

## **Assets Ordinance to amend 'Insolvency and Bankruptcy Code'**

### **Relevancy**

- GS Prelims, GS Mains paper II
- Polity, Ordinance
- Assets ordinance, IBC
- Insolvency and bankruptcy code
- Impact and initiatives

### **Recently**

- President gave assent to the Ordinance to amend the Insolvency and Bankruptcy Code (IBC).

### **Why this need?**

- Government wanted to tighten its insolvency rules.
- It notified an Ordinance raising the bar for loan defaulters from bidding to buy back their assets when they are auctioned as part of bankruptcy proceedings.
- It is aimed at strengthening the stressed-asset resolution process.

### **What is in the Ordinance?**

- The Ordinance states the norms on who cannot be a resolution applicant for companies undergoing corporate insolvency resolution process (CIRP) under the IBC.
- Those who have been banned from bidding for stressed assets include:
  - willful defaulters
  - un-discharged insolvent
  - persons convicted of an offence or disqualified as a director under the Company law
  - loan guarantor

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- persons banned from trading in securities market
- an account classified as NPA for more than one year and failing to pay overdue amount before submission of bids.
- These changes have been made through insertion of a new Section 29 A in the IBC.
- The government has not categorically banned existing promoters from bidding for their own companies undergoing resolution.
- But checks and balances have been built in to keep a high quality bar for companies that will be allowed to takeover companies under resolution.
- Another change in the law is that Government will impose a fine ranging from Rs 1 lakh to Rs 2 crore for violating rules.
- The amendments provide that the Committee of Creditors (CoC) ensure the viability and feasibility of the resolution plan before approving it.
- The CoC may approve a resolution plan by a vote of not less than 75 per cent of the voting share of financial creditors.

## **Impact of the Ordinance**

- These provisions will make the resolution process more transparent and much tougher at the same time.
- These amendments will save the Government in a situation where promoters of existing corporate debtors seek massive benefits in the guise of a resolution applicant in relation to a resolution plan.
- Those persons who have caused the insolvency or losses to the banking system cannot be beneficiary of the very asset that they have rendered non-performing at a reduced cost.
- The changes to the law also disallow sale of property to a person who is disqualified to be a resolution applicant.

## **Initiatives by the Government**

- The government had last year enacted the IBC.
- It also empowered the RBI to direct banks to initiate insolvency proceedings against large loan defaulters.

## TOPIC 2

# What is 'Gig Economy'?

### Relevancy

- GS Prelims, GS Mains paper III
- Gig economy
- Freelancing, Temporary work culture

### What is 'Gig Economy'?

- A gig economy is a work environment where organizations hire temporary workers or freelancers instead of full-time long-term employees.
- Companies provide temporary positions to workers and the latter reaches independent, short-term contracts with them.
- Workers are paid for each individual gig they do, such as food delivery or a car journey, instead of monthly salary/days wage/hourly wage.
- Even the terms - employer/employees cannot be used here as it indicates a rather long-term identity.
- Gig economy is remunerative and gives a wide range of choices but it also leads to casualisation of the labour.

### Gig economy around the world

- The trend is very strong in advanced economies like the US where there is large volume of cases where firms engages in short term contracts with workers.
- As many as 30 percent of workers across the United States and Europe are thought to make up the gig economy.
- With freelancing evolving into the Gig Economy, the concept is attracting a lot of people in India as well.
- Companies like Uber, Ola, Deliveroo have made a huge success with this concept.

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- Even software companies hire gig workers on a project basis.

## Reasons for emergence of 'Gig economy'

- **Comfort of working from home:**
  - Main reason is the emergence of the digital age.
  - Here, workforce is highly mobile and work can be done from anywhere, anytime.
  - This means that he need not reach at the location of the organization to do the job.
- **More choices:**
  - For the worker, the short-term engagements better fit to him to search for the best.
  - There is also a wide range of choices for the employment seeker as well as the job provider as proximity to work place does not matter here.
- **Uncertain business climates:**
  - As the nature of jobs is changing (eg. by automation, artificial intelligence), there is no need to hire permanent employees.
  - Uncertain business climate and declining profits in the context of disruptive innovations also tempted companies to go for short-term labors.
- **Experimentation:**
  - Gig economy is a reflection of experimentation too.

## Merits of 'Gig Economy'

- **For workers:**
- **Multi-tasking:**
  - A worker can work on freelancing as well as work full-time somewhere else for more earnings.
  - Hence it is profitable to the worker as he can hit two targets together and multitask.
- **Women friendly:**
  - It is very beneficial for women who work on this concept when they cannot continue their work or take a break from career due to marriage or child birth.

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- **Post-retirement employment:**
  - Retired people can also stay active after retirement as this will keep them engaged away from loneliness and depression.
  - They can earn as well on their own rather than depending on their children or pensions.
- **Flexibility of time and place:**
  - It offers flexibility and diversity to the workers, unlike the monotonous full-time jobs.
  - It offers flexibility when workers can work according to their convenience and schedule rather than routine like in full-time jobs.
  - The travel costs and energy to travel to the workplace is reduced.
- **For Employers:**
- **Maximum efficiency:**
  - The efficiency, efficacy and productivity of workers in gig economy are much more than that of a stable full-time job.
- **More Economical:**
  - When employment givers can't afford to hire full-time workers, they hire people for specific projects and pay them.
  - Start-up companies and entrepreneurs who do not have big financial space can grow only if they can leverage the services of contract employees or freelancers.
  - In a gig economy, businesses save resources in terms of benefits, office space and training.

## Demerits of 'Gig economy'

- **Low job-security:**
  - There is no certainty, stability or job security in gig economy.
  - Workers can be terminated anytime here in a gig economy.
  - Workers do not have a bargaining power in a gig economy.
- **Worker's welfare compromised:**
  - Workers do not get pensions, gratuity, perks etc that is available for full-time workers.
  - There is no basis on which banks and other financial service providers can extend lines of credit when steady income is not assured.
  - The social welfare objectives can be neglected if business and profitable avenues of freelancing are prioritized.

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- **Dependent on Internet:**
  - It is not accessible for people in many rural areas where internet connectivity and electricity still is a distant dream.
  - Hence they are deprived of this opportunity and this stems up inequality debate again.
- **Security issues:**
  - Confidentiality of documents etc. of the workplace is not guaranteed here.
  - When there is a situation where gig worker is potentially working for others as well, including competitors the employer is unsure of what he shares with the gig worker.
  - Security of documents can be compromised.
- **Low teamwork:**
  - In few work projects where teamwork is essential, gig economy becomes dysfunctional.

## TOPIC 3

### India's win at International Court of Justice

#### Relevancy

- GS Prelims, GS Mains paper II
- ICJ, Elections to ICJ
- Diplomatic win of India
- International relations

#### Recently

- Indian **Justice Dalveer Bhandari** [has been elected](#) to the International Court of Justice for a second term.
- This is termed as a major diplomatic success for India.

#### What is ICJ and its role?

- It is one of the six principal organs of the United Nations.
- It is the only one not located in New York (United States of America).
- The Court's role is to settle, in accordance with international law, legal disputes submitted to it by States and to give advisory opinions on legal questions referred to it by authorized United Nations organs and specialized agencies.
- Its judgments have binding force and are without appeal for the parties concerned.

#### Elections to ICJ

- The ICJ consists of 15 judges elected to nine-year terms by the United Nations General Assembly and the Security Council that vote simultaneously but separately.
- In order to be elected, a candidate must receive an absolute majority of the votes in both bodies (UNSC and UNGA).
- Five of the 15 judges of the ICJ are elected every three years.

## What happened at this year's elections?

- This year there were six candidates for five slots.
- The winning candidates required a majority in both the United Nations General Assembly and the Security Council in simultaneous voting through secret ballot.
- First four candidates were elected smoothly.
- But Justice Bhandari and Christopher Greenwood of the United Kingdom ended in a battle as the former won the UNGA and the latter the UNSC in multiple rounds of voting.
- The U.K. wanted to end the voting and move to a conference mechanism, which involves selecting a panel of three UNGA members and three UNSC members, who would then elect the judge.
- This mechanism has never been used before.
- India opposed the move and the U.K. could not gather adequate support for its demand in the UNSC.
- The U.K. then withdrew its candidate which made way for Justice Bhandari's re-election.

## What is the significance?

- [India and the U.K. had staked considerable diplomatic goodwill](#) in the election.
- The outcome is significant politically for both.
- **For U.K:**
  - For the first time, the U.K. will not have a judge on the ICJ.
  - It is also the first time that a permanent member of the UNSC has lost at the ICJ on a vote.
  - The loss at the ICJ is being said to be confirmation of the U.K.'s diminishing role in global affairs.
  - As America's inseparable partner U.K. had asserted its relevance in the post-War order even as its military and economic power eroded.
  - But now with the U.S. under President Donald Trump, it is less inclined to the "special relationship" with the U.K.
  - A post-Brexit U.K. will now have to make much more efforts in multilateral forums.



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- **For India:**
  - All five permanent members of the UNSC are fiercely locking arms to protect their collective interest of dominating the world body.
  - India's success was built primarily on the support of developing countries, among whom it has nurtured goodwill over the decades.
  - Japan also appeared to align with the P-5.
  - India's call for a more equitable world order has a better resonance among developing countries than the currently dominating countries.
  - India's support in the UNGA is expanding since ever.

## **Conclusion**

- India is to find a louder global voice in various International forums.
- It also needs to put more emphasis on ties with countries away from the high table like the U.S. and the U.K.

## TOPIC 4

# India's credit rating by S&P and Moody's

### Relevancy

- GS Prelims, GS Mains paper III
- Economy, Credit rating agencies
- S&P, Moody's
- India growth expectation's

### Recently

- Different credit rating agencies gave their updated ratings this month.
- Standard & Poor Global Ratings retained its BBB- rating for India's sovereign with a 'stable' outlook.
- Moody's Investor Services upgraded the country's credit rating for the first time in 13 years.

### What is meant by a 'BBB- Rating'?

- A bond is considered investment grade or IG if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.
- Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them.
- A BBB- rating denotes the lowest investment grade rating for bonds.

### India' ratings this year

- Ratings this year are constrained by India's low wealth levels, measured by GDP per capita.
- It is estimated at close to US\$2,000 in 2017, the lowest of all investment-grade sovereigns.
- **By S&P:**
  - India retained its BBB- rating by S&P this year.

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- India's GDP growth rate is among the fastest of all investment-grade sovereigns.
- It expects real GDP to average 7.6% over 2017-2020.
- **By Moody's:**
  - Moody's Investors Services had raised India's sovereign rating.
  - Reason being the country's high growth potential compared to its similarly rated peers.
  - Another reason is the economic and institutional reforms that have been undertaken or are works in progress.

## Concerns regarding S&P ratings

- The argument given by S&P that India has low per capita income which is acting as detractor from the sovereign rating upgrade is fallacious.
- It is noted as Indonesia which was upgraded seven times between 2002 and 2011 had a low per-capita GDP of \$1,066 in 2003 when its credit rating was upgraded.
- Yet India's GDP per-capita is now \$1,709.4.

## Future expectations from India

- This is a time wherein S&P would like to see the results of the reforms initiated before a ratings revision.
- While Moody has taken the Call based on the reforms initiated.
- There have been factors like demonetisation and the introduction of the Goods and Services Tax denting growth.
- But S&P expects India's economy to grow robustly from 2018-20 with foreign exchange reserves rising further.
- It cited India's low per capita income, the sizable fiscal deficit and high general government debt as factors that weigh down the country's credit profile.
- Though the ruling party continues to consolidate its power and recurring obstacles to the implementation of reform, strong growth is likely to continue.
- In the medium term the growth will be supported by the planned recapitalization of state-owned banks.
- It is likely to spur on new lending within the economy.

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- Public-sector-led infrastructure investment, in the road sector, will also stimulate economic activity.
- Private consumption will remain robust.
- The removal of barriers tied to the imposition of GST should also support GDP growth.

## Way forward

- S&P has estimated public sector banks will need a capital infusion of about \$30 billion for improvement ratio of on loans to viable stressed projects.
- It is also necessary to meet the rising capital requirements under the Basel III norms.
- Planned ramp-up in public-sector-led infrastructure investments and persistent fiscal deficits at the State level will have a bearing on India's large general government debt.
- Government revenue is expected to rise due to efforts to expand the tax base such as demonetisation and GST.

## Conclusion

- While the stable outlook suggests the agency doesn't expect any change in the rating soon.
- But there could be downward pressures if GDP growth disappoints.
- Or if net general government deficits rose significantly or if the political will to maintain India's reform agenda significantly lost momentum.