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RBI Eases Hedging Norms for External Commercial Borrowings

The Reserve Bank relaxed norms for external commercial borrowings (ECBs) by reducing the mandatory hedging provision to 70% from the current 100%.

- The **cost of hedging has gone up** in the last six months with the strengthening of the dollar. As a result, the ECB route was becoming unattractive to firms.
- The move will help **bring down the final cost of overseas loans** for Indian firms but could leave them more exposed to volatility in the foreign exchange markets.
- The relaxed norms will apply to the ECBs with a maturity period between 3 and 5 years.

Background

- The push to increase hedging began after the global financial crisis, where unhedged foreign currency exposures led to significant losses for some firms.
- Following that experience, the RBI mandated 100% hedging for medium-term external borrowings. It also asked banks to set aside additional provisions against companies which had unhedged foreign currency exposure.

Hedging

- Hedging is a financial technique that helps to **reduce or mitigate the effects of measurable type of risk** from the future changes in the fair value of commodities, cash flows, securities, currencies, assets and liabilities.
- It is a **kind of an insurance** that do not eliminate the risk completely but mitigate its effect.
- It consists of the purchase or sale of equal quantities of the same or very similar commodities, approximately simultaneously, in two different markets with the expectation that a future change in price in one market will be offset by an opposite change in the other market.

External Commercial Borrowings

- External Commercial Borrowings is a **loan availed by an Indian entity** from a nonresident lender with a **minimum average maturity of 3 years**.
 - Most of these loans are provided by foreign commercial banks buyers' credit, suppliers' credit, securitized instruments such as Floating Rate Notes and Fixed Rate Bonds etc.
 - Advantages of ECBs:
 - ECBs provide **opportunity to borrow large volume** of funds.
 - The funds are available for **relatively long term**.
 - **Interest rate are also lower** compared to domestic funds.
 - ECBs are in the **form of foreign currencies**. Hence, they enable the corporate to have foreign currency to meet the import of machineries etc.
 - Corporate can raise ECBs from internationally recognized sources such as banks, export credit agencies, international capital markets etc.
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India-China Signed Amended DTAA

India and China have signed a protocol to amend the existing **Double Taxation Avoidance Agreement (DTAA)** between the two countries.

- This protocol among, other things, updates the existing provisions for the exchange of information to the latest international standards.
- It also incorporates changes required to implement a treaty-related minimum standards under the action reports of **Base Erosion & Profit shifting (BEPS) Project**.
- Besides the minimum standards, the protocol brings in changes as per BEPS Action reports as agreed upon by the two sides.
- **Under Section 90 of the Income-tax Act, 1961, India can enter into an agreement with a foreign country or specified territory for avoidance of double taxation of income, for exchange of information for the prevention of evasion.**

Double Tax Avoidance Agreements (DTAAs)

- A DTAA is a tax treaty signed between two or more countries. Its key objective is that **tax-payers in these countries can avoid being taxed twice for the same income**.
- A DTAA applies in cases where a **taxpayer resides in one country and earns income in another**.
- DTAAs can either be comprehensive to cover all sources of income or be limited to certain areas such as taxing of income from shipping, air transport, inheritance, etc.

- **Significance of DTAA**

- DTAAAs are intended to make a country **an attractive investment destination** by providing relief on dual taxation. Such relief is provided by exempting income earned abroad from tax in the resident country or providing credit to the extent taxes have already been paid abroad.
- DTAAAs also provide for **concessional rates of tax in some cases**.
- However, DTAAAs can become an incentive for even legitimate investors to route investments through low-tax regimes to sidestep taxation. This leads to loss of tax revenue for the country.

Base Erosion and Profit Shifting (BEPS)

- BEPS is a term used to describe **tax planning strategies that exploit mismatches and gaps that exist between the tax rules of different jurisdictions**.
 - It is done to **minimise the corporation tax** that is payable overall, by either making tax profits 'disappear' or shift profits to low tax jurisdictions where there is little or no genuine activity.
 - In general BEPS strategies are not illegal; rather they take advantage of different tax rules operating in different jurisdictions.
 - BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs).
 - The BEPS initiative is an **OECD initiative**, approved by the G20, to identify ways of providing more standardised tax rules globally.
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Mission Raksha Gyan Shakti

The Department of Defence Production has instituted a framework titled '**Mission Raksha GyanShakti**' which aims to provide a boost to the **Intellectual Property Rights** culture in **indigenous defense industry**.

- The **Directorate General of Quality Assurance (DGQA)** has been entrusted with the responsibility of coordinating and implementing the programme.
- Under the mission, the target for the **year 2017-18 is to train 10,000 personnel of Defence Public Sector Undertakings (DPSU) and Ordnance factory Board (OFB) on IPR and facilitate filing of at least 1,000 new IPR applications**.
- The first level of IPs will be filed with the Controller of Indian Patents which would then take them up at the global level.
- India has accumulated several technologies gained through Transfer of technology (ToT) agreements but for any design adjustments in the platforms, the original manufacturer has to be consulted.

Importance

- It aims to achieve the goal of **self-reliance in defense sector** to generate Intellectual Property in India and marks a departure from the culture of seeking Transfer of Technology (ToT) from foreign sources.
 - Design or IP accounts for over 50% of the cost. In some cases it is 70-80%. Indigenisation can result in **cost savings** of about 50-70%.
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Important Facts for Prelims (28th November 2018)

Logix India

- Logix India 2019 is scheduled to take place in New Delhi from 31st January to 2nd February 2019.
- It is being organized by **Ministry of Commerce & Industry and the Federation of Indian Export Organisations (FIEO)** as an initiative to **improve logistics cost effectiveness and operational efficiencies for India's global trade**.
- Over 100 international delegates from more than 20 countries are expected to attend Logix India 2019.
- FIEO will also focus on **investment opportunities in infrastructure development, warehouse consolidation, technology integration and IT enablement and skilling of manpower at the three-day meet**.
- India ranked **44 in the World Bank's Logistics Performance Index 2018**. Logistics sector will play a key role in enhancing the competitiveness of Indian goods in the global markets.

Indian Organ Donation Day

- The **9th Indian Organ Donation Day was organized on 27 November** by the **National Organ and Tissue Transplant Organization (NOTTO)** under the aegis of the Ministry of Health and Family Welfare.
- **Tamil Nadu** was felicitated with an award for **best performing state** and **Maharashtra for promoting awareness** on organ donation.
- Tamil Nadu had been the first state in India for various initiatives like mandatory certification of Brain Stem Death and streamlining the organ distribution.
- In India organs are mainly donated by the living donors and only about 23% of the organ transplant is being done with organs obtained from the cadavers.
- There is a need to promote cadaver or deceased organ donation rather than relying on living donors in order to avoid the risk of commercial trading of organs and also to avoid the inherent risk to the health of the living donor.

- People's participation and people's awareness is the key for encouraging organ donation and to bridge certain gaps.

National Organ and Tissue Transplant Organization (NOTTO)

- NOTTO is set up under Directorate General of Health Services, Ministry of Health and Family Welfare, located in New Delhi.
- The National Human Organ and Tissue Removal & Storage Network and the National Biomaterial Centre, are two divisions under it.
- National Network division of NOTTO would function as apex centre for all India activities for procurement, distribution and registry of organs and tissues donation and transplantation in the country.

Mekedatu Project

- Mekedatu, meaning goat's leap, is a deep gorge situated at the confluence of the rivers Cauvery and Arkavathi, about 100 km from Bengaluru, at the Kanakapura taluk in Karnataka Ramanagara district.
 - The aim of Mekedatu Project is to use the water for a hydro power station and supply drinking water to Bengaluru city.
 - **Tamil Nadu Objections**
Tamil Nadu government has said that the proposal for the reservoir is not just for drinking water alone, but to increase the extent of irrigation, which is in clear violation of the Cauvery Water Disputes Award .
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