

PRAGNYA BHARATHI: Detailed News Analysis (DNA)

Topic : RBI Governor Sanjay Malhotra's Warning on Anti-Money Laundering Measures: Balancing Regulation and Investment

Relevance : GS Paper 3 Economy

Source : The Hindu

Context :

RBI Governor Sanjay Malhotra, speaking at the Private Sector Collaborative Forum (PSCF) 2025 organized by the Financial Action Task Force (FATF) in India, emphasized that while it is crucial to protect financial systems from **money laundering** and **terror financing**, policymakers must ensure that their regulations do not inadvertently harm legitimate investments and businesses. His remarks highlighted the need for **precise and targeted laws** that focus on illicit activities without creating excessive compliance burdens for financial institutions.

do not face unnecessary scrutiny or operational difficulties.

He also stressed the **need for continuous refinement** of risk assessment models, acknowledging that no risk-based approach is flawless. The goal should be to make financial regulations **robust yet adaptable**, preventing financial crimes while maintaining a favorable investment climate.

What is Money Laundering?

Money laundering is the process of **concealing the origins of illegally obtained money**, typically by passing it through a complex sequence of banking transactions or commercial activities to make it appear legitimate. Criminals use money laundering to disguise the profits from illegal activities like drug trafficking, corruption, fraud, and organized crime.

Malhotra advises caution in battling money laundering

RBI Governor urges policymakers to ensure that their measures to safeguard the financial system against terror financing and money laundering do not end up hurting legitimate investments

Lalatu Mishra
MUMBAI

While efforts should be made to make financial systems secure against money laundering and terror financing, policymakers should be mindful that their measures do not stifle legitimate investments and activities, Reserve Bank of India (RBI) Governor Sanjay Malhotra said on Wednesday.

He was speaking at the Private Sector Collaborative Forum (PSCF) 2025 of the Financial Action Task Force (FATF) which is being held for the first time in the country. "You would

Double-edged sword

Multiple laws cast high level of compliance burden on regulated financial service providers, says Malhotra



- Must have laws with surgical precision that target only the "illegitimate and illicit"
- Authorities must keep in mind its impact on persons and businesses
- Such measures must be considered only as a step toward reducing the compliance burden

appreciate that multiple laws and rules, each with their own level of granularity, cast a high level of burden of compliance on the regulated financial service providers. This is relevant in the context of anti-mo-

ney laundering (AML) - countering the financing of terrorism (CFT) too," he told the gathering.

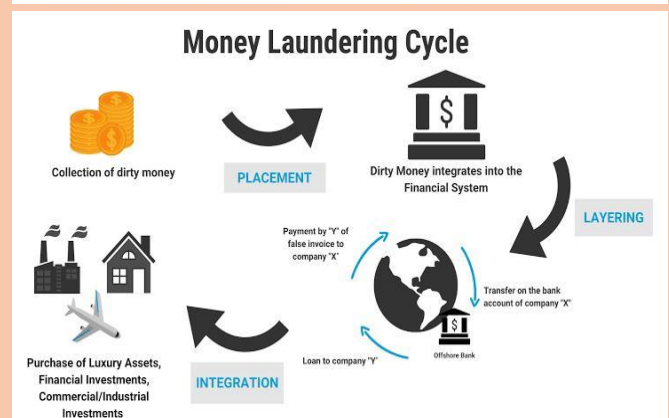
"Therefore, we need to have laws and regulations which, with surgical precision, target only the illegiti-

mate and illicit, rather than use them as blunt tools which unintentionally hurt even the honest," he said.

Mr. Malhotra said while implementing the regulations, authorities needed to keep in mind the impact on persons and businesses. "Risk-based approach is recommended in this regard. But let us keep in mind that this is only a step forward in reducing compliance burden," he said.

"Let us appreciate that it is not the ultimate solution, as any risk-based approach is not perfect; we need to continuously refine and improve our risk assessment models to make them robust," he added.

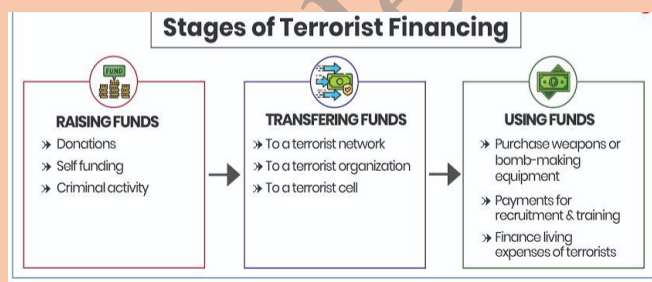
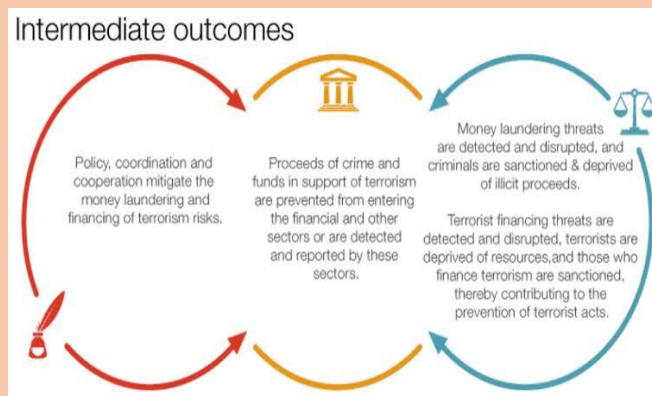
Malhotra pointed out that multiple regulatory frameworks often impose **strict compliance obligations** on financial institutions, which can become a **hindrance to genuine businesses**. He advocated for a **risk-based approach (RBA)**, which tailors regulations according to the level of risk posed by different entities and transactions, thereby ensuring that honest investors and businesses



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Stages of Money Laundering:

1. **Placement** – The illicit funds are introduced into the financial system (e.g., depositing large sums in banks, using cash-intensive businesses).
2. **Layering** – Multiple transactions are conducted to obscure the original source of money (e.g., moving funds across accounts, international transfers, fake invoicing).
3. **Integration** – The "cleaned" money is reintegrated into the economy through legitimate means (e.g., investments in real estate, businesses, or luxury assets).



What is Terror Financing?

Terrorist financing refers to **providing financial support to terrorist activities and organizations**, regardless of whether the funds originate from legal or illegal sources. Unlike money laundering, which aims to hide the illicit origin of funds, terrorist financing often involves **legitimately earned money being used for illegal activities**.

Methods of Terror Financing:

- **Hawala Transactions:** An informal and unregulated money transfer system widely used for illicit transactions.
- **Charitable Organizations:** Some NGOs and charities serve as a cover for terror funding.
- **Trade-Based Financing:** Fake trade invoices and over-invoicing schemes are used to move funds discreetly.
- **Cybercrime & Cryptocurrencies:** Terror groups increasingly use cryptocurrencies and online frauds to raise funds.

Key Laws and Regulations in India

- **Prevention of Money Laundering Act (PMLA), 2002**
 - The **primary legislation** against money laundering in India.
 - Requires financial institutions to maintain **Know Your Customer (KYC) and Suspicious Transaction Reports (STRs)**.
 - Allows authorities to **confiscate and attach properties** linked to money laundering.
 - **Punishment:** 3 to 7 years imprisonment and fines.
- **Unlawful Activities (Prevention) Act (UAPA), 1967**
 - Specifically targets **terror financing and unlawful organizations**.
 - Empowers authorities to **seize funds, assets, and properties** used for terror financing.
 - Provides for **designation of individuals and organizations** as terrorists.

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- **Foreign Exchange Management Act (FEMA), 1999**
 - Regulates cross-border financial transactions to **prevent illicit money flows**.
 - Used to track **hawala and illegal remittances**.
- **Financial Intelligence Unit-India (FIU-IND)**
 - An autonomous agency under the Ministry of Finance.
 - Collects and analyzes **financial transaction data** to identify suspicious activity.
 - Works in coordination with **banks, enforcement agencies, and international bodies**.
- **Reserve Bank of India (RBI) Regulations**
 - RBI requires banks and financial institutions to report high-value transactions.
 - Enforces stringent KYC norms and **anti-money laundering (AML) guidelines**.
 - **Monitors digital payments and cryptocurrencies** to prevent illicit financial activities.

- Enhanced **cybersecurity measures** to monitor digital and cryptocurrency transactions.

Purpose of Terror Financing

- **Operations:** Terror organizations require the funds to carry out terrorist attacks including underlying operations. This includes undertaking surveillance, making fake documents, acquiring weapons and explosive devices like IEDs.
- **Propaganda and Recruitment:** Terrorist organisations require funding to successfully recruit members. This includes running social media accounts, publishing magazines and newspapers, and purchasing internet domain names and administer websites.
- **Training:** All terrorist organisations seek funds to enable training of operatives and sympathisers in a number of areas including, weapons training, bomb-making, clandestine communication and ideology.
- **Salaries and Member Compensation:** Funding is required for the salaries of their members, as well as for the families of jailed or deceased members. Providing financial security cements commitment to the organisation's goals and ideology.
- **Social Services:** Many terrorist groups use their financial resources to establish or subsidise social institutions that provide health, social, and educational services. This is done to build support within local populations and aid recruitment efforts.

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Legal framework and government agencies related to AML/CFT in India



Prevention of Money Laundering Act (PMLA), 2002: To prevent money-laundering and to provide for confiscation of property involved in money-laundering matters.



Unlawful Activities (Prevention) Act (UAPA), 1967: To prevent unlawful activities and terrorist activities including terrorist financing.



Financial Intelligence Unit of India (FIU-IND): Set up in 2004 as the central national agency for receiving, processing, analysing and disseminating information relating to suspect financial transactions.



Directorate of Enforcement (ED): Responsible for investigation and prosecution of ML offences and confiscation of proceeds of crime under the PMLA across India.

India's Policy Implementation and Future Plans

India has been actively working on strengthening its AML-CFT (Anti-Money Laundering & Countering the Financing of Terrorism) regime through legislative, regulatory, and enforcement measures. Some of the key strategies include:

1. Strengthening Digital Surveillance and KYC Mechanisms

- Stricter KYC norms for banks, NBFCs, fintech firms, and payment wallets.
- Use of **Artificial Intelligence and Data Analytics** to track suspicious transactions.

2. Enhancing Inter-Agency Coordination

- RBI, SEBI, FIU-IND, and law enforcement agencies are increasing **information sharing** to detect financial crimes.
- **Closer collaboration with FATF and Interpol** to curb transnational money laundering and terror financing.

3. Crackdown on Shell Companies

- The government has **deregistered thousands of shell companies** used for laundering black money.

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- Strengthened compliance for corporate governance and financial disclosures.

4. International Cooperation

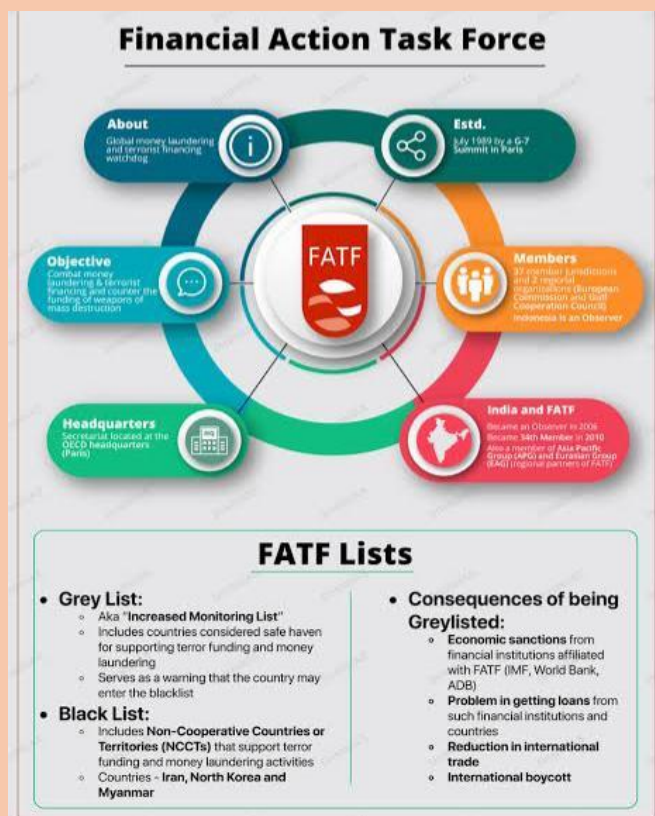
- India is an active member of the Financial Action Task Force (FATF).
- Works closely with G20, IMF, and World Bank to combat financial crimes globally.
- Agreements with foreign intelligence agencies for real-time tracking of illicit money movements.

Challenges:

1. **Hawala Networks & Informal Economy** – Hard to track transactions outside formal banking channels.
2. **Evolving Cybercrime and Cryptocurrency Risks** – New financial technologies pose regulatory challenges.
3. **Burden of Compliance on Businesses** – Excessive regulation may discourage foreign investment.

Future Prospects :

- **Risk-Based Approach (RBA)** as suggested by RBI Governor Malhotra to focus on **high-risk entities** rather than over-regulating all transactions.
- **Advanced AI-Based Fraud Detection tools** to enhance tracking of suspicious activities.
- **Reforming Trade-Based Money Laundering (TBML) Regulations** to curb illicit trade transactions.
- **Public Awareness & Capacity Building** to educate financial institutions and businesses on compliance measures.



5. Cryptocurrency and Financial Technology Regulations

- India is working on a **Crypto Regulation Bill** to prevent misuse of digital assets for illicit activities.
- **Fintech and online banking transactions** are under strict regulatory oversight to prevent fraud and money laundering.

RBI Governor Malhotra's statement reflects India's **commitment to a balanced approach**—strengthening financial security without stifling legitimate investments. While **strict AML-CFT measures** are essential to protect against financial crimes, it is equally crucial to ensure that regulatory frameworks remain **business-friendly and adaptable**. Through technological advancements, international cooperation, and risk-based strategies, India aims to **curb financial crimes effectively** while fostering a robust economic environment.

Prelims Practice Question:

With reference to Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations in India, consider the following statements:

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1. The Prevention of Money Laundering Act (PMLA), 2002 allows authorities to confiscate and attach properties linked to money laundering.
2. The Unlawful Activities (Prevention) Act (UAPA), 1967 is specifically designed to prevent terror financing and can designate individuals as terrorists.
3. The Financial Intelligence Unit-India (FIU-IND) functions under the Reserve Bank of India (RBI) and is responsible for monitoring suspicious financial transactions.
4. India is a permanent member of the Financial Action Task Force (FATF), which sets global standards for AML and CFT regulations.

Which of the statements given above are correct?

- (a) 1 and 2 only
- (b) 1, 2, and 3 only
- (c) 2, 3, and 4 only
- (d) 1, 2, 3, and 4

Answer:

Correct Option: (a) 1 and 2 only

Explanation:

1. **Correct** – The Prevention of Money Laundering Act (PMLA), 2002 empowers authorities to confiscate and attach properties linked to money laundering activities.
2. **Correct** – The Unlawful Activities (Prevention) Act (UAPA), 1967 specifically targets terror financing and allows the government to designate individuals and organizations as terrorists.
3. **Incorrect** – The Financial Intelligence Unit-India (FIU-IND) is an autonomous

body under the Ministry of Finance, not RBI. It collects and analyzes financial transaction data to combat money laundering and terror financing.

4. **Incorrect** – India is not a permanent member of FATF but is an active member and observer. FATF has only 39 full members, and India is part of the FATF and Asia/Pacific Group (APG) on Money Laundering.

Thus, the correct answer is (a) 1 and 2 only.

Mains Model Question:

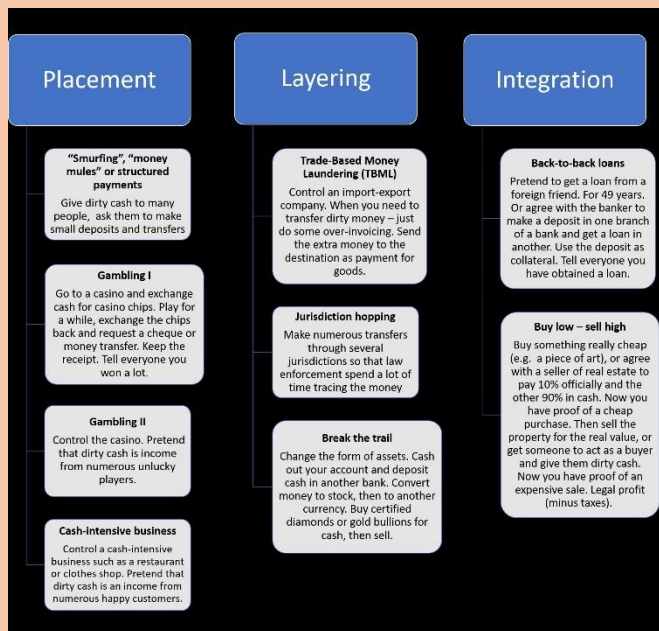
Q. The need for stringent Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) regulations is essential for financial security. However, excessive regulatory burdens can also hinder economic growth and legitimate investments. Critically analyze India's approach to balancing financial security with economic development.

India's regulatory framework for Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT) is crucial in safeguarding its financial system from illicit activities. The Prevention of Money Laundering Act (PMLA), 2002, and the Unlawful Activities (Prevention) Act (UAPA), 1967, serve as the primary legal instruments to curb financial crimes. These laws enable authorities to investigate, seize, and prosecute cases related to money laundering and terror financing. Additionally, regulatory institutions like the Financial Intelligence Unit-India (FIU-IND) and the Reserve Bank of India (RBI) oversee compliance with these laws.

While these measures enhance financial security, the RBI Governor recently cautioned against excessive regulations that could stifle legitimate economic activities. Overlapping compliance requirements, stringent KYC norms, and cumbersome reporting mechanisms often increase the burden on

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financial institutions, deterring foreign investment and business expansion. This is particularly relevant in emerging sectors like fintech and cryptocurrency, where excessive restrictions could hinder innovation.



To balance security with economic growth, India has been adopting a risk-based approach (RBA), focusing regulatory scrutiny on high-risk entities rather than imposing blanket restrictions. Advanced data analytics and AI-driven surveillance systems are also being integrated to enhance efficiency without overburdening businesses. However, challenges remain, including the prevalence of informal financial networks and the evolving nature of financial crimes.

India's approach must continue evolving through regulatory simplifications, enhanced inter-agency coordination, and international cooperation. A well-calibrated framework that strengthens financial security while fostering an investment-friendly environment is essential for sustainable economic growth.

Topic : Tejas LCA Mk1A

Relevance : GS Paper 3 Defence

Source : Indian Express

Context :

The Light Combat Aircraft (LCA) Tejas Mk1A is a significant advancement in India's indigenous fighter jet program. The recent announcement by GE Aerospace regarding the delivery of the first of 99 F404-IN20 engines to Hindustan Aeronautics Ltd. (HAL) marks a crucial step in the production of this aircraft. These engines will power the Mk1A variant, an improved version of the Tejas Mk1 currently in service with the Indian Air Force (IAF). Despite initial delays due to the shutdown of the production line, the supply chain for these engines has been stabilized, and deliveries are expected to ramp up.

GE Aerospace to deliver jet engines for Tejas LCA-Mk1A

IAF Chief Air Chief Marshal A. P. Singh had said that the force needs to add 35-40 fighter jets every year and that HAL has promised to produce 24 Tejas Mark-1A jets next year

Dinakar Peri
NEW DELHI

Engine manufacturer General Electric (GE) Aerospace on Wednesday announced the delivery of the first of 99 F404-IN20 engines to Hindustan Aeronautics Ltd. (HAL) for the Tejas Light Combat Aircraft Mark-1A fighter jet, marking the commencement of deliveries for the delayed programme.

Defence sources said that 12 engines are expected to be delivered this year.

The first engine to power the LCA-Mk1A moved out of the GE facility on Tuesday and is expected to arrive in India in April, official sources in the know said. At Aero India in February, HAL Chairman and Managing Director D.K. Sinil said that 12 jets would be ready this year.

Once the engine arrives, more tests will be done at the HAL facility, sources said adding that a firm date of delivery to the IAF cannot be given yet. "We are on track to deliver to the latest schedule we have agreed with HAL," GE Aerospace said in response to a query from *The Hindu*.

Speaking at an event in February, IAF chief Air



The first engine to power the LCA-Mk1A is expected to arrive in India in April, official sources say. REUTERS

At Aero India, Mr. Sinil had said GE's supply chain issues had been resolved and the IAF would receive 12 F-404 engines for the LCA-Mk1A this year. "The GE has stabilised its manufacturing process for the F404 engines. We have already made three aircraft, and by the end of this year, 11 will be manufactured. As the engines start coming in, our delivery to the IAF will start," he had stated.

He said three Tejas Mk1A are flying and by the end of this year, one jet from Nasik and 11 from Bengaluru will be ready while stressing that the existing order for 87 LCA-Mk1A would be completed in three-and-a-half years and the additional order for 97 jets by FY 2031-32 with production rate going to 24 jets per year.

Early this month, a high-level empowered committee headed by Defence Secretary Rajesh Kumar Singh constituted to recommend ways for Capability Enhancement of the IAF identified key thrust areas and made recommendations for implementation in the short, medium and long-term in the report presented to Defence Minister Rajnath Singh.

Chief Marshal A.P. Singh said the IAF needed to add 35-40 fighter jets every year to fill the shortage in numbers and that HAL had promised to produce 24 Tejas Mark-1A jets next year. Shawn Warren, general manager, combat & trainer engines, GE Aerospace, in a statement, attributed the delays to restarting the production line that was dormant for five years.

Challenging process

By 2016, GE Aerospace delivered 65 F404-IN20 engines for the 40 Tejas jets ordered earlier and with no additional engine orders on the horizon, the production line for F404-

IN20 was shut down, the statement said. However, when HAL ordered an additional 99 engines in 2021 for the Tejas Mk1A LCA, the team began the complex task of restarting the F404-IN20 production line, which had been dormant for five years, and re-engaging the engine's global supply chain, Mr. Warren said. "Restarting a jet engine production line is a challenging process. Restarting the F404-IN20 engine line during the COVID pandemic was even more challenging," he said adding that they are working closely with their suppliers to ramp up production on parts and materials for the F404-IN20.

HAL has committed to producing 24 Tejas Mk1A jets annually, with 12 scheduled for completion this year. Given that the IAF requires 35-40 new fighter jets annually to

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maintain operational readiness, the Tejas Mk1A is expected to play a crucial role in filling the void caused by the gradual phasing out of older aircraft.

India designing new stealth fighter
 India is beginning preliminary design work for a new fifth generation fighter jet, named the Advanced Medium Combat Aircraft (AMCA), with the first flight scheduled for 2024

AMCA: Multi-role aircraft designed to replace Mirage 2000 fighter and Jaguar strike aircraft in Indian Air Force service from 2030

Performance: Aircraft intended to fly supersonically without afterburning

Crew One

Fuselage: Faceted design and blended wing-body. Radar-absorbing paint and composites

Tail: Canted twin fins

Avionics: Include AESA* radar, infrared search and track system and situational awareness sensors

Engines: Twin turbofans with thrust vectoring. Likely choice is upgraded General Electric F414 (115 kN class)

Serpentine ducts: Block direct line of sight to engine fan blades, hiding them from incoming radar

Internal weapons bay: Maintains stealthy configuration – capacity for four missiles or bombs

Leading edge

Engines

Trailing edge

Underneath view

External fuel tank

Trapezoidal wing: Aligned edges help to improve stealth characteristics by deflecting radar waves in different directions

External weapons: Non-stealth payload carried below fuselage and on three hardpoints under each wing

Shape offers efficient supersonic flight, and better handling at subsonic speeds needed for ground-attack role

Specifications
 Maximum weight: **25 tonnes**
 Endurance: **Two hours**

THE NEW TEJAS
 The long-awaited indigenous fighter Tejas Mk II, which will be manufactured by HAL, will go into production by 2025-2026

17.5 ton
 Tejas Mark II will be the same weight as the Mirage, Jaguar and Grippen

ALSO IN THE WORKS
 Advanced medium combat aircraft (AMCA) given a go-ahead by IAF late last year

25-ton fighter will be powered by two engines capable of super-cruise speeds

Will have advanced tech to ensure minimum radar signatures

ADDITIONS THE NEW GEN

- Heavier stand-off weapon capacity
- State-of-the-art AESA radar
- Indigenously developed air-to-air missile Astra (with a range of 70km)

WHEN: Set to go into production after the Tejas LCA order of 123 aircraft to replace the IAF's ageing MiG-21s is completed

Specifications of Tejas LCA Mk1A

The Tejas Mk1A is a 4.5-generation multirole fighter with enhanced capabilities over its predecessor. Key specifications include:

- **Engine:** GE F404-IN20 turbofan, providing increased thrust and reliability.
- **Avionics:** Equipped with an Active Electronically Scanned Array (AESA) radar, enhancing target acquisition and tracking.
- **Weapons:** Capable of carrying beyond-visual-range (BVR) missiles, air-to-ground precision-guided munitions, and close-combat missiles.
- **Electronic Warfare (EW) Suite:** Features advanced self-protection jammers and countermeasures, improving survivability in combat.
- **Airframe and Design:** Improved maintainability, reduced weight, and enhanced endurance compared to the Mk1.
- **Networking:** Enhanced data-linking capabilities, integrating the aircraft seamlessly into network-centric warfare environments.

Indigenous Aircraft Programs in India

India has been steadily advancing its indigenous aircraft production capabilities to reduce dependence on foreign imports. Key indigenous aircraft include:

- **Tejas Mk1:** The initial production version currently in service.
- **Tejas Mk2:** An upcoming upgraded version with a more powerful GE F414 engine, greater payload capacity, and increased range.
- **Advanced Medium Combat Aircraft (AMCA):** India's fifth-generation stealth fighter currently under development.
- **Twin Engine Deck-Based Fighter (TEDBF):** Designed for aircraft carrier operations, intended to replace the MiG-29K.

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Apart from Tejas, India operates several light combat aircraft:

- **MiG-21 Bison:** One of the oldest fighter jets in the IAF, gradually being phased out.
- **SEPECAT Jaguar:** A strike aircraft with limited dogfighting capabilities.
- **HAL Marut:** India's first indigenously designed fighter, retired from service.

Strategic Importance of Tejas Mk1A

The Tejas Mk1A holds significant strategic value for the Indian defence sector. It enhances **self-reliance**, reducing dependence on foreign fighter jets such as the Mirage-2000, MiG-29, and Su-30MKI. The Mk1A's advanced avionics, AESA radar, and improved weapons systems make it competitive with global light combat aircraft like the JF-17 Thunder (Pakistan-China), F-16 (USA), and Gripen (Sweden).

Its indigenous production aligns with India's **Atmanirbhar Bharat initiative**, strengthening the domestic aerospace industry and reducing procurement costs. Additionally, Tejas is being marketed for export, with interest from countries such as **Argentina, Egypt, and Malaysia**.

By filling the gap in India's fighter fleet while advancing technological self-sufficiency, the Tejas Mk1A is poised to become a cornerstone of India's aerial combat capabilities in the coming years.

Prelims Practice Question:

With reference to the Tejas LCA Mk1A fighter aircraft, consider the following statements:

1. Tejas Mk1A is a 5th-generation stealth fighter aircraft developed by Hindustan Aeronautics Limited (HAL).
2. The Tejas Mk1A is powered by the GE F404-IN20 engine, which is imported from the United States.
3. The aircraft is equipped with an Active Electronically Scanned Array (AESA) radar and Beyond-Visual-Range (BVR) missile capability.
4. The Tejas Mk1A is being developed as a twin-engine fighter for the Indian Navy's aircraft carriers.

Tejas to add teeth to Indian air combat

Indigenously developed Light Combat Aircraft (LCA), Tejas has been formally inducted to Indian Air Force. The induction occurred almost 15 years after its first test flight and 33 years after the project was taken up

Project first conceived and launched in 1983	Maiden test flight took place on Jan 4, 2001	Designed for air-to-air, air-to-ground and air-to-sea combat roles	Intended to replace the phased out MiG-21 fighter jets
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Specifications (LCA AF MK2)

Crew	Length	Height	Wingspan	Max speed	Engine
One	13.7 m	4.4 m	8.2 m	1.6 mach	GE-F414-INS6

Smallest and lightest multi-role supersonic fighter aircraft of its class

Project executed by Aeronautical Development Agency (ADA) along with Hindustan Aeronautics Limited (HAL)

First advance Fly-by-wire (FBW) fighter aircraft designed, developed and manufactured in India

Inducted on July 1, 2016 into Squadron No. 45 of IAF, also called the "Flying Daggers"

KBK Infographics

TEJAS MK1	36 OF 40 AIRCRAFT DELIVERED BETWEEN 2013-2024
TEJAS MK1A	83 AIRCRAFT TO BE DELIVERED BETWEEN 2024-2029 (+97 MORE AWAITING ORDER CLEARANCE)
LCA MK2	120 AIRCRAFT TO BE DELIVERED STARTING 2026-2035
AMCA	120 AIRCRAFT TO BE DELIVERED STARTING 2036
TEDBF	TO BEGIN DELIVERIES STARTING 2038

SOURCE: ADA, FEB 2025

LIVEFISTDEFENCE.COM

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Which of the statements given above are correct?

- (a) 1 and 4 only
- (b) 2 and 3 only
- (c) 1, 2, and 3 only
- (d) 2, 3, and 4 only

Answer:

Correct Option: (b) 2 and 3 only

Explanation:

1. Incorrect - Tejas Mk1A is a 4.5-generation fighter, not a 5th-generation stealth aircraft. India's 5th-generation project is the Advanced Medium Combat Aircraft (AMCA).
2. Correct - The Tejas Mk1A is powered by the GE F404-IN20 engine, which is manufactured by General Electric (GE) Aerospace, USA.
3. Correct - The Mk1A variant features an AESA radar and Beyond-Visual-Range (BVR) missile capability, significantly improving its combat effectiveness.
4. Incorrect - The Tejas Mk1A is a single-engine fighter designed for the Indian Air Force. The Twin Engine Deck-Based Fighter (TEDBF) is being developed separately for the Indian Navy's aircraft carriers.

Thus, the correct answer is (b) 2 and 3 only.

Mains Model Question

Q. Discuss the significance of the Tejas LCA Mk1A for India's defense capabilities. How does it compare with other indigenous fighter aircraft, and what role does it play in strengthening the Indian Air Force?

The Tejas LCA Mk1A is a crucial addition to India's defense arsenal, representing a significant step toward self-reliance in fighter jet production. Developed by Hindustan Aeronautics Limited (HAL), it is an advanced variant of the Tejas Mk1 with enhanced avionics, improved radar, and superior combat capabilities. Equipped with an Active Electronically Scanned Array (AESA) radar, Beyond-Visual-Range (BVR) missile capability, and an advanced electronic warfare suite, the Mk1A significantly boosts the operational readiness of the Indian Air Force (IAF).

Compared to previous indigenous aircraft, such as the HAL HF-24 Marut, Tejas Mk1A stands out with its modern avionics, reduced radar cross-section, and improved weapons systems. Unlike the Mk1, which had limitations in avionics and payload capacity, the Mk1A offers mid-air refueling, enhanced survivability, and a reduced maintenance footprint. Its single-engine configuration makes it cost-effective and suitable for rapid production, addressing the IAF's urgent need for fighter squadrons.



With India facing depleting fighter strength due to the phasing out of MiG-21 aircraft, the Mk1A plays a pivotal role in bridging this gap

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while awaiting the induction of more advanced platforms like the AMCA and Rafale. Additionally, its successful deployment enhances India's defense exports, with potential buyers from Southeast Asia and the Middle East. The Tejas program strengthens India's defense manufacturing sector, reducing reliance on foreign imports and fostering indigenous technological advancements.

Thus, the Tejas Mk1A is not just an aircraft but a strategic asset that enhances India's defense preparedness, supports its Make in India initiative, and paves the way for future indigenous fighter programs, ultimately bolstering national security and technological self-sufficiency.

Topic : PAC Seeks Comprehensive Review of GST Framework

Relevance : GS Paper 3 Economy

Source : The Hindu

Context :

The Public Accounts Committee (PAC) has called for a comprehensive review of the Goods and Services Tax (GST) framework, urging the Finance Ministry to simplify tax compliance by eliminating unnecessary procedures. The committee has highlighted several key areas of concern and made crucial recommendations for improving the GST system.

Key Recommendations of the PAC on GST Reform

• Simplification of Compliance

- The PAC has stressed the need to streamline GST return filing by consolidating multiple forms and reducing the frequency of filing where possible.

- A tiered compliance approach has been suggested, where Micro, Small, and Medium Enterprises (MSMEs) face fewer regulatory burdens than large corporations.

Panel seeks comprehensive review of GST framework

PAC urges Finance Ministry to simplify GST regime by eliminating unnecessary procedures; it calls for a transparent refund mechanism, fairer penalty structures, use of AI for revenue projections

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Battling for a simplified goods and services tax (GST) regime, Parliament's Public Accounts Committee (PAC) has recommended that the Finance Ministry undertake a comprehensive review of the GST framework to identify and eliminate unnecessary procedures and requirements that complicate compliance.

This includes streamlining the return filing process by consolidating forms and reducing the frequency of filing where possible, the PAC said, in its 19th report that was presented to Parliament on Wednesday. It also pushed for a tiered compliance approach, where smaller businesses face fewer requirements and simplified processes compared to larger entities, thereby reducing the burden on smaller taxpayers.

The Ministry has been asked to improve the user friendliness of the GST portal

A smaller pie

The PAC has recommended the Finance Ministry to undertake a comprehensive review of the GST Framework to simplify compliance



The Ministry has been asked to improve the user friendliness of the GST portal

The committee has called for a revamped GST 2.0 after consultation with stakeholders

that includes clear timelines and regular updates to taxpayers

The PAC has asked the Finance Ministry to use data analytics and AI tools to get an accurate projection of the indirect tax revenue. The share of indirect taxes in total revenue receipts has declined from 38.76% in FY18 to 36.92% in FY20

receipts fell from 38.76% in 2017-18 to 36.92% in 2019-20, the PAC asked the Finance Ministry to undertake an accurate projection of the revenue to be collected with the help of data analytics and artificial intelligence tools.

The PAC has also recommended that the Ministry implement a more transparent refund processing system that includes clear timelines for processing claims and regular updates to taxpayers on the status of their refunds. "Establishing a dedicated grievance redressal mechanism for refund-related issues would also be beneficial..." it said.

The PAC has recommended that the Ministry implement a simplified GST compliance framework, especially designed for MSMEs, to fast-track and automate return filing and refund processing. This should include a reduction in the frequency of return filings and allow for a more straightforward online reporting process.

tal and ensure that it provides guidance and support to taxpayers at every step in the filing process.

The committee has called for a revamped GST 2.0 after consultation with stakeholders to address their concerns and to ensure the timely collection of taxes so that the declared objective of the GST regime is established.

The PAC has also highlighted the significant challenges faced by taxpayers, especially the punishment meted out for compliance

failures, with some honest taxpayers facing criminal penalties even in cases of unintentional errors.

Regarding the registration process, the committee argued that when the initial steps taken towards biometric-based Aadhaar authentication are "riddled with so many issues, the vision of GST leading to a simplified and unified taxation system, i.e., 'One Nation One Tax' may remain elusive".

Noting that the share of indirect taxes in total revenue

• Enhancing GST Portal Usability

- The committee urged the Finance Ministry to enhance the GST portal to make it more user-friendly.
- The portal should provide step-by-step guidance to taxpayers during filing, helping them avoid errors and penalties.

• Addressing Compliance-Related Penalties

- The PAC expressed concerns that honest taxpayers face severe penalties for minor mistakes in compliance.
- It has recommended a fairer penalty structure, distinguishing between intentional fraud and genuine errors in tax filing.

• Biometric-Based Aadhaar Authentication Issues

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- The PAC raised concerns about issues in Aadhaar-based GST registration, stating that problems in initial implementation could undermine the goal of “One Nation, One Tax”.
- The committee has asked the government to resolve these issues to ensure ease of registration for businesses.
- **Use of AI and Data Analytics for Revenue Projections**
 - The PAC pointed out that the share of indirect taxes in total revenue fell from 38.76% in 2017-18 to 36.92% in 2019-20.
 - It has recommended the use of Artificial Intelligence (AI) and data analytics to accurately predict GST revenue collections, ensuring efficient tax policy planning.

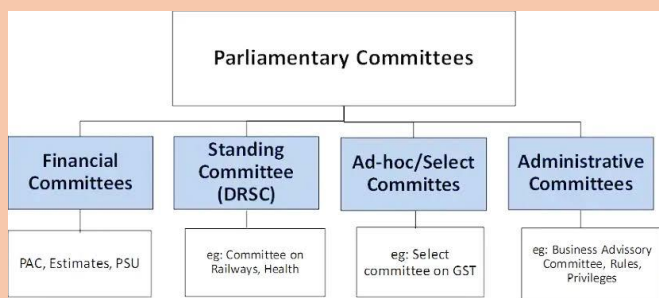
- The focus should be on making GST simpler, more efficient, and business-friendly.

What is PAC?

The Public Accounts Committee (PAC) is one of the three financial standing committees of the Indian Parliament (along with the Estimates Committee and Committee on Public Undertakings). It is responsible for examining government expenditures and ensuring that public funds are used effectively.

Composition of PAC

- The PAC consists of 22 members - 15 from the Lok Sabha and 7 from the Rajya Sabha.
- Members are elected every year by Parliament through proportional representation.
- The Chairperson of PAC is traditionally from the Opposition (not from the ruling party).



- **Transparent GST Refund Mechanism**
 - The PAC has called for a clear timeline for refund processing and a system for regular updates to taxpayers on refund status.
 - A dedicated grievance redressal mechanism should be established for taxpayers facing refund-related issues.
- **GST 2.0 and Stakeholder Consultation**
 - The committee has recommended a revamped GST system (GST 2.0) that incorporates feedback from stakeholders, businesses, and taxpayers.

What is the PAC?

The Public Accounts Committee or PAC scrutinises the monies spent by the government through its various ministries and departments voted by Parliament in the Budget and through supplementary grants. Its observations and recommendations are laid on the table of the two Houses. Government is mandated to respond to the PAC reports with an action taken report

Total

21

members

Its strength

15 from Lok Sabha
06 from Rajya Sabha

PAC has seven representatives from the Cong, four from BJP, two each from AIADMK and DMK, and one each from Shiv Sena, BJD, JD(U), SP, BSP and CPI(M)

What the report says

- ▶ Clean chit to prime minister Manmohan Singh
- ▶ Critical of PM's Office for going slow on a letter to telecom minister A Raja asking him to consult senior ministers before selling spectrum
- ▶ Criticises Chidambaram for advising PM to close the matter

What's next

- ▶ PAC chief MM Joshi wants to approve the report before panel's term ends on Saturday. But UPA members are expected to stall report and may insist on a vote. Stormy scenes expected
- ▶ The role of SP and BSP, which have a member each on the PAC, will be important

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Public Accounts Committee (PAC)	Estimates Committee (EC)	Committee on Public Undertakings (COPU)
It confirms that the expenditure is made by the designated authority for the designated purpose, checking misappropriation of funds.	It suggests administrative reforms to make public expenditure more prudent and efficient.	It extracts executive accountability through its power to examine the reports of the CAG on public undertakings.
It examines the public expenditure to bring out the cases of waste, loss, corruption, etc.	It suggests alternative policies to the executive, hence diluting the one-upmanship of the executive in policymaking.	It has the mandate to examine whether the affairs of public undertakings are being managed in accordance with sound business principles. It thus reduces the element of discretion in the affairs of public undertakings.
It has the power to question the prudence and wisdom of the executive and thus check inefficiency in the usage of public funds.		

Functions of the PAC

- Examining Government Accounts**
 - It reviews the report of the Comptroller and Auditor General (CAG) and ensures that government expenditures align with Parliament's approval.
- Scrutinizing Public Spending**
 - PAC examines whether government departments are using funds properly and whether there are instances of financial mismanagement or corruption.
- Recommending Corrective Actions**
 - PAC suggests reforms to improve the financial efficiency of government institutions.
- Ensuring Transparency and Accountability**
 - By reviewing expenses, PAC helps reduce corruption and ensures accountability in public financial management.

Significance of PAC in the GST Framework

Since GST is one of India's most significant tax reforms, the PAC's role in ensuring its smooth implementation is crucial. The committee's recommendations help in:

- Reducing compliance burdens** for businesses, especially MSMEs.

- Preventing revenue leakage** by improving tax collection systems.
- Ensuring transparency in refunds** and protecting businesses from undue harassment.
- Identifying flaws in tax administration** and suggesting reforms.
- Enhancing tax predictability** through AI-based revenue projections.

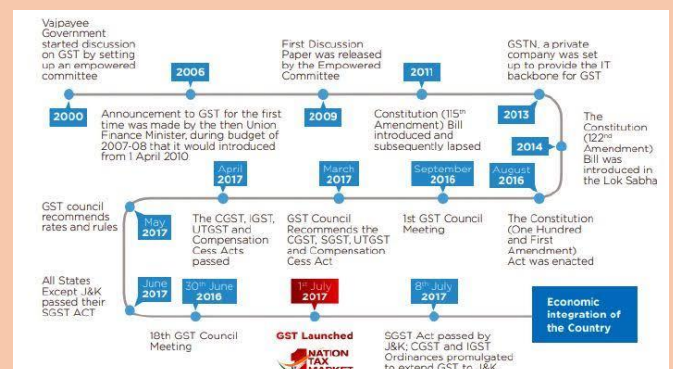
About GST:

The Goods and Services Tax (GST) is a comprehensive, indirect tax levied on the supply of goods and services across India. It replaced multiple indirect taxes such as:

- Excise Duty
- Service Tax
- Value Added Tax (VAT)
- Central Sales Tax (CST)

Objectives of GST

- Unify the tax system across India (One Nation, One Tax).
- Eliminate cascading effect (tax on tax).
- Increase tax compliance through a digital system.
- Boost economic growth by simplifying trade and investment.



GST is levied at three levels:

- Central GST (CGST)** – Collected by the Central Government.

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2. **State GST (SGST)** – Collected by the State Governments.
3. **Integrated GST (IGST)** – Collected by the Central Government for interstate transactions.

Despite its benefits, GST has faced **several challenges**:

1. **Complex compliance process** – Multiple return filings increase the burden on businesses.
2. **Frequent changes in tax rates** – Confusing for taxpayers.
3. **Issues with GST portal** – Technical glitches disrupt return filing and refunds.
4. **High penalties** – Even unintentional errors attract heavy fines.

Other PAC Stances and Reports

The PAC has played an active role in reviewing various financial matters, apart from GST:

1. **COVID-19 Fund Utilization Report (2022)** – The PAC examined how government funds were used for pandemic management.
2. **Rafale Deal Scrutiny** – It analyzed the financial aspects of the Rafale fighter jet procurement.
3. **NPAs and Banking Crisis (2019)** – The committee reviewed bad loans and suggested banking sector reforms.
4. **Coal Allocation Scandal** – It investigated irregularities in coal block allocations.

The Public Accounts Committee (PAC) has made crucial recommendations for overhauling the GST framework. Its focus on simplifying compliance, improving transparency, and using AI for revenue forecasting can help create a more efficient taxation system.

The committee's oversight role in financial matters is vital for ensuring public funds are

used effectively, making it one of the most important parliamentary bodies in India.

Prelims Practice Question:

Consider the following statements regarding the Public Accounts Committee (PAC) in India:

1. The PAC consists of members from both the Lok Sabha and Rajya Sabha.
2. The Chairperson of the PAC is always a member of the ruling party.
3. The PAC examines the report of the Comptroller and Auditor General (CAG) of India.
4. The recommendations of the PAC are binding on the government.

Which of the statements given above are correct?

- (a) 1 and 3 only
- (b) 2 and 4 only
- (c) 1, 2, and 3 only
- (d) 1, 3, and 4 only

Answer:

Correct Option: (a) 1 and 3 only

Explanation:

- **Statement 1 is correct:** The PAC consists of 22 members—15 from the Lok Sabha and 7 from the Rajya Sabha.
- **Statement 2 is incorrect:** The Chairperson of the PAC is traditionally from the Opposition, not the ruling party.
- **Statement 3 is correct:** The PAC examines the report of the Comptroller and Auditor General (CAG) to check government expenditures.
- **Statement 4 is incorrect:** The recommendations of the PAC are **not binding on the government**; they are only advisory in nature.

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Mains Model Question:

Q. The Public Accounts Committee (PAC) has recently recommended a comprehensive review of the Goods and Services Tax (GST) framework to simplify compliance and enhance transparency. Discuss the role of the PAC in financial oversight and evaluate its significance in ensuring an efficient taxation system in India.

The Public Accounts Committee (PAC) plays a crucial role in ensuring financial accountability in India. As a parliamentary committee, it examines government expenditures to ensure that funds are utilized efficiently and in accordance with legislative approval. One of its primary functions is to scrutinize the report of the Comptroller and Auditor General (CAG) and highlight financial irregularities or inefficiencies in public spending.

PUBLIC ACCOUNTS COMMITTEE

- Established in **1921**, PAC examines the government's expenditure and ensures accountability in public spending.
- It comprises **22 members**, 15 from the Lok Sabha and 7 from Rajya Sabha.
- It is always chaired by a member of the opposition.
- The PAC **reviews audit reports from the CAG** and recommends corrective measures to improve financial governance.

Recently, the PAC has recommended a thorough review of the GST framework, recognizing the challenges businesses face in compliance, tax refunds, and penalty structures. It has suggested measures such as streamlining return filings, adopting a tiered compliance system for MSMEs, and leveraging artificial intelligence for accurate revenue projections. Additionally, it has advocated for a more transparent refund mechanism and an improved GST portal to enhance user experience. These recommendations aim to reduce compliance burdens, increase tax predictability, and ensure that the objectives of the GST regime—such as ease of doing business and revenue efficiency—are effectively met.

The significance of the PAC in taxation reform lies in its ability to hold the executive accountable. By identifying issues such as unfair penalties, technical glitches, and policy inefficiencies, the PAC ensures that indirect taxation remains both business-friendly and revenue-efficient. However, its recommendations are not binding, which limits its impact. Despite this, the PAC serves as a vital institution for strengthening governance, improving financial transparency, and ensuring that tax reforms align with the needs of businesses and the broader economy.

Topic : Banking Regulation Bill and India's Progress on Non-Performing Assets (NPAs)

Relevance : GS Paper 3 Economy : Money and Banking

Source : The Hindu

Context :

The Rajya Sabha recently passed the **Banking Regulation Bill**, which amends several provisions across five banking-related Acts. **Finance Minister Nirmala Sitharaman** highlighted the Bill's role in enhancing governance standards, improving depositor protection, ensuring better audit quality in public sector banks, and simplifying nomination rules. One key change is the

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allowance for up to four nominees in bank accounts.

Non-performing assets of banks at multi-year low, profits up: Finance Minister

The Hindu Bureau
NEW DELHI

The Rajya Sabha on Wednesday passed the Banking Regulation Bill that amends several provisions of some five Acts in the sector.

Terming the Bill unique, Union Finance Minister Nirmala Sitharaman said in her reply that 19 Sections of these Acts would be impacted by the amendments.

Ms. Sitharaman said in the statement of objects and reasons of the Bill that the new legislation would improve governance standards, provide consistency in reporting by banks to the Reserve Bank of India, ensure better protection for depositors and investors, improve audit quality in public sector banks, bring customer convenience in respect of nomi-



Nirmala Sitharaman

nations and provide for increase in the tenure of the directors in cooperative banks. The legislation allows bank account holders to have up to four nominees.

"The gross non-performing assets of the scheduled commercial banks were at a multi-year low of 2.5% in September 2024 as a result of these efforts," Ms. Sitharaman said, adding that public sector banks had recorded the highest ever net profit of ₹1.41 lakh crore in the previous financial year.

"The government is committed to taking stringent actions against wilful defaulters," she said, replying to the criticism by the Opposition that the Centre allowed such defaulters to escape to foreign countries.

On the demand for debt waiver, she said the Narendra Modi government did not believe in deceiving farmers, and the Kisan Samman Nidhi helped the farmers. She said 68 lakh street vendors had been supported by the PM Svanidhi loan scheme. About 50 crore loans had been sanctioned under the PM Mudra scheme. Ms. Sitharaman said 98% of the 6,01,328 villages in the country had a bank or a post office with banking facilities. She said in the 10 years, 3.9 lakh posts in public sector banks were filled.

During her speech, Sitharaman emphasized a significant reduction in gross non-performing assets (NPAs) to 2.5% as of September 2024, the lowest in several years. She also pointed out that public sector banks (PSBs) recorded an all-time high net profit of ₹1.41 lakh crore in the last financial year. Addressing opposition concerns, she reaffirmed the government's strict stance against wilful defaulters, ensuring that legal actions are being taken to prevent financial fraud.

The government has also been expanding financial inclusion efforts, including the PM SVANidhi scheme, which provided financial aid to 68 lakh street vendors, and the PM Mudra scheme, which sanctioned 50 crore loans to micro-enterprises. Additionally, 98% of Indian villages now have access to banking facilities, improving financial accessibility.

What are NPAs?

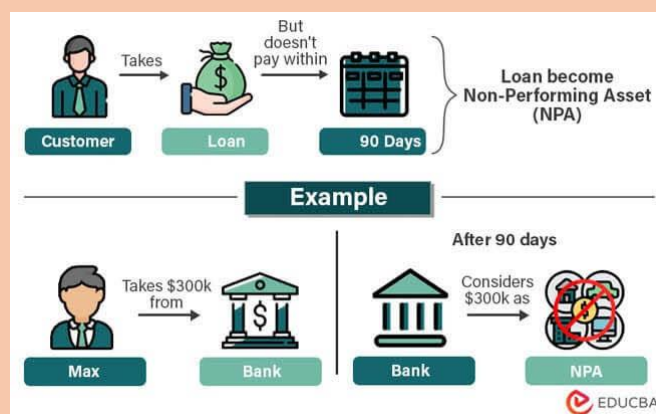
A Non-Performing Asset (NPA) is a loan or advance where the borrower has defaulted on repayment for more than 90 days. Banks classify loans as NPAs when they stop generating income through interest payments.

Types of NPAs:

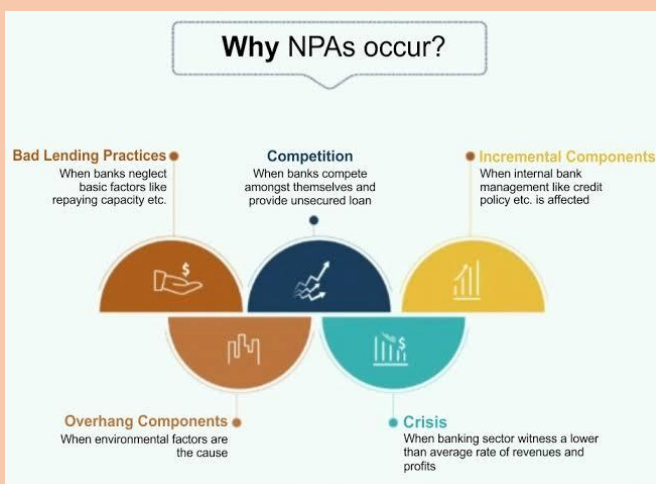
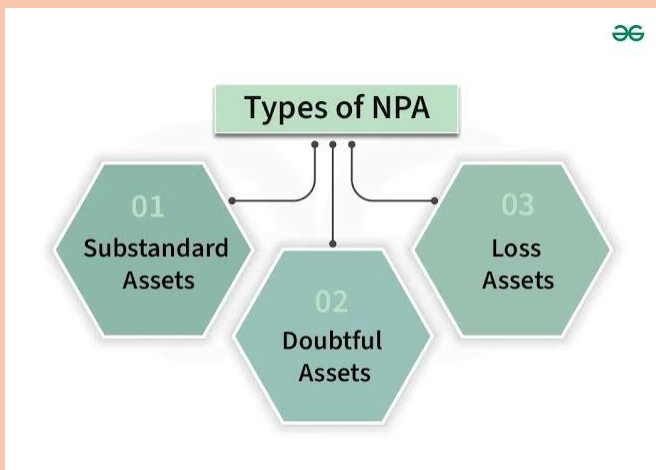
1. **Sub-Standard Assets** - Loans overdue for 90 days to 12 months.
2. **Doubtful Assets** - Loans overdue for more than 12 months.
3. **Loss Assets** - Loans identified as irrecoverable by the bank or auditors.

Causes of Rising NPAs in India:

- **Economic Slowdown** - Reduced industrial growth leads to defaults.
- **Corporate Mismanagement** - Businesses taking excessive loans and failing.
- **Wilful Defaults** - Large borrowers deliberately avoiding repayment.
- **Banking Frauds** - Misuse of banking systems, as seen in cases like Nirav Modi (PNB scam).
- **Lack of Due Diligence** - Poor risk assessment by banks.



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Government Initiatives to Tackle NPAs

1. Insolvency and Bankruptcy Code (IBC), 2016

- Aimed at resolving corporate insolvency within **180-270 days**.
- Gives creditors the power to take control of defaulting companies.
- Led to faster NPA resolution and improved recovery rates.

2. Asset Quality Review (AQR), 2015

- Introduced by RBI to clean up bank balance sheets.
- Forced banks to classify stressed loans as NPAs transparently.

3. Recapitalization of Banks

- The government infused **₹2.11 lakh crore** into PSBs (2017-19) to strengthen their financial position.

4. Bad Bank (National Asset Reconstruction Company Limited - NARCL)

- Established to take over and manage **large corporate NPAs**, allowing banks to focus on lending.

5. Prompt Corrective Action (PCA) Framework

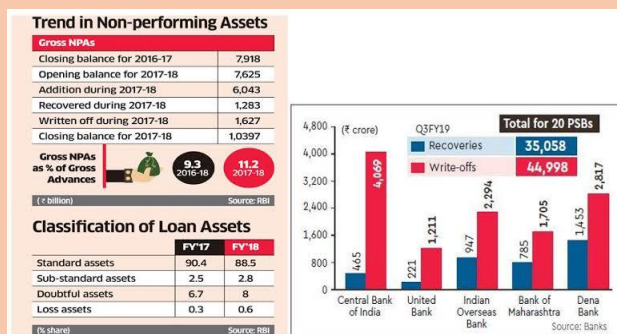
- RBI introduced PCA to **restrict weak banks from risky lending** and force them to improve their finances.

6. Public Sector Banks (PSB) Mergers

- The government merged several PSBs to create stronger, more stable banks.
- Example: SBI merged with its associate banks; 10 PSBs merged into 4 in 2020.

7. Fugitive Economic Offenders Act, 2018

- Enacted to seize assets of defaulters who flee India (e.g., Vijay Mallya, Nirav Modi).



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8. Credit Risk Management and AI-Based Monitoring

- RBI directed banks to use AI and big data for fraud detection and better risk assessment.

Impact of These Initiatives

- Reduction in NPAs** – Gross NPAs have fallen to 2.5% (Sept 2024) from over 11% in 2018.
- Improved Bank Profits** – Public Sector Banks reported record profits of ₹1.41 lakh crore.
- Faster NPA Resolution** – IBC has improved loan recovery rates significantly.
- Stronger Banking System** – Mergers and recapitalization have strengthened PSBs.

India's efforts to tackle NPAs have yielded positive results, with record-low NPA levels and higher bank profitability. Reforms such as IBC, NARCL, and PCA have played a crucial role in stabilizing the banking system. The Banking Regulation Bill is another step toward ensuring better governance, transparency, and depositor protection, strengthening India's financial sector for long-term growth.

Prelims Practice Question:

With reference to Non-Performing Assets (NPAs) in India, consider the following statements:

- A loan is classified as a Non-Performing Asset (NPA) if it remains overdue for more than 60 days.
- The Insolvency and Bankruptcy Code (IBC), 2016, was introduced to improve the resolution process of NPAs.
- The National Asset Reconstruction Company Limited (NARCL) was created to take over and manage stressed assets from banks.

- Under the Prompt Corrective Action (PCA) framework, the Reserve Bank of India (RBI) imposes restrictions on banks with weak financial indicators.

Which of the statements given above are correct?

- 1 and 2 only
- 2, 3, and 4 only
- 1, 3, and 4 only
- 1, 2, 3, and 4

Answer:

Correct Option: (b) 2, 3, and 4 only

Explanation:

- Statement 1 is incorrect:** A loan is classified as an NPA if it remains overdue for more than 90 days, not 60 days.
- Statement 2 is correct:** The Insolvency and Bankruptcy Code (IBC), 2016, was introduced to speed up NPA resolution and corporate insolvency.
- Statement 3 is correct:** The National Asset Reconstruction Company Limited (NARCL), or "Bad Bank," was set up to acquire and manage stressed assets from banks.
- Statement 4 is correct:** Under the Prompt Corrective Action (PCA) framework, the RBI imposes restrictions on banks with weak financials to prevent further deterioration.

Mains Model Question:

Q. The problem of Non-Performing Assets (NPAs) has been a major challenge for the Indian banking sector. Discuss the key reasons for the rise of NPAs and evaluate the government's initiatives to resolve this issue.

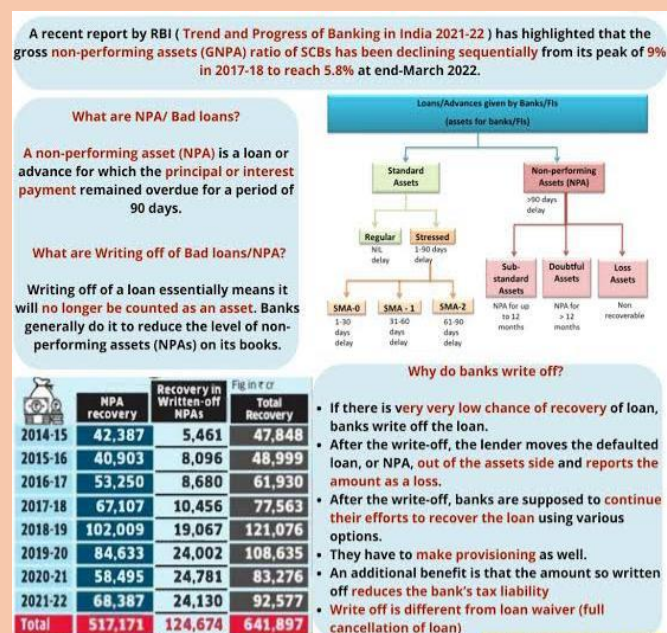
Non-Performing Assets (NPAs) refer to loans where borrowers fail to make payments for

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more than 90 days. High NPAs affect bank profitability, reduce credit availability, and weaken the overall financial system. Over the past decade, India has faced a severe NPA crisis due to multiple factors, including economic slowdowns, corporate mismanagement, and the reckless expansion of credit by banks. Many large infrastructure projects suffered from delays and cost overruns, leading to defaults. Wilful defaulters and banking frauds, such as the Nirav Modi and Vijay Mallya cases, further contributed to rising bad loans. Additionally, weak risk assessment by banks and political interference in loan approvals aggravated the problem.

To tackle this crisis, the Indian government introduced several measures. The **Insolvency and Bankruptcy Code (IBC), 2016** has significantly improved loan recovery by providing a structured resolution mechanism. The creation of the **National Asset Reconstruction Company Limited (NARCL)**, or Bad Bank, aims to take over stressed assets, allowing banks to focus on fresh lending. The **Prompt Corrective Action (PCA) framework** of the RBI imposes restrictions on weak banks, ensuring financial discipline. Mergers of public sector banks and capital infusion have strengthened their balance sheets, while the Fugitive Economic Offenders Act has enabled the seizure of assets of defaulters who flee abroad.

As a result of these reforms, gross NPAs have reduced to 2.5% as of September 2024, the lowest in years, and public sector banks have recorded record profits. While challenges remain, India's approach to tackling NPAs has improved financial stability and strengthened the banking sector, ensuring sustainable economic growth.



Topic : Anti-Defection Law

Relevance : GS Paper 2 Polity and Governance

Source : The Hindu

Context :

The Supreme Court is currently considering whether it can impose a time frame for **Speakers of Legislative Assemblies** to decide on disqualification petitions under the **Tenth Schedule (Anti-Defection Law)** of the Indian Constitution. The issue arose from a petition filed by **Bharat Rashtra Samithi (BRS)** leaders in Telangana, demanding action against **10 MLAs who defected to the ruling Congress party**.

Traditionally, courts have urged Speakers to decide defection cases within a "reasonable time" but have not specified a deadline. The concern is that Speakers, who act as **quasi-judicial authorities**, often delay decisions due to **political bias**, allowing defecting legislators to serve their full term. The Supreme Court is now debating whether it can direct Speakers to resolve such petitions within a fixed period to uphold the spirit of the **Tenth Schedule** and **prevent political instability**.

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SC considers question of timeline for Speakers to decide on defections

Krishnadas Rajagopal
NEW DELHI

The Supreme Court on Tuesday asked if constitutional courts cannot direct Speakers, who act as quasi-judicial tribunals under the anti-defection law, to decide disqualification petitions filed with them under the Tenth Schedule (anti-defection law) of the Constitution within a specified period.

A Bench headed by Justice B.R. Gavai is hearing petitions filed by Bharat Rashtira Samithi leaders seeking timely action by the Telangana Assembly Speaker on disqualification proceedings pending against 10 MLAs who shifted allegiance to the ruling Congress in the State.

Until now, the apex court had only urged Speakers to decide anti-defection pleas within a "reasonable time". The court had not specified what the



"reasonable" time ought to be in due regard to the Constitutional office of the Speaker.

But Justice Gavai on Tuesday said Constitutional courts were after all the "custodians of the Constitution".

The court considered the question "whether a Constitutional court was so powerless that it cannot direct a Constitutional authority like the Speaker to perform his mandate under the Constitution".

Senior advocate C.A. Sundaram, for the petition-

ers, said the response would necessarily be a 'yes'. The senior lawyer hinted at political partisanship which guided Speakers while noting that in the U.K. the Speaker of the House was the last position held before abandoning active politics.

"We have the best and most vibrant democracy here," Justice A.G. Masih commented.

'Vibrant experience'
Justice Gavai reacted with a smile, saying "the experience in Maharashtra in the last five years has been really vibrant".

Mr. Sundaram said the usual ploy was to keep disqualification petitions pending till the end of the tenure of the House.

"When the law and the Rules are silent about the time [to decide petitions under the anti-defection law], does it give Speakers, acting as quasi-judicial tri-

bunals, an absolute largesse to take whatever time they want or would the Constitutional court have the power to ensure that the petitions are decided within a time which is in tune and in the spirit of the Tenth Schedule of the Constitution," Mr. Sundaram framed the question in the case.

He said since Speakers function as a tribunal, the courts definitely would have the power of judicial review over their actions.

"The courts, of course, cannot pass impeding orders which stop the Speaker from exercising his powers, but they can direct the Speaker to exercise his Constitutional authority," Mr. Sundaram argued.

Senior advocate Dama Seshadri Naidu, also appearing on the petitioner side, urged the court to fix four weeks as a reasonable time for Speakers to decide disqualification petitions.

defecting members ensured they had two-thirds strength to escape disqualification.

- 3. Decision-Making Authority:** The Speaker of the House decides on disqualification petitions, making them the final authority. However, their decision is subject to judicial review.

Major Supreme Court Judgments on Anti-Defection Law

1. Kihoto Hollohan v. Zachillhu (1992)

- The Supreme Court upheld the validity of the Anti-Defection Law but allowed for **judicial review** of the Speaker's decision.
- It ruled that the Speaker acts as a **tribunal**, meaning their decisions can be challenged in the High Court or Supreme Court.

Understanding the Anti-Defection Law

The Anti-Defection Law was introduced through the Tenth Schedule of the Constitution via the 52nd Amendment Act of 1985. Its main objective is to prevent political instability caused by elected representatives switching parties for personal gain.

Key Provisions of the Law:

- 1. Disqualification of Members:** A legislator can be disqualified if:
 - They voluntarily give up membership of their political party.
 - They vote or abstain from voting against their party's directive without prior permission.
 - In case of independent MLAs/MPs, they join a political party after election.
 - In case of nominated members, they join a party after six months from being nominated.
- 2. Exception for Mergers:** If two-thirds of a party's legislators merge with another party, the law does not apply. This provision has been misused, as seen in Maharashtra and Goa, where

Anti-Defection Law

The anti-defection law came into being with the **inclusion of the Tenth Schedule in the Constitution in 1985, through the 52nd Amendment Act**

According to the law, if a member of Parliament or state legislature **gives up his membership of a political party or votes or abstains from a vote contrary to the directions of his party, he can be disqualified**

The 1985 Act allowed for one-third or more of the **elected members of a party to**

merge with another party without being disqualified

Since an amendment in 2003, the **minimum number required for a merger is two-thirds of the elected members of a party**

The law has been criticised for impinging on the **rights of elected representatives to take a position different from their party's**

The law has not been very **effective in curbing defections**

2. Rajendra Singh Rana v. Swami Prasad Maurya (2007)

- The SC held that if a Speaker delays disqualification decisions **unreasonably, courts can intervene.**
- The ruling reinforced that the **Speaker's role is judicial, not discretionary.**

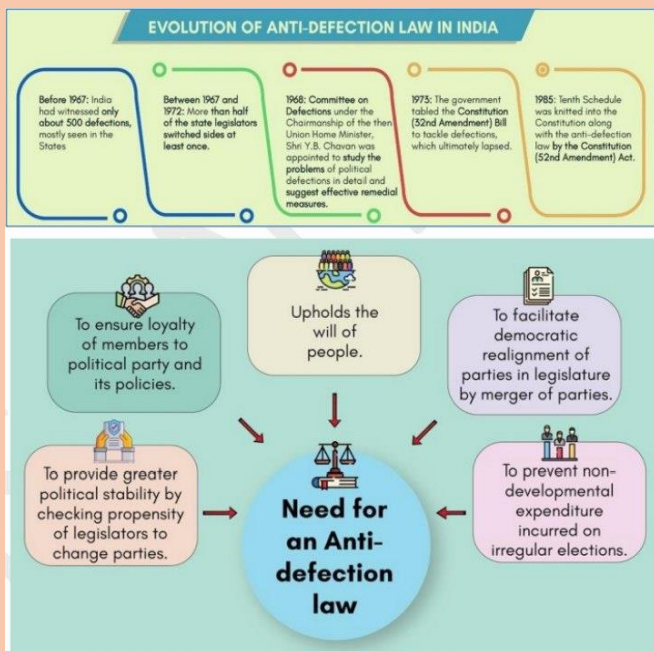
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3. Manipur MLA Disqualification Case (2020)

- The Supreme Court directed **Manipur Speaker to decide a defection case within four weeks.**
- It also recommended that Parliament should consider **setting a fixed timeline** for Speakers to decide such cases.

often favor the government, raising concerns about impartiality.

3. **Frequent Misuse of Loopholes:** Politicians bypass the law using **mass defections** (two-thirds provision) to evade disqualification.
4. **Need for a Time Limit:** The absence of a fixed timeline allows indefinite delays, diluting the purpose of the law.



Possible Reforms:

- **Fixed Timeframe:** Courts or Parliament should mandate a **strict time limit (e.g., four weeks)** for Speakers to decide.
- **Independent Tribunal:** Instead of the Speaker, an independent **Election Commission or judicial body** should handle defection cases.
- **Amendment to Tenth Schedule:** The two-thirds **merger rule should be revised** to prevent mass defections.

The current case in the Supreme Court could **set a precedent for fixing a time frame** for Speakers, ensuring faster resolution of defection cases and strengthening India's democratic framework.

4. Maharashtra Political Crisis Case (2023-24)

- The **Eknath Shinde vs Uddhav Thackeray** case saw defection of a large faction within Shiv Sena.
- The SC **criticized the Speaker's delay** in deciding disqualification pleas and reaffirmed the need for timely action.

Impact on Indian Legislature and Need for Reform

1. **Political Instability:** Delays in disqualification allow defectors to **retain power** and influence governance, weakening party discipline.
2. **Speaker's Bias:** Since the **Speaker belongs to the ruling party**, decisions

Prelims Practice Question:

With reference to the Anti-Defection Law in India, consider the following statements:

1. The Anti-Defection Law was introduced by the 42nd Amendment Act of the Constitution.
2. The Speaker of the House has the sole authority to decide on disqualification under the Tenth Schedule, and their decision is not subject to judicial review.
3. A legislator can be disqualified under the Anti-Defection Law if they voluntarily give up the membership of their party or vote against the party's directive without permission.

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4. The law provides an exemption if at least two-thirds of the members of a political party decide to merge with another party.

Which of the statements given above are correct?

- (a) 1 and 2 only
(b) 3 and 4 only
(c) 2 and 4 only
(d) 1, 3, and 4 only

Answer:

Correct Option: (b) 3 and 4 only

Explanation:

- Statement 1 is incorrect: The Anti-Defection Law was introduced through the 52nd Amendment Act, 1985, not the 42nd Amendment.
- Statement 2 is incorrect: While the Speaker decides on disqualification, their decision is subject to judicial review, as established in *Kihoto Hollohan v. Zachillhu* (1992).
- Statement 3 is correct: A legislator can be disqualified if they voluntarily give up party membership or vote against the party without prior permission.
- Statement 4 is correct: The law allows an exemption if two-thirds of a party's legislators merge with another party, preventing their disqualification.

Mains Model Question:

Q. The Anti-Defection Law was introduced to ensure political stability and prevent opportunistic defections. However, delays in disqualification proceedings and misuse of provisions have weakened its effectiveness. Discuss the challenges associated with the law and suggest reforms to strengthen its implementation.

The **Anti-Defection Law**, introduced through the **Tenth Schedule via the 52nd Amendment Act, 1985**, was aimed at preventing political instability caused by frequent defections. However, despite its intent, its implementation has faced significant challenges, reducing its effectiveness in maintaining party discipline.

One of the major issues is the role of the **Speaker as the deciding authority on disqualification petitions**. Since the Speaker is often affiliated with the ruling party, decisions tend to be delayed or influenced by political considerations. This allows defectors to continue in office, sometimes even completing their full term before a verdict is given. The recent political crises in Maharashtra and Telangana highlight how delays in disqualification proceedings can alter the balance of power in legislatures.

The anti-defection law — political facts, legal fiction

The crisis in Maharashtra and even earlier instances are grim reminders of what the Tenth Schedule can and cannot do.



MAYURIKA GUPTA & RITWIKI SHARMA

In the din of India's electoral politics, floor crossing by legislators rarely goes out of public discourse. The practice of legislators from changing political parties during their term continues unabated in Indian legislatures despite the Tenth Schedule having been inserted into the constitution in 1985. Commonly known as the 'anti-defection law', it was meant to arrest the practice of legislators from changing political affiliations during their term in office. The political crisis in Maharashtra, and many others before it, are grim reminders of what the Tenth Schedule can and cannot do.

Law on defections, 'mergers' Instances of floor crossing have long gone unchecked and unpoliced. In part, this can be attributed to the exemption given to mergers between political parties which facilitates bulk defections. In 2010, MLAs in the Goa Legislative Assembly from the Indian National Congress (INC) and the Maharashtra Nationalist Party (MNP), crossed over to the Bharatiya Janata Party (BJP). The Speaker of the Assembly as well as the Goa Bench of the Bombay High Court dismissed the pleas seeking disqualification of these MLAs. Both these authorities' held that be-

cause the MLAs formed two-thirds of their respective legislature parties, disqualification under the Tenth Schedule was not possible. In other words, there was a 'deemed merger' of the INC and the MNP with the BJP.

The second paragraph of the Tenth Schedule allows for disqualification of an elected member of a House if such member belonging to any political party has voluntarily given up membership of their party, or if they vote in the House against such party's whip. Paragraph 4 creates an exception for mergers between political parties by introducing three crucial concepts — that of the 'original political party', the 'legislature party', and 'deemed merger'. A 'legislature party' means the group consisting of all elected members of a House for the time being belonging to one political party, whereas an 'original political party' means the political party to which a member belongs (this can refer to the party generally, outside of the House). Interestingly, Paragraph 4 does not clarify whether the original political party refers to the party at the national level or the regional level, despite the fact that that is how the Election Commission of India recognises political parties.

How does Paragraph 4 then approach mergers? Paragraph 4 is spread across two sub-paragraphs, a constant reading of which suggests that a merger can take place only when an original party merges with another political party, and at least two-thirds of the members of the legislature party have agreed to this merger. It is only when these two condi-



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tions are satisfied that a group of elected members can claim exemption from disqualification on grounds of merger.

The reality Paragraph 4, however, is drafted in such a convoluted way that it renders itself open to multiple interpretations. The second sub-paragraph of Paragraph 4 says that a party shall be 'deemed' to have merged with another party if, and only if, not less than two-thirds of the members of the legislature party concerned have agreed to such merger. Given that in most cases there is no factual merger of original political parties at the national (or even regional) level, Paragraph 4 seems to be creating a 'legal fiction' so as to indicate that a merger of two-third members of a legislature party can be deemed to be a merger of political parties, even if there is no actual merger of the original political party with another party. At least that is how High Courts in India are interpreting the merger exception.

In statutory interpretation, 'deemed' has an established understanding. The word 'deemed' may be used in a law to create a le-

gal fiction, and give an artificial construction to a word or a phrase used in a statute. In other cases, it may be used to include what is obvious or what is uncertain. In either of these cases, the intention of the legislature in creating a legal fiction under Paragraph 4? The merger exception was created to save instances of the principled coming together of political groups from disqualification under the anti-defection law, and to strike a compromise between the right of dissent and party discipline in the absence of mergers of original political parties, the deemed fiction could, presumably, be used as a means to allow mergers of legislature parties. However, reading Paragraph 4 in this manner would empower legislature parties to solely merge with another party, and thus, practically ease defection. Defection gets easier in smaller legislative assemblies, where even a sole member can account for two-thirds of the legislature party's strength to cross the floor without attracting disqualification.

On the other hand, what happens if both sub-paragraphs of Paragraph 4 are read conjunctively? For a valid merger then, an original political party has to first merge with another political party, and then two-thirds of the legislature party must support that merger. Practically speaking though, this would yield potential hybrid results: given the political nature of current times, stark differences in parties' respective ideologies, and deep-seated historical rival-

ries, it is unimaginable how a merger between major national or regional parties would materialise.

Neither of these two interpretations complement the 'mischiefs' that the Tenth Schedule was expected to remedy — that of curbing unprincipled defections which endanger the foundations of our democracy. Presently, while individual Members of Legislative Assemblies remain vulnerable to disqualification for crossing the floor, group defections remain exempt. The criticism levelled against the exemption gives, to split in political parties — that is facilitated defection by groups — applies equally to mergers.

Revisit, if not delete In a situation where either reading of Paragraph 4 in its current form yields undesirable results, its deletion from the Tenth Schedule is a possible way forward. This thought is hardly novel, for the Law Commission in 1999 and the National Commission to Review the Working of the Constitution (NCRWC) in 2002 made similar recommendations. Till that happens, an academic revisiting of the Tenth Schedule by the Supreme Court, so as to guide future use of the anti-defection law, is timely and should happen soon. That would do a world of good for democracy in India.

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To strengthen the law, an independent tribunal or the Election Commission could be given the authority to decide disqualification cases instead of the Speaker. Setting a mandatory time frame (e.g., 3-4 weeks) for decisions would ensure swift action. The two-thirds merger rule should also be reconsidered to prevent mass defections. Judicial oversight must be strengthened to ensure the law serves its true objective of upholding political integrity and preventing unethical power shifts.