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DAILY NEWS DIARY

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FOR PRELIMS AND MAINS

Warm Greetings.

- DnD aims to provide every day news analysis in sync with the UPSC pattern.
- It is targeted at UPSC – Prelims & Mains.
- Daily articles are provided in the form of Question and Answers
- To have a bank of mains questions.
- And interesting to read.
- Providing precise information that can be carried straight to the exam, rather than over dumping.

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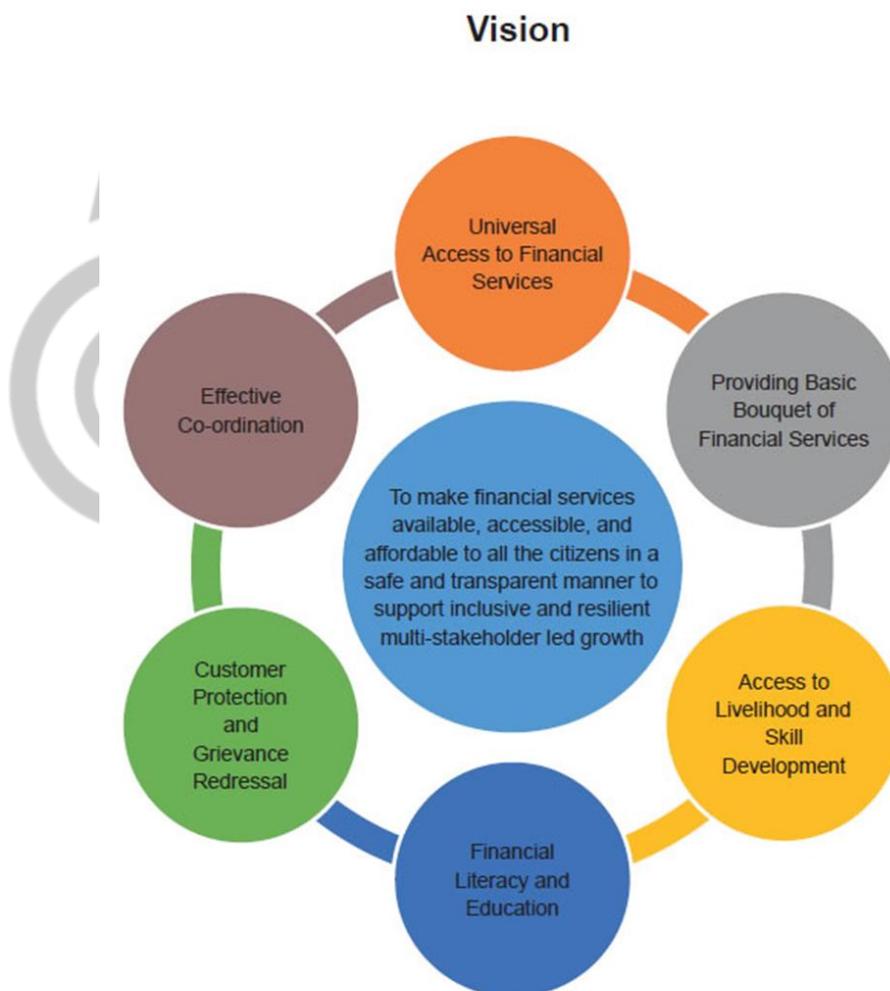


ESSAY PAPER

Editorial

Q) The RBI microfinance proposals favours private credit institutions at the cost of public sector banks. Explain?

Background: Reserve Bank of India (RBI) published a “Consultative Document on Regulation of Microfinance”. While the declared objective of this review is to promote the financial inclusion of the poor and competition among lenders, the likely impact of the recommendations is unfavourable to the poor. If implemented, they will result in an expansion of microfinance lending by private financial institutions, in the provision of credit at high rates of interest to the poor, and in huge profits for private lenders.



The recommendations:

The consultative document recommends that the current ceiling on rate of interest charged by non-banking finance company-microfinance institutions (NBFC-MFIs) or regulated private microfinance companies needs to be done away with, as it is biased against one lender (NBFC-MFIs) among the many (commercial banks, small finance banks, and NBFCs). It proposes that the rate of interest be determined by the governing board of each agency, and assumes that “competitive forces” will bring down interest rates. Not only has the RBI abandoned any initiative to expand low-cost credit through public sector commercial banks to the rural poor, the bulk of whom are rural women (as most loans are given to members of women’s groups), but, in addition, it also proposes to de-regulate the rate of interest charged by private microfinance agencies.

According to current guidelines, the ‘maximum rate of interest rate charged by an NBFC-MFI shall be the lower of the following: the cost of funds plus a margin of 10% for larger MFIs (a loan portfolio of over ₹100 crore) and 12% for others; or the average base rate of the five largest commercial banks multiplied by 2.75’. In June 2021, the average base rate announced by the RBI was 7.98%. A quick look at the website of some Small Finance Banks (SFBs) and NBFC-MFIs showed that the “official” rate of interest on microfinance was between 22% and 26% — roughly three times the base rate.

Crucial for rural households:

Microfinance is becoming increasingly important in the loan portfolio of poorer rural households. In a study of two villages from southern Tamil Nadu, done by the Foundation for Agrarian Studies, we found that a little more than half of the total borrowing by households’ resident in these two villages was of unsecured or collateral-free loans from private financial agencies (SFBs, NBFCs, NBFC-MFIs and some private banks).

There was a clear differentiation by caste and socio-economic class in terms of source and purpose of borrowing.

- First, unsecured microfinance loans from private financial agencies were of disproportionate significance to the poorest households — to poor peasants and wage workers, to persons from the Scheduled Castes and Most Backward Classes.
- Second, these microfinance loans were rarely for productive activity and almost never for any group-based enterprise, but mainly for house improvement and meeting basic consumption needs.

Our data showed that poor borrowers took microfinance loans, at reported rates of interest of 22% to 26% a year, to meet day-to-day expenses and costs of house repair. How does this

compare with credit from public sector banks and cooperatives? Crop loans from Primary Agricultural Credit Societies (PACS) in Tamil Nadu had a nil or zero interest charge if repaid in eight months. Kisan credit card loans from banks were charged 4% per annum (9% with an interest subvention of 5%) if paid in 12 months (or a penalty rate of 11%). Other types of loans from scheduled commercial banks carried an interest rate of 9%-12% a year. As even the RBI now recognises, the rate of interest charged by private agencies on microfinance is the maximum permissible, a rate of interest that is a far cry from any notion of cheap credit.

Violations:

The actual cost of microfinance loans is even higher for several reasons. First, on account of the method of repayment: a loan of, say, ₹30,000 from an NBFC-MFI has to be repaid in 24 equal monthly instalments of ₹1,640. Every month, a principal of ₹1,250 and an interest of ₹390 is repaid. In the first month, the simple interest on this loan is 15.6% per annum but by the end of the first year, the interest rate is 31%. This is because every month the principal is reduced (by ₹1,250) but the interest charge is the same. In short, an “official” flat rate of interest used to calculate equal monthly instalments actually implies a rising effective rate of interest over time.

In addition, a processing fee of 1% is added and the insurance premium is deducted from the principal. As the principal is insured in case of death or default of the borrower or spouse, there can be no argument that a high interest rate is in response to a high risk of default.

If the borrower is unable to pay the instalment, other members of the group have to contribute, with the group leader taking responsibility. In our survey, there was no organic connection of microfinance to any group activity or enterprise. As an agent of a NBFC-MFI told us, “We have used the groups formed earlier for other activities solely to show that we lend to a group”.

The shift now:

While microfinance lending has been in place since the 1990s, what is different about the recent phase of growth of financial services is that the privately-owned for-profit financial agencies are “regulated entities”. In fact, they have been promoted by the RBI. Lending by small finance banks (SFBs) to NBFC-MFIs has been recently included in priority sector advances. And, post-COVID-19, the cost of funds supplied to NBFC-MFIs was lowered, but with no additional restrictions on the interest rate or other parameters affecting the final borrower.

Today, as the RBI’s consultative document notes, 31% of microfinance is provided by NBFC-MFIs, and another 19% by SFBs and 9% by NBFCs. These private financial institutions have grown exponentially over the last few years, garnering high profits, and at this pace, the current share of public sector banks in microfinance (the SHG-bank linked microcredit), of 41%, is likely to fall sharply.

Conclusion: The proposals in the RBI's consultative document will lead to a further privatisation of rural credit, reducing the share of direct and cheap credit from banks and leaving poor borrowers at the mercy of private financial agencies. This is beyond comprehension at a time of widespread post-pandemic distress among the working poor. The All-India Democratic Women's Association, in its response to this document, has raised concerns about the implications for women borrowers and demanded that the rate of interest on microfinance not exceed 12% per annum. To meet the credit needs of poorer households, we need a policy reversal: strengthening of public sector commercial banks and firm regulation of private entities.

GS-2

❖ INTERNATIONAL RELATIONS

Q) Assess the strengths and weakness of the 13th Amendment of the Sri Lankan Constitution.

Background: There is an "urgent need" to understand the "weaknesses and strengths" of the 13th Amendment to the Sri Lankan Constitution and "act accordingly", President Gotabaya Rajapaksa on Tuesday told Foreign Secretary Harsh Vardhan Shringla, while expressing a desire to revive the spirit of the relations of the 1960s and 1970s.

Need to inspect 13th Amendment to the Constitution:

In addition to underscoring the need to expedite bilateral projects, the Foreign Secretary, in his meeting with President Rajapaksa on the final day of his visit, reiterated India's position "on complete implementation of the provisions under the 13th Amendment to the Constitution, including devolution of powers and the holding of provincial council elections at the earliest".

Regional security

Both countries agreed on the need for "short-term and long-term steps" to take relations to "a higher level", the President's office said adding that President Rajapaksa is expecting India's support in advancing the 1971 proposal made by then Prime Minister Sirimavo Bandaranaike to declare the Indian Ocean a peace zone.

The President's remarks on elevating ties come after considerable strain in relations over Colombo's unilateral move earlier this year, cancelling a trilateral Port terminal project agreement signed with India and Japan in 2019; and New Delhi's persisting concern over the "slow pace" of India-backed development projects amid China's increasing presence in Sri Lanka's economic and developmental spheres.

However, last week, the Adani Group obtained 51% stake in a deal signed with Sri Lanka's John Keells Holdings and the Sri Lanka Port Authority, to jointly develop the West Container Terminal at the Colombo Port, offered as a "compromise" to India.

According to official sources, both sides identified areas of greater collaboration in the energy sector. The development of the Trincomalee Oil Tank Farm at the eastern tip of the island nation was a key point of discussion, sources indicated, with Colombo expressing willingness to iron out differences. The statement from President Rajapaksa's office said the Minister of Energy has been "entrusted with the task of resolving the situation" regarding the Trincomalee oil tanks in a manner that is "beneficial to both countries".

Q) Asses the significance of the India and Denmark's Green Strategic partnership.

Background: Ms. Frederiksen, who last held a summit with Prime Minister Narendra Modi in September 2020 had announced the first "Green Strategic partnership". The partnership aims to invest in Indian renewable technology, supply of green technology and outline their climate positions on reducing carbon emissions ahead of the upcoming COP26 UN summit on Climate Change in Glasgow this November.

Bilateral ties

The visit will give both sides an opportunity to discuss the entire gamut of bilateral relations and review the progress in the implementation of the 'Green Strategic Partnership.

Of particular interest will be the announcement of Danish financing and technological support for various projects including an "Energy Island" off the coast of Tamil Nadu in the Gulf of Mannar where a proposal to produce 4-10 GW of wind power energy is being discussed. Last month, Danish Minister for Climate, Energy and Utilities Dan Jorgensen met Tamil Nadu Chief Minister M.K. Stalin to discuss investments of between \$5-10 billion dollars in the project.

Conclusion: Prime Minister Frederiksen's visit will connect the dots between the way India is developing and how Denmark can help India to do so in a more sustainable way, according to its needs.

GS-3

SNIPPETS

Q) Climate experts, theorist get Physics Nobel. Comment.

Context: U.S-Japanese scientist Syukuro Manabe, Klaus Hasselmann of Germany and Giorgio Parisi of Italy on Tuesday won the Nobel Physics Prize for climate models and the understanding of physical systems, the jury said.



The climate model developed by Dr. Manabe showed how levels of carbon dioxide in the atmosphere corresponded to increased earth surface temperatures. Dr. Hasselmann had helped identify climate "fingerprints"- factors both natural and human activities contributing to climate change process.

Message: The Nobel committee said it was sending a message with its prize announcement just weeks before the COP26 climate summit in Glasgow. "What we are saying is that the modelling of climate is solidly based in physics theory," said chair of the Nobel Committee for Physics Thor Hans Hansson.



Q) The '13th amendment' to the Sri Lankan Constitution, often seen in the news, deals with which of the following?

- a. Non-interference by other nations in internal affairs of Sri Lanka
- b. Power devolution to provincial councils established to govern the nation's nine provinces
- c. Universal adult franchise
- d. Control over the nation's Exclusive Economic Zone



Q) With respect to Narcotic Drugs and Psychotropic Substances Act, which of the following statements is/are correct?

1. Every offence punishable under this Act shall be cognizable.
2. It is mandatory for the judge to award the Death penalty for certain offences after a previous conviction.

Options:

- a. 1 only
- b. 2 only
- c. Both
- d. None

Answer: a

Explanation:

Under the Narcotic Drugs and Psychotropic Substances Act, every offence punishable under this Act shall be cognizable.

Cognizable offences are those where a police officer can arrest without a warrant.

Non-cognizable offence, as the name suggests, is the offence in which the police have no authority to apprehend a person for crime on its own, as explicit permission of the court is required.

The judge has an option to award the Death penalty for certain offences after a previous conviction. It is not mandatory.

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