

What to watch out for in the BJP

Elections to the biggest political party in the world are nigh: and they will be supervised by the BJP national election officer Radha Mohan Singh, former agriculture minister. The poll process will begin with election of the booth level units followed by the block level presidents to be completed by September 30. Following this, the district level presidents will be elected and the process will be completed by 30 November. After the district level presidents, election process will begin for the state unit presidents. Elections for the BJP national president will be held in the end. The most contentious part of the election will be the election of a state president. What to watch out for? States where there is actually an election because that will indicate the strength of various factions in the party.

From Didi to BJP

Sovan Chatterjee's induction in the BJP has the party's West Bengal unit agog. Chatterjee has been a two-time Mayor of the Kolkata Municipal Corporation and has held important Cabinet portfolios in the Mamata Banerjee government in Bengal. He was also the district president of the TMC for South 24 Parganas district and by virtue of being one of Banerjee's closest aides and one of the founding members of the TMC, he is also believed to have been one of the key strategists for Banerjee's victory in the 2011 Assembly elections. The BJP did not win a single seat from the South 24 Parganas district in the recently concluded Lok Sabha polls. The district has five Lok Sabha seats and 31 Assembly seats. So Chatterjee is believed to hold the key to an important region.

**OPINION**

SHAKTIKANTA DAS

Harmonise norms between banks and NBFCs

Coming to the NBFC sector, we all know that this sector complements the banking sector and aspires to act as the bridge to provide last mile connectivity. Further, niche NBFCs fulfil the unmet and exclusive credit needs of infrastructure, factoring, leasing and other such activities. Non-traditional and digital players are now entering this space to deliver financial services by way of innovative methods involving digital platform. There is a web of inter-linkages of the NBFC sector with the banking sector, capital market and other financial sector entities. The Reserve Bank keeps a close watch on these inter-linkages to ensure financial stability. With a view to strengthen the sector, maintain stability and avoid regulatory arbitrage, the Reserve Bank and the government have been proactively taking necessary regulatory and supervisory steps.

Our objective is to harmonise the liquidity norms between banks and NBFCs, taking into account their unique business models. We are also looking at governance and risk management structures in NBFCs. Recently in May 2019, NBFCs with a size of more than ₹5,000 crores have been advised to appoint a functionally independent Chief Risk Officer (CRO) with clearly specified role and responsibilities. This is expected to bring in professional risk management to the working of large NBFCs. The move to bring Housing Finance Companies (HFCs) under the regulatory ambit of the Reserve Bank is significant, given their asset-liability profiles. Including HFCs, the size of the NBFC sector constitutes about 25 per cent of combined balance sheet of scheduled commercial banks. The Reserve Bank will take necessary measures to deal with these challenges.

Headwinds from financial markets

Apart from banks and non-banks, headwinds to financial stability can also originate from financial markets. The increasing frequency and severity of currency and debt crises globally and their ability to cause output loss calls for careful regulation and surveillance of financial markets. Globalization of finance, by amplifying the risk of contagion, and thereby constraining the policy space for effective regulation, has added to the difficulty of this task. As a regulator of various market segments such as money markets, G-sec, forex and interest rate derivatives, the Reserve Bank has followed calibrated, sequenced and careful approach to develop and integrate these markets. The broad objective has been to keep pace with the requirements of fast-growing Indian economy, while being vigilant of potential risks to financial stability. This is done through freeing up market forces by moving away from prescriptive to principle-based regulation, whose core features are simplification of processes, encouraging product innovation, removing regulatory differentiation across participant categories and ensuring protection for retail market participants.

Adoption of global best practices to improve market integrity is another important aspect of regulation. In the last couple of years, the Legal Entity Identifier (LEI) system has been implemented in a phased manner in all financial markets, including derivative markets regulated by the Reserve Bank, as well as for bank loans. We believe transparency of financial markets will greatly improve once the LEI system is used widely. The recent regulations to control market abuse, upgrade the benchmark setting process are all consistent with global standards.

A key feature of regulation of derivative markets has been the differential treatment of professional and non-expert clients. Moreover, differential access to derivative markets is being gradually removed. Anyone - resident or non-resident - can now access these markets for hedging on similar terms. In fact, alignment of incentives for non-residents to gradually move to the domestic market is an important regulatory aim. As you would be aware, the Task Force on Offshore Rupee Markets with Mrs. Usha Thorat, former Deputy Governor as chairperson, has made important recommendations that are likely to improve participation of non-residents in the onshore market. Our aim is to make the onshore market more accessible and attract higher transaction volumes.

External headwinds and domestic financial stability

With increased trade and financial linkages with rest of the world, India has become more susceptible to the vagaries of heightened global economic uncertainties. While trade channels take some time to show a tangible impact of global shocks, it is the financial and confidence channels that quickly transmit the global shocks as was evident in the case of India during the taper tantrum period in mid-2013. In fact with negative and low interest rates in major economies, net private capital flows to EMEs in the form of direct and portfolio investments have nearly doubled in the post-crisis period. However, with high monetary policy uncertainties in advanced economies, these flows have proved to be fluid and therefore posed considerable risk to EMEs. Just a year back, EMEs like India faced financial market turbulence due to a faster-than-expected tightening in monetary policies in advanced economies. Many EMEs including India witnessed portfolio capital outflows, exerting downward pressure on domestic currencies.

In recent years, India's external sector has benefited from a sustainable level of current account deficit, largely financed by robust foreign direct investment inflows and flexible exchange rate policy. Improvement in other vulnerability indicators during 2018-19 such as fall in external debt to GDP ratio (from 20.1 per cent at end-March 2018 to 19.7 per cent at end-March 2019) and debt service ratio (from 7.5 per cent at end-March 2018 to 6.4 per cent at end-March 2019) also augur well for mitigating the spill over.

Edited excerpts from a speech by RBI Governor, Shaktikanta Das on Emerging Challenges to Financial Stability, August 19, at FIBAC 2019, the annual global banking conference organised by IBA and FICCI, Mumbai

DID THEY REALLY SAY THAT?

"It's a matter of faith of crores of people. The place is associated with Ravidas, it has got his vibrations. The matter has become a subject of petty politics. All should work for construction of the temple. Around 12-15 crore people want the Centre to allocate this four-five acres of land for the temple"

Delhi Chief Minister Arvind Kejriwal in the Assembly after the demolition of Ravidas Temple in Delhi, August 22



ILLUSTRATION BY BINAY SINHA

Major General Dharshana Hettiarachchi heads the newly formed team for Counter-Radicalisation, set up by the government of Sri Lanka. In an interview, he tells Aditi Phadnis about the new challenges Sri Lanka faces after the April attacks by Islamic radicals and how the country is proposing to meet them. Edited Excerpts:

'Sri Lanka cannot afford another war'

The Sri Lankan Army (SLA) is in the unique and enviable global position of possibly being the only conventional Army to militarily vanquish one of the most feared guerilla groups in the world. But you've had many setbacks as well. What is your learning from the military campaign and what followed?

The fight with the Liberation Tigers of Tamil Eelam (LTTE) went on for almost three decades. By 2008-09, LTTE was almost like a professional Army. They had a naval wing, an air wing and their land force. They also had suicide cadres. In 1996, the US State Department declared the LTTE the most ruthless terrorist organisation in the world.

Successive governments used various means to eradicate this problem from Sri Lankan soil but the previous regime (led by President Mahinda Rajapaksa) made eradication of terrorism a promise in their election manifesto. So it (the military campaign) was a very coordinated effort. The President gave the political leadership and luckily, the President's own brother was the Secretary (Defence). All the three arms of the defence forces were led by officers who were experienced and had been in the field throughout.

The whole country got together — the people in the South as well as even the Tamils in the north and east. The government gave the armed forces the liberty to go ahead with their plans without interfering. The Secretary (defence) coordinated all efforts: Whether it was acquiring weapons or other logistics support. The President stood firm against the political pressures especially from western countries.

After 2009 and upto April 21, 2019 — Easter Sunday — we did not have a single terrorist incident in Sri Lanka.

With all your experience and understanding of how terrorist networks work, how did Easter Sunday happen?

This organisation, National Thowheeth Jama'ath, has been operating in Sri Lanka for a considerable period. Our intelligence agencies had most of the information related to their activities. The only thing is, on the day of the attack, there had been some information and intelligence as well. But due to some lapses at various levels, the information did not disseminate to the correct people at the correct time. The unfortunate incident happened as a result. But Sri Lankan people never expected such

Packing a punch

A 27-year-old in UP is teaching young women Japanese martial art and self-defence techniques to ward off eve teasers and molesters, writes Meghna Chadha

It's around 9:00 pm in Delhi and you're waiting for your cab on the side of the road. You share the cab details with family/friends. You notice two men on a bike coming towards you. Staring at your phone, you secretly hope they wouldn't notice you and move on. But, they don't. They slow down; look at you, pass comments and eve-tease, while you helplessly wait for it to pass because you don't want to provoke them.

This is a scenario most women all over the world, especially in India, face on a daily basis — the problem of eve-teasing and molestation. But 23-year-old Neha Singh does not have to tolerate this harassment anymore. "Passing lewd comments and teasing has become very common these days and there are no strict laws regarding them. Police also can't take any immediate action in these cases. So, for self-defence and helping those around me I learnt aikido (a modern Japanese martial art) from Abhishek Yadav in 2014-15. It was both empowering and liberating for me."

Singh, who has a full-time government job now, takes time off every year to volunteer at these training camps to teach young school-girls. "Learning how to defend myself and being able to teach others has made me more confident and my belief that the stereotype that women are weaker than men will be broken sooner than later," she adds.

Jyoti Mala, a 25-year-old from Lucknow who just completed her BSc Nursing can't help but smile as she remembers the one time she and her friends taught a lesson to a few boys from her college who were following and commenting on them at every chance they got. "We were taught a few easy but effective moves by Abhishek and let's just say after we taught those boys a lesson; we never saw them around again."

Abhishek Yadav holds a Limca World record for training 5,700 girls in self-defence techniques in Kunda, Pratapgarh, and Uttar Pradesh. This record was previously held by Delhi Police and the Delhi government when they trained over 5,000 girls in self-defence.

The 27-year-old is also the youngest achiever of Yash Bharti Award, the highest award given by the UP government for contribution in social work. His vision is to make women self-empowered by teaching them aikido and other martial art techniques for self-defence and road fights by setting up camps in various cities. These workshops last a week to 15 days.

"It started in 2007, as a camp to teach female police officers in Uttar Pradesh to take down guys without using weapons with basic and minimal power techniques. After the 2012 Delhi gang-rape case, I felt there was a need to teach young girls how to protect them-

**CHECKLIST
IMPORTANT FOREIGN VISITS IN 2019**

■ September: Prime Minister Benjamin Netanyahu of Israel will visit India on 9 September, just eight days before Israel goes to repeat polls after he failed to form a government following the April 9 elections. Netanyahu's meeting with Modi could be just another photo-op to project his acceptance worldwide and prop up his campaign just before the polls. But from India's point of view it is corralling an important ally and reaffirming relations with its biggest defence supplier.

■ October: In October, 2018, Prime Minister Narendra Modi visited Japan for the India-Japan Annual Summit. This year, it is India's turn to host the summit and Prime Minister Shinzo Abe is expected to come to India (possibly Varanasi again, or some other city) to attend the summit. Not only are India-Japan

relations on fast track but the two countries are cooperating in third countries as well: building a cancer hospital in Kenya together, for example. Japan is working on several infrastructure projects in north east India.

■ November: Will he keep his promise? President Donald Trump accepted an invitation from Prime Minister Modi to visit India when the two leaders met in June. The last time India invited him (for the Republic Day in 2018) Trump turned it down because of the State of the Union address which clashed with the Indian event. Now, a possible date is November or early January. His visit is especially important because of the discord on trade and the possibility of US sanctions following India's negotiation for purchase of the S 400 missile defence shield from Russia which has the potential of inviting sanctions on India.

a thing, because everyone thought that having vanquished the LTTE, people would live in peace, irrespective of their religion. With this, the country suddenly found itself in a different direction, like the 9/11 incident in the US. This has served as a good warning to us to be vigilant and to do whatever is possible to control and eradicate this problem in a proper, systematic way.

As a result, the government announced a National Plan on Preventing and Countering Violent Extremism in Sri Lanka. So we are working on that. We are going to study other concepts and experiences of other countries in this area and adopt best practices to control and eradicate violent extremism without creating any problems for the Muslim community in Sri Lanka.

The Muslim community is saying earlier they were sandwiched between the Tamil extremists and the Sri Lankan Army. Now, it is feeling pressure from those forces which want Sri Lanka to be an assertive Buddhist majority state; and on the other side, forces of Wahhabi Islam...

Muslims have been living in Sri Lanka for a long time without any problems. But this Wahhabism and new concepts have been brought into Sri Lanka in the last three or four years. Among Muslims there are some groups which are extremist groups. So we are working with the moderate traditional groups that are against this extremism and taking their help to educate people that we cannot have another war in Sri Lanka. Our development has already suffered because of the events in the North and East. Before the Easter Sunday attacks, Sri Lanka was the number one destination for tourists. Now we are working on a plan so that Sri Lanka is a peaceful country for all Sri Lankan, irrespective of religion or race.

This extremism is the belief of only a small group of Muslims. 90 per cent of Sri Lankan Muslims are moderate and want to get on with their life and business.

The blasts occurred on April 21. Within one month, our armed forces, police and other agencies had the situation under control. 90 per cent of the people who planned the incidents were apprehended.

What about the other side of it: the pressure from the Sinhala Buddhist community that Sri Lanka must become more Buddhist and less 'secular'?

Actually, like the extremist elements in the Muslim groups, there are also extremists among Buddhist groups. But it is a very small percentage. 99 per cent of Sri Lankans are for peaceful living and co-existence with other communities.

We are working on that also: To make them understand and to implement strict law and order with exemplary punishment for people who make hate speeches and those who try to provoke other communities and religions.

74 per cent of Sri Lankans are Buddhist. And Lord Buddha taught us non-violence.

In the neighbourhood in south Asia, when the political leadership has been weak, the Army has felt tempted to intervene and to set things right. We're seeing evidence of weak political leadership in Sri Lanka, most visible in the handling of events leading up to Easter Sunday. So, are you seeing a danger of any kind of an army intervention?

Sri Lanka Army has been a very disciplined army throughout its history. So I don't foresee any such move by the Army because although we are a victorious Army, we are, at the same time, highly disciplined and professional. We expect that the political leaders will respect democracy. Except for one or two occasions a long time back, the Army has never intervened in politics.

There was a time, soon after the war, when the army had the highest support from the general public. But even then, our military leaders did not try to resort to any adventurism. So I don't foresee anything like this.

The one thing that is worrying about Easter Sunday is that the people who carried out this attack were not poor, uneducated people who were ready to become cannon fodder because they had nothing to lose. They were people who were educated, wealthy and respected in the community...

If you take the LTTE, most of them were poor and uneducated. Many of their cadres were also the lowest castes in the Tamil social order. Those who conspired to mount the Easter Sunday attacks were educated people from wealthy families who have studied in both Sri Lanka and overseas.

I had the opportunity to speak to one of them who had a serious involvement in the conspiracy. This young man — around 22 or 23 — had studied in one of the leading schools in Sri Lanka, is from a very wealthy family and was sent to Australia for further education. There, he used to go to a mosque where he met a middle-aged Muslim — not a Moulvi, but a strong committed Muslim. He got friendly with this man and told him about his family, his background, etc. This middle aged man told him: 'God has given you everything in your life. Your parents are very wealthy, you've had the opportunity to study in the best institutions, you live a luxurious life. Back in history, Muslims controlled the whole world. But gradually, Christians, Hindus and Buddhist supplanted the Muslims. Why not do something that will bring Islamic glory back in the world? Why not be grateful to God and do something for your religion?' Thereafter, this young man was shown certain videos, showing Muslim youth fighting. Now, this is a young man. After seeing the videos he got really motivated. That's one way of indoctrination.

We say social media plays a big role in radicalisation. But that's not the only way. Glorifying killing through psychological indoctrination is another way. And we are pledged to counter all forms and methods of radicalisation.



DHARSHANA HETTIARACHCHI

Major General, Sri Lanka Army



Abhishek Yadav's foundation Abhiself Protection Trust trains these girls under the "Meri Raksha, Mere Haathon Mein" programme

any female to be left out to deter potential attacks just because of their financial position," Yadav added.

When asked about his future plans, he said he wants to set-up an academy in New Delhi and wants to keep on empowering more women both in the national capital and throughout the country. "What started as a means to get back and get even with fellow schoolmates is helping me bring about a change in the country and helping women raise voice against injustice."

Yadav's foundation Abhiself Protection Trust trains these girls under the "Meri Raksha, Mere Haathon Mein" programme. The foundation coaches girls free of cost and is all set to create the Guinness World Record by training 21,000 women from schools, colleges and police in Mumbai by December.

Making India incredible

Indian tourism needs infrastructure and security upgrades

Prime Minister Narendra Modi has exhorted his compatriots to visit at least 15 Indian destinations by 2022. Prima facie, this is a good suggestion, not least because it could stimulate one sector of the economy when most others are waning. But Mr Modi may be putting the tourist cart before the infrastructure and security horses. From heritage to nature, cuisine to culture, India offers an infinite variety that no other country can offer — facets that the Incredible India campaign captures so well. Accessing the bulk of these tourism assets in a safe, hygienic and reasonably comfortable environment, how-

ever, remains the challenge. Bar the traditional tourist states of Rajasthan and Kerala, and some pockets elsewhere, tourism in India can be a frustrating and unsatisfactory experience. Nothing reflects this better than a trip to the country's most visited monument, the Taj Mahal. It is located in one of India's most grungy cities. Uttar Pradesh's chief minister has had much to say about this wonder of the modern world but has not felt it necessary to emulate the PM's drastic clean-up of the ghats in his constituency of Varanasi.

A visit to the monument involves negotiating long queues and surly, unhelpful

staff. There are no controls on the number of people allowed in, so that burgeoning unruly crowds in the manicured lawns vitiate the quality of the visit. The entire experience is a marked contrast to a visit to the Great Wall of China, which received 10 million visitors last year against the Taj Mahal's 8 million. Though road and train links to the Taj have improved as has hotel accommodation in Agra, this cannot be said of most other places in India. The Northeast, for instance, with its unparalleled biodiversity and tribal culture, remains mostly inaccessible by any transport link. According to the tourism ministry data, India has just 1,800-odd hotels/guest establishments offering 90,000 rooms; the bulk of them are in the five-star category, outside the reach of most domestic travellers. Air travel is expensive and travelling by train and bus involves an exercise in suppressing all sensory perceptions.

Security, political and personal, is the other dimension of the problem. Political turmoil keeps tourists away from such destinations as Jammu & Kashmir and the Northeast. It is possible for women and foreigners to travel in Europe, the US, and Southeast Asia, using public transport without fear of being molested or robbed. Few locations in India can make similar claims. Indeed, the former haven of Goa has seen a marked deterioration of law and order. The result of this inadequate policing is to raise tourism costs: Those who can afford it will pay premiums for exclusive and secure transport and hotels. When compared to the hassle-free *bandobast* available in competing destinations in Asia — Sri Lanka, Nepal, Bhutan, Vietnam, Malaysia, and Singapore — India loses out. It speaks volumes for the lost opportunities of domestic tourism, which the data from the United Nations'

World Tourism Organization (UNWTO) shows. It puts India second only to China as the world's fastest-growing outbound tourism market. Some 50 million Indians are expected to travel abroad in 2020.

The UNWTO rightly attributes this outbound surge to the greater affluence of the middle class. The fact that the upwardly mobile do not feel it incumbent upon themselves to explore their own country is partly a reflection of these constraints. True, domestic tourism has been growing at a pace far faster than inbound tourism, but much of it is of the low-spending variety (pilgrimages and so on) that does not yield the kind of surpluses needed to bring India's tourism destinations up to international standards. But without those upgrades, India will forever remain a country with an embarrassment of under-exploited tourist riches.

Designing a social stock exchange

Distilling key global learnings will be vital in ensuring that the Indian initiative is positioned for success in helping social enterprises and non-profits to raise funds

ROOPA KUDVA & RAAHIL RAI

During her Budget presentation, Finance Minister Nirmala Sitharaman proposed a social stock exchange (SSE) under the regulatory ambit of the Securities Exchange Board of India (Sebi) to support social enterprises and non-profits in raising funds. SSEs can be helpful in bringing in significant additional capital to support entrepreneurs working to improve the lives of underserved populations, thereby accelerating inclusive growth.

Currently, there are no dedicated online information or investment platforms to serve "for-profit" social enterprises. As for non-profits, it is estimated that there are about 3.1 million non-government organisations (NGOs); 25 per cent are engaged in religious activity, 22 per cent in community service, 20 per cent in education, 18 per cent in sports and culture, and 7 per cent in health services, according to research conducted by McKinsey for Omidyar Network India.

Some privately-owned crowdfunding platforms for non-profits do exist, but cover only a small fraction of NGOs. There are a couple of information and accreditation platforms — GuideStar verifies, certifies, lists, and provides information on NGOs for potential donors. It has certified about 1750 NGOs. GiveIndia connects donors to causes they care about and lists about 500 NGOs on its platform, of which about 200 are 'GiveAssured', i.e. periodically accredited by GiveIndia.

Globally, at least ten SSEs have been set up, including in Canada, the UK, Singapore, Kenya, South Africa, Brazil, Portugal, Mexico, Austria and Jamaica. They differ by (i) types of organisations listed — "for-profit" vs non-profit; (ii) services offered — directory-only, matching funders and organisations and providing for direct online fund-raising; (iii) ability to trade securities — currently only 12 companies on UK's SSE can trade; (iv) methodology for accreditation of organisations and investors; and (v) the ability of retail investors to participate. Distilling key global learnings will be vital in ensuring that the Indian initiative is best positioned for success.

What are some of the initial considerations in thinking about an Indian SSE?

The funding process has several components: Information availability, matching of funders and organisations, accreditation/certification, fund-raising, and trading of securities. Currently, Indian stock exchanges enable trading of listed securities and reduction of information asymmetry between funders and recipients. They do not provide matching and certification services. Therefore, at the outset, clarity about which components of the fund-raising process the SSE is trying to address is important. We then need to examine whether all these activities are permissible under the current regulatory framework of Sebi and the stock exchanges.

A two-pronged approach would be required in conceptualising an SSE, since the issues relating to "for-profit" social enterprises and non-profit organisations are very different.

In the case of "for-profit" social enterprises, a SSE can potentially help in raising their profile and visibility, attracting new equity and debt funders. However, the definition of a "social enterprise" needs careful thought. Our experience in working with 50 early-stage social entrepreneurs has shown that not all purpose-driven entrepreneurs want the "social entrepreneur" tag, to avoid the risk of such a classifica-



tion resulting in lower valuations. A SSE can be particularly useful for social enterprises which are not "venture investment-like" and offer more modest financial returns.

We also need to understand whether special measures are needed for "for-profit" social enterprises or if the regulatory provisions that already exist for smaller companies to raise equity and debt are adequate. An assessment of how effective the current provisions are and what efforts are required to enable social enterprises to fully leverage them would be useful.

For non-profits, a SSE can enable fund-raising as well as information on operations and financials through standardised reporting. Ideally, certifications and accreditations should be provided by independent organisations outside the SSE. In a survey conducted by The Bridgespan Group, over 60 per cent non-profits cited limited funding as a moderate or significant constraint to scale. A fund-raising platform that has regulatory oversight can improve credibility and help ameliorate the difficulties non-profits face in fund-raising. For donors, high quality and standardised reporting can boost confidence to provide more funding. If common minimum standards

were established as eligibility criteria for listing (such as annual statements in standard formats) the greatest impact would be improvement of organisational practices, as non-profits would be incentivised towards this. Moreover, a market for supporting non-profits to improve practices will develop. This will increase funding flows, and eventually support non-profits in scaling up.

A realistic and multi-year phased rollout of standards is desirable, or else most non-profits may find it too onerous to list on a SSE. Non-profit organisations are predominantly very small — seven out of 10 have one or no full-time staff — with very limited budgets. Other considerations for an SSE include the ownership, operating model and institutional structure. For example, can it be housed under the current stock exchanges, or is a separate institution required and desirable?

India is already a hub for social innovation. We now have an opportunity to be thoughtful about the above considerations and build a globally unique approach for robust and effective social stock exchanges.

Roopa Kudva is managing director and Raahil Rai is chief of staff at Omidyar Network India, an investment firm focused on social impact

There are price linkages between the offshore and onshore markets. During the depreciation of the rupee in 2013, the offshore market disrupted the domestic market for forex

While the empirical evidence across countries is not definitive on whether onshore prices are affected by NDF or vice versa, the two are certainly associated. The report affirms that there are price linkages between the offshore and the onshore market, where the former influences the latter during periods of exchange rate pressure. This is intuitive, since during periods of pronounced external imbalances the offshore market may fully price expectations that are not priced into tightly regulated onshore markets.

The task force has proceeded on the basis that the existing framework for capital account management will continue. The persistence of controls implies that the market for NDF will not dissipate. Therefore, the challenge is to increase the RBI's reach in offshore markets that are at the moment highly liquid and concentrated in jurisdictions such as London, Singapore and Dubai. The main concern for policymakers is that information on trades in these markets may not be fully observed. An accurate estimation of these trades and, therefore, of exchange rates can be useful for better exchange rate management.

International experience tells us that varied approaches can be adopted to deal with offshore markets. It could entail allowing domestic agents to participate in offshore markets or bringing the market onshore by calibrating restrictions on participation. Even within these two broad

How to manage the offshore rupee market

SURANJALI TANDON

The Reserve Bank of India (RBI) task force on offshore rupee markets recently submitted its report. The rationale for the existence and use of offshore markets for foreign exchange is rooted in capital controls. The expansion in cross-border capital flows coupled with capital controls led to the demand for non-deliverable forwards (NDF) on the part of those who have restricted access to onshore forwards markets and seek to hedge foreign exchange rate movements. Expectedly, the market is dominated by Asian and Latin American currencies subject to convertibility constraints.

The market for rupee NDF took off during the 1990s and has expanded since. Though it is difficult to measure fully, the Bank of International Settlements (BIS) estimated the average daily turnover in the offshore market for the rupee at \$16.42 billion in 2016, compared to the total foreign exchange over the counter market turnover of \$34.94 billion. Given the size of the offshore market, it can have ramifications for exchange rate management by the RBI. For example, during the steep depreciation of the rupee in 2013, it was argued that the NDF market disrupted the domestic market for foreign exchange. Such an impact rests heavily on the premise of a feedback loop between offshore and onshore prices.

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alternatives the design of the solution is nuanced across developing countries and, admittedly, must be tailored to the needs of the economy. Given that India remains committed to capital controls, the dilemma for policymakers is how to bring this market to India while keeping NDFs and onshore markets segmented.

The International Financial Services Centre (IFSC) offers a reasonable solution to this problem, since capital controls under the Foreign Exchange Management Act, 1999, do not apply. As for segmenting the two markets, it is recommended that allowing only certain approved entities and distinct net open positions should be allowed, and domestic banks should be restricted from participating. In principle, the proposal seems tenable, but the main consideration remains — how to incentivise the shift of offshore volumes to IFSC. Unless a specific gain is foreseeable from shifting the activity to IFSC, a fund or an investor may continue to operate in international financial centres such as London.

Other than extending market hours and easing KYC norms, the report predictably recommends greater tax certainty and incentives. In so far as clarity in the application of the law is concerned, it has been repeatedly observed to be uncertain, and the point is well taken. A definite method must be prescribed for classification of income derived from currency derivatives, though the extent of this problem for tax-exempt entities in IFSCs is not clear. Further, the recommendation that the tax regime be aligned with offshore financial centres is ambiguous.

For one, each country taxes income from derivative trading differently. Often, for the purpose of tax planning, funds operating in derivative markets are domiciled in low-tax jurisdictions. One study estimates that in 2015, a fourth of global hedge funds were legally registered in the Cayman Islands. Other structures being used include tax transparent entities. Further, tax exemption is already in place for units operating within the IFSC. To add to this, in the recent Budget, category III Alternative Investment Funds, which includes hedge funds operating in the IFSC, were also exempted from capital gains. Therefore, many incentives are already in place and to offer anything additional, if at all possible, may not be sound from the point of view of the domestic market or other financial instruments.

As is clear, the case for bringing the NDF market to the IFSC is to better manage the exchange rate. Given that the commitment to capital account management will continue, the IFSC is the only reasonable alternative. However, the extent to which the offshore markets move to the IFSC remains to be seen.

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OTHER VIEWS

Foreign investors finally have something to cheer about

Sebi's liberalised norms for FPIs will make Indian markets attractive

On Wednesday, the Securities and Exchange Board of India (Sebi), based on the recommendations of the HR Khan committee, eased several regulatory restrictions that are likely to make life easier for foreign portfolio investors (FPIs). Among a slew of measures, the financial markets regulator has simplified the registration process for FPIs by doing away with the broad-based eligibility criteria, which required a minimum of at least 20 investors in a foreign fund, and certain documentary requirements. FPIs can now also engage in the off-market sale of their shares with fewer restrictions. Further, Sebi has allowed entities registered at an international financial services centre to be automatically classified as FPIs. These measures to cut red tape will help lower the regulatory burden on investors, globalise India's financial markets, and aid the growth of the broader economy by increasing access to growth capital.

Capital in excess of ₹20,000 crore has left Indian shores in the last few weeks after Finance Minister Nirmala Sitharaman's budget decision to increase taxes on FPIs. Policymakers were clearly under pressure to do something to allay the fears of foreign investors, so the timing of Sebi's move is no surprise. But given the broader trend of capital flowing out of emerging



markets across the world, it remains to be seen whether Sebi's present move will yield immediate benefits. Even if it fails to do so, the move will still help Indian markets become more attractive to foreign investors in the long-run.

The Hindu, August 23

Contain the NBFC crisis

Framework for quick resolution needed

Earlier this week, Dewan Housing Finance Corporation Ltd (DHFL) defaulted on its repayment obligations to the tune of ₹1,571 crore. Clearly, NBFCs/HFCs continue to struggle to repay their loan obligations and raise low-cost funds. As credit flow through this channel has slowed down, the ripple effects are being felt in the broader economy. One way, perhaps, to have contained the crisis, and prevent it from spreading throughout the financial sector, engulfing mutual funds as well, would have been through quick and orderly resolution/liquidation of firms in trouble. But the resolution framework, as it exists, makes it difficult to close down financial firms such as banks and NBFCs.

The resolution/liquidation

of financial firms is a challenging process as, unlike in the case of non-financial firms, there are depositors to deal with. The inter-linkages between financial firms and the broader economy complicate matters. As the events of the past few months show, there is a need for regulators to step in quickly. Delays in recognition and failure to act in time lead to higher losses. A long drawn out insolvency process for financial firms, as in the case of IL&FS, can have far-reaching ramifications for the economy. In comparison, an early resolution can lessen the impact of firm failure on the economy, and lead to more efficient allocation of capital.

The Indian Express, August 23

'Unpatriotic' Indians?

Unfair epithet for large families

Students of patriotism may find some of the lessons imparted by leaders of the Bharatiya Janata Party to be truly mystifying. Take, for instance, the new spin that the prime minister gave on the subject while addressing the nation on this year's Independence Day. Expressing legitimate concern on the challenges posed by India's massive population — the country is set to overtake China as the most populous nation in the world — Narendra Modi seemed to have suggested that the minuscule segment of Indians who decided to keep the size of their brood small are patriots. But is the prime minister implying that those — a fairly large number of Indians — with large families

are unpatriotic? Such a suggestion is problematic and unfair. It could also be perceived as a rather ingenious way of absolving successive administrations of their responsibilities. A combination of illiteracy, social orthodoxy and economic prerogatives may have forced individuals to raise large families. Shallow investments in education, awareness as well as poorly thought out family control initiatives — has India forgotten the dark chapter of forced sterilisations of the poor? — have exacted a steep price on the nation and its people. What India needs is a united and robust response to check population growth.

The Telegraph, August 23