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India-Nepal Relations

News: Nepal Prime Minister Pushpa Kamal Dahal “Prachanda” is on a 4-day visit to India and key agreements were made.

Background of Visit:

- The visit happens in the backdrop of a controversial amendment to Nepal’s citizenship law that grants citizenship and guaranteed political rights to women foreigners who marry Nepalis. It will enable Indian women in the Terai region who marry Nepali men to become citizens without the earlier seven-year cooling-off period.

About:

- India and Nepal share a cordial relationship under the **India-Nepal Treaty of Peace and Friendship, 1950** and its provisions. This treaty allows free movement of people and goods between the two nations.
- A **long-term Power Trade Agreement** has been signed between India and Nepal. Under this agreement, both nations have set a target of importing 10,000 MW of electricity from Nepal in the coming years.
- A new pipeline will be constructed from Siliguri to Jhapa in eastern Nepal.
- Other important agreements include - An MoU for the development of the Phukot Karnali Hydroelectric Project, A Project Development Agreement for the Lower Arun Hydroelectric Project, The revised Treaty of Transit under which Nepal will get access to India’s inland waterways and the Agreement for the export of Nepal’s hydropower to Bangladesh through Indian territory.
- Inauguration of integrated checkposts (ICPs) at Nepalgunj in Nepal and Rupaidiha on the Indian side, Inaugurated a cargo train from Bathnaha in India to Nepal Customs Yard and the rail link was built with an Indian grant.



Some challenges in India-Nepal relations:

- **Territorial disputes** – Claim by Nepal over 3 areas in Uttarakhand – Kalapani, Limpiyadhura and Lipulekh.
- Nepal has been **moving away from India’s sphere of influence** in recent years, and China has been filling the void with investments, aid, and loans.
- **Smuggling of weapons, and drugs** by terrorist and insurgency groups in the North-East via Nepal.
- **Chinese investments are replacing Indian investments.** In 2019, for instance, China accounted for approximately 40% of new FDIs against India’s 30%.
- India’s perceived “**micro-management**” in Nepal, as Prachanda once called it, does not go down well.
- While Indian companies have ongoing projects in Nepal but they are slow in execution. As a result, other nations have chipped in and the trust gap between India and Nepal has only increased.

Conclusion

- India and Nepal share age-old civilisational ties. Nepal is crucial for India’s economic and strategic interests. A friendly and favourable Nepal will act as a vital buffer between India and an increasingly aggressive China.

Source – Indian Express, ORF

Rare Earth Permanent Magnets

News: PM Modi recently dedicated the Rare earth permanent magnet plant in Vizag to the nation.

What are Permanent Magnets?

- A permanent magnet is a type of magnet that can create a magnetic field without needing any external power source. It is called “permanent” because once it is magnetized, it can maintain its magnetism for a long time.
- Permanent magnets are usually made from certain types of metals or alloys, such as iron, nickel, and cobalt, or rare earth elements like neodymium and samarium.

What are Rare Earth Permanent Magnets?

- Rare earth permanent magnets are a type of permanent magnet that is made from rare earth elements. Rare earth elements are a group of seventeen chemical elements in the periodic table, including elements such as neodymium, samarium, and dysprosium.
- Applications – Telecommunication, Avionics, Weaponry, Micro-electronics, wind turbines. Aeroplanes etc.
- This landmark development is a huge step in the direction of 'Atmanirbhar Bharat' as up to now most of our needs for this critical item were being met through imports only
- The magnet plant was constructed for IREL (India) Limited. As per the statement, the plant will use the **reduction-diffusion technique**, developed by BARC.

What is the reduction-diffusion technique?

- The Reduction Diffusion Technique is a process used by the Bhabha Atomic Research Centre (BARC) for the **production of enriched uranium**.
- The reduction-diffusion technique is a well-established method for producing enriched uranium and is one of the methods used by BARC for its nuclear fuel cycle activities.

Source – PSUWatch, TOI, DRDO Website

Hunger Hotspots

News: According to a recent report by Food and Agriculture Organization (FAO) and World Food Program (WFP) Hunger Hotspots – FAO-WFP early warnings on acute food insecurity, India’s neighbours, **Pakistan, Afghanistan and Myanmar**, are among the hunger hotspots in the world.

Key Findings:

- There are 18 areas in 22 countries where acute Food Insecurity may increase in magnitude and severity. **Pakistan**, the Central African Republic, Ethiopia, Kenya, the Democratic Republic of the Congo and the Syrian Arab Republic are hotspots with **very high concern**.
- **Afghanistan**, Nigeria, Somalia, South Sudan and Yemen remain at the **highest concern level**.
- Weather extremes, such as heavy rains, tropical storms, Cyclones, Flooding, Drought and increased climate variability, remain significant drivers in some countries and regions.
- Deepening economic shocks and likely El-Nino continue to drive low- and middle-income nations deeper into crisis.

Key Recommendations:

- **Emergency Actions** - Sustain humanitarian assistance, including food assistance and agricultural inputs. Nutrition-related and agricultural livelihoods programmes.
- **Anticipatory actions** - Support the upcoming cultivation with **harvesting packages**, Support the establishment of **green corridors** between rural and urban centres to encourage safe spaces to sell produce and **Implement cash-for-work activities** by supporting harvesting activities, to provide income sources for farmers.
- Establish a local nutrition surveillance system to monitor the deterioration of the nutrition situation, especially in high-risk areas.

- Build the capacity of national and provincial disaster-management authorities on the inclusion of forecast-based financing and risk insurance.

Source – Down to Earth

Evergreening of Loans

News: Recently, Reserve Bank of India (RBI) Governor Shaktikanta Das raised red flags over banks adopting innovative methods for evergreening of loans – covering up the real status of stressed loans of corporates – to project an artificial clean image in cahoots with corporates.

What is the Evergreening of loans?

- Evergreening loans, a form of zombie lending, is a practice of extending new or additional loans to a borrower who is unable to repay the existing loans, thereby concealing the true status of the non-performing assets (NPAs) or bad loans.
- Evergreening loans can create a false impression of the asset quality and profitability of banks and delay the recognition and resolution of stressed assets.
- It can also undermine the credit discipline and moral hazard among borrowers, and erode the trust and confidence of depositors, investors and regulators.

What are the approaches followed?

- Selling and buying back loans or debt instruments between two lenders to avoid classifying them as NPAs.
- Persuading good borrowers to enter into structured deals with stressed borrowers to hide their default.
- Using internal or office accounts to adjust the repayment obligations of borrowers.
- Renewing or disbursing new loans to stressed borrowers or related entities closer to the repayment date of earlier loans.

Are Loan write-offs and Evergreening the same?

- Loan write-offs are a **process of removing bad loans** from the books of banks after making adequate provisions for them.
- Loan write-offs **do not mean** that the borrowers are relieved of their repayment obligations or that the banks stop pursuing recovery from them.
- Loan write-offs are done to clean up the balance sheet of banks and reflect their true financial position.
- Evergreening of loans, on the other hand, is a practice of **extending new or additional loans** to a borrower who is unable to repay the existing loans, thereby concealing the true status of the non-performing assets (NPAs) or bad loans.

How can the Evergreening of loans be controlled?

- Financial institutions should adopt robust risk assessment practices to evaluate the creditworthiness of borrowers accurately.
- Transparency is crucial in preventing the evergreening of loans. Lenders should provide accurate and timely information on their loan portfolios, including non-performing loans (NPLs) and loan restructuring.
- There is a need to emphasize the importance of asset-liability management (ALM), ALM involves assessing and monitoring the potential risks arising from the maturity mismatch between assets and liabilities, interest rate fluctuations, and other market risks.
- There is a need for banks to comply with ESG (Environmental, Social, and Governance) norms as they are becoming increasingly relevant for investors and stakeholders.
- As noted by Committee to Review Governance of Board of Banks in India headed by PJ Nayak, if significant evergreening is detected by RBI supervisors, it must mean that evergreening is wilful, with support from sections of the senior management of the bank. It then becomes necessary to levy penalties and action against the erring officers.

Sedition Law

News: The 22nd Law Commission has presented its report on 'Sedition law' to the government stating that Section 124A of the Indian Penal Code (IPC) needs to be retained but certain amendments could be made for greater clarity regarding its usage.

What is Sedition?

- Sedition is overt conduct, such as speech and organization that tends toward rebellion against the established order.
- Sedition often includes subversion of a constitution and incitement of discontent toward, or insurrection against, established authority.
- Sedition may include any commotion, though not aimed at direct and open violence against the laws.

Key Highlights of Report:

- The Law Commission has analysed that sedition being a '**colonial legacy**' is not a valid ground for law repeal but in view of the misuse of Section 124A.
- The panel has recommended that the **Centre should issue model guidelines** to curb any misuse.
- They also suggested that a provision analogous to Section 196(3) of the Code of Criminal Procedure, 1973 may be incorporated as a proviso to Section 154 of CrPC, which would provide the requisite procedural safeguard before filing of an FIR with respect to an offence under Section 124A of IPC.
- They also mentioned that in the absence of a provision like Section 124A of IPC, any expression that incites violence against the government would invariably be tried under the special laws and counter-terror legislation, which contain much more stringent provisions to deal with the accused.

What does Section 124A of IPC say?

- The sedition law is enshrined in Section 124A of the Indian Penal Code (IPC).
- Thomas Macaulay, who drafted the Indian Penal Code, had included the law on sedition.
- According to the section 124A, the charges could be put on whomever, by words, either spoken or written, or by signs, or by visible representation, or otherwise, brings or attempts to bring into hatred or contempt, or excites or attempts to excite disaffection towards, the Government established by law in India.
- He/she shall be punished with imprisonment for life, to which a fine may be added; or, with imprisonment which may extend to three years, to which a fine may be added; or, with fine."
- The provision also contains three explanations:
- The expression "disaffection" includes disloyalty and all feelings of enmity;
- Comments expressing disapprobation of the measures of the Government to obtain their alteration by lawful means, without exciting or attempting to excite hatred, contempt or disaffection, do not constitute an offence under this section;
- Comments expressing disapprobation of the administrative or other action of the Government without exciting or attempting to excite hatred, contempt or disaffection, do not constitute an offence under this section.

Legal Challenges to existing provision for Sedition:

- As early as 1950, the **Supreme Court in Romesh Thapar v State of Madras** held that "criticism of the government exciting disaffection or bad feelings towards it, is not to be regarded as a justifying ground for restricting the freedom of expression and of the press.
- Subsequently, two high courts— the Punjab and Haryana High Court in **Tara Singh Gopi Chand v. The State** (1951), and the Allahabad High Court in **Ram Nandan v. State of Uttar Pradesh** (1959) — declared that **Section 124A** of the IPC was primarily a tool for colonial masters to **quell discontent in the country** and **declared the provision unconstitutional**. However, in 1962, the issue came up before the Supreme Court in **Kedarnath Singh v State of Bihar**.

Facts for Prelims

Flavanols

News: A team of researchers recently discovered that a diet low in flavanols – a type of nutrient found in a variety of fruits, vegetables, and beverages such as tea, cocoa, or wine – plays a fundamental role in driving age-related memory loss.

What are Flavanols?

- Flavanols are a group of compounds found in cocoa, tea, apples, and many other plant-based foods and beverages.
- There is a growing body of evidence suggesting that a diet rich in flavanols can have a positive impact on cardiovascular health.
- Their health attributes are often attributed to their **antioxidant, anti-inflammatory, and immune-boosting properties**.

Manufacturing Purchase Index

News: The S&P Global India Manufacturing Purchasing Managers' Index (PMI) surged to a 31-month high of 58.7 in May, with factory orders rising at the fastest clip since January 2021.

What is PMI?

- It is a survey-based measure that asks the respondents about changes in their perception of key business variables as compared with the previous month.
- The purpose of the PMI is to provide information about current and future business conditions to company decision-makers, analysts, and investors.
- It is calculated separately for the manufacturing and services sectors and then a composite index is also constructed.
- The PMI is a number from 0 to 100. A score above 50 means expansion, while a score below that denotes contraction.
- A reading of 50 indicates no change.

Key Findings:

- Sector-wise performance - Overall business confidence levels about growth prospects continued to improve after hitting an eight-month low in March
- Overall improvement in the health of the sector was the strongest since October 2020.
- Demand-driven inflation is positive thus creating challenges for the economy and opening the door for more interest rate hikes.