Economy This Week (16th Jun to 30th Jun 2021)

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1. A new era for micro finance (BS 21/6/21)

- After Andhra Pradesh came out with a law to regulate microfinance lending in 2010, RBI in 2011 allowed new NBFCs to enter into the business of giving microloans from December 2011, this was based on the recommendations of the Y H Malegam Committee.
- Out of the total 197 micro-lenders, there are 86 NBFC-MFIs, though they are dominating in numbers, their share in the outstanding loan portfolio is 31% whereas the commercial banks have a presence of 41%. This means that the banks are giving more loans to micro borrowers than NBFC-MFIs (these are constrained by regulations, which are not applicable to banks lending to such borrowers).
    - No more than two NBFC-MFIs can lend to the same borrower **(this has been waived now by RBI).**
    - At least 85% of their loan portfolios must consist of such microloans against which the borrowers don't need to offer any collateral.
    - The income of a rural and urban borrower should not cross ₹ 1.25 lakh and ₹ 2 lakh respectively.
    - The loan value is capped at ₹ 75000 for the first cycle and it can be raised to ₹ 1.25 lakh subsequently.
- The pricing of the loans and processing fees are regulated.
    - NBFC-MFIs can charge their borrowers either (whichever is lower) -
        - 10-percentage points spread over their average cost of funds or
        - 75 times the average of five banks' base rate
    - Banks, however, are free to set their loan rates.
    - Changes:

- No more than two NBFC-MFIs can lend to the same borrower **(this has been waived now by RBI).** Now the focus has shifted from who is lending to how much is the capacity of the borrower.
- All the lenders will be clubbed together and the indebtedness of the borrower will be linked to the capacity to repay.
- The deciding factor will be the debt-income ratio.
- With this, the limit on the loan amount and minimum tenure of loans (currently applicable to only NBFC-MFIs) will cease to exist.
- The collateral-free nature of the loans will continue and will be extended to the banks also.
- All the lenders should allow the prepayment of the loans without any penalty if the borrowers wish.

2. Alternative Investment Funds (AIFs) surge in FY21 (BL 19/6/21)

- AIFs:
    - Are privately pooled investment vehicles
    - These collect money from private investors (domestic and foreign)
    - Invest in pre-decided investment policy
    - AIF regulations were announced in 2012
    - As per SEBI, these are classified into three categories:
        - Category 1 - includes venture capital funds, angel funds, SME funds, social venture capital funds, infrastructure funds; accounts for 10% of the total AIF investments
        - Category 2 - includes private equity (PE) funds, real estate funds, funds for distressed assets, debt funds, fund of funds; accounts for 66% of the total AIF investments
        - Category 3 - hedge funds, PIPE (Private Investment in Public Equity) funds; accounts for 24% of the total AIF investments
    - As of now, there are over 750 AIFs registered with SEBI.
- AIF investments crossed ₹ 2 lakh Cr in the current fiscal (30% rise YoY; ₹ 1.53 lakh Cr at the end of the previous fiscal).
- The tax issues related to AIFs have been sorted out which has increased the investments through this route.
- If these AIFs are owned and controlled by Indian citizens, FDI restrictions (even if these are getting foreign investments) are not applicable.

Read more on Alternative Investment Funds (AIFs) in the linked article.

3. Maharashtra govt may reject RBI guidelines (BL 19/6/21)

- Maharashtra govt is set to oppose RBI's recent guidelines on the amalgamation of District Central Cooperative Banks (DCCBs) with State Co-Operative Banks (StCBs).
- The parties forming the govt have a grip on 31 DCCBs in Maharashtra.
- DCCBs mobilise deposits and provide credit to the public and to Primary Agriculture Credit Societies (PACS).
- The central bank has brought these guidelines to help the states contemplating delayering their short term cooperative credit structure; the adoption of these measures is voluntary.
- The short term cooperatives are arranged in a three-tier structure in most states - StCBs at the top, DCCBs at the intermediate level and the PACS at the grassroots level (however in ten states and four UTs, the short term cooperative banks have a two-tier structure - StCBs and PACS).

4. Centre seeks duty relief for SEZ units (FE 21/6/21)

- The Commerce Ministry may float a proposal that will allow the units in Special Economic Zones (SEZ) to sell goods in the domestic market for a temporary period at the lowest tariffs at which India imports from its free-trade partners.
- This is expected to help the units located within the SEZs which have been hit by the pandemic.
- Currently, these units located within the SEZs pay customs duty if they sell their products in the domestic tariff area (DTA) - as these SEZs are delineated duty-free enclaves and are deemed foreign territory for the purpose of trade operations, duties and tariffs. These units have access to duty-free imports of goods which the manufacturers in DTA are not entitled to.

5. Soon industrial units can buy 100% renewable power (LM 23/6/21)

- Union govt has come out with a ‘green tariff mechanism’ under which industrial units and businesses will be able to purchase 100% of their power requirements from renewable energy (RE) sources.
- This will boost their goodwill image and also reduce their carbon footprint.
- In this regard, all the necessary guidelines will be issued by the govt in a short period.
- Currently, in most parts of the country, discoms supply electricity to these industries from a common pool created out of purchases that include thermal, hydro and renewable energy.
- The green tariff will be the weighted average of cost procurement of green energy.

- Experts have pointed out that the tariffs could vary from one state to another and in case the discoms have contracted the purchase of RE (before the prices declined) the purchase of such power could be higher than the conventional sources of energy.
- Similar provisions of green tariffs are already in place in Karnataka since FY12 and recently Maharashtra allowed green tariffs for consumers willing to meet their requirements through RE sources.

6. Stalin urges CMs to oppose draft ports bill (FE 23/6/21)

- As per the Indian Ports Act, 1908:
    - Powers to plan, develop, regulate and control minor ports vest with the state governments.
    - As per a new bill, these powers would be transferred to the Maritime State Development Council (MSDC).
- Tamil Nadu CM has written to CMs of nine states that they oppose the new draft Indian Ports Bill, 2021 and take action jointly to prevent any move to dilute the powers vested with states.
- He has requested these states to communicate their opposition to the bill during the upcoming MSDC, which has been called to discuss the bill.
- MSDC so far has been just an advisory body.
- As per the letter, the Union Ministry of Shipping has framed the new bill to modify the current management model of the minor ports.

Also read: Major Port Authorities Act, 2021

7. ED transfers defaulters' assets to PSB (TH 27/6/21)

- The Enforcement Directorate has announced that it has seized assets worth ₹ 18170 Cr of three fugitive businessmen. These assets would help public sector banks recover 80% of their losses from the loans that were given to the companies connected to these three.
- It also noted that assets worth 40% of the losses incurred by these banks had already been transferred to the concerned banks.
- ED has stated that these businessmen have caused a loss to the tune of ₹ 22585 Cr to the banks by siphoning off the funds through their companies.
- Indian authorities have been trying to get these businessmen extradited back to India so that they can be prosecuted under the Prevention of Money Laundering Act (PMLA), among others.
- This will no doubt provide some relief to the banks in terms of these accounts but it will not make a substantial difference in terms of addressing the bad loans present in their books.

  - The total bad loans of Indian banks stood at ₹ 8 lakh Cr at the end of September 2020.
  - Experts have warned that because of the pandemic these loans could easily cross ₹ 10 lakh Cr by the end of FY22.
- Aside from the cash, there are certain concerns raised regarding the actual value of the assets that have been seized. In the past also banks have not been able to recover money by selling these assets, so banks may face hurdles in disposing of these assets.
- The process of recovery is long because there are various parties that contest such steps taken by the agencies.
- The true scale of losses that the banks have incurred may also be much higher when the costs of interest foregone are considered and there is also a need to consider the opportunity cost of interest that banks could have earned.
- Issues that need consideration:
  - The loans given by banks to these businessmen have been influenced by non-business considerations.
  - There was also very little oversight of the purposes for which these loans were used.

8. Ensure that no migrant workers goes hungry (TH 30/6/21)

- SC in a judgement has said that the government cannot abdicate from its duty of feeding migrant workers just because they do not have a ration card.
- SC has given a deadline of July 31st for the centre and states to ensure that none of the 38 Cr migrant workers goes hungry during the pandemic.
- Court has asked the centre to formulate schemes to distribute dry rations to migrant workers by 31st July.
- It has asked all the states to implement the One Nation, One Ration Card Scheme (ONORC) by July 31. The scheme allows migrant workers covered under the NFSA to access food at any fair price shop with his/her ration card in any part of the country.
- SC had asked the Labour Ministry to complete the work on the National Database for Unorganised Workers (NDUW).
  - It will be used to register and identify migrant workers and unorganised labourers to ensure their rights, welfare and food security.
  - The court in 2018 had ordered the ministry to finalise the NDUW module.
  - The central govt has blamed software problems for the delays in implementation.
- The court also suggested the centre redetermine the beneficiaries under NFSA in both urban and rural areas.
- SC has asked the states to run community kitchens and provide dry rations. It has asked the centre to ensure sufficient supply of food grains for the states.

9. No annuity for NPS exits up to ₹ 5 lakh (BL 16/6/21)

- The Pension Fund Regulatory Development Authority (PFRDA) has allowed subscribers in the National Pension Scheme (NPS) with savings up to ₹ 5 lakh to take the entire amount at retirement (this has come amidst lower returns on the annuities).
    - Currently, a superannuating person is required to invest at least 40% of the retirement fund in the annuities.
    - These annuities mirror the interest rate movements in the system that have fallen.
- Earlier there was a mandate of investment in the annuity and the withdrawal was allowed only in case the amount was below ₹ 2 lakh.
- The premature withdrawal limit has been raised from ₹ 1 lakh to ₹ 2.5 lakh.
- It has also increased the entry age for NPS from 65 years to 70 years. The exit age limit has been increased from 70 to 75 years.