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27/07/2023 THURSDAY www.vedhikiasacademy.org DAILY NEWS ANALYSIS



## INTERNATIONAL RELATIONS

# CITING FATF, CENTRE URGES SC TO LET MISHRA CONTINUE AS ED CHIEF

**NEWS IN GIST:** The Supreme Court will hear an urgent application by the Centre to allow Enforcement Directorate Director Sanjay Kumar Mishra to continue till October 15. The court previously ruled his extended tenure, until November 2023, illegal but granted time till July 31 for finding a replacement due to FATF evaluation needs.

**HIGHLIGHTS:** The Centre filed an urgent application to allow Enforcement Directorate (ED) Director Sanjay Kumar Mishra to remain in office till October 15, citing the need for his expertise during the Financial Action Task Force (FATF) assessment. An on-site visit by the FATF assessment team was scheduled in November, and the Centre believes Mr. Mishra's continuation is crucial for providing necessary reports and cooperation. The Centre argued that a leadership transition would impair the agency's ability to assist the assessment team and adversely affect India's national interests.

**TENURE OF ED Director:** CBI and ED chiefs' fixed tenures are two years, but amendments in 2021 now permit a maximum of three annual extensions.

**Enforcement Directorate**

**Constitution:** The Enforcement Directorate (ED) is a law enforcement agency in India, created under the Ministry of Finance, mandated to enforce economic laws and fight financial crimes.

**Statutory Backup:** The agency derives its legal authority from the Prevention of Money Laundering Act (PMLA) 2002, granting it power to investigate money laundering offenses and seize illicit assets.

**Functions:** ED's primary function is to investigate and prosecute cases related to money laundering, foreign exchange violations, and economic frauds to safeguard the country's financial integrity.

**Headed By:** The Enforcement Directorate is headed by a Director, who oversees the agency's operations and reports to the Union Finance Ministry.

**Appointment of the Head:** The Director of ED is typically an Indian Revenue Service (IRS) officer appointed through a selection process by the Appointments Committee of the Cabinet.

Money Laundering Investigations: ED investigates cases of money laundering, where illegally obtained money is concealed through various channels to make it appear legitimate.

**Foreign Exchange Violations:** The agency probes violations of foreign exchange regulations and transactions that are deemed illegal under the Foreign Exchange Management Act (FEMA).

**Collaborative Approach:** ED works in close coordination with other law enforcement agencies and international bodies to combat cross-border financial crimes and ensure effective enforcement.

**Financial Action Task Force (FATF)**

**Constitution:** The Financial Action Task Force (FATF) is an inter-governmental organization established in 1989 during the G7 Summit to combat money laundering and terrorist financing.

**Statutory Backup:** FATF's legal framework is based on its recommendations, commonly known as the "40 Recommendations," which provide standards for anti-money laundering (AML) and counter-terrorism financing (CTF) measures.

**Functions:** FATF sets international AML/CTF standards and monitors member countries' compliance through mutual evaluations, identifying jurisdictions with deficiencies and providing them with guidance for improvement.

**Headed By:** FATF is headed by a President who serves for a one-year term, and its Secretariat, located in Paris, manages its day-to-day operations.

**Members:** FATF has 39 member countries and territories, including major financial centers and leading economies, as well as regional bodies like the European Commission and Gulf Cooperation Council.

**India's Membership:** India became a member of FATF in 2010 and actively participates in its efforts to combat money laundering and terrorist financing, aligning its policies with FATF recommendations.

**Blacklisting and Grey listing:** FATF maintains a watchlist of jurisdictions that do not meet its AML/CTF standards. "Blacklisting" involves imposing sanctions, while "greylisting" signifies a warning to improve compliance.



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# THE SCO IS A SUCCESS STORY THAT CAN GET BETTER

**NEWS IN GIST:** India successfully hosted the 23rd SCO Heads of State Meeting on July 4, 2023. The New Delhi Declaration was signed, focusing on countering radicalization and digital transformation cooperation. Iran was granted full SCO membership, Belarus signed obligations to join, and an economic development strategy until 2030 was adopted, highlighting the vitality of the SCO family.

**DEVELOPMENT SO FAR:** On July 4, 2023, India hosted the 23rd SCO Heads of State Meeting, where the New Delhi Declaration was signed. The summit addressed global challenges like geopolitical tensions, economic slowdown, energy crises, food shortage, and climate change.

The SCO emphasized unity, cooperation, and dialogue, granting Iran full membership and welcoming Belarus as a member-state. It aims to be a guardian of regional peace, stability, and prosperity, strengthening strategic communication and practical cooperation while addressing security threats and rejecting bloc confrontation.

**SCO AS A SUCCESS OF MULTILATERALISM:** Advocating multilateralism, the SCO seeks engagement with observer states, dialogue partners, and international organizations like the UN to uphold the international order based on international law. The SCO's success is part of a broader global partnership of emerging economies and developing countries, promoting world peace and global development. Upcoming BRICS and G-20 summits led by South Africa and India will shape a multi-polar world order and improve international governance.

**Shanghai Cooperation Organisation (SCO)**

**Constitution:** The Shanghai Cooperation Organisation (SCO) is a regional international organization founded in 2001 in Shanghai, China, to promote cooperation among member states on various issues.

**Statutory Backup:** The SCO's legal framework is based on its Charter, which outlines the organization's objectives, principles, and mechanisms for cooperation among member states.

**Functions:** The SCO aims to enhance regional security, combat terrorism, separatism, and extremism, foster economic cooperation, promote cultural exchanges, and work towards stability and development in member countries.

**Headed By:** The SCO is headed by the Secretary-General, who is appointed by the Council of Heads of State for a three-year term, and oversees the organization's day-to-day activities.

**Members:** The SCO currently has eight full members: China, India, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, and Uzbekistan. Additionally, it has four observer states and six dialogue partners.

**India's Membership:** India became a full member of the SCO in 2017, expanding its engagement with Central Asian nations and major regional powers for mutual cooperation and development.

**Regional Security Cooperation:** The SCO conducts joint military exercises and counter-terrorism drills to strengthen regional security and combat transnational threats effectively.

**Economic Cooperation:** The SCO facilitates trade, investment, and economic partnerships among member states to promote regional integration and sustainable development.

## ECONOMICS

# RESILIENT, BUT JUST

**CONTEXT:** The International Monetary Fund's latest update to its world economic outlook posits a global economy showing signs of having weathered its most recent challenges, including the bank collapses in the U.S. and Switzerland, and likely poised to expand by 3% in 2023.

The United States and China, have slowed down appreciably and face increased uncertainty amid global and domestic headwinds. In the U.S., the surpluses from pandemic-era cash transfers, made to help families tide over the distress wrought by COVID-19 and the cost-of-living crisis in its aftermath, have all but depleted. China's post-reopening rebound has begun to fizzle out, with the economy floundering on the shoals of a contraction in the key real estate sector, combined with weakening consumption and slumping overseas demand for its exports.

The Ukraine-war induced spike in gas prices has led to momentum decelerating especially in the largest regional Euro Zone economies of Germany and France. The Standard & Poor's Global's latest HCOB flash PMI survey recorded fall in business output fell at the fastest rate for eight months in July. The policymakers are forced to pursue demand-retarding monetary tightening with core inflation, remaining well above central banks' targets. Russia's termination of the Black Sea grain deal could also push up grain prices by as much as 15 %, affecting some low-income economies in Africa. The IMF economist also pointed to the heightened debt vulnerabilities among many frontier economies and stressed the urgent need for a concerted global debt resolution initiative to help highly indebted countries from sliding into debt distress.

# SHEDDING MORE LIGHT ON THE DEBT DILEMMA

**CONTEXT:** The pandemic pushed the envelope further and relative to GDP, the fiscal deficit in 2020-2021 increased to 13.3 % and the aggregate public debt to 89.6 %. As the economy recovered after the pandemic, the deficit and debt ratios have receded to 8.9 % and 85.7 %, respectively.

**FINANCIAL REPRESSION:** The overall debt will decline with no primary deficit, with GDP growth rates exceeding the effective interest rate paid on government bonds. This can be achieved via SLR stipulations and interventions in the market through open market operations keeping the interest rates on government borrowing repressed, but leave the financial market distorted.

1. Large interest payments, that constitute over 5% of GDP and 25% of the revenue receipts crowd out the much-needed

expenditures on physical infrastructure and human development and emerging priorities to make the green transition.

2. High levels of debt make it difficult to calibrate counter-cyclical fiscal policy and constrain the ability of the government to respond to shocks.
3. A largely captive debt market with commercial banks and insurance companies participating in it to meet Reserve requirements, besides credit by the commercial banks earmarked for the priority sector squeeze the resources available for lending to the manufacturing sector, driving up the cost of borrowing of the sector.

**STATUS OF STATES DEBT**

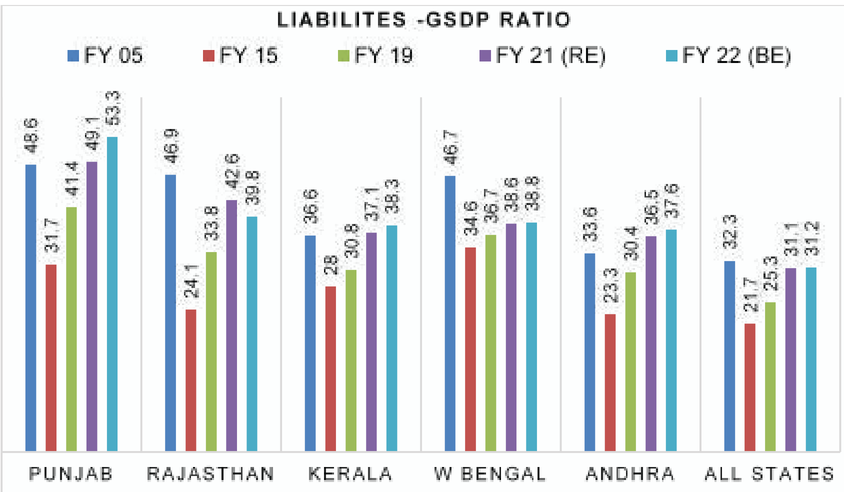


**FIGURE**: Bar chart representation of projected Liabilities-GSDP ratio (a metric that shows what a state owes with what it produces, indicating a particular state's ability to pay back its debts) of Punjab, Rajasthan, Kerala and West Bengal by 2026-27.

**TEN STATES -** Punjab, Rajasthan, Kerala, West Bengal, Bihar, Andhra Pradesh, Jharkhand, Madhya Pradesh, Uttar Pradesh and Haryana account for half of the total expenditure in India.

**REASONS FOR FISCAL DETERIORATION IN STATES**

- **PUBLIC FINANCE INDISCIPLINE:** Among the ten states, Andhra Pradesh, Bihar, Rajasthan and Punjab exceeded both debt and fiscal deficit targets for FY 2020-21, set by the Fifteenth Finance Commission.
- **DECLINE IN TAXATION RECEIPTS:** Taxation receipts of some of these 10 states - Madhya Pradesh, Punjab and Kerala has been declining over time, making them fiscally more vulnerable.
- **UNCERTAIN NON-TAXATION RECEIPTS:** Non-tax receipts from General services, interest receipts and economic services remained volatile for most of these states, even dropping significantly in recent years.
- **POOR EXPENDITURE QUALITY:** High revenue spending to capital outlay ratios (share of revenue expenditure in total expenditure) that varies in the range of 80-90 %. Some states like Rajasthan, West Bengal, Punjab and Kerala spend around 90 % on revenue accounts.
- **LIMITED FISCAL SPACE:** High committed expenditures - interest payments, pensions and administrative expenses, account for a significant portion (over 35 %) of the total revenue expenditure in states like Haryana, Uttar Pradesh, West Bengal, Kerala and Punjab, leave little space for undertaking developmental expenditures.
- **ABSOPRTION OF LOSSES OF DISCOM**s: The shift in liability of DISCOMs to the part of the Government after the UDAY scheme further worsened the situation.

**IMMEDIATE IMPACT**

**IMPACT OF COVID19:** High expenditure and low revenue, misbalancing state finances.

**IMPACT OF OIL PRICES:** High oil prices forced the states to cut duty on Petroleum, thus further impacting their revenue.

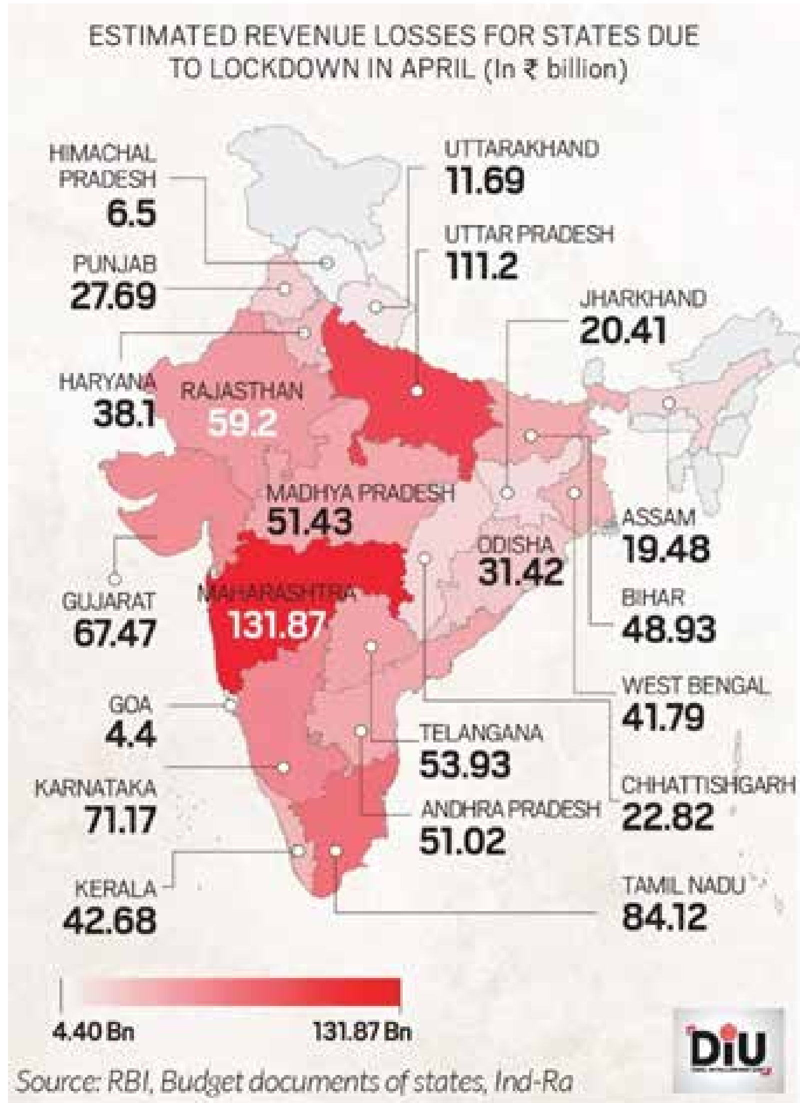


FIGURE: Map of India representing the estimated revenue losses for States due to lockdown in April, 2020

**LONG-TERM MEASURES:**

- Adopting best practices of other states for crop diversification
- Focus on slums redevelopment and cluster development
- Advance urban planning for Tier II and Tier III cities
- Urban development along the transit corridor
- Focus on the quality of their teachers

**FISCAL RESPONSIBILITY BUDGETARY MANAGEMENT ACT, 2003**

**AIM:** Make the Central government responsible for ensuring inter-generational equity in fiscal management and long-term macro-economic stability.

**TARGETS**

- • Reduce fiscal deficit to 3 % of the GDP by FY 2017-18

- Eliminate Effective Revenue Deficit by FY 2015-16
- Prescribes Union Government to table 3 more documents along with the Budget documents viz.
    - o Medium Term Fiscal Policy Statement;
    - o Fiscal Policy Strategy Statement.
    - o Macroeconomic Framework Statement;

**PRESENT FISCAL STATUS:** It is clear that in the present fiscal environment, even achieving a consolidated debt-to-GDP ratio of 58.2 recommended by the 14th Finance Commission for 2019-20 would be unfeasible in the medium term. The Finance Commission had recommended that the Union government bring down its deficit relative to GDP from 43.6 % in 2015-16 to 36.3 %, and the States maintain their deficit at about 22%. Even before the pandemic, the aggregate public debt had slipped to 74.3 % in 2019-20, and the pandemic pushed it to 89.7 % in 2020-21. With the nominal GDP recovering to grow at 18.5 % in 2021-22 after the pandemic, the debt ratio declined only marginally to 85.7 %. With the high primary deficit of 3.7 % of GDP in 2022-23 and budgeted at over 3% in 2023-24, we will have to contend with elevated debt levels in the medium term.

TARGETS SET BY NK SINGH COMMITTEE, 2016 (FY 2022-23)

NEED FOR CONTAINMENT:

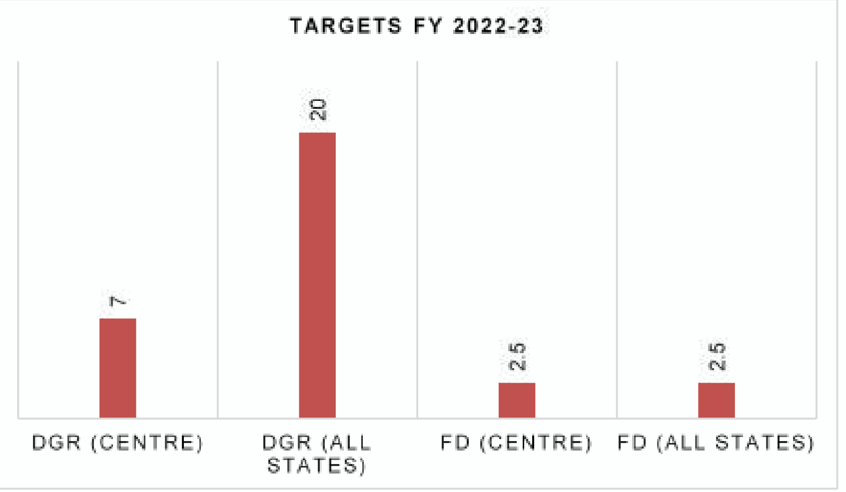


**FIGURE:** Bar chart representation of targets set as a per centage of GDP by NK SINGH COMMITTEE, 2016 for FY 2022-23.

The annual deficits add to the total debt and debt repayment depends on a state's ability to raise revenues. A vicious cycle starts with a state, or all the states in aggregate, finds it difficult to raise revenues, a rising mountain of debt. The States end up paying more and more towards interest payments instead of spending their revenues on creating new assets that provide better education, health and welfare for their residents.

# GO FIRST CAN FLY LEASED PLANES: NCLT

**CONTEXT:** The National Company Law Tribunal rejected six aircraft lessors' pleas, which included demands for barring Go First from using their aircraft as well as allowing leasing firms to appoint an inspector to examine the aircraft, engines and other parts.

The insolvency court, which had admitted Go First's plea seeking insolvency resolution on May 10, maintained that an order restraining the resolution professional (RP) from using the aircraft would amount to "corporate death of the corporate debtor, leaving no scope for resolution of the corporate debtor" as the sole essence of its business would be taken away.

The tribunal also noted that the termination notices issued by leasing companies after the airline approached the NCLT seeking insolvency resolution was to evade the moratorium it had granted under which the airline was given protection against any adverse action from lessors and creditors.

On July 5, the Delhi High Court had passed an interim order on the pleas of another eight aircraft lessors and allowed them to carry out both inspection and interim maintenance tasks on their aircraft twice a month.

**TIMELINE**

1. May 2, 2023: Go First files for voluntary insolvency resolution proceedings before the National Company Law Tribunal (NCLT).
2. May 10, 2023: The NCLT admits Go First's petition and imposes a moratorium on the airline, preventing its creditors from taking any legal action against it.
3. May 12, 2023: The NCLT appoints an interim resolution professional (IRP) to oversee the insolvency process.
4. June 1, 2023: The IRP invites expressions of interest (EOI) from potential investors.
5. June 15, 2023: The IRP receives EOI from several potential investors.
6. July 15, 2023: The IRP submits a report to the NCLT on the progress of the insolvency process.
7. August 1, 2023: The NCLT extends the moratorium on Go First until September 1, 2023.
8. September 1, 2023: The NCLT extends the moratorium on Go First until October 1, 2023.

## POLITY

# BILL PROPOSES BIRTH RECORD DIGITISATION

- India has taken the first step to generate digital birth certificates, which will be an all-encompassing document that can be used for admission to educational institutions, jobs, passports or Aadhaar, voter enrolment, registration of marriage, and others.
- This will "avoid multiplicity of documents to prove date and place of birth", according to the Registration of Births and Deaths Amendment Bill, 2023, tabled in the Lok Sabha on Wednesday.

**Highlights of the Bill**

The Registration of Births and Deaths (Amendment) Bill, 2023, was introduced in Lok Sabha on July 26, 2023. It amends the Registration of Births and Deaths Act, 1969. The Act provides for the regulation of registration of births and deaths.

Database of births and deaths: The Act provides for the appointment of a Registrar-General, India who may issue general

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directions for registration of births and deaths. The Bill adds that the Registrar General will maintain a national database of registered births and deaths. Chief Registrars (appointed by states) and Registrars (appointed by states for each local area jurisdiction) will be obligated to share data of registered births and deaths to the national database. The Chief Registrar shall maintain a similar database at the state level. The Bill also renames the Registrar-General of India as Registrar General of India.

Aadhaar details of parents and informants required: The Act requires certain persons to report births and deaths to the Registrar. For example, the medical officer in charge of a hospital where a baby is born must report the birth. The Bill adds that, in cases of births, the specified persons shall also provide the Aadhaar number of the parents and the informant, if available. This provision also applies to:

i. jailor in case of births in a jail, and
ii. manager of a hotel or lodge in case of births in such a place. Further, it expands the list of specified persons to include:
iii. adoptive parents for non-institutional adoption,
iv. biological parent for births through surrogacy, and
v. the parent in case of birth of a child to a single parent or unwed mother.

**Connecting database:** The Bill states that the national database may be made available to other authorities preparing or maintaining other databases. Such databases include:

(i) population register,
(ii) electoral rolls,
(iii) ration card, and
(iv) any other national databases as notified.

The use of the national database must be approved by the central government. Similarly, the state database may be made available to authorities dealing with other state databases, subject to. state government's approval.

**Use of birth certificate:** The Bill requires the use of birth and death certificates to prove the date and place of birth for persons born on or after this Bill comes into effect. The information will be used for purposes including: (i) admission to an educational institution, (ii) preparation of voter list, (iii) appointment to a government post, and (iv) any other purpose determined by the central government.

**Electronic certificates:** The Act provides that any person may: (i) cause a search to be made by the Registrar for any entry in a register of births and deaths, and (ii) obtain an extract from the register related to any birth or death. This is subject to the rules made by the state government. The Bill amends this to provide for obtaining births and deaths certificates (electronically or otherwise) instead of extracts.

**Mandatory death certificate:** The Act provides that state governments may require the Registrar to obtain a certificate regarding the cause of death from prescribed persons. The Bill amends this to provide that for deaths occurring in medical institutions, such institutions must provide a certificate regarding the cause of death to the Registrar. A copy of the certificate will be provided to the nearest relative. If the death occurs at any other place, the medical practitioner who attended to the person shall issue the certificate. The certificate will be issued to the specified persons who must provide this information to the Registrar.

**Providing registration details:** Under the Act, after registering a birth or death, the Registrar must provide extracts of the prescribed information to the person who registered it, for free. The Bill amends this to provide that the Registrar must provide the certificate to such person within seven days.

**Appeal process:** Any person aggrieved by any action or order of the Registrar or District Registrar may appeal to the District Registrar or Chief Registrar, respectively. Such an appeal must be made within 30 days from receipt of such action or order. The District Registrar or Chief Registrar must give their decision within 90 days from the date of appeal.

**Centralised register**

- The Bill proposes to make it obligatory for States to register births and deaths on the Centre's Civil Registration System portal, and to share the data with the Registrar General of India, which functions under the Union Home Ministry.
- It said a centralised register "would help in updating other databases resulting in efficient and transparent delivery of services and social benefits." The Bill would "insert provisions for digital registration and electronic delivery of certificate of births and deaths for the benefit of public." The new rules will apply to all those born after the Bill becomes law.
- It proposes to "collect Aadhaar numbers of parents and informant, if available, for birth registration". It will also "facilitate registration process of adopted, orphan, abandoned, surrogate child and child of single parent or unwed mother".

# NO-TRUST MOTION AGAINST MODI GOVT. ADMITTED IN LS

**Context :** Though no reason to be given by the opposition to bring no confidence motion , it is believed that the Manipur issue is the main reason for opposition bringing no confidence motion against the Modi government

- Speaker Birla convenes meeting of floor leaders today to schedule debate after Congress's Deputy Leader Gogoi moves no-confidence motion;
- The stage is set for a high-profile clash between the Opposition and the Treasury benches, as Lok Sabha Speaker Om Birla on Wednesday admitted a no-confidence motion against the Modi government, which was moved by the Congress's Deputy Leader in the House Gaurav Gogoi in a bid to force the Prime Minister to speak in Parliament on the Manipur conflict.

**No-Confidence Motion**

- Article 75 of the Constitution says that the council of ministers shall be collectively responsible to the Lok Sabha.
- It means that the ministry stays in office so long as it enjoys confidence of the majority of the members of the Lok Sabha.
- In other words, the Lok Sabha can remove the ministry from office by passing a noconfidence motion.
- The motion needs the support of 50 members to be admitted.

- Admitting the motion, Mr. Birla informed the Lok Sabha that he would schedule a debate after consulting leaders of all parties.
- When the Lok Sabha reconvened at noon, after a brief disruption during the Question Hour, the Speaker informed the House that he had received a notice from Mr. Gogoi, "expressing a want of confidence in the Council of Ministers under Rule 198".
- Asking the Assam MP to seek the permission of the House to move the motion, Mr. Birla took a head count of members backing the motion. It is mandatory to have the backing of at least 50 MPs for a no-trust motion to be admitted.


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