PLUTUS IAS

CURRENT AFFAIRS

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PRELIMS BIT: THE DEEP DIVE INTO THE ECB"

WHY IN THE NEWS

India's investment ecosystem and external commercial borrowings (ECBs) have significantly developed over the past few years. The recent report by the State Bank of India (SBI) has highlighted trends in investment announcements, the private sector's contribution, and the role of ECB in corporate financing.

DEFINITION:

External Commercial Borrowings (ECB) are commercial loans raised by eligible resident entities from recognized non-resident entities. They adhere to regulatory parameters such as minimum maturity, all-in-cost ceiling, and permitted and non-permitted end-uses. ECBs are governed under FEMA Notification Nos. 3R & 8.

Hedging Status of ECB Loans -Sep-22 vis-à-vis Sep-24 (US$ bn)		
Description	Sep-22	Sep-24
A. ECB – Total outstanding	173.5	190.4
B. ECB – INR denominated	15.1	15.3
C. ECB – FDI Companies' borrowings from foreign parent	28.4	32.5
of which, (a) INR denominated	10.8	12.4
(b) FCY denominated	17.6	20.1
D. ECB – Non-Rupee and non-FDI [=A-B-C(b)]	140.7	154.9
E. Hedged non-Rupee non-FDI ECBs (i.e., D above)	61.6	89.5
F. ECB – unhedged {D-E}	78.9	65.5
G. Percentage share of unhedged ECB {(F)/(A)*100}	45.5	34.4

ECB CRITERIA:

Eligible Borrowers: All entities except Limited Liability Partnerships (LLPs) can raise ECB.

Eligible Lenders:

Resident of FATF (Financial Action Task Force) or IOSCO-compliant country.
Multilateral/regional financial institutions where India is a member.
Foreign equity holders (for specific ECB purposes).
Foreign branches/subsidiaries of Indian banks (only for FCY ECB).

Minimum Average Maturity Period (MAMP):

General ECB: 3 years.
Foreign equity holder ECB for specific purposes: 5 years.
Manufacturing sector ECB (up to INR 3.5 billion per FY): 1 year.

Currency Options:

ECB can be raised in Indian Rupees (INR) or any freely convertible foreign currency.

MODES OF RAISING ECB:

Automatic Route: AD Category-I Bank examines and approves the case. The application, along with Form ECB, is sent to RBI for Loan Registration Number (LRN) issuance.

Approval Route: The borrower applies through AD Category-I Bank to RBI for approval. The application is considered based on macroeconomic conditions and the merits of the proposal.

TYPES OF ECB:

Loans
Securitized instruments
Buyers' and Suppliers' credit
Foreign Currency Convertible Bonds (FCCBs)
Foreign Currency Exchangeable Bonds (FCEBs)
Financial Lease

ALLOWED SECTORS FOR ECB USE:

Infrastructure sector (as per the Harmonized Master List).
Shipping & airline companies (for import of second-hand vessels/aircraft under Track I).
Manufacturing sector (ECB up to INR 3.5 billion per FY can have a 1-year MAMP).
General corporate purposes & working capital (only under Track III).

NON-PERMITTED END-USES OF ECB:

Real estate activities.
Purchase of land.
Investment in the capital market.
Import of services.
Refinancing of Rupee-denominated ECB under Track II.
Payment of overdue import bills (Track I ECBs only).
Contribution to Limited Liability Partnerships (LLPs).

REGULATORY COMPLIANCE & REPORTING:

Loan Registration Number (LRN): Required before any ECB draw-down.
Changes in ECB Terms: Must be reported to RBI via Revised Form ECB within 7 days.
Hedging Requirements: Certain entities (NBFCs, Holding Companies, Core Investment Companies) must hedge 100% of ECB exposure if MAMP is less than 5 years old. AD Category-I Bank verifies compliance and reports to RBI via ECB 2 returns.
Conversion of ECB into Equity: Subject to FDI sectoral cap. Reported via Form FC-GPR and ECB 2 Return.
Monthly Reporting: ECB transactions must be reported via ECB 2 Return to RBI within 7 working days of the end of the month.

COMPARISON OF ECBS AND FDI

Feature	External Commercial Borrowings (ECBs)	Foreign Direct Investment (FDI)
Type	Debt financing	Equity financing
Structure	Debt instrument raised from foreign investors	Foreign money invested in equity capital
Purpose	Used for capital expansion and modernization	Helps foster economic growth in both host and investing country
Permitted Uses	Infrastructure, manufacturing, corporate purposes	Investment in business operations and assets
Repayment	Has a fixed repayment schedule with interest	No fixed repayment; returns depend on business performance
Interest Cost	Interest payments required	No direct interest cost, but profit-sharing or dividends apply
Exchange Rate Risk	Can impact repayment costs	Shared between investor and investee company
Control & Ownership	No impact on ownership	Foreign investors may gain significant control
Maturity	Fixed maturity period	Long-term investment with no fixed maturity

Regulation	Subject to RBI regulations	Subject to government policies and sectoral caps
Impact on Balance of Payments	Increases external debt and impacts balance of payments	Improves capital account balance
Sectoral Focus	Various sectors as per RBI guidelines	Sector-dependent based on government policies and investor preference
Risk Factors	Exchange rate fluctuations, regulatory changes	Capital outflows if profits are not reinvested
Benefits	Access to foreign capital at competitive rates	Boosts job creation, infrastructure, and economic development
Examples	Indian companies raising loans from foreign banks or issuing bonds in overseas markets	Foreign companies setting up manufacturing facilities or acquiring stakes in Indian companies

PRELIMS QUESTIONS:

Q. Consider the following statements:

1. External Commercial Borrowing (ECB) and FDI are both a debt investment in Indian markets.
2. The ECB is prohibited in the real estate sector, while the FDI is allowed in the Real estate sector.]
3. The Ministry of Finance regulates the ECB, While the RBI regulates the FDI.

How many of the statements given above are correct?

(a). Only one
(b). Only two
(c). All three
(d). None

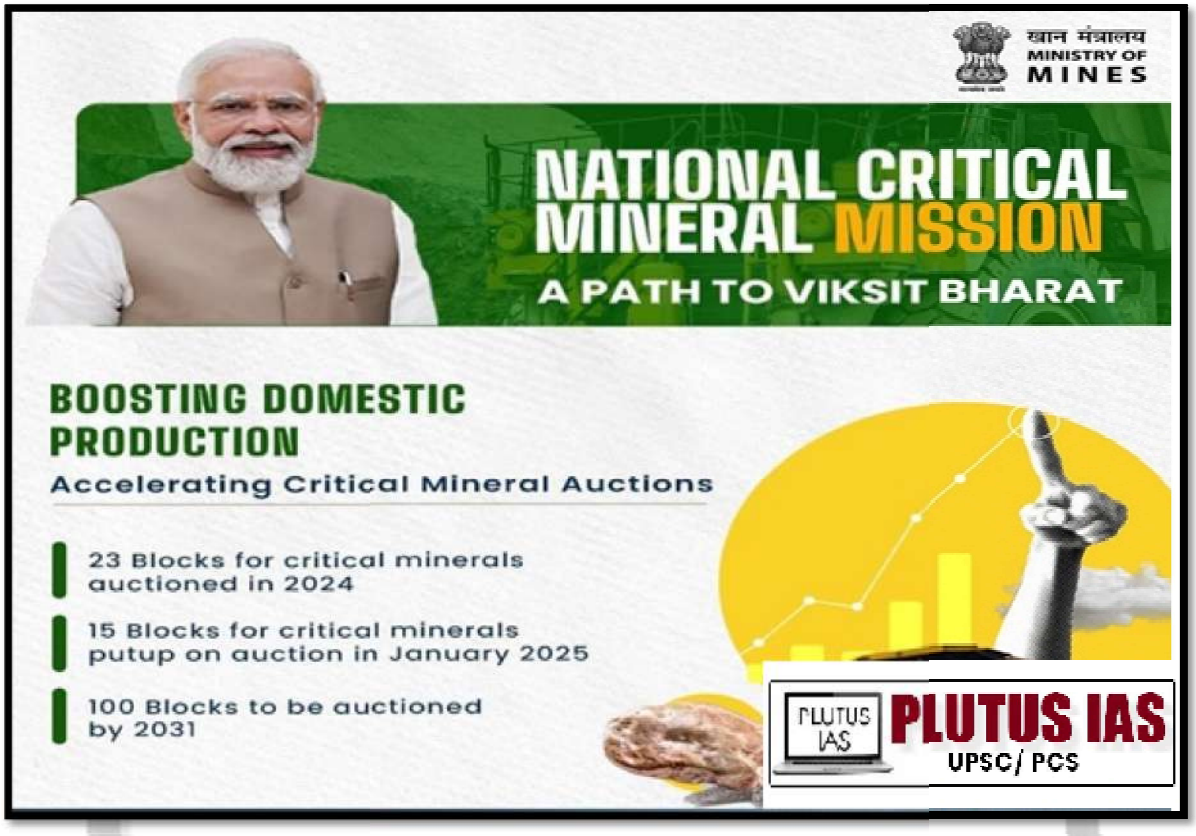
ANSWER: A

Munde Dhananjay Navnath

NATIONAL CRITICAL MINERAL MISSION

WHY IN THE NEWS?

Prime Minister Narendra Modi has termed a major step towards self-reliance in critical minerals to decisions taken by the Union Cabinet yesterday. In a social media post, the Prime Minister said that the Union Cabinet's decision on the National Critical Mineral Mission will encourage India's high-tech, clean energy, defence and other key industries. He added that the decision relating to the revised ethanol procurement price will help boost ethanol production and blending targets. The Prime Minister highlighted that it will also help reduce crude imports, empower farmers and promote clean energy.



WHAT IS THE NATIONAL CRITICAL MINERAL MISSION?

The National Critical Mineral Mission (NCMM) is an initiative launched by the Government of India to secure and enhance the country's access to critical minerals that are vital for sectors like high-tech industries, clean energy, and defence. This mission aims to reduce India's dependency on foreign sources for these minerals, improve domestic capabilities, and position India as a self-reliant nation in this crucial sector.

1. Exploration and Mining: It focuses on intensifying the exploration of critical minerals within India and in offshore areas. The mission aims to speed up the entire mining process, including regulatory approvals, to make it easier to extract these minerals.

2. Financial Incentives: The mission offers incentives to encourage exploration, recovery from waste materials (like mining overburden and tailings), and the development of new mining technologies.

3. Supply Chain Development: It aims to build a strong domestic supply chain by setting up mineral processing parks and encouraging the development of processing facilities within India.

4. Research and Innovation: The mission will promote research into critical mineral technologies and establish a Centre of Excellence for Critical Minerals, fostering innovation to make mining and processing more efficient.

5. International Engagement: The mission encourages Indian companies, both public and private, to acquire critical mineral assets abroad and enhance trade with resource-rich nations.

6. Stockpiling: It involves the creation of a stockpile of critical minerals within India, ensuring a steady domestic supply.

WHAT ARE THE CRITICAL MINERALS?

A "critical mineral" is a mineral considered essential for national security or economic development due to its limited supply and vital role in advanced technologies, while a "major mineral" refers to a mineral needed

in large quantities by the human body, and an "atomic mineral" is a mineral containing significant amounts of radioactive elements used primarily for nuclear energy purposes

CRITICAL MINERALS UNDER THE MINES AND MINERALS (DEVELOPMENT AND REGULATION) ACT 1957

The Mines and Minerals (Development and Regulation) Amendment Act, 2023 introduced significant reforms in the mining sector, particularly focusing on critical minerals.

1. Critical Minerals Under the MMDR Act: Critical minerals are essential for advanced technologies, energy security, and economic development. These minerals are crucial for industries such as electronics, renewable energy, and defence.

2. Omission of Six Atomic Minerals: The amendment removed six minerals from the list of 12 atomic minerals specified in Part B of the First Schedule of the Act. These include:
Lithium-bearing minerals
Titanium-bearing minerals and ores
Beryl and other beryllium-bearing minerals
Niobium and Tantalum-bearing minerals
Zirconium-bearing minerals

3. Exclusive Central Government Authority for Auctions: The amendment empowers the Central Government to auction mineral concessions for critical minerals listed in Part-D of the First Schedule of the Act. The revenue from these auctions will go to the respective State Governments.

4. Introduction of Exploration Licences: A new provision allows for exploration licences for deep-seated and critical minerals to encourage private investment and enhance domestic production.

CRITICAL MINERAL VS MAJOR MINERAL VS ATOMIC MINERALS:

Type of Mineral	Examples	Importance	Defining Factor
Critical Minerals	Lithium, cobalt, nickel, rare earth elements	Essential for advanced technologies (electric vehicles, renewable energy, electronics)	Strategic value, potential supply chain disruptions, and scarcity
Major Minerals	Calcium, phosphorus, potassium, sodium, magnesium	Necessary for basic bodily functions (e.g., bone health, muscle function, energy transfer)	Required in large quantities by the human body
Atomic Minerals	Uranium, thorium	Used for nuclear power generation and weapons development	High levels of radioactivity

SIGINIFICANCE OF CRITICAL MINERALS IN VARIOUS SECTOR:

1. Electric Vehicles: Lithium, cobalt, and nickel are crucial for battery technology in electric vehicles (EVs) and energy storage systems, supporting the shift to clean transportation.

2. Renewable Energy: Rare earth elements, lithium, cobalt, and silicon are used in wind turbines, solar panels, and energy storage, facilitating the transition to renewable energy sources.

3. Electronics and Telecommunications: Rare earth elements, gold, copper, and tantalum are essential for manufacturing electronic devices, circuit boards, and telecommunications infrastructure.

4. Defense and National Security: Rare earth elements, titanium, cobalt, lithium, and tungsten are key for producing advanced weapons, defense technologies, and military equipment.
5. Aerospace and Aviation: Titanium, aluminum, rare earth elements, and cobalt are used in the construction of aircraft, spacecraft, and high-performance engines.
6. Medical Devices and Healthcare: Cobalt, titanium, platinum, gold, and rare earth elements are important for medical implants, diagnostic tools, and medical equipment.
7. Manufacturing and Industrial Technologies: Manganese, chromium, nickel, and rare earth elements are essential for steel production, durable alloys, and industrial machinery.
8. Agriculture: Potassium, phosphorus, and nitrogen are vital for fertilizers that support global food production.

WHAT ARE THE LIMITATIONS ON EXPLORING FULL POTENTIAL OF CRITICAL MINERALS IN INDIA?

1. Geological and Exploration Challenges: Lack of comprehensive geological data and complex exploration techniques hinder discovery and extraction.
2. Regulatory and Policy Constraints: Slow approval processes, complex licensing, and bureaucratic delays slow down mining projects.
3. Environmental Concerns: Mining leads to ecological damage, and public opposition can delay projects.
4. Inadequate Infrastructure: Poor transport networks and insufficient processing facilities increase costs and hinder mineral extraction.
5. Investment and Funding: High capital requirements and financial risks deter private investment in exploration and processing.
6. Global Supply Chain Dependencies: Heavy reliance on imports and geopolitical risks limit self-sufficiency.
7. Technology and Research Gaps: Lack of advanced extraction technologies and insufficient R&D limit efficient mining and processing.
8. Geopolitical and Strategic Issues: Global competition for resources and trade barriers complicate access to critical minerals.
9. Skilled Workforce Shortage: A lack of trained professionals in mining and mineral processing restricts growth.

WAY FORWARD TO TAP THE POTENTIAL OF CRITICAL MINERALS:

1. Enhanced Geological Surveys: Conduct more extensive geological surveys to identify untapped mineral deposits, especially in under-explored regions and offshore areas.
2. Streamlining Regulatory Processes: Simplify and expedite the regulatory approval process for mining projects, reducing bureaucratic hurdles and making it easier for investors to access and develop critical mineral resources.
3. Investing in Infrastructure: Develop better transportation networks, mining infrastructure, and processing facilities to reduce logistical costs and improve the efficiency of mineral extraction and processing.
4. Promoting Private Investment: Offer attractive financial incentives and tax breaks to encourage private companies to invest in exploration, mining, and the development of new technologies for efficient extraction.
5. Research and Innovation: Invest in R&D to develop advanced mining and mineral processing technologies, focusing on sustainability, efficiency, and reducing environmental impact. Establish more research centers to foster innovation in the sector.
6. Securing Supply Chains: Establish strategic partnerships with resource-rich countries, create stockpiles of critical minerals, and diversify import sources to reduce dependence on a few foreign suppliers.
7. Developing Skilled Workforce: Invest in specialized training and education programs to develop a skilled workforce capable of handling advanced mining and mineral processing technologies.

8. Sustainability Focus: Implement environmentally responsible mining practices, including better waste management and reclamation methods, to address concerns about ecological damage and community opposition.

9. International Engagement: Strengthen international trade relations and acquisitions to secure critical mineral assets abroad, ensuring a consistent and diverse supply chain for India's future needs.

CONCLUSION

The National Critical Mineral Mission (NCMM) is a strategic initiative to ensure India's self-reliance in critical minerals, which are essential for the growth of sectors like high-tech industries, clean energy, defense, and manufacturing. While challenges such as exploration difficulties, regulatory delays, and infrastructure gaps exist, there are clear opportunities to unlock the full potential of these resources through better research, investments in infrastructure, and policy reforms. By addressing these limitations, India can position itself as a global leader in the critical mineral sector, ensuring both economic growth and national security.

PRELIMS QUESTION:

Q. Which of the following is an objective of the National Critical Mineral Mission (NCMM) launched by the Government of India?

A. Enhance India's dependency on foreign sources for critical minerals
B. Establish a Centre of Excellence for Critical Minerals
C. Focus solely on domestic ethanol production
D. Promote the exploration of non-essential minerals

Answer: B

MAINS QUESTION:

Q. The National Critical Mineral Mission (NCMM) aims to secure India's self-reliance in critical minerals vital for sectors such as high-tech industries, clean energy, and defense." Discuss the challenges and the way forward for tapping the full potential of critical minerals in India. (250 words, 15 marks)

Ritik singh