Insights into Yojana: January 2018

Banking Reforms
# Table of Contents

1. Banking Sector Reforms: Ensuring Regulation .......................................................... 3  
2. Managing Non-Performing Assets: A Paradigm Shift ............................................. 5  
3. Facilitating Financial Inclusion .................................................................................. 7  
4. Resolving Insolvency ................................................................................................. 9  
5. Strengthening of Cyber Security ................................................................................ 11  
6. Rural Banking: Translating Vision to Reality ............................................................. 13  
7. A New Dimension in Highway Development ............................................................... 15  
8. India’s Credit Rating: Boost to Investors’ Sentiment ................................................ 16  
9. Facts for Prelims  
   a. Cabinet approves India's Membership for European Bank for Reconstruction & Development ....................................................................... 17  
   b. National Nutrition Mission ..................................................................................... 17  
   c. Haircuts in the Banking System ............................................................................. 17  
   d. Schemes for Women Empowerment ...................................................................... 18  
   e. National Trachoma Survey Report (2014-17) ....................................................... 18  
   f. Loan Agreement with World Bank for SANKALP Project ....................................... 18  
10. North East Diary  
    a. Tuirial Hydroelectric Power Project ..................................................................... 19  
    b. NLCPR scheme for North East ............................................................................ 19
Banking Sector Reforms: Ensuring Regulation

Introduction

- For both firms and households, the banking system is one of the most important sources of credit in India. The size, resilience and level of capitalisation of banks are critical for the smooth functioning of financial markets.
- Key challenges to the banking system include low financial depth, a high share of NPAs and a high concentration of Public sector banks (PSBs).
- These issues constrain international credit and banks’ ability to meet international capital requirements.
- We need to focus on three areas to stimulate the banking sector:
  o Improving governance of banks,
  o Enhancing competition in the sector,
  o Developing corporate bond markets to relieve pressure from banks as lending sources.

The Current Situation

- PSBs are the biggest contributors to the large and rising stock of NPAs. Gross NPAs in PSBs rose from Rs. 2.78 lakh crore in March 2015 to Rs. 7.33 lakh crore in June 2017.
- Even private banks have been plagued by a high share of NPAs.
- The decline in banks’ profits is largely due to higher growth in risk provisions, loan write-offs and decline in net interest income.
- The stress on the banking sector has translated into a slowdown in industrial credit. They also limit banks’ ability to meet international capital requirements under Basel III.
- The Indradhanush plan will not only help PSBs meet their minimum capital requirements but they will also help banks clean up their balance sheets and cover bad loans. It also includes wider banking reforms needed to strengthen institutional governance.
- The Insolvency and Bankruptcy Code (IBC) provides a channel for addressing NPAs. It requires banks and promoters to agree on a resolution plan within 270 days or face asset liquidation.

Global Competition

- India’s banks lag behind global banks in terms of financial depth or the size of banks and markets relative to economic output.
- India has low levels of private credit to GDP and credit to deposit ratio, relative to other emerging economies.
- Since 1991, only 14 licences have been granted for universal banks. In contrast, in the US, over 130 new banks were charted annually on average between 1976 and 2009.

Looking Ahead

- India should strive to have a more robust and well capitalised banking system, with enhanced capacity to extend credit and productive allocation of resources.
- To build a robust banking system, recapitalisation will have to be complemented by other measures like corporate governance reforms, lower entry barriers, improved financial supervision, development of a dynamic corporate debt market and efficient debt recovery mechanisms.
- Global examples highlight the importance of undertaking banking sector reforms in tackling NPAs.
In China, besides recapitalisation, banking sector reforms focused on strengthening financial regulation and supervision, improving corporate governance and enhancing transparency.

South Korea created a Financial Supervisory Service (FSS) to ensure supervision in their banks following the East Asian Financial Crisis of the late 1990s.

- **Greater accountability** can ensure that banks’ lending practices are in line with the productive allocation of credit.
- Corporate bond markets need to complement banks as important sources of finance.
- India should continue to **encourage the entry of private and foreign players** to foster greater competition and innovation in the sector.
- The new policy of “on-tap” **licensing of banks** is a positive step in this direction. The entry requirements could be relaxed further to reduce barriers to entry.

**Questions**

1. It is said that the union government wants to privatise public sector banks. Discuss the arguments made in favour of and against privatisation of public banks.

2. In your opinion, what reforms should be introduced to prevent crisis in public sector banks.

3. It is said that India’s public sector banks are facing a serious existential crisis. Why healthy public sector banks are necessary for India? What are the causes of and remedies for their crisis? Critically examine.

4. Analyse the methods adopted to recapitalise weak public sector banks (PSBs) in India and the challenges faced in recapitalisation.

5. Critically evaluate the performance of Public Sector Banks (PSBs) and the factors that are responsible for their high stressed assets. Also comment if it is fair to compare and contrast their performance with that of private banks’?

6. With reference to the SARFAESI Act, consider the following statements:
   1. The moment a high-value borrower fails to pay the EMI, a bank resort to actions under this act
   2. The act applies only to those assets that have been mortgaged by the borrower
   3. If a bank fails a minimum of two times to auction the assets, it can go for private treaties

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 and 3 only
(c) 2 only
(d) None of the above

**Solution (b)**

7. The Government has announced capitalization of PSBs. What are the modes of capitalization planned?
   1. Recapitalization Bonds
   2. Budgetary Support

(a) Only 1
(b) Only 2
(c) Both
(d) Neither

**Solution (c)**
Managing Non-Performing Assets: A Paradigm Shift

Introduction

- Financial intermediation by banks is an engine of growth because they cause money to be circulated in the economy by seeking deposits from those who have surplus and lend for investment activity.
- One major reason for muted credit growth is fast accretion of NPAs on banks’ balance sheets. Gross NPAs of banks in India as on September 2017 are Rs 8.40 lakh crore. The rise of NPAs had its genesis in rapid credit growth of banks during the preceding years say from 2008 onwards.

Reasons the current state of affairs

- Exuberance in increasing balance sheet size by lending to borrowers unworthy of such loans on account of their past credit history.
- Borrowing for creating excess capacities in anticipation of demand without factoring in the global capacities.
- Project completion was delayed for various reasons.
- Recovery of receivables was poor.
- The concerned corporate was not able to raise capital through the issue of equity or other debt instruments from capital markets and used borrowed money as equity lending to double leveraging.
- Business failure because of over optimistic projections.
- Borrowed funds were not used for the purpose for which they were lent.
- Wilful defaults, siphoning of funds, misappropriation etc.
- Lack of skill on the part of the banks to monitor end use of funds and diversion through web of shell companies etc.

Way Forward

- The time is right to make wilful default a serious crime as is the case in some countries. It is going to have impact on the behaviour of those who borrow money from banks and not pay it.
- Banks need to do forensic audit for ascertaining the end use of funds. They should use big data analytics and other IT based solutions for doing proper due diligence about the borrower and his businesses like fintech companies are doing.
- Artificial intelligence (AI) can be leveraged to predict default at least one year in advance with confidence of 80%.
- Banks have to fine tune their HR policies to train the young workforce which at present lacks experience, and upgrade their skills.
- To expedite recovery we need more National Company Law Tribunals (NCLTs) and Debt Recovery Tribunals (DRTs) as present benches are woefully short. Strength of judges can be increased to cope up with the workload.

Questions

1. Non-performing assets, restructured loans and written-off assets — collectively called ‘stressed assets’ — have become a major challenge to the country’s banking system. What are the reasons for this and suggest the measures needed to tackle NPAs.
2. Which of the following are issues considered to be responsible for the hitherto delayed resolution of Non-Performing Assets?
   1. Lack of bankers’ commercial flexibility and autonomy to sell distressed assets
   2. It was only recently that regulatory changes were made to address the problem of business promoters delaying resolution processes
   3. The National Company Law Tribunal faces, as it is, severe capacity constraints in handling its backlog of cases
   Select the correct answer using the code given below:
   a) 1 and 2 only
   b) 2 and 3 only
   c) 1 and 3 only
   d) 1, 2 and 3
   Solution (c)

3. The term ‘Gross Non-Performing Assets (NPA)’, often seen in the news, includes assets such as
   1. Foreign Banks
   2. Regional Rural Banks
   3. Non-Banking Financial Companies
   Select the correct answer using the code given below:
   (a) 1 only
   (b) 2 and 3 only
   (c) 3 only
   (d) 1, 2 and 3
   Solution (d)

4. Which of the following statements about the Insolvency and Bankruptcy Code, 2016 is/are correct?
   1. The code specifies similar time-bound insolvency resolution processes for both companies and individuals
   2. The National Company Law Tribunal will adjudicate insolvency resolution cases for companies, while the Debt Recovery Tribunal will adjudicate such cases for individuals
   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
   Solution (c)
Facilitating Financial Inclusion

Introduction

- Financial inclusion is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular at an affordable cost, in a fair and transparent manner.
- The objective of financial inclusion is to transform the lives of vulnerable people by providing them access to banking finance and enabling them to generate stable income.

Background

- India is a pioneer in financial inclusion. The Cooperative Credit Societies Act, 1904 gave an impetus to the cooperative movement in India.
- The financial inclusion exercises explicitly started with nationalisation of State Bank of India in 1955.
- The priority sector lending became important by 1974 which implied directing lending to unbanked areas.
- The RBI and NABARD have also been making concerted efforts in extending banking across the country under which the schemes of microfinance initiatives and business correspondents (BCs) were launched.
- Other initiatives included establishing Regional Rural banks, adopting service area approach and SHG-bank linkage programme.
- In recent years RBI has simplified norms on KYC requirements and introduced no-frills account.

Expansion of Banking and Role of Money Lender

- The efforts made by the government and the RBI resulted in branch expansion, but the money lender continued to play an important role.
- Money lenders continued to play an important role in rural areas even after nationalisation because bank branches were few and located far away.

Government Initiatives

- PMJDY which envisages universal access to banking facilities consolidates government’s effort to increase number of households availing banking services.
- As of December 2017, a total of 30.7 crore accounts had been opened under the scheme. The number of RuPay cards have also increased to 23.1 crore.
- The size of bank network increased rapidly in rural areas though growth rate was higher in urban and metropolitan areas.
- The public sector banks continue to play an important role in extending banking services to unbanked areas but share of private banks is increasing significantly in the last decade.
- In extending credit to agriculture sector, commercial banks have been more successful than RRBs or cooperative banks.
- Setting up Micro Unit Development Refinance Agency (MUDRA) for providing micro credits.
- Social security schemes like Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY).
Innovation in Extending Credit

- Commercial banks began exploring alternatives like mobile vans, banking kiosks and Business Correspondents (BCs) to extend banking services to unbanked population.
- Banking with BCs provides convenience of banking and also offer substantial savings on transacting banking business.
- The banking outlets with BCs have now been established in remote areas or slums where banking penetration was low or non-existent.

Select Issues and Suggestions

- There is need to extend financial inclusion to the disabled, including those elderly where locomotor activity, vision and hearing is impaired.
- RBI directives to banks to be accessible to all kind of disabled have not recorded notable progress with very few ATMs and bank branches being disabled-friendly.
- Technological issues like frequent machine breakdowns and lack of connectivity which negatively impacts confidence of customers towards informal banking.
- There is a need for facilities like biometric-enabled and multi-lingual hand-held devices which can provide confidence in rural masses.
- There is significant difference in the socio-economic background of people living in rural India and therefore there is a need for flexibility in financial schemes designed for different segments of unbanked population.
- NABARD must be made accountable for furthering progress of financial inclusion in rural areas given their domain knowledge.
- Financial literacy is a constant challenge and therefore bankers have been adopting different strategies to reach large segments of the society, mainly in villages.
- There is a need to standardise literature/material to extend financial literacy amongst the unbanked.

Questions

1. Public Sector Banks (PSBs) are the front runners for financial inclusion and need to be financed well themselves. Comment.
2. What do you understand by financial literacy? It is said that India needs to work on financial literacy now more than ever. Examine why.
3. Analyse the recent government initiatives to promote financial inclusion for its citizens. Suggest measures to improve the financial inclusion.
Resolving Insolvency

Introduction

- India improved its position on the ‘Ease of Doing Business’ ranking, 2018 released by the World Bank by 30 places to 100th position.
- One of the reasons cited for that was its performance on resolving insolvency. The improvement was basically noticed after the government put into effect the Insolvency and Bankruptcy Code (IBC) with a regulator Insolvency and Bankruptcy Board of India (IBBI) in 2016.

Tackling Insolvency

- Insolvency arises when an individual or organisation could not pay its financial dues to its lenders.
- Insolvency can be tackled through restructuring the debt or if it not settled this way legal action may be taken against the insolvent, the company concerned is restructured or else its assets are sold to pay the debts.
- Well-defined and time-bound norms for entry and exit are considered key to ease of doing business. The code filled the gap in the exit or restructuring of businesses.
- Before the enactment of the act, the time taken for resolving insolvency was quite long. There were overlapping jurisdictions of various laws governing insolvency resolution.

Features of Insolvency and Bankruptcy Code (IBC)

- The National Company Law Tribunal (NCLT) adjudicates insolvency resolution for companies. The Debt Recovery Tribunal (DRT) will adjudicate insolvency resolution for individuals.
- The code shifts the responsibility to the creditor to initiate the insolvency resolution process against the corporate debtor. However, the corporate debtor can also file for insolvency.
- After a case is admitted by NCLT, resolution process will have to be completed within 180 days, extendable by another 90 days.
- There is also provision for fast tracking resolution process to complete it in 90 days which could be extendable by further 45 days. However, only small companies and start-ups could opt for this method.
- During the resolution process financial creditors’ assess whether the debtors’ business could be restructured and also consider options for the revival.
- If the insolvency resolution process fails, the liquidation of assets begins.
- The resolution processes are conducted by licensed Insolvency Professionals (IPs).

Conclusion

- Issues will keep coming in Insolvency cases, but the experiment to make it easier for companies to exit or restructure will make it easy to do business in India.
- Care has to be taken that the process does not linger on to make it tedious for companies to do business.

Questions

1. What are the features of the Insolvency and Bankruptcy Code, 2016 (IBC)? Why was the Insolvency and Bankruptcy Code, 2016 enacted?
2. Consider the following statements about the Insolvency and Bankruptcy Code, 2016:
   1. The insolvency resolution process applies to public sector banks, companies and individuals.
   2. It enables the government to authorise the RBI to create a Public Credit Registry Information System.

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

Solution (d)

3. A ‘Bank Run’
   (a) Is a situation in which a bank that is authorised to hold the assets and liabilities of an insolvent bank can no longer meet its own financial obligations.
   (b) Is an oft-witnessed chain reaction in which lowering of interest rates by one bank forces others to do the same.
   (c) Refers to the phenomenon of predatory pricing of loans in order to “poach” customers of competitor banks.
   (d) Occurs when a large number of customers of a bank withdrawing their deposits simultaneously.

Solution (d)

4. ‘Prompt Corrective Action’, a term sometimes seen in the news, is related to:
   (a) Handling of unruly and disruptive air passengers
   (b) Financial health of banks
   (c) The Pro-Active Governance and Timely Implementation (PRAGATI) platform
   (d) The Aadhaar Act, 2016

Solution (b)

5. Tribunals that have been mandated by the Insolvency and Bankruptcy Code, 2016 to adjudicate insolvency resolution cases include ones that have been set up under:
   1. The Companies Act, 2013
   2. The Banking Regulation Act, 1949
   3. The Recovery of Debt due to Banks and Financial Institutions Act, 1993

Select the correct answer using the code given below:

(a) 1 and 2 only
(b) 2 and 3 only
(c) 1 and 3 only
(d) 1, 2 and 3

Solution (c)
Strengthening of Cyber Security

Digitisation

- Digitisation is the rise of the digital transaction where bank, customers, merchants, industries and other stakeholders form an interdependent financial system network.
- Banking and financial transactions play a significant role in our daily lives. Financial institutions should be at the forefront to adopt latest technologies and to enhance customer experience thus eliminating rural and urban gap.
- The following factors influence the digitisation in banking:
  - Changing customer behaviour in favour of digitisation.
  - Financial inclusion and government initiatives.
  - Leveraging increased smart phone usage and mobile penetration.
- **BHIM UPI** is a revolutionary payment system which is a first of its kind across the globe. With 60 banks being part of BHIM UPI, around 82 lakh transactions per month are taking place.
- **BHIM Aadhaar** is a digital payment acceptance solution where customer performs transaction by providing his Aadhaar number and biometric authentication.

Cyber Security

- Digitisation in the banking industry has given more thrust on the implementation of cyber security in the digital platform.
- Security is to be ensured at all the touch points of the digital transactions. The complete eco-system is to cyber-sanitised for all the transactions to be flawless.

National Cyber Security Policy 2013 (NSCP)

- National Cyber Security Policy was released in 2013 as a formalised step towards cyber security by the Ministry of Communication and Information Technology under Department of Electronics and Information Technology.
- The policy has been built to offer a secure and resilient cyber space for citizens, businesses and the government.
- Its mission is to protect cyberspace information and infrastructure, build capabilities to prevent and respond to cyber-attacks and minimise damages through coordinated efforts.
- Few strategies adopted by the policy include:
  - Creation of a secure cyber ecosystem through measures such as a national nodal agency, encouraging organisations to designate a member of senior management as the chief information security officer and develop information security policies.
  - Strengthening the regulatory framework coupled with periodic reviews, harmonisation with international standards and spreading awareness about the legal framework.
  - National Computer Emergency Response Team (CERT-in) functions as the nodal agency for coordination of all cyber security efforts, emergency responses, and crisis management.
  - Securing e-governance by implementing global best practices and wider use of public key infrastructure.
  - Protection and resilience of critical information infrastructure with the National Critical Information Infrastructure Protection Centre (NCIIPC) operating as the nodal agency.
  - To promote cutting edge research and development of cyber security technology.
Human Resource Development through education and training programmes to build capacity.

**Cyber Swachhta Kendra (Botnet Cleaning and Malware Analysis Centre)**

- To combat cyber security violations and prevent their increase, CERT-in in 2017 launched **Cyber Swachhta Kendra** (Botnet Cleaning and Malware Analysis Centre).
- The Centre is operated by CERT-in under **Information Technology Act, 2000**. It is part of Ministry of Electronics and Information Technology’s Digital India initiative, will detect botnet infections in India, and enable cleaning and securing systems of end-users.
- The Cyber Swachhta Kendra is a step in the direction of creating a **secure cyber ecosystem** as envisaged under the National Cyber Security Policy.
- The Centre offers the following security and protective tools:
  - **USB Pratirodh**, which is aimed at controlling the unauthorised usage of removable USB storage media devices.
  - An app called **Samvid** which allows only pre approved set of executable files for execution.
  - **M-Kavach**, a device for security of Android mobile devices which protects from malware that steal personal data and credentials.

**Information Technology Act**

- IT Act, 2000 is the primary law in India dealing with cyber crime and electronic commerce which had subsequent amendment in 2008.
- IT act has detailed various cybercrimes and also specified the **penalty for the cyber wrong doings** by fraudsters online. **Phishing** is the most common banking fraud which happens online.
- Phishing is a type of social engineering attack often used to steal user data, including login credentials and credit card numbers.

**Conclusion**

- With all the measures towards strengthening of Cyber Security our country shall provide a completely cyber secure architecture that is secure and reliable for the digital transactions.
- However, it is to be continuously upgraded, as new threats emerge. Awareness will enable to face and mitigate the risk.

**Questions**

1. Discuss the necessity of and measures being taken to introduce strong cyber security framework for banking sector in India.
2. There has been steady and accelerating increase in the recorded cases of breach of cyber security in India. To address this issue, what’s the most important step that India has taken? Discuss.
Rural Banking: Translating Vision to Reality

Introduction

• As the father of our nation said, ‘India lives in villages’, rural development is the sine-qua-non of the overall development of India.
• Since independence it has been the constant endeavour of our policy makers to give adequate thrust to bringing rural prosperity in India.
• During the last 70 years, beginning with cooperative credit structure, followed by nationalisation of PSBs and expansion of their branch network in rural areas and regional rural banks, the formal rural institution has grown and expanded many-fold.
• Rural population is still ‘financially excluded’, still under the clutches of money lenders, which is a matter of grave concern.

Concerns / Challenges

• Since rural households have irregular income and expenditure patterns, the banks have high non-performing loans in rural areas.
• The rural economy is dependent on vagaries of monsoons. The loan waivers driven by political agenda further aggravate the bankers’ woes.
• Since many rural people are not literate so not comfortable using ATMs, phone banking or internet banking hence mostly dependent on bank branches leading to banks’ high cost to serve.
• Developing an inclusive yet sustainable rural financial system is extremely challenging and involves comprehensive understanding of complementary issues.
• A large number of accounts created under PMJDY do not have any money and lie dormant which only increases costs for banks to run these accounts. Poor people do not have surplus money to save in bank account.
• Payment banks have issues like complex user interfaces, lack of internet penetration, lack of grievance redressal mechanisms etc which might deter users.

Financial Inclusion

• In India the first structured attempt towards financial inclusion featured in 2005 when it was first launched by K C Chakraborthy, the chairman of Indian Bank.
• RBI has been undertaking financial inclusion initiatives in a mission mode through new products, relaxation of regulatory guidelines and other supportive measures.
• With a view to provide hassle free and timely credit to farmers Kisan Credit cards has been issued by the banking system.
• In 2006 RBI permitted commercial banks to make use of NGOs/SHGs, micro finance institutions and other civil society organisations as intermediaries for providing financial and banking services.
• RBI also directed the commercial banks in different regions to start a 100% financial inclusion campaign, as a result of which Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts.
• RBI’s vision for 2020 is to open nearly 600 million new customers’ accounts.
• Priority sector lending (PSL) targets may not reach the deserved, as many banks shy away from lending money to the poor.
For example, gold loans are available for lower rate for farmers. But people who do not even do agriculture receive these loans using their contacts at banks. So **PSL gets diverted away from the deserved to the undeserved.**

**Way Forward**

- Banks need to initiate **suitable training and skill development programmes** for effective functioning of **business correspondents (BCs).**
- Designing suitable innovative products to cater to the requirements of poor villagers at affordable rates.
- To wean away villagers from borrowing from money lenders, banks should develop simplified credit disbursement procedures and also flexibility in their processes.
- Providing easy cheap remittance facilities to migrants is an absolute imperative.
- To achieve meaningful financial inclusion banks should give **priority for small farmers** as compared to large farmers while sanctioning credit.
- Need to **promote electronic benefit transfer systems** effectively for boosting rural banking.
- Government needs to make efforts on a war-footing for **adequate infrastructure such as physical and digital connectivity, uninterrupted power supply etc.**
- India has the largest postal network in the world with over 89% post offices in rural areas. **Ensure that post-offices play a greater and more active role.**

**Questions**

1. Why did RBI mandate priority sector lending for banks in India? Do you think this measure has met its objectives? Keeping in mind target population and sectors, critically analyse.
2. What is the state of financial inclusion in rural areas? Suggest measures to improve the financial inclusion in rural areas.
Introduction

- **Bharatmala** is a comprehensive highway development programme for the country. The highways sector continues to remain a critical infrastructure sector due to existing gaps and enhanced transportation requirements. Bharatmala marks the beginning of new era for highways infrastructure.
- Bharatmala envisages a quantum leap forward to redefine road development in terms of development, operation and maintenance of national highways across the country.

Bharatmala – Six Components

- Economic Corridors.
- Inter-corridors and feeder roads.
- National corridors efficiency improvement.
- Border and international connectivity roads.
- Coastal and port connectivity roads.
- Greenfield expressways.

Grand Challenge Mechanism

- Encouraging state governments to participate in the development process through grand challenge mechanism is another distinguishing feature.
- Concerned state governments play a proactive role, particularly in terms of providing project land at a fast pace, shall get priority of being identified for implementation.

Impact of Bharatmala

- Optimised efficiency of traffic movement on roads across the country. It will improve the average speed of vehicles by about 20-25%.
- Improved road infrastructure, removal of congestion points on the network.
- Improve logistics efficiency for both freight and passenger movement on national highways across the country. This will have a positive impact on the Logistic Performance Index (LPI).
- Improvement in the fuel efficiency of the vehicles.
- Connecting 550 districts in the country through national highway linkages.
- Creation of major opportunities for investment and construction activities in the highways and associated infrastructure development.
- It is expected to generate about 34 crore man-days of employment during the construction phase and approximately 22 million permanent jobs driven by increased level of economic activities.

Questions

1. Critically examine the features of Bharatmala Pariyojana (BMP) initiative and its likely impact on economic growth of India.
India’s Credit Rating: Boost to Investors’ Sentiment

Introduction

- Moody’s has upgraded India’s rating from BAA3 to BAA2 and outlook from positive to stable. Moody's have cited various reasons for this upgrade:
  - Change in taxation regime with the introduction of GST.
  - Insolvency and Bankruptcy Code to resolve bankrupt cases.
  - Institutional reforms in the form of India’s aggressive stance for a less cash economy.
  - Raising the FDI equity limits on various new projects to enhance India’s road and port network.
  - Following the fiscal consolidation path.

Importance of Credit Ratings

- CRA, in order to rate investments, consider financial, macroeconomic, and stability indicators in a borrower country and its economic outlook to estimate its ability and willingness to pay its debt.
- Credit rating should not be intended as a guarantee of credit quality as the future cannot be forecast accurately and rating should be considered just a market signal.
- Though the credibility of rating agencies has moderated during post financial crisis where AAA rated investments defaulted, their importance has not diminished.
- To raise capital in international financial markets and attract foreign investment, governments and companies in emerging market economies like India depend on the ratings of International CRA.
- The upgrade in ratings by Moody’s will benefit India in many ways.
  - India is a capital-scarce economy and given the improvement in ratings, it will be easier to attract capital from abroad which in turn will help fuel the economic growth.
  - Investments could be attained at a lower borrowing cost as the risk premium on the credit will be reduced.
  - The external deficits could be financed easily at a lower cost.
  - The surge in investment will help improve the stock market performance of the economy.

Performance of Indian Economy

- India’s macroeconomic health particularly its investment position and debt indicators have improved since 2013.
- India has clearly demonstrated its ability to repay its debt and always exhibited remarkably high willingness to pay; it has never defaulted on its obligations.
- A fair upgradation in credit rating by other credit rating agencies can help India greatly in raising the capital.

Questions

1. Critically comment on the credibility and importance of rating agencies around the world.
Facts for Prelims

Cabinet approves India's Membership for European Bank for Reconstruction & Development

- The Union Cabinet approved India’s Membership for European Bank for Reconstruction & Development (EBRD).
- Membership of EBRD would enhance India’s international profile and promote its economic interests. Access to EBRD’s Countries of Operation and sector knowledge.
- India’s investment opportunities would get a boost.
- It would increase the scope of cooperation between India and EBRD through co-financing opportunities in manufacturing, services, Information Technology, and Energy.
- The membership would help India leverage the technical assistance and sectoral knowledge of the bank for the benefit of development of private sector.
- This would contribute to an improved investment climate in the country.
- It would also enable Indian nationals to get the employment opportunity in the Bank.

National Nutrition Mission

- The Union Cabinet has approved setting up of National Nutrition Mission (NNM).
- The NNM, as an apex body, will monitor, supervise, fix targets and guide the nutrition related interventions across the Ministries.
- The proposal consists of
  - Mapping of various Schemes contributing towards addressing malnutrition.
  - Introducing a very robust convergence mechanism.
  - ICT based Real Time Monitoring system.
  - Incentivizing States/UTs for meeting the targets.
  - Incentivizing Anganwadi Workers (AWWs) for using IT based tools.
  - Eliminating registers used by AWWs.
  - Introducing measurement of height of children at the Anganwadi Centres (AWCs).
  - Social Audits.
  - Setting-up Nutrition Resource Centres, involving masses through Jan Andolan for their participation on nutrition through various activities, among others.
- Implementation strategy and targets:
  - Implementation strategy would be based on intense monitoring and Convergence Action Plan right upto the grass root level.
  - NNM will be rolled out in three phases from 2017-18 to 2019-20.
  - NNM targets to reduce stunting, under-nutrition, anaemia (among young children, women and adolescent girls) and reduce low birth weight by 2%, 2%, 3% and 2% per annum respectively.
  - Although the target to reduce Stunting is atleast 2% p.a., Mission would strive to achieve reduction in Stunting from 38.4% (NFHS-4) to 25% by 2022.

Haircuts in the Banking System

- A haircut is the difference between the loan amount and the actual value of the asset used as collateral.
In the context of loan recoveries, it is the difference between the actual dues from a borrower and the amount he settles with the bank.

Haircuts used as a last resort when there is absolutely no hope of a recovery and the loan is written off for a one time settlement.

**Schemes for Women Empowerment**

- The Cabinet Committee on Economic Affairs (CCEA) approved expansion of the schemes of Ministry of Women and Child Development under umbrella scheme “Mission for Protection and Empowerment for Women” for a period 2017-18 to 2019-20.
- CCEA also gave approval to the new scheme called “Pradhan Mantri Mahila Shakti Kendra”. This will empower rural women through community participation to create an environment in which they realise their full potential.

**National Trachoma Survey Report (2014-17)**

- The National Trachoma Survey Report (2014-17) was released recently. India is now free from ‘infective trachoma’, and termed this as a momentous achievement.
- Active trachoma infection has been eliminated among children in all the survey districts with overall prevalence of only 0.7%.
- This is much below the elimination criteria of infective trachoma as defined by the WHO- active trachoma is considered eliminated if the prevalence of active infection among children below 10 years is less than 5%.
- The goal of trachoma elimination as specified by the WHO under its GET2020 programme has been met.
- Trachoma is a chronic infective disease of the eye and is the leading cause of infective blindness globally.
- Trachoma is a disease of poor environmental and personal hygiene and inadequate access to water and sanitation. It affects the conjunctiva under the eyelids.

**Loan Agreement with World Bank for SANKALP Project**

- A Financing Agreement for IBRD loan of USD 250 million (equivalent) for the “Skills Acquisition and Knowledge Awareness for Livelihood Promotion (SANKALP) Project” was today signed with the World Bank.
- The Objective of the project is to enhance institutional mechanisms for skills development and increase access to quality and market-relevant training for the work force.
- The Key result areas for the project include:
  - Institutional Strengthening at the National and State Levels for Planning, Delivering, and Monitoring High-Quality Market-Relevant Training;
  - Improved Quality and Market Relevance of Skills Development Programs;
  - Improved access to and completion of skills training for female trainees and other disadvantaged groups;
  - Expanding skills training through private-public partnerships (PPPs).
North East Diary

Tuirial Hydroelectric Power Project

- Prime Minister of India dedicated 60 MW Tuirial Hydroelectric Power Project in Mizoram.
- The Tuirial HEPP has been constructed as a Central Sector Project and implemented by North Eastern Electric Power Corporation (NEEPCO), under the administrative control of the Ministry of Power, Government of India.
- The Project is the biggest power project located in the State of Mizoram and will feed the entire energy to be generated to the home State, which will facilitate all-round development of the State and achieving Government of India's ambitious and flagship Mission ‘24x7 Affordable Clean Power for All’.
- Apart from attaining self-sufficiency in electric power, the project will fetch other spin-off benefits to the State of Mizoram like employment generation, navigation, water supply, pisciculture and wildlife conservation, tourism etc.

NLCPR scheme for North East

- The Union Cabinet approved the continuation of the existing Non Lapsable Central Pool of Resources (NLCPR) scheme with funding pattern of 90:10 till March, 2020 with an outlay of Rs.5300.00 crore. It would enable completion of ongoing projects.
- The Union Cabinet also approved the introduction of new Central Sector Scheme of “North East Special Infrastructure Development Scheme” (NESIDS) from 2017-18 with 100% funding from the Central Government to fill up the gaps in creation of infrastructure in specified sectors till March, 2020.
- The new scheme will broadly cover creation of infrastructure under following sectors:
  - Physical infrastructure relating to water supply, power, connectivity and specially the projects promoting tourism;
  - Infrastructure of social sectors of education and health.
- The assets to be created under the new scheme of NESIDS will not only strengthen health care and education facilities in the region but will also encourage tourism thereby the employment opportunities for local youth.