

Chasing Unreliable Ratings

What is the issue?

- Nations give too much importance to credit rating agencies despite their structural flaws and inconsistent record.
- This calls for reforming the ways in which rating agencies operate.

How did the rating ecosystem evolve?

- ✓ Modern day credit rating agencies were first established in early 19th century U.S., which rated the ability of a merchant to pay his debts.
- ✓ Soon, such ratings were being applied to equity stocks and demand also rose for independent market information, offering trustworthy analysis.
- ✓ The big three of the ratings world (Moody, Fitch, and Standard & Poor) had already reached a commanding positions in the 1920s.
- ✓ By the 1960s, ratings had spread over to commercial paper, bank deposits, and the global bond market (including sovereign bonds).
- ✓ Despite their vital role in the global finance, rating agencies are marred with frequent allegations of impropriety and inaccurate ratings.

What were some of the highprofile rating failures?

- Rating agencies are accused of having failed to predict the 1990s East Asian crisis and then for overly under-rating them when the event unfolded.
- The U.S. Department of Justice launched an investigation in 1996 into a potential improper pressuring of issuers by Moody's.
- Such agencies have been subject to a range of lawsuits, especially after Enron's collapse and during the recent subprime mortgage crisis in the U.S.
- Moody's had been completely oblivious of the building bubble in the run up the sub-prime mortgage crisis in the U.S. in 2007.
- Subsequently, the "National Commission on the Causes of Financial and Economic Crisis" had held that the failure of rating was partly responsible.
- Also, Standard & Poor's (S&P) paid \$1.4 billion for rubber stamping risky mortgage bonds as safe.

- Recently, the relegation of Greece, Portugal and Ireland to “junk” status is said to have lead to a sovereign-debt crisis in these countries.
- This had worsened the unemployment situation and the Euro zone stability.

What are some structural issues?

- Popular rating agencies can have a global impact, affecting the fiscal fortunes of nations as they can potentially trigger capital outflows.
- **Inconsistencies** - In Indian, ratings have had a mixed record and SEBI had to intervene in some cases and tighten rules and disclosure norms for agencies.
- Many Indian economists also believe that there is a lack of due recognition for India's economic achievements in most reports of foreign based ratings.
- Notably, such inconsistencies have led to moves by Russia and China to set up their own ratings agencies to provide better information to investors.
- **Conflict of Interests** - Most rating agencies generate a significant portion of revenues through non-rating activities, which makes them structurally flawed.
- Despite maintaining an iron curtain between their rating and non-rating businesses, common management gives ample scope for conflict of interests.
- Numerous studies have showcased that rating agencies seek to provide issuers, with non-rating services, along with potentially influencing a higher rating.

What is the way forward?

- ❖ The services offered by rating agencies are indeed crucial in the market and hence we too need to nurture strong indigenous rating agencies.
- ❖ But we also need to place multiple safeguards to minimise market distortions, by ensuring greater supervision over anomalous upgrades or downgrades.
- ❖ Corporates can be mandated to change rating agencies on a regular basis and “issuer-pays” model needs to change to an “investor-pays” model.
- ❖ Also, SEBI can explore options to bar credit rating agencies from providing non-rating advisory services.
- ❖ Above all, government fiscal decisions should not be skewed towards chasing ratings and rather be focused on employment generation and innovation.

Bengaluru may face Cape Town fate

Paper 1:

Topic: *Urbanization, their problems and their remedies.*

As per a report based on “UN-endorsed projections” published by the BBC, Bengaluru city of India is “most likely” to be the first Indian urban settlement that will run out of drinking water. The report has listed 11 top cities of the world that are “most likely” to run out of drinking water, just like South Africa’s City of Cape Town, which is facing unprecedented water supply shortage in history.

Cities which are likely to run out of drinking water:

Sau Paulo, Brazil’s financial capital is on top of the list. The report ranks Bengaluru second in the list of 11 world cities that are “most likely” to run out of drinking water. Other cities are Chinese capital Beijing, Cairo in Egypt due to struggling river Nile, Jakarta of Indonesia, Moscow in Russia, Istanbul of Turkey, Mexico City, London, Tokyo of Japan and Miami in the US.

Factors behind Bengaluru’s fate:

Bengaluru is a victim of urbanisation madness. The city is experiencing unprecedented rapid urbanisation and sprawl in recent times due to unplanned unrealistic concentrated developmental activities.

This has posed “serious challenges to the decision-makers in the city planning and management process involving a plethora of serious challenges such as loss of green cover and water bodies, climate change, enhanced greenhouse gases (GHG) emissions, lack of appropriate infrastructure, traffic congestion, and lack of basic amenities (electricity, water, and sanitation) in many localities, etc.”

The report notes that not a “single” lake in the city has water fit for either drinking or bathing. Lakes of the city, including Bellandur, often make news for catching fire. Between 1973 and 2016, the city witnessed a 1005% increase in “concretization or paved surface increase”. Since 1981, the city has spread and has also experienced dramatic decadal population growth.

Why Indians should worry?

- ❖ Shortage of water is a problem faced by almost all urban centres of the world. Even in India, the situation is not so happy. A world bank report last year had said that at least 21 Indian cities were moving towards zero groundwater level by 2020.
- ❖ As per a report by World Resources Institute, as much as 54% of India’s area is under “high” to “extremely high water stress”. The stark future of the Indian cities can be judged from the fact that water requirement would rise up to 1.5 trillion, while the current supply of water is just 740 billion cubic meter. Experts believe that 40% of people in India may not get to drink water by 2030.

Way ahead:

- ❖ The ominous prediction by the UN for Bengaluru must concern all residents and authorities of the city, especially after the Cape Town experience. The South African City of Cape Town is facing its worst drought in 100 years. Residents of the city have been told to cut their daily water consumption while the authorities of the city are scrambling to prevent the city running dry as soon as in April.
- ❖ Bengaluru's presence on the list should be a wake up call for other Indian cities. A mix of better planning, market-based thinking and technology adoption could help them, especially if local populations and governments are stakeholders in the process. It may be too late for Bengaluru, but there may still be a chance for other Indian cities.

Atal Bhoojal Yojana



The water resources ministry is working on a Rs 6,000 crore worth 'Atal Bhoojal Yojana' for water conservation.

About Atal Bhoojal Yojana:

The scheme is aimed at efficient management of available water resources and strengthening of recharge mechanism through community participation. The emphasis of the scheme will be on recharge of ground water sources and efficient use of water by involving people at the local level.

Funding: Rs 6,000 crore has been earmarked for this ambitious plan. Half of the total cost of this central scheme will be supported by the World Bank as loan while the remaining half (Rs 3,000 crore) will be funded by the government through budgetary support.

Implementation: The government plans to give 50% of the money to states, including gram panchayats, as incentives for achieving targets in groundwater management. That's a first-ever move to encourage community participation and behavioural changes. The remaining 50% of the funds will be given to states for strengthening institutional arrangements such as providing a strong database and scientific approach to help them accomplish sustainable management of groundwater.

Need for groundwater conservation:

- Ground water in India provides for about 60% of the country's irrigation needs, 85% of rural drinking water requirements and 50% of urban water needs. Over-exploitation and contamination have left many blocks across the country in a critical stage.
- The last assessment report of the Central Ground Water Board (CGWB) shows that 1,034 of 6584 assessed blocks in the country are over-exploited (usually referred to as 'dark zones').
- ❖ It means annual ground water consumption in those blocks is more than the annual ground water recharge. Besides, 934 blocks fall in different stages of criticality due to depletion without recharge.
- ❖ The over-exploited units are mostly concentrated in Punjab, Haryana, Delhi, western UP, Rajasthan, Gujarat, Karnataka, Andhra Pradesh, Telangana and Tamil Nadu. Tamil Nadu has the maximum number of 'dark zones'.

Why there is an increased pressure on groundwater?

- ❖ Main reason for excessive use of groundwater is the legal framework governing access to the resource. This was first introduced in the mid-19th century when judges decided that the easiest way to regulate this 'invisible' substance was to give landowners what amounts to a right to access groundwater found under their land, even if in the process they also used water found under their neighbours' land.
- ❖ Over the following decades, this led to a framework whereby landowners see groundwater as their own and as a resource they can exploit without considering the need to protect and replenish it since there are no immediate consequences for over-exploiting it.
- ❖ Therefore, access to a source of groundwater has progressively become a source of power and economic gain. The latter has become increasingly visible in recent decades with the propagation of mechanical pumps, which allows big landowners to sell water to others.

The increasing crisis of groundwater and the failure of the existing legal regime make it imperative to entrust people directly dependent on the source of water the mandate to use it wisely and to protect it for their own benefit, as well as for future generations. The theoretical case for water being in the Concurrent List is thus unassailable. Of all the subjects that are or ought to be in the Concurrent List, water ranks higher than any other. The practical and political difficulties of shifting it there remain, but these would need to be overcome.

Enforcement Directorate

- Enforcement Directorate has registered a money laundering case against the fraudulent transaction of Rs.11, 500 crores in one of the branches of PNB.
- Enforcement Directorate is a specialized financial investigation agency under the Department of Revenue, Ministry of Finance.
- It enforces Foreign Exchange Management Act (FEMA) and Prevention of Money Laundering Act (PMLA).
- Its headquarters is situated in New Delhi and headed by the Director of Enforcement.

- The director is appointed by the Appointments Committee of the Cabinet headed by Prime Minister.

Mudumalai Tiger Reserve

- Mudumalai Tiger Reserve (MTR) is situated at the tri-junction of Tamil Nadu, Karnataka and Kerala.
- The reserve straddles the Ooty -Mysore interstate national highway.
- It is contiguous with Wyanaad Wildlife Sanctuary on the west, Bandipur Tiger Reserve on the north.
- The Moyar river flows downstream into the Mudumalai Tiger Reserve and is the natural line of division between Mudumalai and Bandipur Sanctuary.
- The MTR also forms part of the Nilgiri Biosphere Reserve
- The Reserve has tall grasses, commonly referred to as “Elephant Grass”, Bamboos of the giant variety, valuable timber species like Teak, Rosewood.
- Fauna found in the region are Tiger, Elephant, Indian Gaur, Panther, Barking Deer, Malabar Giant Squirrel and Hyena etc.,
- Sathayamangalam, Kalakkad Mudunthurai and Anamalai are the other tiger reserves in the state of Tamil Nadu.

Whip

- The issue of expulsion of Member of Legislative Assembly of Tamil Nadu for violating the party whip is before the Madras High Court.
- Whip in general denotes an official of a political party appointed to maintain parliamentary discipline among its members, especially so as to ensure attendance and voting in debates.
- The office of Whip is not mentioned in the constitution but it is based on parliamentary convention.
- In the 14th All India Whips Conference, 2008, the former Vice President Mohd. Hamid Ansari outlined the functions of whip as follows,
 1. Facilitate the functioning of the legislature and optimize its output.
 2. Be the channel for communicating party policy, on a day to day basis, to the rank and file of the party in the legislature
 3. Act as counselors to their Members and advisors to party leadership
 4. Function as the channel for dispensing favors and for enforcing discipline.

Maramon Convention

- Maramon Convention is the Asia's largest weeklong annual Christian meet.
- The convention is organized in the vast river bed of Pampa near the Kozhencherry Bridge.
- The ongoing 123rd convention at Maramon, Pathanamthitta, Kerala began with a call to conserve the river Pampa and the environment.

Mumbai 12th wealthiest City in the world

- According to a report by New World Wealth, Mumbai, the economic hub of India is the 12th wealthiest city.
- Mumbai also features among the top 10 cities in terms of billionaire population.
- The list of 15 wealthiest cities was topped by New York with a total wealth of \$3 trillion.

- Among the 15 cities listed, San Francisco, Beijing, Shanghai, Mumbai and Sydney were the fastest growing in terms of wealth growth over the past 10 years, the report said

Clean Air Campaign

- The 'Clean Air for Delhi' was launched on February 10, 2018 jointly by the Central Government and the Government of Delhi to address all sources of pollution in Delhi.
- Joint teams of officials of Ministry of Environment, Forest & Climate Change, Central Pollution Control Board, Delhi Government, and Municipal Corporations were constituted.
- These teams will visit every administrative division of Delhi, monitor causes of pollution and initiate remedial measures, including penal actions against serious polluters on the spot.
- The campaign will also include enforcement of pollution-control measures for vehicles, driving discipline, inspection of power plants in Delhi.

Source: PIB, The Hindu, Business Standard

Sustaining Structural Reforms in Agriculture

What is the issue?

- Union government's measures have not been adequate to address agrarian distress in a short span of time.
- Sustaining structural reforms are needed instead of short-term reliefs like loan waivers, input subsidies, etc.

What are the reasons behind agrarian distress?

- When compared to other developing economies in India **monsoon dependency** is very high, limiting crop diversification to a great extent.
- **Input costs** have gone up significantly recently while the farm gate prices of agricultural produce have continued to remain subdued.
- Bulk of farming activities in India is undertaken by marginal farmers, share-croppers or landless agricultural labourers with **limited access** to institutional finance.
- Value chain in the agricultural sector has been exploitative i.e only about one-third of the retail prices paid by final consumers reach the producers, unlike two-thirds in case of milk.

- Public distribution system does not have the capacity to undertake procurement operations for 24 crops for which Minimum Support Price (MSP) is announced. Click [here](#) to know more about MSP related concerns.
- Post-harvest technology is underdeveloped.

What are the measures taken by government?

- In recent years, the Centre has taken several initiatives such as the Pradhan Mantri Fasal Bima Yojana (PMFBY), electronic National Agricultural Market (e-NAM), soil health card, Neem-coated urea etc.
- In India agriculture is a major component of priority sector lending, and the target for bank lending to agriculture has also been revised upwards every year.
- Union budget 2018 announced that NITI Aayog would devise modalities for extending credit to this segment of people from the formal sector.
- The Government also provides fertiliser subsidy year after year besides food subsidy through PDS.

What are the shortfalls in government's measure?

- PMFBY provides protection against crop failure, but farmers are facing market failure for which they do not have any cover.
- Government is yet to address the concerns of farmers who produce commodities that are outside the MSP.
- Procurement is limited to major crops like paddy/rice and wheat.
- Union budget proposed to raise the MSP by at least by one and a half times the cost of production, but it is yet to clarify about the cost which it is going to use.
- Union government is also planning to compensate farmers for selling their produce below the MSP, but the scheme would incur high expenditure.

What reforms are to be done?

- **Operation Greens** -Recent Budget has proposed the introduction of 'Operation Greens' for perishable commodities such as potato, tomato and onion to stabilise their prices.

- This needs to be implemented soon to benefit both producers and consumers.
- **Composite Insurance** - An alternative composite crop insurance scheme needs to be introduced, which should cover both crop failure and market failure.
- **Agrarian Market** - Government had proposed to upgrade 22,000 haats (local markets) to Gramin Agricultural Markets.
- It needs to be implemented by involving all stakeholders such as farmers, proposed farmer producers companies (FPCs), and State governments.
- **Post-harvest Technology** - In order to double farmers' income, there is a need to involve them in post-harvest technology through innovative programmes.
- Government needs to setup dedicated centres for training and supporting farmers to produce value added products such as ketchup, jam, wafers, pickles, etc.
- **Crop Diversification** - Recently Finance ministry has made sizeable allocations for forestry, animal husbandry and the restructured National Bamboo Mission as a part of crop diversification.
- This can be successfully achieved by sooner implementation of interlinking of rivers a flagship programme of the Government.

Source: Business Line