



News Analysis (18 Apr, 2020)

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Liquidity Boost to NBFCs

Why in News

The **Reserve Bank of India (RBI)** has announced a host of measures to provide liquidity support to **Non Banking Financial Companies (NBFCs)**, apart from giving them certain benefits for loans extended to the commercial real estate sector.

Key Points

- **TLTRO 2.0**

- The RBI would conduct **Targeted Long-term Repo Operations (TLTRO 2.0) for an aggregate amount of Rs 50,000 crore**, in installments of appropriate sizes.
- The banks have to invest the funds availed under TLTRO 2.0, **in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs.**
- RBI stipulated that **small and mid-sized NBFCs and Micro Finance Institutions (MFIs)** should **receive at least 50% of these funds.**
- The investments made by banks under this facility would be classified as **'Held-to-Maturity' (HTM)**, even in excess of 25% of the total investment permitted to be included in the HTM portfolio.
 - Held to Maturity securities are securities that **companies purchase and intend to hold until they mature.**
- This will help in **easing the liquidity problem faced by NBFCs and MFIs** to some extent.
 - NBFCs are facing liquidity pressure since banks have **not extended any repayment moratorium** to these entities even if NBFCs have to provide the same for their borrowers.

- **Refinance facility:** The RBI has also decided to provide a **special refinance facility of ₹50,000 crore to National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB)** to enable them to meet sectoral credit needs. This would comprise:
 - ₹25,000 crore to NABARD for refinancing **Regional Rural Banks (RRBs)**, cooperative banks and Microfinance Institutions (MFIs).
 - ₹15,000 crore to SIDBI for on-lending/refinancing.
 - ₹10,000 crore to NHB for supporting Housing Finance Companies (HFCs).
- **Extension of loans to the Real Estate Sector:** The RBI has allowed **extension of the loans** by NBFCs to **delayed commercial real estate projects by a year without restructuring.**

Targeted Long-term Repo Operations

- **LTRO** is a tool that lets banks **borrow one to three-year funds** from the RBI at the **repo rate**, by providing **government securities with similar or higher tenure as collateral.**
- It is called '**Targeted**' LTRO as in this case, the RBI wants banks opting for funds under this option to be **specifically invested in investment-grade bonds.**
- The TLTRO was introduced by the RBI to help companies, including financial institutions, manage their cash flow issues in the wake of the **Covid-19 outbreak.**

Note

- **Investment-grade bond:** It is a bond classification used to denote bonds that carry a **relatively low credit risk compared to other bonds.**
- **Commercial Paper (CP)** is a short-term debt instrument issued by companies to raise funds generally for a time period up to one year.
- **Non-convertible debentures:** The debentures which cannot be converted into shares.

National Housing Bank

- NHB is a statutory organization that was established on July 9, 1988 under the **National Housing Bank Act, 1987.**
- It is the apex level financial institution for the housing sector in the country.
- It is a **government-owned entity.**
 - The government took over the NHB from the RBI after buying entire stake of Rs. 1,450 crore in 2019.
 - The move follows the recommendation of **Narasimham-II committee** report of October 2001.
 - Earlier, RBI sold its stake in NABARD as well.

- NHB aims to facilitate the **promotion of Housing Finance Institutions** and provides financial and other support to such institutions.

Non-Banking Financial Company

- NBFC is a company registered under the **Companies Act, 1956**.
- It is engaged in the **business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities** issued by Government or local authority or **other marketable securities** of a like nature, leasing, hire-purchase, insurance business, chit business.
- But, it **does not include** any institution whose principal business is that of **agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property**.
- A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in **one lump sum or in installments by way of contributions or in any other manner**, is also a non-banking financial company (Residuary non-banking company).
- **Features of NBFCs**
 - NBFC cannot accept demand deposits.
 - NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.
 - Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.

Source: TH

WMA Borrowings of States

Why in News

Recently, states like Kerala, Punjab and Bihar have said that the **Reserve Bank of India's (RBI)** decision to allow 60% higher borrowing under Ways and Means Advances (WMA) compared March 30, 2020 limit, is inadequate given the mounting expenses of states to counter the **Covid-19 pandemic**.

Key Points

- The states welcomed the **RBI move to allow 60% higher borrowing under Ways and Means Advances (WMA)**, but said it is a temporary relief and will have only a marginal impact upon the fiscal crisis the states are facing.

- They are saying that they **can not go long for ways and means and have to slash their expenditure** to a large extent because they do not have many avenues left for revenue augmentation.
 - They said banks are not willing to lend for the long term large amounts of money because of their **liquidity preference**.
- They demanded from the Central government to **raise the fiscal borrowing** limits of states currently capped at 3% of the GSDP (Gross State Domestic Product) under the **Fiscal Responsibility and Budget Management (FRBM) Act**.
- The Centre can invoke **Section 5(3)** of Fiscal Responsibility and Budget Management Act, 2003 which allows the RBI to **“subscribe to the primary issues of Central Government securities”** under very specific grounds.
- Those cover, among other things, **“act of war” and “national calamity”**.
- The RBI can also undertake increased **secondary market purchases** and **sales of Central as well as state government securities**.

Ways and Means Advances (WMA)

- The WMA are **short-term loan facilities** which allow the **Centre and states** to borrow funds from the **RBI** to bridge their **temporary mismatch** between expenditure and receipts.
- The interest rate on WMA is the **RBI’s repo rate**.
 - Repo rate is basically the rate at which RBI lends short-term money to banks.
- The WMA loans have a **three-month tenure**.
- States are allowed an **overdraft facility** (to borrow in excess of WMA limit) **of 21 days**.

Fiscal Responsibility and Budget Management (FRBM) Act, 2003

- The FRBM Act was enacted by the Parliament in 2003 to institutionalize fiscal discipline, reduce fiscal deficit, and improve macroeconomic management.
- The government was supposed to wipe out revenue deficit and cut fiscal deficit to 3% of GDP by 2008-09, thus bringing much needed fiscal discipline.
 - Fiscal deficit** is the total expenditure excluding revenue receipts, loan recoveries and receipts from disinvestment etc. It is a measure of the government borrowing in a year.
- The Act applies only to the central government and the **States have to enact suitable legislation to adopt the rules under the FRBM Act**.
- The implementation of the Act was **put on hold in 2007-08** due to the global financial crisis and the need for fiscal stimulus.

- In 2012, the FRBM Act was amended and it was decided that the FRBM Act would target an effective revenue deficit in place of revenue deficit.
Effective revenue deficit excludes capital expenditure from revenue deficit and thus provides space to the government to spend on formation of capital assets.
- In 2017, the **FRBM Review Committee** headed by former Revenue Secretary, **NK Singh** submitted its report to the Central Government. Few important recommendations being-
 - A debt to GDP ratio of 60% should be targeted with a 40% limit for the centre and 20% limit for the states;
 - Creation of an autonomous Fiscal Council;
 - An “escape clause”, i.e. the government can deviate from the targets in case of a national calamity, national security, etc.
The government **used an escape route** in its Budget for FY20, by taking a deviation of 0.5 percentage points from the fiscal deficit targets set out earlier.
- During the presentation of the Budget 2020-21, the government fixed the fiscal deficit target for the year 2020-21 at 3.5% of the GDP.

Source: IE

India's Water Woes

Why in News

Recently, the **Ministry of Health and Family Welfare** (MoHFW) has issued an **advisory** to state governments asking them to ensure safe drinking water supply and management during the nationwide **lockdown** that has been **extended to 3rd May, 2020**.

Key Points

- **Advisory:**
 - State governments need to **assess the requirements of water purifying chemicals**, including chlorine tablets, bleaching powder, **sodium hypochlorite** solution and alum and use them wherever necessary.
These purifying products are **classified under the list of essential commodities (Essential Commodities Act, 1955)**
 - For **ensuring social distancing**, states are recommended to **increase water supply hours** if demand goes up and people come to fetch water from the public stand post.

- **Reasons Behind the Advisory**

- The **urgent need to ensure the availability of safe potable water to all citizens**, mainly in the **rural areas** where medical sanitisers may not be available, has been highlighted in the wake of the **Covid-19 pandemic**.
- In the list of preventive measures for controlling the spread of coronavirus, **frequent washing of hands with frothing soaps is the most efficient and effective measure**.

Water Crisis of India

- India has been facing the **challenge of lack of access to clean water** for several years.
 - Falling groundwater levels, drought, increasing demand from agriculture and industry, pollution and poor water resource management** are few other challenges which will intensify with the **changing climate**.
- According to the data of the **Ministry of Water Resources** in 2017, (merged into the **Ministry of Jal Shakti** in 2019) **average annual per capita water availability** fell from 1820 cubic meters assessed in 2001 to 1545 cubic meters in 2011.
 - The data also highlighted the possibility of it **reducing further to 1341 and 1140 in the years 2025 and 2050 respectively**.
- The ministry also held that the **water availability** of water stressed/water scarce regions of the country is **much below the national average** due to the **high temporal and spatial variation of precipitation**.
 - **Water Stressed Condition:** Where annual per-capita water availability is **less than 1700 cubic meters**.
 - **Water Scarcity Condition:** Where annual per- capita water availability is **below 1000 cubic meters**.
- According to the **Global Annual Report, 2018 by the WaterAid**, the **water and sanitation advocacy group**, India ranked at the top of 10 countries with **lowest access to clean water close to home**, with 16.3 crore people not having such access.
- However, the **government's efforts (such as Jal Jeevan Mission) in solving the water crisis have been appreciated** as well. It has been highlighted that despite facing several challenges, **India is one of the world's most-improved nations for reaching the most people with clean water**.

Water in the Constitution

- In the Constitution, water is a matter included in **Entry 17 of List-II i.e. State List**. This entry is subject to the provision of **Entry 56 of List-I i.e. Union List**.
 - Under **Article 246**, the Indian **Constitution allocates responsibilities of the States and the Centre into three lists- Union List, State List and Concurrent List**.

- Most of the rivers in the country give rise to **inter-state differences and disputes (Article 262) on the regulation and development of waters of these rivers.**

Source: IE

Godavari Valley Area and Covid-19

Why in News

Recently, a petition has been filed in the Supreme Court for directing the Andhra Pradesh government to conduct **Covid-19** tests among the tribal population living along the **Godavari river valley area.**

Key Points

- The petition said the Godavari river valley area, where the tribal people live is close to the **Polavaram irrigation project area.**
The Godavari river valley area spreads across Andhra Pradesh, Telangana, Odisha and Chhattisgarh.
- The Covid-19 **lockdown has been blatantly violated** for the construction of the Polavaram irrigation project on Godavari river in Andhra Pradesh.
- A large number of migrant workers are still working on the project site without sanitisers and masks. These workers lived in close proximity to the tribal population.
- **Lack of awareness among the tribal people**, who live in dense forest and other scheduled areas of the river valley, made them **more prone to Covid-19 infections.**
- **Konda reddy, Koyas and Kolam** are the popular tribes living in godavari valley.
Konda reddy and Kolam are part of **Particularly Vulnerable Tribal Groups (PVTG).**

Polavaram Irrigation Project

- **Polavaram Project** is located in Andhra Pradesh on the river Godavari, near Polavaram village.
- **It is a multi-purpose irrigation project** as the project once completed will provide **Irrigation benefits** and will generate **HydroElectric Power.** In addition, this project will also **supply drinking water.**
- It will facilitate an inter-basin transfer to the Krishna river basin through its Right canal.
- It will also provide indirect benefits such as development of Pisciculture (breeding and rearing of fish), tourism and urbanisation.

- The Project has been **accorded national project status by the union government in 2014** (under Section-90 of Andhra Pradesh Reorganization Act, 2014).

Godavari River

- **Source:** Godavari river rises from Trimbakeshwar near Nasik in Maharashtra and flows for a length of about 1465 km before outfalling into the Bay of Bengal.
- **Drainage Basin:** The Godavari basin extends over states of Maharashtra, Andhra Pradesh, Chhattisgarh and Odisha in addition to smaller parts in Madhya Pradesh, Karnataka and Union territory of Puducherry.
- **Tributaries:** Pravara, Purna, Manjra, Penganga, Wardha, Wainganga, Pranhita (combined flow of Wainganga, Penganga, Wardha), Indravati, Maner and the Sabri.

Source: TH

Rental Waivers to STPI Units

Why in News

The Ministry of Electronics and Information Technology (MeitY) has decided to provide **rental waiver to small Information Technology (IT) units** operating out of the **Software Technology Parks of India**.

This would provide a **major boost to the IT and IT-enabled services (ITeS) sector** amid **Covid-19 lockdown**.

Key Points

- Most of the IT units are either **MSMEs (Micro, Small, and Medium Enterprises) or startups**.
- **Benefit of the Rental Waiver:**
 - This initiative will provide benefit to **nearly 200 IT-ITeS MSMEs**, operating from the 60 STPI centres.
 - This effort is also in the **larger interest of around 3,000 IT-ITeS employees** who are directly supported by MSME and startup units.
- **Cost to the Government:** The total cost of the rent waiver to these units for the four months from March 1 to June 30, 2020 is estimated to be **around Rs. 5 crore**.

Software Technology Parks of India

- Software Technology Parks of India was **set up in 1991 as an autonomous society** under the **Ministry of Electronics and Information Technology (MeitY)**.
- STPI's main objective has been the **promotion of software exports** from the country.
 - The services rendered by STPI for the software exporting community have been **statutory services, data communications services, incubation facilities, training and value added services**.
 - STPI has played a key developmental role in the promotion of software exports with a **special focus on SMEs and startup units**.
- STPI has been implementing the **Software Technology Park (STP) scheme** and the **Electronics Hardware Technology Park (EHTP) scheme** for the promotion of IT/ITES industry.
 - STP Scheme is a unique scheme, designed to promote the **software industry and growth of startups and SMEs without any locational constraints**. A company can set up an STP unit anywhere in India.
 - The EHTP Scheme is a **100% Export Oriented Scheme** for undertaking manufacturing of electronic hardware equipment and other items in India.
- At present, more than **5,000 units are registered with STPI**.
- It has **60 centres across the country** including a mix of tier 1 cities like Bengaluru, Chennai, Mumbai, and Kolkata and tier 2 cities like Nagpur, Warangal, and Surat.

Source: ToI

Export Curbs on Paracetamol Formulations Removed

Why in News

The Centre has **permitted the export of formulations (medicinal products) made from Paracetamol**. However, the **restriction on export of Paracetamol Active Pharmaceutical Ingredients (APIs)** will continue.

The **API** is the part of any drug that **produces the intended effects**.

Key Points

- Paracetamol and its formulations were among the 13 APIs and their formulations that figured in the March 3,2020 notification by the **Directorate General of Foreign Trade (DGFT)**.

- The formulations made from Paracetamol, including FDC (Fixed Dose Combinations), under any **ITCHS code** have been made free for export with immediate effect.
 - **FDC:** Two or more drugs contained in a single dosage form, such as a capsule or tablet.

An **example** of a FDC HIV drug is Atripla (a combination of efavirenz, emtricitabine, and tenofovir disoproxil fumarate). By reducing the number of pills a person must take each day, fixed-dose combination drugs can help improve adherence to an HIV treatment regimen.
 - **ITCHS codes** are better known as Indian Trade Clarification (ITC) and are based on the Harmonized System (HS) of Coding.
 - These were adopted in India for import-export operations.
 - Indian custom uses an eight digit ITC (HS) code to suit the national trade requirements.
- The decision allowing export of formulations made from Paracetamol has come after permitting shipment of **antimalarial drug Hydroxychloroquine (HCQ)** to the United States (US) and several other countries.
- The **Pharmaceutical Export Promotion Council (Pharmexcil)** of India wanted the Centre to resume export of Paracetamol APIs too.

The Pharmaexcil was established in 2004 by the **Ministry of Commerce and Industry**, Government of India, to promote pharma exports.

Paracetamol

- Paracetamol is a **common fever medication globally**.
- Paracetamol is the most sought after and widely used drug ever since the **Covid-19 outbreak**.
- According to sources, **India is among the leading manufacturers of Paracetamol globally**.

The production capacity is estimated to be **5,000 tonnes a month**.
- From an export perspective, it is a low value, high volume product.

Directorate General of Foreign Trade

- DGFT is the main governing body in matters related to **Exim (Export-Import) Policy**.
- It is an attached office of the **Ministry of Commerce and Industry**
- The main objective of it under the **Foreign Trade (Development and Regulation) Act, 1992** is to **provide the development and regulation of foreign trade by facilitating imports into, and** augmenting exports from India.

Foreign Trade Act has replaced the earlier law known as the **Imports and Exports (Control) Act 1947**.

Source: TH

Plenary Meeting of IMFC

Why in News

Recently, the **Union Minister of Finance & Corporate Affairs** attended the plenary meeting of the **International Monetary and Financial Committee (IMFC)** through video-conferencing.

Key Points

- This meeting's **Global Policy Agenda** was "**Exceptional Times – Exceptional Action**".
- The IMFC was **updated by the members** on the **actions and measures** taken by the member countries to combat **Covid-19**.
- The members **remarked on IMF's crisis-response package** to address **global liquidity** and **members' financing needs**.
- India also highlighted that the IMF has always **played a pivotal role in maintaining stability of the international monetary and financial system** and that it should continue rendering this critical role to the global financial architecture.
- **Measures taken by India** to respond to the health crisis and to mitigate its impact were highlighted. **Few of them are:**
 - **India Covid-19 Emergency Response and Health System Preparedness Package: Allocation of \$2 Billion (₹15,000 crore)** by the Government of India for **strengthening the healthcare** system.
 - **Pradhan Mantri Garib Kalyan Yojana:** Announcement of a scheme of social support measures amounting to **\$23 Billion (₹1.70 lakh crore)** to **alleviate the hardship of the poor and the vulnerable**.
 - Provision of **relief to firms** in statutory and regulatory compliance matters.
 - **Easing of monetary policy** by the **Reserve Bank of India (RBI)** and **three-month moratorium** on loan instalments.
 - Creating a **Covid-19 Emergency Fund** for the **SAARC** region.

International Monetary and Financial Committee

- It is the **Ministerial-level committee** of the **International Monetary Fund (IMF)**.
- It **meets twice a year**, once during the **Fund-Bank Annual Meetings in October** and once during the **Spring Meetings in April**.

This year, due to the Covid-19 outbreak, the meeting took place through video-conference.

- **Functions:**
 - It discusses the **management of the international monetary and financial system**.
 - It **advises the IMF** on any other matters of common concern **affecting the global economy**.
- IMFC has **24 members**, drawn from the pool of 189 governors, and represents all member countries. **India** is one of the current members.
- It operates on **consensus**, including on the selection of its chairman.

Source: PIB

Special Drawing Rights: IMF

Why in News

Recently, the Finance Minister of India opposed a general allocation of new **Special Drawing Rights (SDR)** by the **International Monetary Fund (IMF)** because it might not be effective in easing **Covid-19** driven financial pressures.

- The Finance Minister was concerned that such a major liquidity injection could **produce potentially costly side-effects** if countries used the funds for irrelevant purposes.
- The new SDR allocation will provide all 189 members with **new foreign exchange reserves with no conditions**.

Key Points

- The SDR is **neither a currency nor a claim on the IMF**. Rather, it is a potential claim on the freely usable currencies of IMF members. **SDRs can be exchanged for these currencies**.
- The SDR serves as the **unit of account of the IMF** and some other international organizations.
- The **currency value** of the SDR is determined by **summing the values in U.S. dollars**, based on market exchange rates, of a SDR basket of currencies.
- The **SDR basket of currencies** includes the **U.S. dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi** (included in 2016).
- The SDR currency value is calculated daily (except on IMF holidays or whenever the IMF is closed for business) and the valuation basket is reviewed and adjusted every five years.

- **Quota** (the amount contributed to the IMF) of a country is denominated (expressed) in SDRs.
Members' **voting power** is related directly to their **quotas**.
- **India's Foreign exchange reserves** also incorporate SDR.

Source: TH

World Heritage Day

- Every year **18th April** is celebrated as the **International Day for Monuments and Sites** or the **World Heritage Day**.
The **International Council on Monuments and Sites (ICOMOS)** established the day in **1982** and the **United Nations Educational, Scientific and Cultural Organization (UNESCO)** approved it in **1983**.
- Since then, it has been a day to **celebrate and promote cultural heritage**, and an **opportunity to raise awareness about its diversity**, its **relevance**, how **vulnerable** it can be and what the needs and benefits of its **conservation** are.
- **Theme for 2020: Shared Cultures, Shared Heritage, Shared Responsibility.**
It is an important expression of global unity in the face of the ongoing worldwide health crisis (**Covid-19** pandemic).

International Council on Monuments and Sites

- It is a **global non-governmental organization** associated with **UNESCO**.
 - Its mission is to **promote the conservation, protection, use and enhancement of monuments, building complexes and sites**.
 - It is an **Advisory Body of the World Heritage Committee** for the implementation of the **World Heritage Convention of UNESCO**.
As such, it reviews the nominations of cultural world heritage and ensures the conservation status of properties.
India has **38 world heritage sites** that include **30 Cultural properties, 7 Natural properties and 1 mixed site**.
 - Its creation **in 1965** is the logical outcome of initial conversations between architects, historians and international experts that began in the early twentieth century and that materialized in the adoption of the **Venice Charter in 1964**.
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Kisan Rath App

Why in News

The **Ministry of Agriculture & Farmers Welfare** has launched '**Kisan Rath**' mobile application (app) to **facilitate transportation of foodgrains** and perishable **during lockdown**.

- The application has been developed by the **National Informatics Centre -NIC** (backed by the **Ministry of Electronics and Information Technology**).
- It will be **available in eight languages** initially, including english and hindi.

Key Points

- The app is expected to **connect farmers and traders to a network of more than 5 lakh trucks** and 20,000 tractors.
- It is meant **to help farmers and traders who are searching for vehicles to move produce**. This includes:
 - **Primary transport** from the farm to the mandis, local warehouses or the collection centres of **farmer producer organisations**.
 - **Secondary transport** from the local mandis to intra-and inter-State mandis, processing units, railway stations, warehouses or wholesalers.
- The **Government has granted relaxation in the nationwide lockdown for activities related to agriculture-farming** and allied activities with a view to address problems being faced by the farming community.
- The app will be a stepping stone towards provision of **timely transportation service at competitive rates** for farmers and traders, besides achieving a **reduction in food wastage**.

This will help in ensuring **better prices of the produce to farmers**.

Source: TH
