05 October 2018

Daily News Pedia

India Launches 'Operation Samudra Maitri' to Help Tsunami-Hit Indonesia

India has launched a massive operation for humanitarian assistance to provide assistance to the earthquake and tsunami victims in Indonesia.

It dispatched two aircraft and three naval ships carrying relief material to the country.

The C-130J aircraft is carrying a medical team along with tents and equipment's to set up a field hospital. The C-17 aircraft is carrying medicines, generators, tents and water to provide immediate assistance.

Three Indian Navy ship: **INS Tir, INS Sujatha and INS Shardul,** have also been mobilised to carry out humanitarian assistance and disaster relief (HADR).

Source: The Hindu.

Digi Yatra Facility

A mere facial scan will soon enable air travellers to skip long queues and zip through various check points at airports in the country.

The Centre is set to introduce the "Digi Yatra" facility to start with at the Hyderabad and Bengaluru airports in February 2019.

The facility which is voluntary would require passengers to initially register themselves at a web portal by providing an identity proof. The travellers would then be required to undergo a one-time verification at an airport.

Following which, the individual's facial identity would be captured and mapped onto a newly created "Digi Yatra" profile and a distinct identification number would be generated.

Passengers would then have to provide this identification number at the time of purchasing an air ticket, to avail the paperless access facility. The passenger's travel history would be "purged" after the completion of a journey and that the "Digi Yatra" programme would comply with the European Union's Data Protection Regulation.

Scan a QR code: The facility would enable travellers to enter the airport building by scanning a QR code on their mobile phones, after undergoing facial recognition. Once inside the airport, a passenger would be able to self-check-in, drop baggage, pass through e-gates to access security and embarkation areas with just a facial scan, thus obviating the need to produce a boarding pass at every step.

Note: However the travellers would still have to undergo mandatory security checks including frisking.

The web portal is scheduled to be ready by February 2019 and Hyderabad and Bengaluru airports would be the first to implement the digital processing of passengers. The facility would thereafter be also made available at four other airports of Kolkata, Varanasi, Vijayawada and Pune.

Source: The Hindu.

21 IORA Countries adopt the Delhi Declaration on Renewable Energy

As many as 21 countries in the Indian Ocean Rim Association (IORA) today adopted the Delhi Declaration on Renewable Energy in the IOR.

The Declaration aims for collaboration among IORA member states in meeting the growing demand for renewable energy in the Indian Ocean littorals and to collaborate on opportunities available under the International Renewable Energy Learning Platform (IRELP).

It calls for development of a common renewable energy agenda for the Indian Ocean region and promote regional capacity building.

As per the declaration adopted, IORA member nations will collaborate with the member nations to exchange knowledge and share views and potential interests in the renewable energy sector; The MoU signed between IORA and ISA with a focus on joint capacity-building programs, research & development activities in solar energy and exchange of best practices.

Global Renewable Energy Atlas: IORA member nations and International Renewable Energy Agency (IRENA) will undertake the expansion of the Global Renewable Energy Atlas. It will be the world's largest-ever joint renewable resource data project, coordinated by IRENA, thereby creating the IOR's first and most comprehensive map and database which will be used to tap Renewable Energy potential of the region.

Source: The Hindu.

Draft Mariculture policy proposes special zones, offshore technology parks

National Fisheries Development Board (NFDB) has formulated a draft national policy on Mari culture with Central Marine Fisheries Research Institute (CMFRI).

Mari culture zones will be established by demarcating special areas in the sea for activities such as cage farming, bivalve farming, pen culture, seaweed culture, hatcheries and nurseries based on scientific criteria.

It suggested farming of genetically modified (GM) species in closed Mari culture systems.

The policy allows farming exotic and genetically modified species in closed Mari culture systems after stringent risk assessment and monitoring.

Objective of the policy

Identifying potential zones through remote sensing: Satellite remote sensing data and GIS will be used to identify potential zones for Mari culture on the basis of scientific to avoid conflict with other users and protecting the livelihoods of local fishing communities.

Mariculture technology parks**:** Sea areas identified using GIS and remote sensing will be designated as Mari culture technology parks by the respective States.

Exceptions in the selection of zones: Marine protected areas, ecologically sensitive areas such as coral reefs, mangroves, sea grass beds, and other coastal areas with strategic interest will not be considered for Mari culture zones.

Offshore technology parks: To support fish breeding, culture, packaging and trade, the policy proposes encouraging the establishment of off-shore technology parks and coastal embankment systems.

Funding support: The policy advises the government to formulate financial assistance programmes, including prioritised lending schemes, subsidised credit and investment subsidies, to promote Mari culture.

Source: The Hindu.

ISA Work Plan to implement 5 projects

International Solar Alliance (ISA) has approved the Work Plan 2019 for 2019 and 2020.

ISA has given approval for 5 projects under the Work Plan.

These include: Agricultural pumps, Finance mobilization, Mini grid, Rooftop solar and Solar e-mobility and storage

STAR C project: ISA has approved the STAR C (Solar Technology Application Resource Centre) project.
Its aim is to set up 121 centres one in each eligible member-country. Each member-country will nominate five trainees every year to be trained at these centres known as master trainers.

Source: The Hindu.

Editorial

To Read

Structural defects in the financial system and real economy

Posting higher tariffs on imports will do nothing at all save perhaps afford some transient fiscal relief; for the economy to soar, the structural constraints must be recognized and removed.

The default jolts from the Infrastructure Leasing and Financial Services (IL&FS) conglomerate continue to reverberate through the system. As immediately implied by the unusual statement jointly issued by the Reserve Bank of India (RBI) and the State Bank of India (SBI) on Sunday, 23 September, to soothe the markets, IL&FS is too connected to fail.

This episode happened just when the tanking rupee seemed to be stabilizing, just when a current account deficit (CAD) projected at 2.4 % of gross domestic product (GDP) for the current year had been talked through as not unduly threatening, given the size of external reserves, and just when the flight of footloose jewellers from Default Street looked to be tapering off.

Credit rating agencies had lagged behind bond market participants on evaluating IL&FS debt instruments. The capital market regulator, Securities and Exchange Board of India (SEBI), actually held a meeting with rating agencies, urging them to take cognizance of bond spreads. Further complicating the problem is that the parent holding company, of what is a large unwieldy group of subsidiaries, is not listed and, therefore, not subject to SEBI disclosure requirements.

However, three of the subsidiaries are listed, and they have notably not defaulted so far. The regulatory gaze of the RBI is confined to non-banking financial companies (NBFCs) taking deposits from the general public, in which category neither the holding company nor its subsidiaries belong. The holding company is registered with the RBI as a core investment company (CIC), and one of the subsidiaries as a systemically important, non-deposit taking NBFC (ND-SI-NBFC), but any regulation going with these categories is administered at best with a light touch.

While we pick up the pieces, it is fruitful to look at what the episode reveals about the structural defects in the Indian financial system, which underlie rating and regulatory failure.

The first of these is the oft-mentioned feature of the group, that it had marquee names on its masthead. Although the erstwhile IL&FS board was completely replaced by the government on 1 October, the larger structural problem remains in other companies, other boards. Marquee names are a huge problem in India, because they hold on tenaciously to their positions, and call for surrender in a hierarchy.-

There are very sharp youngsters in the financial sector, who I suspect are restrained from standing up to stalwarts at the top of their reporting hierarchy. This may not be an Indian so much as an Asian shortcoming. There is the well documented case of Korean Air disasters in the late 1990s, where the co-pilot could not presume to correct the pilot's error even when he knew they would all die from it.

The further problem with marquee names is that simply having them on a company board relaxes due diligence procedures among lenders. Cozy rating, cozy diligence and cozy lending are not a matter of related parties alone (although that too), but of the signalling power of a name or names on the masthead of a borrowing entity.

The second defect is the peculiarly Indian phenomenon of seemingly privately-owned entities, in which substantial stakes are held by the public sector. With this, the private entity transfers risk to the public exchequer, and engage in far riskier behaviour than if the capital being played with was entirely privately-owned. Large equity stakes in IL&FS were held by the Life Insurance Corporation (LIC, the publicly owned insurance behemoth) and public sector banks such as SBI and Central Bank of India, alongside private investors, both foreign (Orix Corporation and the Abu Dhabi Investment Authority) and domestic (Housing Development Finance Corporation). Although the annual reports of SBI and LIC may report equity exposure to other entities in some corner, there is now a desperate need for this information to be given in a centrally collated place.

The reporting requirements under the Fiscal Responsibility and Budget Management (FRBM) Act of the central government do not call for information on equity contributions and lending by cash-rich publicly-owned parastatals such as the LIC. Nor, needless to say, does it carry this information on public sector banks. If this information were given in a matrix array as part of the Union budget documents, in terms of both the stock of equity held in other (public and private) commercial enterprises, as well as the flow addition in the reporting year, we would have, for the first time, some sense of the financial stakes of the public sector as a whole in private companies like IL&FS.

The third defect in the system is the widely-known phenomenon of delays in payments from government departments to companies for work executed or products supplied. In the particular case at hand, the National Highways Authority of India (NHAI, an autonomous agency of the Union government) was in default of payments due to IL&FS for works executed. The amount claimed is in dispute and the arbitrator is expected to mandate only a fraction of the claim as actually due. This is a dispute between a fully publicly funded entity (NHAI) and a company to which the public sector has sizeable equity and debt exposure.

FRBM legislation at both central and state levels has gone seriously astray. The key words in the legislation—responsibility and management—have been interpreted to mean just deficit or public debt targets. FRBM legislation does not carry any provision whatsoever for protection of budget provisions as passed in the demands for grants by the Parliament. All expenditure flows are necessarily trenched, but there are no clear dates for tranches due, and no provisions for penalties if due dates are crossed by a certain permissible number of days. When payments are due, and a department or autonomous undertaking like NHAI has itself not received the funds with which to pay an outside contracted supplier like IL&FS, the usual procedure is to find fault with the quality of work done or goods supplied. If the work was indeed substandard, the penalties leviable should in principle have been laid down in the contract, such that the sums owed in both directions are known clearly in advance. Had there been a fully specified contract of that kind in place, there would have been no cause for delay in the payments due.

This latest financial jolt came in the face of a widening external CAD, which has raised issues about the structural defects in the real economy. On the balance of trade, there is finally some econometric evidence presented in the latest annual report of the RBI for 2017-18 that disruptions in domestic supply chains following demonetization did indeed result in a surge in imports replacing domestic industrial inputs.

The report terms this phenomenon 'reverse import substitution', as this is the reverse of the import substitution that we tried to do during the socialist era. The exercise, in an extremely painstaking way, isolates the impact of demonetization amid the whole host of overall macroeconomic factors, including exchange rates and domestic price conditions, which together determine the ratio of imported to domestic industrial inputs.

The regression results show that there was indeed a sizeable and statistically significant ramp up in imports of industrial inputs during a defined post-demonetisation period. It also finds that post-goods and services tax (GST), from October 2017 to May 2018, there was a decline in import intensity, although a much smaller effect, suggesting that the earlier import thrust had not been fully reversed by May 2018.

What is more worrying than the demonetization impact, which could in principle be entirely reversed, is the coefficient of a term in the estimated equation showing the ratio of imported inputs going up in response to growth in domestic industrial output more generally. This is about the demand for industrial inputs skewing more in the direction of imports than domestic supply (not the same as the income elasticity of demand of imports in aggregate, which throws together imports of final goods and inputs into the same pot). The report attributes this to "constraints on domestic availability".

It is, however, not entirely clear whether the study covers all industrial inputs or just raw material inputs. If the latter, then constraints on domestic production of iron ore would be an example of an explicit domestic constraint (whether imposed by the judiciary or the executive). But if it extends also to produced inputs like steel, a "domestic availability constraint" suggests that it is just much easier for an industrial unit to import than to get delivery on a domestic order. That is a far more serious and debilitating phenomenon, pointing as it does to widening trade deficits going forward, since supply constraints cripple export growth as well.

This is consistent with recent work by Pranjul Bhandari in which she finds that aggregating across exports of goods and services, domestic constraints accounted for half of the decline in export performance over 2014-18 and much more in goods alone.

A more recent overlay, in the form of the failure of the GST machinery to adequately refund tax credits to exporters, can be treated in principle as a transitory factor. Even if GST gets its house fully in order, and exporters receive their refunds in time, there remains an abundance of structural factors limiting export growth.

The flip side is that the Indian economy can soar if structural constraints in both financial and real sectors are removed. The need of the hour is to recognize and remove them. Posting higher tariffs on imports will achieve nothing at all, other than maybe to afford some transient fiscal relief.

Mains Question

Q: Higher minimum support prices often do not translate into better returns for farmers. Elucidate.