observatory (INO) project has got a fresh lease of life with the Ministry of Environment and Forests (MoEF) taking it up as a special case and granting it environmental clearance to set up the lab in Bodi West hills. While granting environmental clearence, the committee stipulated specific conditions, of which two are keys for the project to take off. One is the consent to establish and operate to be obtained from the Tamil Nadu Pollution Control Board (TNPCB). Also, the INO team has to obtain the necessary forest and National Board for Wild Life clearances as per law. The Mathikettan Shola National Park in Idukki district, Kerala, is situated within five km from the project site.

About INO

INO is a multi-institutional effort aimed at building a world-class underground laboratory with a rock cover of approx.1200 m for non-accelerator based high energy and nuclear physics research in India. The project includes:

a) Construction of an underground laboratory and associated surface facilities at Pottipuram in Bodi West hills of Theni District of Tamil Nadu,

b) Construction of a Iron Calorimeter (ICAL) detector for studying neutrinos and

c) Setting up of National Centre for High Energy Physics at Madurai, for the operation and maintenance of the underground laboratory, human resource development and detector R&D along with its applications. ■

4. Carbonaceous Meteorite

A study of two meteorites which fell in Assam and Rajasthan over a span of 13 hours in 2017, by the Geological Survey of India (GSI), has concluded that they may contain significant clues to the origins of life. The Mukundpura (Rajasthan) meteorite is a carbonaceous meteorite, one of the most primitive types.

They contain grains of calcium and iron, which date to a time before the sun came into existence. They may contain clues to the formation of early life.Meteorites mostly originate from the asteroid belt between Mars and Jupiter. Carbonaceous meteorite may contain clues to the formation of early life. This is a rare type, since carbonaceous meteorites constitute only 3%-5% of all meteorite falls.

The meteorite that fell in NatunBalijan in the flood plains of Lohit River has been classified as an ordinary chondrite.

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5. Newton-Bhabha Fund for Arsenic Research in Ganga Basin

An India-UK Joint Team has won the Newton-Bhabha Fund for a project on Groundwater Arsenic Research in Ganga River Basin. The Department of Science and Technology has undertaken the project with the Natural Environment Research Council, UK, to find solutions to the water challenges faced in the pervasively arsenic-affected Ganga river basin.

The team will try to assess how the problem of arsenic poisoning can get aggravated in the next 25 to 30 years and influence groundwater management practices and suggest water remedial technologies accordingly.

Arsenic Contamination

Arsenic in ground water is a geogenic contaminant i.e. caused by natural geologic processes. Arsenic-containing groundwater in Ganga River basin is hosted by the sediments deposited by the rivers. Incidence of high arsenic in groundwater reported from various parts of the country, particularly in the Ganga- plains is a serious threat to the health of human being. ■

6. Mahanadi Water Disputes Tribunal

The Ministry of Water Resources, River Development and Ganga Rejuvenation have issued a notification constituting the Mahanadi Water Disputes Tribunal. The Tribunal will have its headquarters at Delhi and will have the following members nominated by the Chief Justice of India:

- Mr Justice A.M. Khanwilkar, Judge, Supreme Court of India as Chairman
- Dr Justice Ravi Ranjan, Judge, Patna High Court as Member
- Mrs Justice Indermeet Kaur Kochhar, Judge, Delhi High Court as Member

The Tribunal has been constituted following orders of the Supreme Court dated 23rd January, 2018 in a suit filed by the government of Odisha. The government of Odisha had sought to refer the water dispute regarding the inter-state river Mahanadi and its river valley to a Tribunal for adjudication under the Inter-State River Water Disputes Act, 1956. ■

7. Illegal Cultivation of HT Cotton

Department of Biotechnology in the Ministry of Science and Technology has constituted a Field Inspection and Scientific Evaluation Committee (FISEC) to investigate the illegal cultivation of HT cotton in Andhra Pradesh, Telangana, Gujarat and Maharashtra. The cultivation of BG-III or HT cotton has not been approved by Genetic Engineering Approval Committee (GEAC) of Ministry of Environment.

HT Cotton

Herbicide tolerant trait (BG-III) developed under the commercial name of Round-up Ready Flex (RRF) because it contains Round-up Ready and Round-up Flex (RRF) gene. HT cotton in an innovation in Bt cotton as it takes care of the weeds problem at a much lower cost than the labour farmers have to engage for weeding.

Concern

The RRF gene has got released into the field and is being used in the cotton crop raised by the farmers covering considerable area. It is spreading rapidly and contaminating other cotton hybrids and causing threat to the biological resources due to usage of Glyphosate. The Glyphosate (Glycel) herbicide is reported as carcinogenic and it affects human and animal health besides influencing soil health, biodiversity and ecology.

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INTERNATIONAL

1. International Competition Network

India hosted International Competition Network (ICN) annual conference from 21st to 23rd March 2018 at New Delhi. This is the first time India hosted the ICN annual conference since it joined International Competition Network (ICN) in 2009. With globalisation and digitalisation blurring the geographical boundaries for business, need for international cooperation and experience-sharing has increased. The conference provided an opportunity to exchange ideas and strategies for effective enforcement of competition law and for strengthening cooperation amongst the competition authorities as they strive to promote and sustain competition in rapidly changing markets.

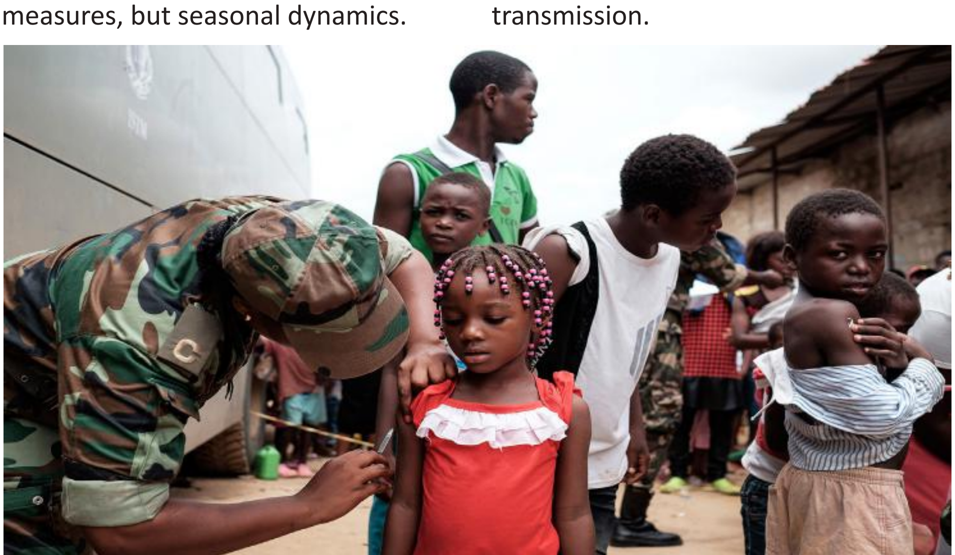
About ICN

ICN is an informal network comprising 138 competition authorities from 125 jurisdictions. The ICN is unique as it is the only international body devoted exclusively to competition law enforcement and its members represent national and multinational competition authorities. It is a voluntary, consensus-based organisation. It is not a rule-making organisation and its work products are not legally binding instruments. ■

2. Yellow Fever in Africa

The burden of yellow fever in any given area is known to be heavily dependent on climate, particularly rainfall and temperature which can impact both mosquito life cycle and viral replication. Now, researchers have developed a new model to quantify yellow fever dynamics across Africa using not only annual averages of these climatic measures, but seasonal dynamics.

The new model integrated the effects of temperature on mosquito behavior and virus transmission and looked at monthly variation in temperature rainfall and vegetation throughout the year across Africa. The seasonal model accurately captured both the geographic and temporal heterogeneities in yellow fever transmission.



About Yellow Fever

Yellow fever virus is a vector-borne flavivirus endemic to Africa and tropical and subtropical areas in Latin America. Ninety per cent of the global burden occurs in Africa where it is primarily transmitted by Aedesspp, with Aedesaegypti the main vector for urban yellow fever. The resulting illness ranges in severity and about half of those infected don't develop symptoms.

To date, there is no treatment against yellow fever. Water and medicines can be given to target the symptoms, such as fever or dehydration. Vaccination is the best option to prevent outbreaks of the fever and to protect people against it. Other strategies include mosquito population control, with the large scale use of pesticides and mosquito nets, as well as the treatment of stagnant water sources. ■

3. Hammer Spacecraft

NASA is planning to launch a nuclear spacecraft named Hammer (Hypervelocity Asteroid Mitigation Mission for Emergency Response) that would shunt or blow up threatening space rocks. Preparing itself to protect life on Earth from a potential asteroid attack, NASA has developed this eight-tonne spacecraft that would be capable of deflecting a huge space rock, in case it happens to hit planet Earth.

The new spacecraft could be useful in 2035, when scientists say there is a 1 in 2,700 chance the Bennu asteroid will hit us. Bennu, a 1600-foot-wide asteroid, is considered to be a Near Earth Object, that would be hitting Earth with 1,450 megatons of TNT. Although the risk is slightly less, Bennu is reported to have been circling around the sun at the speed of 63,000 mph and is at a comfortable distance of 54 million miles from the Earth.

Earth is hit by asteroids with surprising regularity, but most are too small to do much damage or fall in unpopulated areas. According to the report, the Near-Earth Object Studies Centre in NASA recorded 73 asteroids that have a one in 1,600 chance of hitting planet Earth. ■

4. World Happiness Report- 2018

World Happiness Report- 2018 has been released. It ranks 156 countries by their happiness levels and 117 countries by the happiness of their immigrants. The main focus of this year's report, in addition to its usual ranking of the levels and changes in happiness around the world, is on migration within and between countries.

Key Findings

- Scandinavian nations came out as the happiest nations in the world.
- Finland topped the list this year.
- Top ten in order of overall happiness are Norway, Denmark, Iceland, Switzerland, Netherlands, Canada, New Zealand, Sweden and Australia.
- Burundi came at the bottom in the report.
- India ranked 133rd.
- India dropped 11 places from its previous rank of 122 in the list of 156 countries and was behind the majority of SAARC nations, apart from Afghanistan.
- Pakistan is ranked at 75 compared to its 2017 ranking of 80.
- Nepal, which is described as the 'poorest-of-poor' among poor nations, is ranked at 101.
- Apart from Pakistan and Nepal, the other SAARC nations that ranked higher than India were Bhutan at 97, Bangladesh at 115 while Sri Lanka was ranked 116.
- China is at 86th spot.

About World Happiness Report

The World Happiness Report is a measure of happiness published by the United Nations Sustainable Development Solutions Network. The overall rankings of country happiness are based on the pooled results from Gallup World Poll surveys based on six variables such as income, healthy life expectancy, social support, freedom, trust and generosity.

■

5. World Economic Forum's Energy Transition Index- 2018

World Economic Forum (WEF) has released the energy transition index, 2018. The report titled Fostering Effective Energy Transition, ranks countries on how well they are able to balance energy security and access with environmental sustainability and affordability.

Key Findings

- The overall list was topped by Sweden, followed by Norway at the 2nd position and Switzerland at the 3rd rank.
- Other countries on the top 10 include Finland (4th), Denmark (5th), the Netherlands (6th), the UK (7th), Austria (8th), France (9th) and Iceland (10th).
- Among emerging market Brazil stood at the 38th place, Russia at 70th and China at 76th place.

India's Performance

- India has been ranked at 78th.
- India is at the crossroads in its energy transition journey.
- In the Index, India ranks in the third performance quartile and third readiness quartile, making it an emerging country that is approaching the leapfrog category.

- India's population still lacks access to electricity and clean cooking fuel.
- According to the report India has taken "bold measures" to improve energy access, energy efficiency and to improve the deployment of renewable sources of energy.
- India has the largest government-mandated renewable energy programme, with a target of 175GW renewable energy capacity by 2022 and it announced plans to shift completely to electric vehicles by 2030.

6. Antibiotic Resistance in Vultures

As per the study Escherichia coli (E. coli), a pathogen seen in over 90% of Egyptian vultures that migrate to northwest India to spend the winter, tend to show significant difference in resistance to antibiotics within a single season. The vultures were resistant to certain antibiotics when they arrived and developed resistance to certain other antibiotics when they left. Their sensitivity to certain antibiotics also changed within a few months.

The diversity of E. coli community in vultures changed and became homogenised by the end of the wintering period. This is due to the environment that the vultures were exposed to — carcasses, garbage and domestic animals. The vultures that use human-dominated landscapes as part of their life cycle were likely to act as reservoirs and melting pots of bacterial resistance.

Escherichia coli (E. coli) area bacterium that is surprisingly an important aspect of human intestinal tract health. Most E.coliis harmless bacteria and assists in everyday health. However the E.coli that generally make the headlines are pathogenic, which cause illnesses such as diarrhea, or even things outside the intestinal functions.

7. Philippines Withdrawal from International Criminal Court

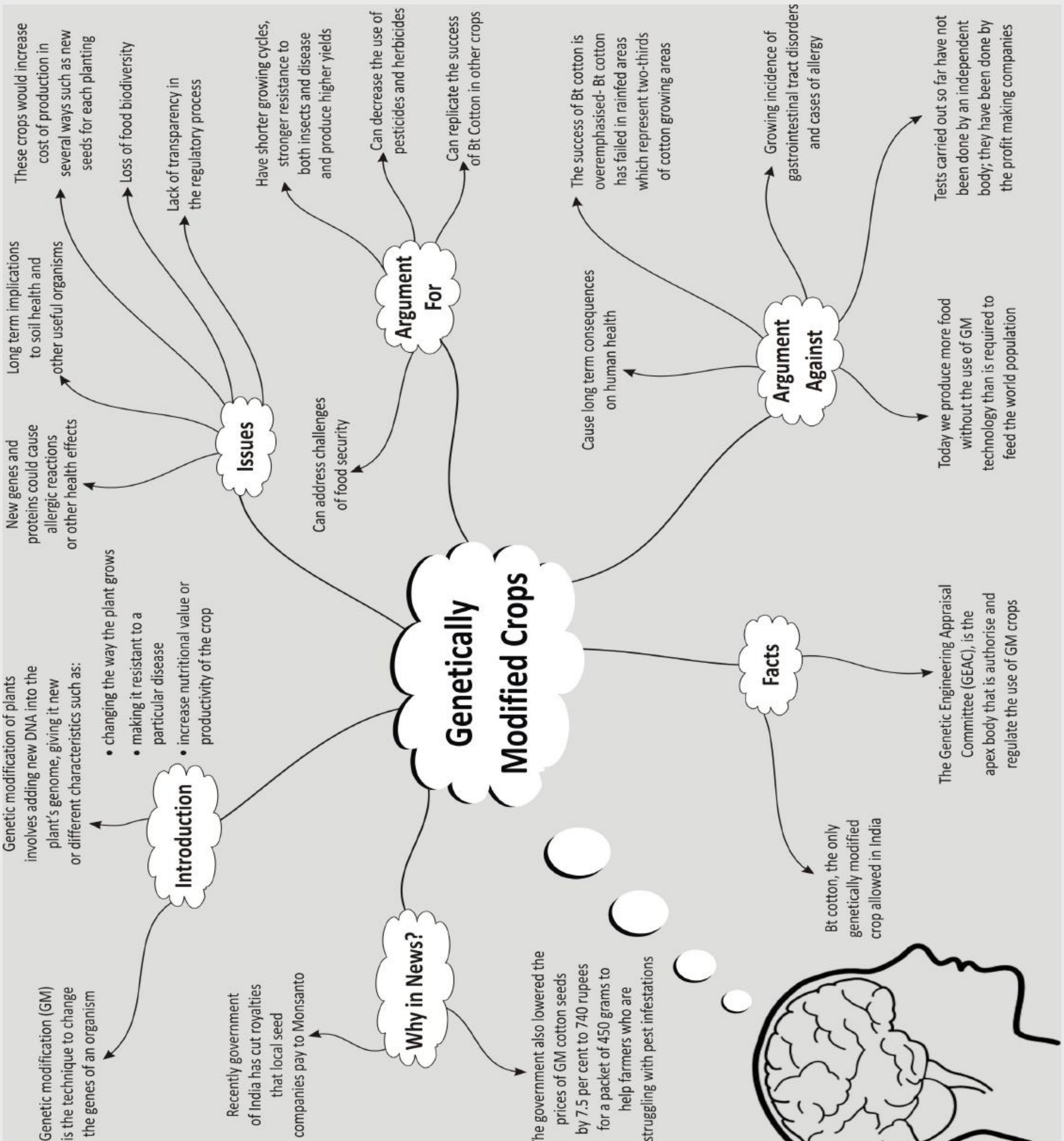
The Philippines will withdraw from the International Criminal Court (ICC), a month after the judicial body started an inquiry into President Rodrigo Duterte's controversial war on drugs. President Duterte has been accused of encouraging extrajudicial killings and other rights abuses in his bid to rid the country of drugs since his election in 2016.

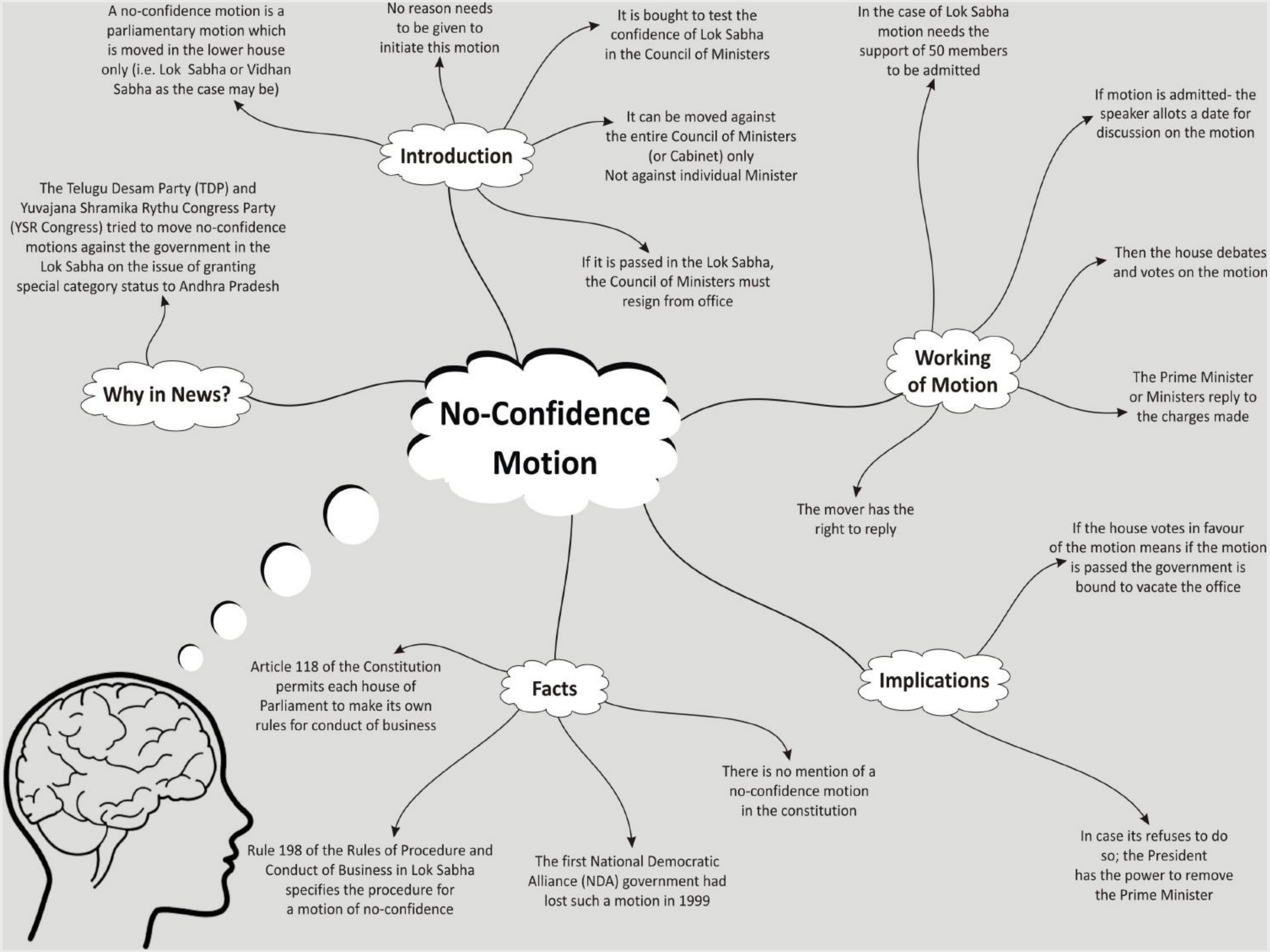
The Philippines is not the first country to quit the ICC. Burundi, Russia, South Africa and Gambia all moved to withdraw from the court.

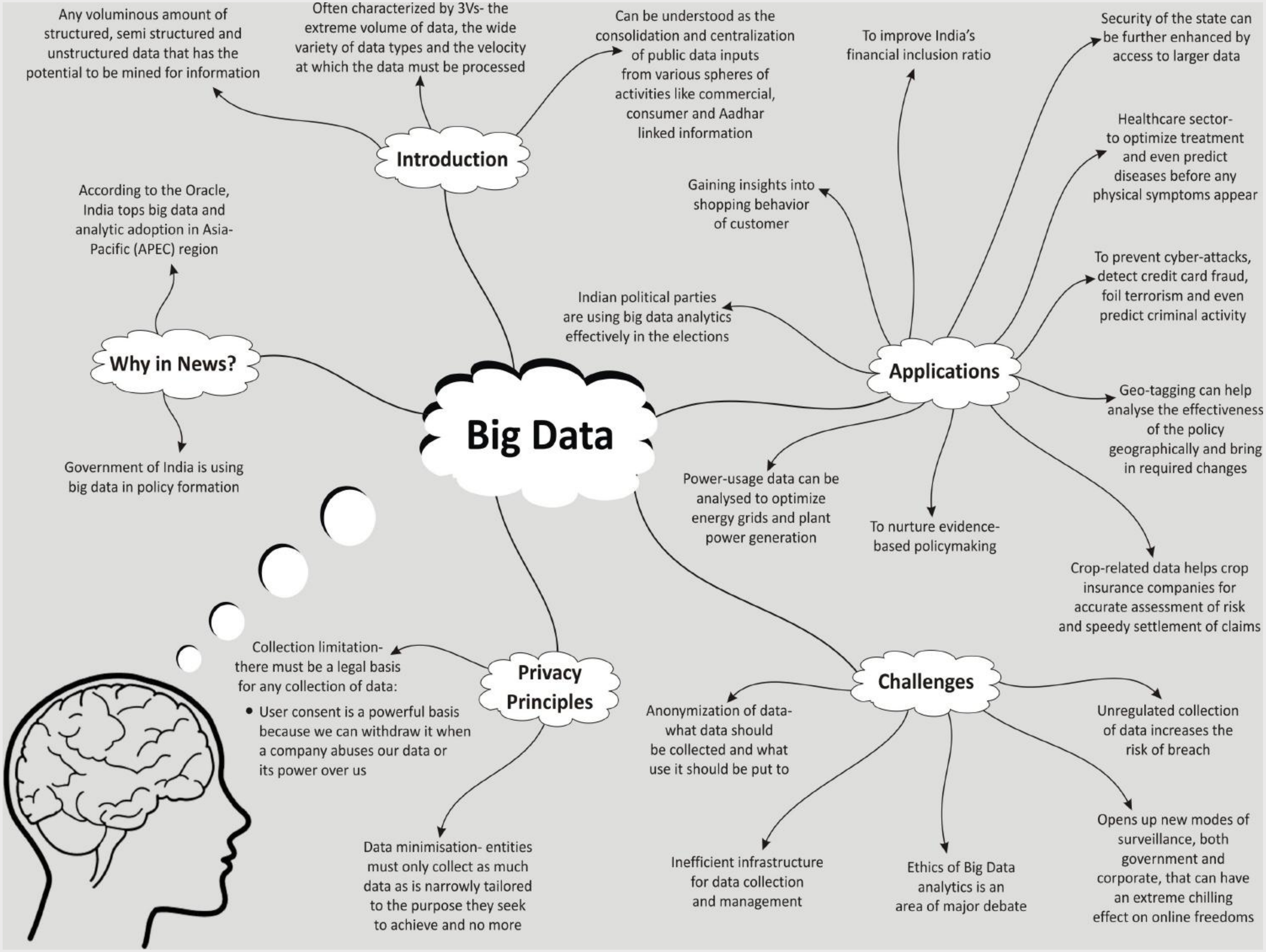
About ICC

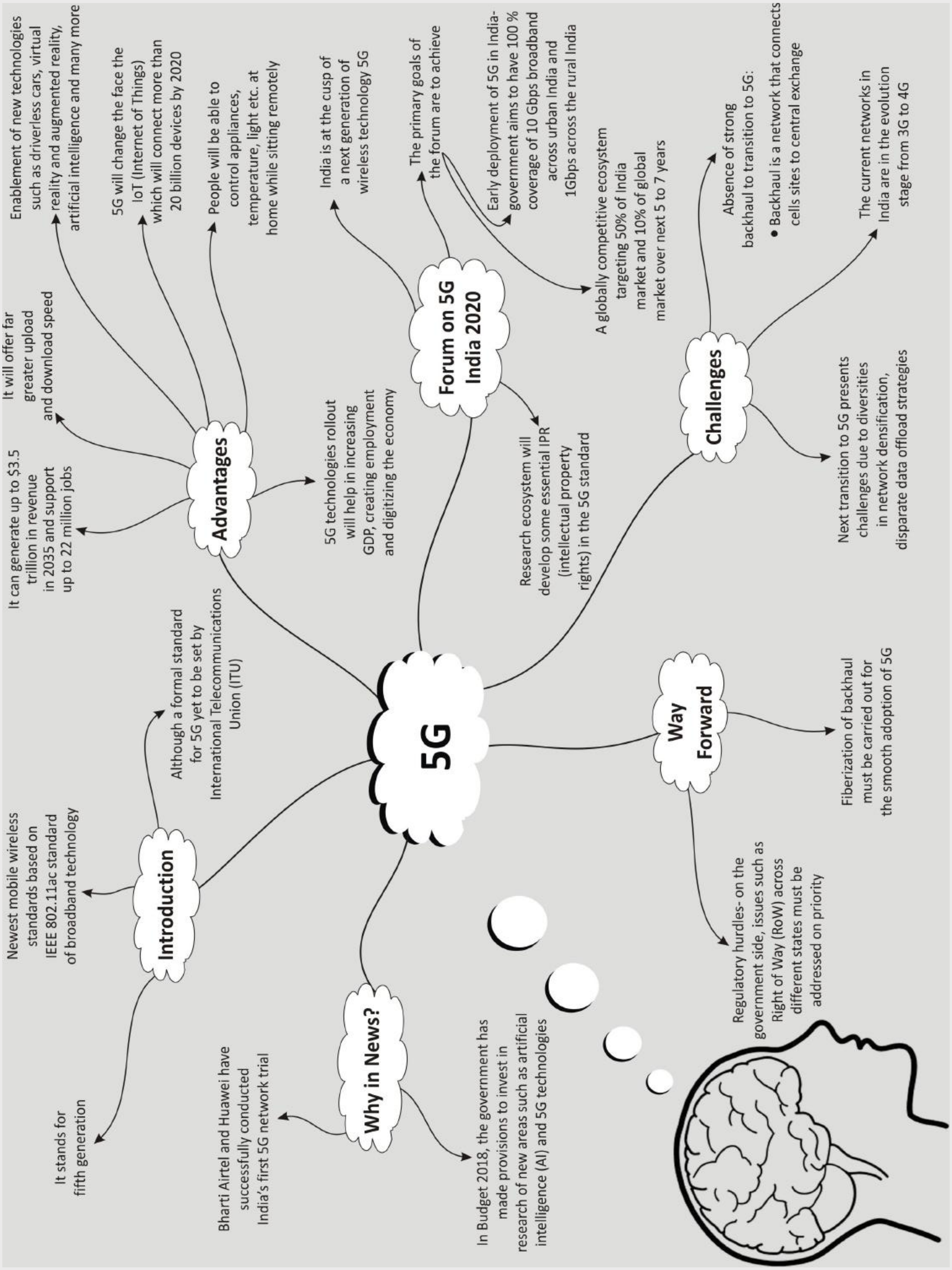
The International Court of Justice (ICJ) is the principal judicial organ of the United Nations (UN). It was established in June 1945 by the Charter of the United Nations and began work in April 1946. The seat of the Court is at the Peace Palace in The Hague (Netherlands). The Court's role is to settle, in accordance with international law, legal disputes submitted to it by States and to give advisory opinions on legal questions referred to it by authorized United Nations organs and specialized agencies. It is the first permanent, treaty based, international criminal court established to help end impunity for the perpetrators of the most serious crimes of concern to the international community. Its founding treaty, the Rome Statute, entered into force on July 1, 2002.

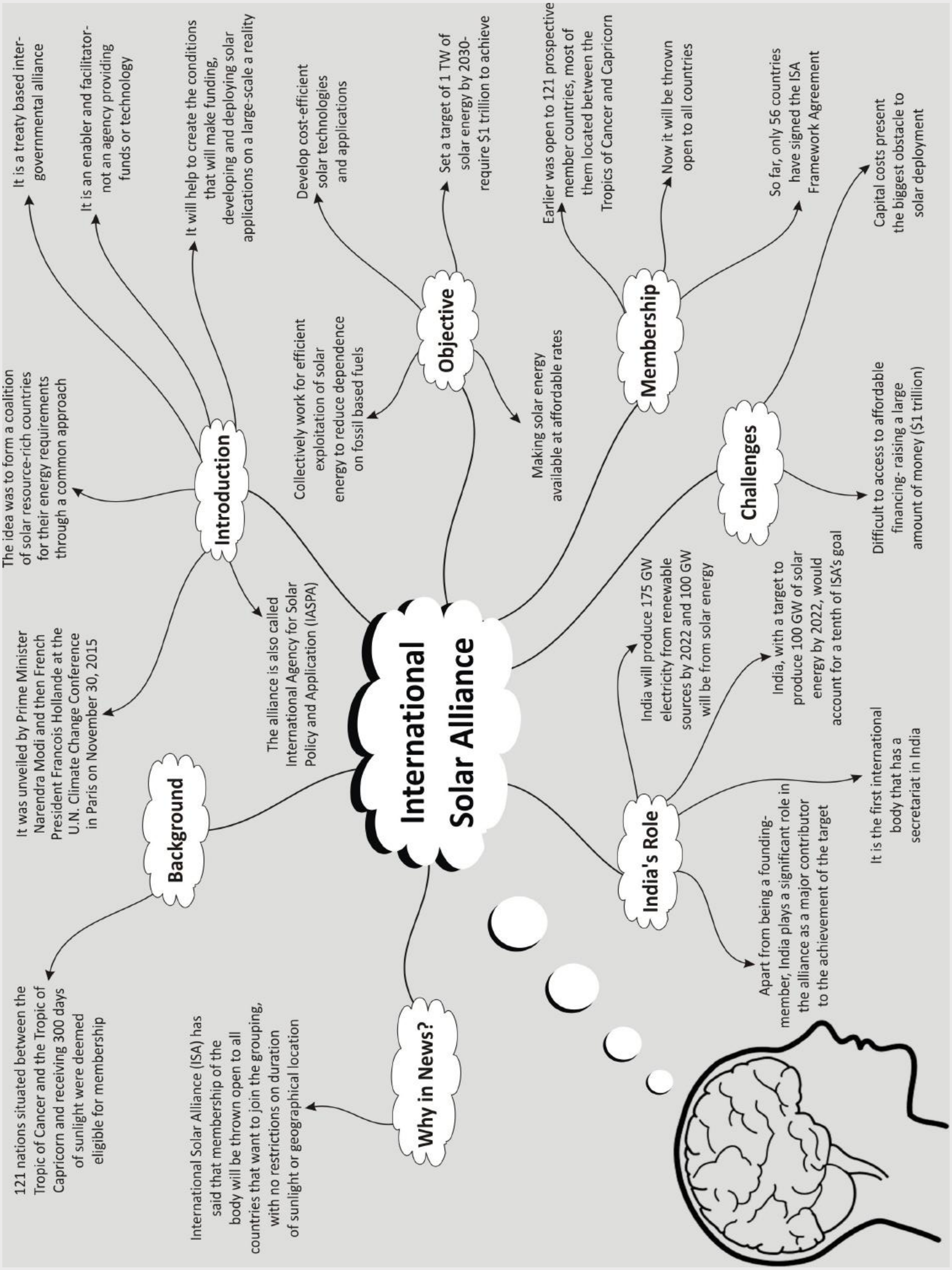
SEVEN BRAIN BOOSTERS

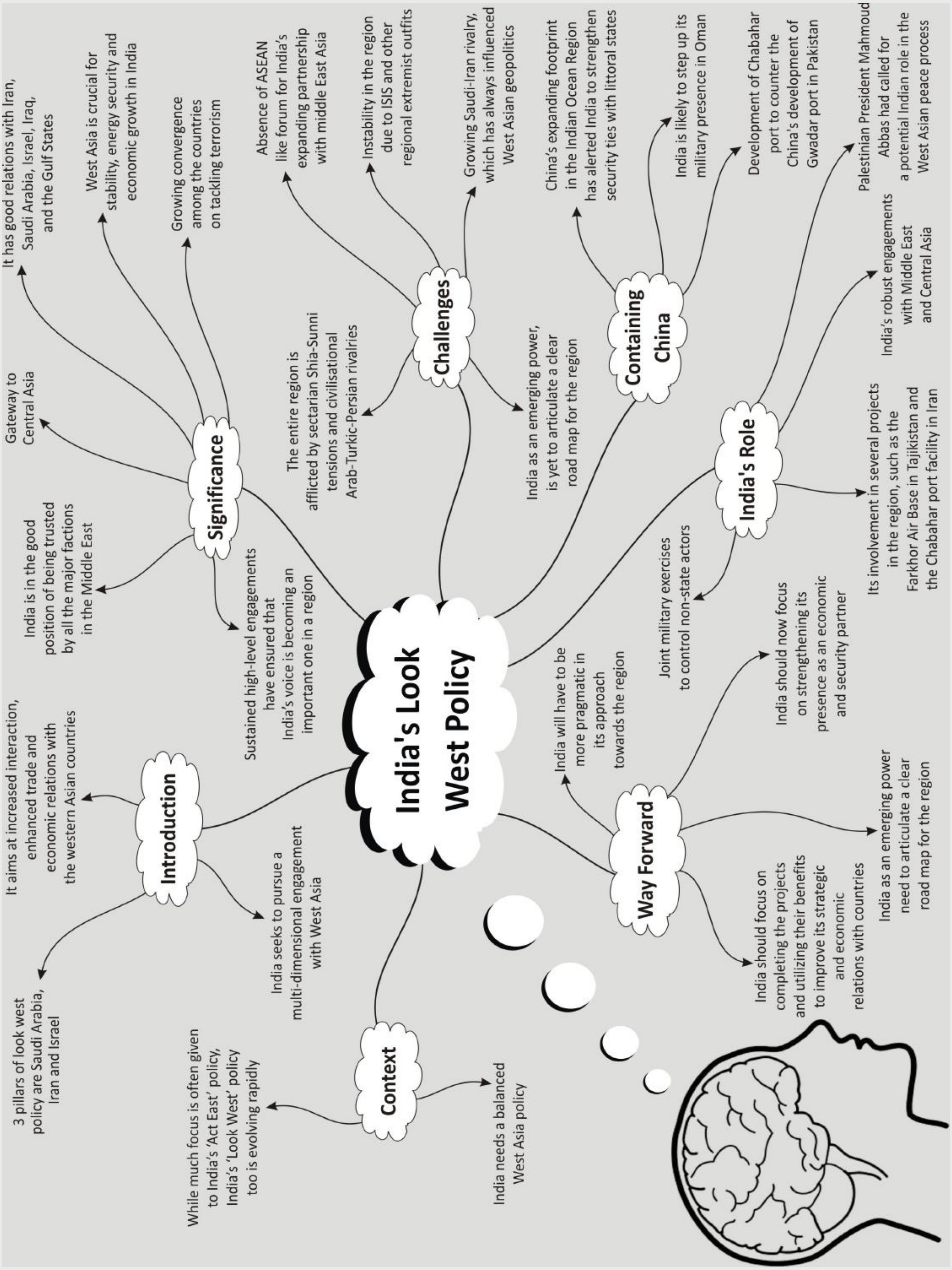


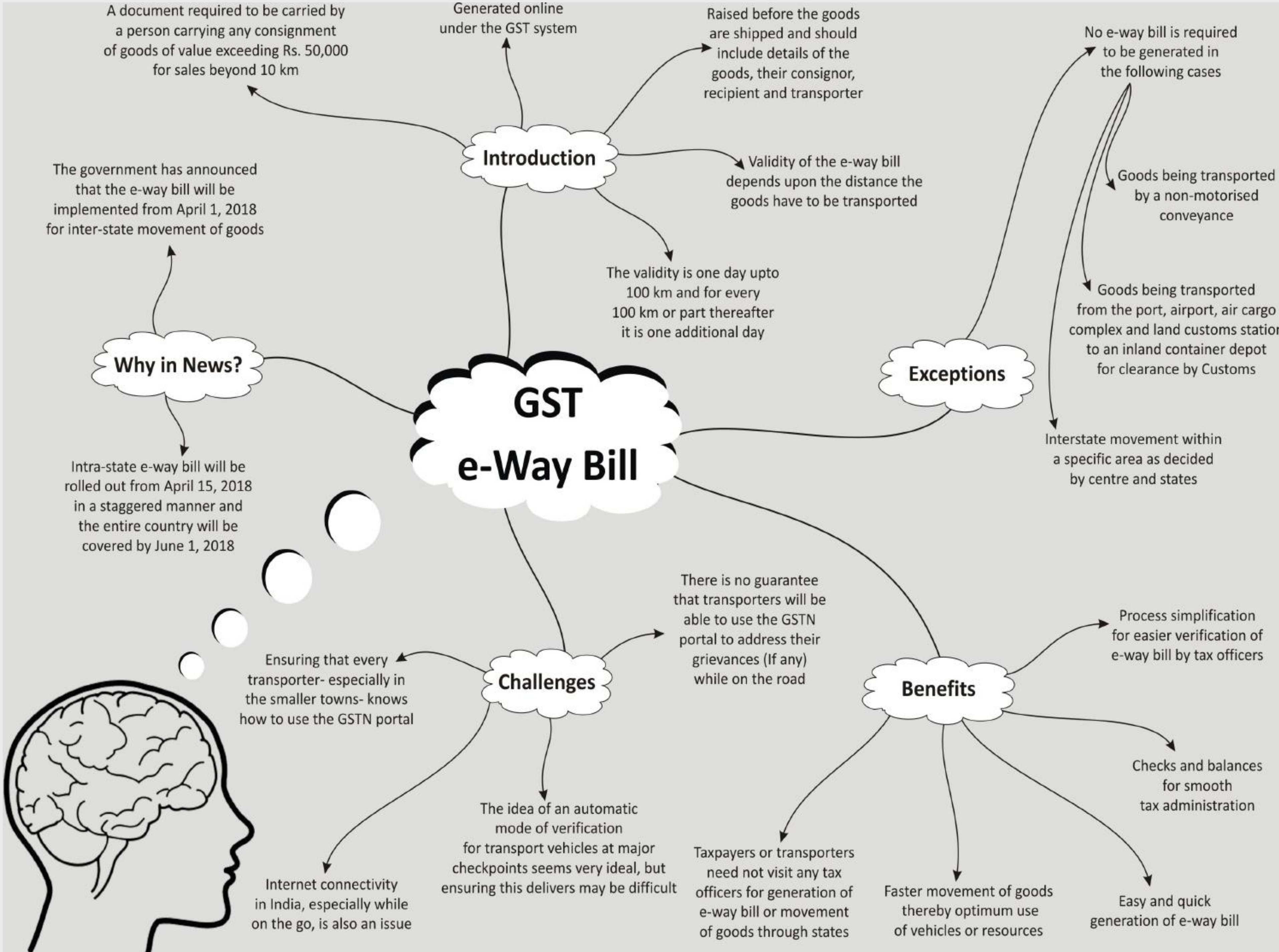

No-Confidence Motion
Introduction
A no-confidence motion is a parliamentary motion which is moved in the lower house only (i.e. Lok Sabha or Vidhan Sabha as the case may be)
No reason needs to be given to initiate this motion
It is bought to test the confidence of Lok Sabha in the Council of Ministers
It can be moved against the entire Council of Ministers (or Cabinet) only
Not against individual Minister
If it is passed in the Lok Sabha, the Council of Ministers must resign from office
Why in News?
The Telugu Desam Party (TDP) and Yuvajana Shramika Rythu Congress Party (YSR Congress) tried to move no-confidence motions against the government in the Lok Sabha on the issue of granting special category status to Andhra Pradesh
Working of Motion
In the case of Lok Sabha motion needs the support of 50 members to be admitted
If motion is admitted- the speaker allots a date for discussion on the motion
Then the house debates and votes on the motion
The Prime Minister or Ministers reply to the charges made
The mover has the right to reply
Implications
If the house votes in favour of the motion means if the motion is passed the government is bound to vacate the office
In case its refuses to do so; the President has the power to remove the Prime Minister
Facts
Article 118 of the Constitution permits each house of Parliament to make its own rules for conduct of business
Rule 198 of the Rules of Procedure and Conduct of Business in Lok Sabha specifies the procedure for a motion of no-confidence
The first National Democratic Alliance (NDA) government had lost such a motion in 1999
There is no mention of a no-confidence motion in the constitution


Big Data
Introduction
Any voluminous amount of structured, semi structured and unstructured data that has the potential to be mined for information
Often characterized by 3Vs- the extreme volume of data, the wide variety of data types and the velocity at which the data must be processed
Can be understood as the consolidation and centralization of public data inputs from various spheres of activities like commercial, consumer and Aadhar linked information
Why in News?
According to the Oracle, India tops big data and analytic adoption in Asia-Pacific (APEC) region
Government of India is using big data in policy formation
Applications
Indian political parties are using big data analytics effectively in the elections
Gaining insights into shopping behavior of customer
To improve India's financial inclusion ratio
Security of the state can be further enhanced by access to larger data
Healthcare sector- to optimize treatment and even predict diseases before any physical symptoms appear
To prevent cyber-attacks, detect credit card fraud, foil terrorism and even predict criminal activity
Geo-tagging can help analyse the effectiveness of the policy geographically and bring in required changes
Crop-related data helps crop insurance companies for accurate assessment of risk and speedy settlement of claims
To nurture evidence-based policymaking
Power-usage data can be analysed to optimize energy grids and plant power generation
Privacy Principles
Collection limitation- there must be a legal basis for any collection of data:
• User consent is a powerful basis because we can withdraw it when a company abuses our data or its power over us
Data minimisation- entities must only collect as much data as is narrowly tailored to the purpose they seek to achieve and no more
Challenges
Anonymization of data- what data should be collected and what use it should be put to
Inefficient infrastructure for data collection and management
Ethics of Big Data analytics is an area of major debate
Unregulated collection of data increases the risk of breach
Opens up new modes of surveillance, both government and corporate, that can have an extreme chilling effect on online freedoms


5G
Introduction
Newest mobile wireless standards based on IEEE 802.11ac standard of broadband technology
It stands for fifth generation
Although a formal standard for 5G yet to be set by International Telecommunications Union (ITU)
Why in News?
Bharti Airtel and Huawei have successfully conducted India's first 5G network trial
In Budget 2018, the government has made provisions to invest in research of new areas such as artificial intelligence (AI) and 5G technologies
Advantages
It can generate up to $3.5 trillion in revenue in 2035 and support up to 22 million jobs
It will offer far greater upload and download speed
Enablement of new technologies such as driverless cars, virtual reality and augmented reality, artificial intelligence and many more
5G will change the face the IoT (Internet of Things) which will connect more than 20 billion devices by 2020
People will be able to control appliances, temperature, light etc. at home while sitting remotely
5G technologies rollout will help in increasing GDP, creating employment and digitizing the economy
Forum on 5G India 2020
India is at the cusp of a next generation of wireless technology 5G
The primary goals of the forum are to achieve
Early deployment of 5G in India- government aims to have 100 % coverage of 10 Gbps broadband across urban India and 1Gbps across the rural India
A globally competitive ecosystem targeting 50% of India market and 10% of global market over next 5 to 7 years
Research ecosystem will develop some essential IPR (intellectual property rights) in the 5G standard
Challenges
Absence of strong backhaul to transition to 5G:
• Backhaul is a network that connects cells sites to central exchange
The current networks in India are in the evolution stage from 3G to 4G
Next transition to 5G presents challenges due to diversities in network densification, disparate data offload strategies
Way Forward
Fiberization of backhaul must be carried out for the smooth adoption of 5G
Regulatory hurdles- on the government side, issues such as Right of Way (RoW) across different states must be addressed on priority


International Solar Alliance
Why in News?
International Solar Alliance (ISA) has said that membership of the body will be thrown open to all countries that want to join the grouping, with no restrictions on duration of sunlight or geographical location
Background
121 nations situated between the Tropic of Cancer and the Tropic of Capricorn and receiving 300 days of sunlight were deemed eligible for membership
It was unveiled by Prime Minister Narendra Modi and then French President Francois Hollande at the U.N. Climate Change Conference in Paris on November 30, 2015
Introduction
The alliance is also called International Agency for Solar Policy and Application (IASPA)
The idea was to form a coalition of solar resource-rich countries for their energy requirements through a common approach
It is a treaty based inter-governmental alliance
It is an enabler and facilitator- not an agency providing funds or technology
It will help to create the conditions that will make funding, developing and deploying solar applications on a large-scale a reality
Objective
Collectively work for efficient exploitation of solar energy to reduce dependence on fossil based fuels
Develop cost-efficient solar technologies and applications
Set a target of 1 TW of solar energy by 2030- require $1 trillion to achieve
Making solar energy available at affordable rates
Membership
Earlier was open to 121 prospective member countries, most of them located between the Tropics of Cancer and Capricorn
Now it will be thrown open to all countries
So far, only 56 countries have signed the ISA Framework Agreement
Challenges
Capital costs present the biggest obstacle to solar deployment
Difficult to access to affordable financing- raising a large amount of money ($1 trillion)
India's Role
India will produce 175 GW electricity from renewable sources by 2022 and 100 GW will be from solar energy
India, with a target to produce 100 GW of solar energy by 2022, would account for a tenth of ISA's goal
It is the first international body that has a secretariat in India
Apart from being a founding-member, India plays a significant role in the alliance as a major contributor to the achievement of the target


India's Look West Policy
Introduction
It aims at increased interaction, enhanced trade and economic relations with the western Asian countries
3 pillars of look west policy are Saudi Arabia, Iran and Israel
India seeks to pursue a multi-dimensional engagement with West Asia
Context
While much focus is often given to India's 'Act East' policy, India's 'Look West' policy too is evolving rapidly
India needs a balanced West Asia policy
Significance
It has good relations with Iran, Saudi Arabia, Israel, Iraq, and the Gulf States
West Asia is crucial for stability, energy security and economic growth in India
Growing convergence among the countries on tackling terrorism
Gateway to Central Asia
India is in the good position of being trusted by all the major factions in the Middle East
Sustained high-level engagements have ensured that India's voice is becoming an important one in a region
Challenges
Absence of ASEAN like forum for India's expanding partnership with middle East Asia
Instability in the region due to ISIS and other regional extremist outfits
Growing Saudi-Iran rivalry, which has always influenced West Asian geopolitics
The entire region is afflicted by sectarian Shia-Sunni tensions and civilisational Arab-Turkic-Persian rivalries
India as an emerging power, is yet to articulate a clear road map for the region
Containing China
China's expanding footprint in the Indian Ocean Region has alerted India to strengthen security ties with littoral states
India is likely to step up its military presence in Oman
Development of Chabahar port to counter the China's development of Gwadar port in Pakistan
India's Role
Palestinian President Mahmoud Abbas had called for a potential Indian role in the West Asian peace process
India's robust engagements with Middle East and Central Asia
Its involvement in several projects in the region, such as the Farkhor Air Base in Tajikistan and the Chabahar port facility in Iran
Joint military exercises to control non-state actors
Way Forward
India will have to be more pragmatic in its approach towards the region
India should now focus on strengthening its presence as an economic and security partner
India as an emerging power need to articulate a clear road map for the region
India should focus on completing the projects and utilizing their benefits to improve its strategic and economic relations with countries


GST
e-Way Bill
Introduction
A document required to be carried by a person carrying any consignment of goods of value exceeding Rs. 50,000 for sales beyond 10 km
Generated online under the GST system
Raised before the goods are shipped and should include details of the goods, their consignor, recipient and transporter
Validity of the e-way bill depends upon the distance the goods have to be transported
The validity is one day upto 100 km and for every 100 km or part thereafter it is one additional day
Why in News?
The government has announced that the e-way bill will be implemented from April 1, 2018 for inter-state movement of goods
Intra-state e-way bill will be rolled out from April 15, 2018 in a staggered manner and the entire country will be covered by June 1, 2018
Exceptions
No e-way bill is required to be generated in the following cases
Goods being transported by a non-motorised conveyance
Goods being transported from the port, airport, air cargo complex and land customs station to an inland container depot for clearance by Customs
Interstate movement within a specific area as decided by centre and states
Challenges
Ensuring that every transporter- especially in the smaller towns- knows how to use the GSTN portal
There is no guarantee that transporters will be able to use the GSTN portal to address their grievances (If any) while on the road
The idea of an automatic mode of verification for transport vehicles at major checkpoints seems very ideal, but ensuring this delivers may be difficult
Internet connectivity in India, especially while on the go, is also an issue
Benefits
Process simplification for easier verification of e-way bill by tax officers
Checks and balances for smooth tax administration
Easy and quick generation of e-way bill
Faster movement of goods thereby optimum use of vehicles or resources
Taxpayers or transporters need not visit any tax officers for generation of e-way bill or movement of goods through states

SEVEN MCQ's WITH EXPLANATORY ANSWERS (Based on Brain Boosters)

Genetically Modified Crops

Q1. Consider the following statements in respect of Genetically Modified crops in India:

1. Bt cotton and Bt Brinjal are the only genetically modified crops allowed in India.
2. The Genetic Engineering Appraisal Committee (GEAC) functions in the Ministry of Agriculture &Farmers Welfare.

Which of the statements given above is/are correct?

a) 1 only b) 2 only

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (d)

Explanation:

Both statements are not correct because Bt Cotton is the only GM crop under cultivation in India. In 2007, the GEAC recommended the commercial release of Bt Brinjal but the initiative was blocked in 2010. GEAC functions as a statutory body under the Environment Protection Act, 1986 of the Ministry of Environment and Forest.

No-confidence Motion

Q2. With reference to the No- Confidence Motion in Indian Parliament, consider the following statements:

1. There is no mention of a No-Confidence Motion in the Constitution of India.
2. A Motion of No-Confidence can be introduced in either house of the Parliament.

Which of the statements given above is/are correct?

a) 1 only b) 2 only

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (a)

Explanation:

Statement 1 is correct. While Article 75 of the Indian Constitution specifies that the council of ministers shall be collectively responsible to the House of the People, there is no mention of a no-confidence motion in the constitution.

Statement 2 is not correct because a Motion of No-Confidence can be introduced in the Lok Sabha only.Article 118 of the Constitution permits each house of Parliament to make its own rules for conduct of business. Rule 198 of the Lok Sabha specifies the procedure for a motion of no-confidence.

Big Data

Q3. Which of the following statements is/are correct regarding the Big Data?

1. It describes a massive volume of only unstructured data that has the potential to be mined for information.
2. Big Data can enhance the government's ability to serve its citizens and address major national challenges.

Select the correct answer using the code given below:

a) 1 only b) 2 only

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (b)

Explanation:

Statement 1 is not correct. Any voluminous amount of structured, semi structured and unstructured data that has the potential to be mined for information. It is difficult to process using traditional database and software techniques.

Statement 2 is correct. Big Data can enhance the government's ability to serve its citizens and address major national challenges involving the economy, healthcare, job creation, natural disasters and terrorism.

5G

Q4. Consider the following statements in respect of 5G technology:

1. 5G can enhance the growth of artificial intelligence (AI) and Internet of Things (IoT) systems.
2. India is planning to roll out 5G services for consumers by 2020.

Which of the statements given above is/are correct?

a) 1 only b) 2 only

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (c)

Explanation:

Both statements are correct. It is the fifth generation mobile networks, which could offer data speed up to 100 times faster than current 4G networks. Experts believe that 5G also holds the key to growth of artificial intelligence (AI) systems and can enhance Internet of Things (IoT). The promise of 5G is endless, it will be a game changer and, it will change the way we live, work and engage.

International Solar Alliance

Q5. With reference to the International Solar Alliance (ISA), consider the following statements:

1. ISA is the first international intergovernmental treaty-based organization headquartered in India.
2. Only 121 nations situated between the Tropic of Cancer and the Tropic of Capricorn are deemed eligible for membership.
3. The only mandate of the ISA is to encourage the usage of solar energy in industries.

Which of the statements given above is/are correct?

a) 2 and 3 only b) 1 only

c) 2 only d) 1, 2 and 3

Answer: (b)

Explanation:

Statement 1 is correct. In terms of its Framework Agreement, with ratification by Guinea as the 15th country on 6th November 2017, the International Solar Alliance (ISA) became a treaty-based international intergovernmental organization. The ISA, headquartered in India, has its Secretariat located in the campus of National Institute of Solar Energy, Gurgaon (Haryana).

Statement 2 and 3 are not correct. Recently International Solar Alliance (ISA) has said that membership of the body will be thrown open to all countries that want to join the grouping, with no restrictions on duration of sunlight or geographical location. It aims at addressing obstacles to deployment at scale of solar energy through better harmonization and aggregation of demand from solar rich countries.

India's Look West Policy

Q6. With reference to the India's Look West policy, consider the following statements:

1. India is in the good position of being trusted by all the major factions in the Middle East.
2. West Asia is crucial for stability and economic growth in India.

Which of the statements given above is/are correct?

a) 1 only b) 2 only

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (c)

Explanation:

Both statements are correct. India is in the good position of being trusted by all the major factions in the Middle East; it has good relations with Iran, Saudi Arabia, Israel, Iraq and the Gulf States.Palestinian President Mahmoud Abbas had called for a potential Indian role in the West Asian peace process. And West Asia is crucial for stability and economic growth in India because around 65% of our oil and more than 80% of our gas supplies come from this region.

GST e-Way Bill

Q7. Consider the following statements in respect of GST e-Way Bill:

1. E-way bill is a mechanism to ensure that goods being transported comply with the GST Law and check tax evasion.
2. It is required to be generated for the movement of goods of more than Rs. 5,00,000 from one place to another.

Which of the statements given above is/are correct?

a) 1 only b) 2 only

c) Both 1 and 2 d) Neither 1 nor 2

Answer: (a)

Explanation:

Statement 1 is correct. E-way bill is a mechanism to ensure that goods being transported comply with the GST Law and is an effective tool to track movement of goods and check tax evasion.

Statement 2 is not correct. It is an electronically generated document which is required to be generated for the movement of goods of more than Rs. 50,000 from one place to another.

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SEVEN IMPORTANT FACTS FOR PRELIMS

1. Which state became the first to conduct a household survey exclusively to estimate the Multidimensional Poverty Index (MPI) at the state and district levels?

   – Andhra Pradesh

2. Which state will collaborate with Regional Integrated Multi-Hazard Early Warning System (RIMES) for disaster management?

   – Odisha

3. Which country's Supreme Court has barred foreign lawyers and law firms from practicing in the nation?

   – India

4. Which state has proposed insurance scheme for journalists?

   – Assam

5. Which state hosted the 105th Indian Science Congress?

   – Manipur

6. Which Indian research body won the Inernational Kochon prize-2017?

   – The Indian Council of Medical Research (ICMR)

7. Which state passed a bill proposing death penalty in rape cases of girl below the age of 12?

   – Haryana

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SEVEN PERFECT QUOTES
(IMPORTANT FOR ESSAY AND ANSWER WRITING)

"Failure will never overtake me if my determination to succeed is strong enough."

- Og Mandino

"A will finds a way."

- Orison SwettMarden

“If you can dream it, you can do it.”

–Walt Disney

“The future belongs to those who believe in the beauty of their dreams.”

–Eleanor Roosevelt

“Don’t watch the clock; do what it does. Keep going.”

–Sam Levenson

“We may encounter many defeats but we must not be defeated.”

–Maya Angelou

“I think goals should never be easy, they should force you to work, even if they are uncomfortable at the time.”

– Michael Phelps

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SEVEN PRACTICE QUESTIONS FOR MAIN EXAM

Answer each of the following questions in 200 words:

Q1. Direct cash transfer system for the fertilizers is an ambitious project to minimize corruption, eliminate wastage and facilitate reforms in agriculture sector. Comment.

Q2. Discuss the political developments in India's neighbourhood in the last two years. Should they be of any cause of concern to India?

Q3. Constitutional mechanisms to resolve the inter-state water disputes have failed to address and solve the problems. Is the failure due to structural or process inadequacy or both? Discuss.

Q4. India can be a 'consensus builder' in its neighbourhood before moving ahead with its role as 'net security provider'. Comment.

Q5. What is Cold War 2.0? What could be its implications for the global politics as well as for India? Discuss.

Q6. What is the significance of the Indo-Pacific region for India? Critically examine if India is moving in right trajectory to play major role in the Indio-Pacific region.

Q7. The current society is plagued with widespread trust-deficit. What are the consequences of this situation for personal well-being and for societal well-being? What can you do at the personal level to make yourself trustworthy?

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• Model answer (daily)	Hindi	✓	×
	English	✓	×
Current affairs/issues • Analysis and question (daily and weekly)	Hindi	✓	✓(some sites)
	English	✓	✓
Essay-writing **& Ethics case study** • practice and evaluation	Hindi	✓	×
	English	✓	×

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