Opinion

TUESDAY, MARCH 26, 2019

MAX CONFIDENCE

Akbar al-Baker, Qatar Airways CEO

I am sure that the aircraft will get back into the skies soon and that Boeing will get to the bottom of what happened and if there is something technical wrong that they will find a fix for it

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Will promoters behave this time?

IBC is a welcome change, and RBI has tightened exposure norms but there are ways around this; so eternal vigilance is the key

EVEN AS WE near the second anniversary of the Insolvency and Bankruptcy Code (IBC), companies must gear up for a couple of changes in the loan market. Starting 2019-20, companies must access a fourth of their annual borrowings from the bond markets. The rule ties in with the new and somewhat stricter set of loan exposure norms that banks will need to follow from April 1. At a time when the environment in the loan and money markets is not hostile, but not too friendly either, India Inc, except for blue-chip firms, will feel the pinch. It might not have been so hard if corporate balance sheets had been in better shape; but, despite attempts to sell assets, companies remains over-leveraged.

While stress levels have certainly eased, the slowdown in the economy could contain the improvement. According to Credit Suisse, the share of debt having an interest cover (IC) of less than one declined to 41% in Q2FY19 from 43% in Q1FY19; the decline was aided by the takeover of Bhushan Steel debt by Tata Steel, which has an IC of less than one, and Adani Power exiting this list, thanks to a seasonally strong quarter. The trend has been partly offset by the merger of Vodafone and Idea, which resulted in debt increasing. However, a little over a fourth of the debt of $480 billion is with loss-making companies. The share of chronically stressed debt—defined as exposure for which the interest cover has been less than one for four of the last eight quarters—has also come down. But there could be some nasty surprises; the slowdown in real estate lending may hit the asset quality of NBFCs even though many may have tided over their immediate refinancing needs on the back of the improved macro liquidity. Little can be done about the debt, and that situation will reverse as the business environment improves.

> **Borrowing against pledged shares are one way promoters use to bypass rules, the 70:30 debt-to-equity norm needs revisiting to ensure more skin in the game & the quality of disclosures has to improve a lot**

However, it is important to ensure there is no recurrence of the wealth destruction of the magnitude seen in the last three years. The new legal environment—the corporate insolvency resolution process—will certainly help. The fact that the IBC works and that companies can be lost, a rare occurrence in Indian corporate history, will be rattling the business community. The courts have upheld the demands of operational creditors as we saw with Ericsson which was able to recover its dues from Reliance Communications.

But the fact is banks have recovered very little via the corporate insolvency process, and haircuts have averaged about 50%. The objective from here on out must be to prevent rather than cure. And the onus for this, as always, must be on the banks—and indeed all lenders and investors. Unlike in the past, they must make sure they are not 'managed' by promoters. This is not easy and can only be achieved by greater vigilance on the part of the risk and compliance team; merely putting in stiff prudential guidelines and checks and balances is not enough.

RBI has done its bit by tightening the exposure guidelines for large exposures—albeit very late in the day. From April 1, banks can lend 20% of their eligible capital base (or Tier-1 capital) to a single borrower and 25% to a group. While there has been a significant scaling back in the exposure for a group from the earlier 40%, 25% is nonetheless high. But banks can lower these limits and should do so. More importantly, they need to ensure companies draw up expansion plans that are not based on 'blue sky' projections but build in downsides. Lenders need to upgrade their appraisal skills so they are not carried away by exaggerated projections. The ambitious loan growth and profit margin targets—to please investors—must be tempered, else, they will once again end up with loan losses. While RBI's February 12 circular is, and will be, a great disciplinarian, banks seem to be able to find ways of getting around it.

Most critically, banks must avoid lending to promoters so the latter can fund their equity contributions. The next investment cycle must see promoters putting in their own money into their companies and businesses. Promoters cannot also be funding equity contributions from the cash flows of another project. Too often has the 'first' project failed to throw up adequate cash flows to fund the next project, thereby jeopardising the project and bank loans. While the intention is not to hurt investments, it is important to keep track of borrowers; the recent instances of promoters borrowing against pledged shares, without the knowledge of lenders, is a serious concern. In many cases, the disclosures to the stock exchanges do not capture these borrowings as these have been routed through SPVs.

Also, the 70:30 debt-equity ratio needs to be revisited rather than using it as a rule of thumb because promoters have not had enough skin in the game and therefore have little respect for the debt contract. Those who argue this would stymie investments would do well to look at the loan losses of banks—some ₹12 lakh crore and more.

With some of the action expected to move to the bond market, the credit rating agencies must up their game. Ratings need to be closely monitored and investors alerted well in time. Else, investors will shy away from the corporate bond market; it is important, over the longer-term, to ensure there are no defaults. A repeat of the recent situation in the money markets—where mutual funds found it difficult to sell paper and were forced to do so at very high yields—would be unfortunate.

Stopping Violence

Crimes can be reduced when community-involved physical infra and social intervention developments happen in tandem

WORLD BANK RESEARCHERS conducted a study in Jamaica that shows that improvements in the physical infrastructure of a community's surroundings as well as social interventions can reduce the incidence of crime and violence through improvements in its social capital. Crime and violence can have a deleterious impact on society and hamper economic growth and development, erode social cohesion, affect governance and, in some cases, shake countries' political stability. The cost of violence and crime is significant. The Indian economy lost a whopping $1.19 trillion (over ₹80 lakh crore) in 2017 in constant purchasing power parity (PPP) terms as per the Institute for Economics and Peace and, in Latin America, considered one of the most violent regions in the world, the economic cost of a failure of security against crimes is estimated at approximately 3.5% of GDP.

People and institutions also change their behaviour to avoid crime—companies hold back their investments and governments shift the allocation of resources, affecting total national production and welfare payments. However, these harmful acts can be negated with the process of urban upgradation, or the involving of community members in the deliverance of basic services like electricity, road and other connectivity infrastructure, sustainable waste management, etc, which, in turn, lends a degree of accountability, ownership and care over the society's members and its building blocks. The study also speaks about how—in combination with the urban upgrades—social interventions that focus on strengthening social capital in the communities, especially that of the most vulnerable, deliver in curbing crime. Examples of these include conflict mediation training programmes that sensitise participants towards resolving conflicts before they escalate and other behavioural and sensitisation initiatives. So, when physical infrastructure and social intervention programmes are implemented together, reinforcing one another, community members demonstrate greater ownership and lesser violence—this could be a possible roadmap for India to follow.

BRAZENING IT OUT

AFTER A STINT IN FEDERAL PRISON, THE FORMER MCKINSEY CHIEF AND GOLDMAN SACHS DIRECTOR MAINTAINS HE IS INNOCENT—AND IS TRYING TO REPAIR HIS REPUTATION

Rajat Gupta is unrepentant for his crimes

ANDREW ROSS SORKIN
NYT

RAJAT GUPTA HAD been moved to a larger part of the prison when he came face to face with his nemesis, Raj Rajaratnam. Rajaratnam, a disgraced hedge fund manager, hadn't always been Mr. Gupta's nemesis. For a long time, they were close—so close that a jury was convinced Gupta had slipped him boardroom secrets so that Rajaratnam could trade on inside information. Gupta—once a member of the financial elite as the head of McKinsey, a board member of Goldman Sachs and an adviser to Bill Gates—had been convicted of securities fraud in 2012 as part of Rajaratnam's insider-trading ring. He was sentenced to two years in prison. And he had come to blame his plight on his former confidant. Now both men were locked up in the same federal prison in Ayer, Massachusetts, and they suddenly found themselves staring at each other. Gupta, in his first interview since being released from prison three years ago, recalled the moment when he walked over to Rajaratnam on the prison grounds.

"I told him, 'Raj, I am here because of you'," Gupta told me. The men did not shake hands. "He is not the apologising type, so he didn't say, 'I'm sorry.'" The two men strolled around the grounds. Then something weird happened. "I forgave him", Gupta said.

Today, Gupta, a business pariah after the exposure of his stunning breach of corporate trust, not to mention his status as a convicted criminal, wants forgiveness, too—or at least to tell his side of the story. The playbook for these sorts of attempted returns to public life is well established: Express contrition, forgive your tormentors, espouse the hard lessons learned.

That is not Gupta's approach. He is aggressively unrepentant. He maintains he is innocent despite the jury verdict against him on three counts of securities fraud and one charge of conspiracy. (He was found not guilty on two other counts).

Gupta's book, *Mind Without Fear*, to be published next week, tells the story of how his career unravelled. It is a propulsive narrative filled with boldfaced names from business and politics. At times, it is a dishy score settler.

Gupta never testified at his trial, a decision he said he regretted. While he gives a full-throated self-defence in the book that is fuller than the one the jury heard, much of the outlines were already heard—and rejected—in court. The book requires the reader to suspend disbelief in the judicial system. Some readers may sympathise with him while others may find his arguments unconvincing. Gupta recounts virtually every scene in the past decade of his life, from the moment he learned that he was under investigation (he got a phone call from the general counsel of Goldman Sachs while he was in line at airport security) to when he was released from prison.

> **The closest Gupta comes in the book to acknowledging any error on his part is when he notes that he shouldn't have trusted Rajaratnam**

The closest Gupta comes in the book, or in his interview with me, to acknowledging any error on his part is when he notes that he shouldn't have trusted Rajaratnam and that he spoke a little too loosely when he discussed Goldman's corporate secrets on a phone call that the FBI secretly recorded. Gupta, it seems, spent his time in prison trying to make the best of his circumstances—and occasionally hanging out with Rajaratnam.

"We played Scrabble in prison together. We played chess. We had breakfast together", he told me. Most of their conversations were about "prison stuff, you know"?

"Sometimes we'd talk about Preet Bharara", Gupta added.

Bharara was the crusading United States attorney for the Southern District of New York who prosecuted both Rajaratnam and Gupta. Rajaratnam, who was sentenced to 11 years in prison, "was obviously quite mad at him", Gupta said. Gupta is mad at Bharara, too. His book is filled with critical asides about Bharara and what Gupta believes was his prosecutorial overreach.

"Go after the hedge funds and their circle, play up the story in the press, and maybe no one would notice that the big banking executives were continuing to walk free", he wrote. "That I, like many of those guys he targetted, was a fellow Indian only burnished his tough-guy aura". There is a reasonable argument to be made that Bharara didn't do enough to pursue criminal cases against Wall Street executives and others responsible for causing the 2008 financial crisis. But it is pretty rich for Gupta—who spent years at the top of the Wall Street pecking order—to use that critique to cast himself as a victim.

The case against Gupta revolved around the day in the fall of 2008 when Warren Buffett agreed to make a crucial investment in Goldman Sachs, bolstering public confidence in the firm when such confidence was in dangerously short supply. Sixteen seconds after Goldman's board finished discussing Buffett's soon-to-be-announced investment, Gupta called Rajaratnam. Rajaratnam then started buying Goldman shares. Explaining the well-timed purchases later in a taped phone call, he said he had heard "something good might happen to Goldman". Rajaratnam was never charged with crimes surrounding that Goldman trade; he was convicted of making other trades using illicit information. Unlike conventional insider tipsters, Gupta was never paid directly by Rajaratnam for spilling secrets. Instead, prosecutors told the jury, Gupta received other benefits or would in the future.

Gupta insists that the prosecution's narrative is wrong. He says that he doesn't remember speaking to Rajaratnam after the Goldman board meeting—maybe, he says, he spoke to his secretary—and that, if he did speak to Rajaratnam, he certainly didn't divulge the pending Buffett news. Now that he has served his two years in prison, Gupta wants to restart his life. He has been spending time with his family and doing some consulting work in India. He has not reconnected with many of his former friends and colleagues in the business world.

"I didn't want to put them in a difficult position", he said. Gupta said he had learned some valuable lessons over the past decade: "Don't get too attached to anything—your reputation, your accomplishments or any of it. I think about it now, what does it matter? Okay, this thing unjustly destroyed my reputation. That is only troubling if I am so attached to my reputation".

In the spirit of forgiveness, he said, he still has respect for Rajaratnam.

"I have to give him an extraordinary amount of credit", Mr. Gupta told me near the end of our conversation. "Because he could have easily testified against me, made something up".

Is the start-up bubble waiting to be popped?

The start-up disruption is paradoxically positive and the winners will be the ones who can scale up steeply with constant innovation and technology adoption

KAUSHIK DUTTA
Director in Thought Arbitrage Research Institute

BETWEEN 1996 AND 2002, a new bubble was set by a wave of internet start-ups with mega valuations that defied traditional logic and norms. A new benchmark for assessing the intrinsic worth of such companies referenced multiples of quantums of losses or the rate of burn of cash while the idea of profits was a quaint notion. In some cases, value was attributed to numbers of customers—terms that have a nebulous relationship with conventional business drivers like profits, cash generation or even sales. The period saw a heady bubble fuelled by a plethora of investment companies flush with cash, creating a hugely speculative market with a domino effect across the globe. By end 2002, the bubble crashed and US stock markets lost over $5 trillion, triggering a fall in housing prices and jobs, bringing about a tailspin in the global economy.

Although India did not significantly experience the adversities of the dot-com bubble then, today it is very much in the midst of a start-up euphoria and one of the highest receivers of private equity (PE) and venture capital (VC) in the world, having received $35.1 billion in PE in 2018, a 35% increase from 2017 and a total of $120 billion in 2013-18. This expected gain or market size (much of it is speculative) when compared to the Indian GDP in 2018, at $2.6 trillion, amplifies the risk and effect such capital can have on the second most populated country in the world.

Bubbles are easy to spot in hindsight or in retrospect but always a challenge to accurately predict in real time. One research by Epoch Investment Partners identifies at least seven bubbles in the past forty years and all have two similar characteristics and, currently, we have both of these conditions—a flow of large tranches of money from investors in the US, Europe, China, Japan, etc, with high valuations based on unconventional models that have left experts perplexed.

Many explanations are given for the mega value of relatively small and loss-making enterprises but none appear convincing to theorists and traditionalists. Are we in a bubble or is it different this time?

The single biggest factor that is different today is the tectonic change that the onset of a digital revolution has brought about, which is probably more robust and powerful than any of the earlier technologies known to mankind. The alignment of big data with cheap computing technologies create intricate linkages and powerful business models which are superior to those developed in the 1990s. As Bill Gates explained recently, "Microsoft might spend a lot of money to develop the first unit of program but every unit after that is virtually free to produce. Unlike goods that powered our economy in the past, software is an intangible asset". Intangible assets in 2018 represent 84% of the total market value of S&P 500, up from 17% in 1975.

The pace of technology change is constantly accelerating and business models also get incessantly enhanced, becoming more efficient. This ability to scale up in gigantic proportions, called "blitzscaling" by Reid Hoffman, founder of LinkedIn, is the essence of domination of firms that ends up creating a market dynamic that causes an extremely high concentration of these dominant firms. The race of capital is to back the one or two firms who will outlast the others in the industry due to its better model and scale. Take ride hailing aggregators. Today, the top two—Ola and Uber—have over 70% of the market, and other platforms like Meru, Easy Cabs, Sky Cabs etc, together with regional and hyper-local ones, share the balance but are constantly losing share. This phenomena of a near duopoly of profits is reflected in the mega valuations of the leaders against the rest in the market.

What are the factors that create such mammoth value? Experts believe that while some of the basic fundamentals of commerce like large addressable markets, sustained cash flows (at least in the future) and high gross margins are the bedrock of value for all e-commerce companies, the multiplier comes from an entity's ability to scale with efficient capital allocation. Scale in this model creates viral growth with network effects, where every incremental increase in the number of users creates value for all users and creates disproportionate gains and market size.

Cornell University analysed the network effect in Amazon's business model and found that people don't buy Amazon Prime because they see other people buying Prime, but because Prime has gotten better because more people now have Prime! Because more people have Prime, Amazon has more warehouses and more distribution centres, etc, so they can bring people their items faster. Efficient capital allocation by managers where they spend on technology, infrastructure, and market innovation causes expenses to grow at a lower rate than revenues, creating the road to sustained profitability. Simple!

But, are we in a bubble? Time will tell but probably not, because this disruption is paradoxically positive. It is true that many companies of today with promise will fall by the wayside to more efficient, innovative and aggressive competitors. The winners will be the ones who can scale up steeply with constant innovation and technology adoption.

LETTERS TO THE EDITOR

THIS IS NATIONALISM (everything else is just gas)

I wish I was a Parsi
so that one day
I could be a 65 year-old Parsi
and eat dhansak
at the Ripon Club for lunch
and then sleep on those chairs
with a newspaper across my face
I wish I was a Sikh
so I could wear brightly colored turbans
and shimmer
on bright sunshiny days
I wish I was a Catholic
so then Goa would really be my home
I wish I was a Muslim
so then I could eat with greater gusto
on Mohamedali Road
after sunset
during Ramzan
I wish I was a Hindu
so then Ganesh
would ever dwell in my heart
I'm glad I am an Indian
Jai Hind
(with apologies to Buddhists and Jains and anyone else I may have forgotten)

— The author has opted to use the pseudonym 'Mr India'

Fake news

The dissemination of authentic information cannot be overemphasised, more so in this election season. Posts that have no basis in fact and photographs that have no fidelity to the issue under debate are 'shared' and 'liked' by millions. But the harm to public discourse in doing so is incalculable and internet platforms are now misused for dirty tricks campaigns. In other words, fake news is posted in order to discredit and malign the political opponents rather than to shore up support for the contestants. The sanctity of the election process becomes a casualty when misinformation is disseminated to manipulate it

— G David Milton, Maruthancode

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ILLUSTRATION: ROHNIT PHORE

HEMANT MANUJ

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CREDIT RATING AGENCIES

The failure of the regulatory system?

We need to freshly look at the CRA-based risk assessment framework. The fundamental conflicts in the same need to be eliminated and replaced with a market-based and sustainable framework

CREDIT RATING AGENCIES (CRAs) have lately been in the spotlight for not being able to downgrade several issuers before the latter defaulted on their obligations. The Reserve Bank of India (RBI) Governor held a meeting with CRAs in which he is said to have expressed unhappiness with their performance.

It is quite hilarious and yet disappointing to see how the regulators and policymakers across the world have, over the years, misunderstood the role of CRAs. This is a classic case of first tying yourself in knots and then trying to unknot by blaming the ropes for the knot. Let us see how.

Understanding the problem

The job of a CRA is to assess the risk on an issuer's obligation (say, a loan). The risk, as of today, on a loan means that the issuer can default at a later date. The rating assigned by a CRA is thus predictive in nature.

As with any kind of predictive activity, the rating is subject to error. While a lot of research has been devoted to models (Altman, KMV and others) for improving the predictive accuracy of ratings, it will still always be subject to errors.

In view of the above, how should policymakers design their expectations of the role of a CRA? Is it rational to expect that rating agencies must achieve a certain level of accuracy?

Lopsided regulations

When we think of the above questions, the irrational framework of the regulators becomes clear. Globally, the rating industry is dominated by a few players only. There are strong barriers to entry for establishing a CRA. It is far easier for a new player to commence a business of selling the assessments of other risks like equity or currency than of credit risks. To be sure, the barrier is not for intellectual reasons. The factors in a credit rating model are now quite well-researched and it is not rocket science.

The barriers to entry are two-fold:

■ Strength of the incumbents: The economies of scale and the deeply entrenched relationships of the existing CRAs deter new entrants from establishing their businesses.

■ Regulatory imperative: The Basel Accord and the RBI regulations ask banks to maintain capital, based directly on the ratings assigned by CRAs to the loans on the books of the latter. In fact, RBI mandates all bond public issues to carry a valid rating from CRAs.

The combined impact of the two factors is that the market forces are not allowed to work through the credit ratings business. There is less than optimal competition amongst CRAs, who have a large captive market available to themselves.

The customers of CRAs, mostly banks and mutual funds, are subject to regulations like capital adequacy, disclosures and market discipline. In order to meet the desired standards of outcome, they are expected to diligently undertake the risk appraisal on their loans and bonds. However, in reality, in cases of failure of the credits underwritten by them, they conveniently shift the blame on to CRAs. Their implicit argument behind this behaviour is that since the regulators have mandated them to get their loans rated by CRAs, the blame should, at least partially, lie at the doors of CRAs.

The regulators are caught in a predicament on account of their own stipulations. They have asked the banks and mutual funds to assign capital based on ratings of CRAs. So, how can they now ask the former to not hold CRAs accountable for the errors in credit assessments?

RBI may ask CRAs to improve their performance. But it is missing the central flaw in the framework. The performance of CRAs cannot be improved through mandates. As an analogy, a pharmaceutical regulator cannot mandate a producer of a cancer treating drug to cure the disease with a given level of accuracy. That can happen only through the right kind of market structures, innovations and behavioural incentives.

> Make it optional for banks and mutual funds to use ratings assigned by CRAs; the lender or investor should be held solely, and fully, accountable for its failures in assessing the credit risk

Suggested changes

The regulators should, therefore, review the credit rating framework in entirety. I would suggest the following.

■ Make it optional (against the currently mandatory) for banks and mutual funds to use the ratings assigned by CRAs. At the same time, the lender or investor should be held solely, and fully, accountable for its failures in assessing the credit risk.

Each bank or mutual fund will then decide the extent to which it wants to use the ratings assigned by CRAs. This decision of a bank or mutual fund will be based on its own expertise, nature of portfolio and business model.

This will be similar to the internal ratings model as per the Basel norms. The key change would be that the banks can choose to, but will not be required to, adopt the ratings assigned by CRAs.

The rules on provisioning, and incentives on non-conservative risk assessment, will also need to be revisited accordingly.

■ Reorient the regulations for CRAs to focus mainly on their governance and disclosure norms. It is neither the job, nor within the capability, of a regulator to assess the performance of a CRA. A free market of customers and analysts can do a more efficient function of the same.

■ Encourage better discovery of risk assessments through alternate mechanisms. Credit derivative market is one, but not the only, mechanism. There have been several thoughtful pieces of work already done, which have highlighted the opportunities and challenges on this topic. This, in itself, deserves a separate discussion.

In summary, we need to freshly look at the CRA-based risk assessment framework. The fundamental conflicts in the same need to be eliminated and replaced with a market-based and sustainable framework.

DEVELOPMENT FINANCING

Channeling public & private funding

KUSHANKUR DEY

The author teaches finance at IIM Bodh Gaya. Views are personal

The right blending can strengthen financing mechanism for meeting SDGs

SUSTAINABLE DEVELOPMENT GOALS (SDGs) aim at aligning the aspects of poverty alleviation, social welfare, community development, environmental sustainability, among others. While poverty reduction and food security can be achieved through integrating farming systems, sustainability is a long-term undertaking and rather difficult to attain unless the development intervention has measurable impacts on social, economic, cultural and environmental parameters. Sustainability in any development intervention needs to be achieved by striking a balance between development outcomes and financial returns.

What can be an appropriate yet cost-effective financing mechanism for meeting SDGs? Blended finance through PPP seems a timely solution for development finance ambit, especially in agriculture, energy, healthcare and housing. In practice, blended finance has been evolved to improve fiscal prudence of national governments and strengthen bilateral/multilateral cooperation with developed countries, and finance development projects. Annual investment gap for delivering SDGs in developing countries is pegged at $2.5 trillion, and blended finance through facilities and funds should finance this gap. According to IFC (2016), blended finance can be used to enable the private sector to invest where it would not otherwise be possible. The idea is to mix concessional funds typically from donor agencies with those of commercial development institutions such as multilateral development banks/development finance institutions and private investors in a risk-sharing arrangement, with aligned incentives to make sure technical assistance can be leveraged with commercial capital.

Typologies exist in development finance literature, such as 'responsible investing', 'sustainable investing', 'impact investing', the meaning of which resonates well with the essence of blended finance. As the objective is to deliver 'blended value', the rationale of financing is to challenge institutional complexity in light of competing impact logic (environmental, social, governance) and investment logic (financial return to investors). Further, blended finance use is tailored to local setting.

Blending entails channelling both public and private capital judiciously through optimal risk-sharing. For example, agriculture projects are relatively uncertain in return or are risky as compared to utility-based ones where scaling up can be feasible. Therefore, grant and loan guarantees can otherwise finance the gap in agriculture/farming-based projects in addition to small equity/debt capital infusion. For instance, in EU development projects, blended finance facilities and technical assistance together accounts for 75% of blending. Blended finance use has gained salience in farming/natural resource management projects besides energy and infrastructure sectors in developing countries. Take the Umbrella Programme for Natural Resource Management (UPNRM). It has combined the technical and financial assistance to facilitate blended finance facilities (grant, concessional loan, technical assistance) to promote sustainable development. For financing UPNRM, NABARD partnered with German International Development Cooperation (GIZ) and German Government-owned Development Bank (KfW). The loan eligibility of projects is guided by five principles: pro-poor, need-based, and environmentally sustainable, good governance, and promote community participation.

NABARD has approved 330 projects with an investment of 84.79 million euros (79.28 million euros loan and 5.38 million euros grant) as of 2017-18. Through blended financing, investment has been made in capacity building of resource agencies to help them implement and replicate successful climate smart business models. Concerted efforts of technical and financial cooperation agencies have tried to transform traditional agricultural practices into profitable and sustainable business enterprises in that beneficiary farming households exhibit their risk-taking abilities, try to reduce uncertainty of earnings, and have experimented with farming techniques for sustainable livelihood.

It is apparent from some evaluation-based studies as part of UPNRM that mainstream financial institutions are insufficiently aware of many aspects of lending to farm-based activities, for example, integrated fisheries yet. However, it is to the credit of bankers that they have evinced interest in extending credit for replicable business models. Demonstration models of UPNRM projects can be set up and visits by bank officials could be organised to bring such projects into mainstream financing and scaling up.

However, the difficulties for financial mainstreaming lie in the complexity of documentation, lack of clarity in terms of land titles or ownership, and remoteness of locations. As a result, MFIs and informal sources of credit have captured this niche credit market and charge higher rates of interest. It is hoped that as the business correspondent or agent banking model for extending financial services to areas not served by banks takes off, this problem is likely to be solved.

Nonetheless, it is interesting to note that some financial products as part of blended finance funds are in the offing, such as Social Impact Bonds that ensure 'payment by outcome' apart from private equity funds or/and Alternative Investment Funds. A right blending can strengthen financing mechanism for meeting SDGs.

REGIONAL CAFE: TAMIL NADU

The political drama has just begun

The DMK-Congress combination appears to have an edge over the BJP-AIADMK alliance

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THE FORTHCOMING ELECTIONS are going to be crucial for Tamil Nadu. The state will face polls for the first time without DMK's M Karunanidhi and AIADMK's J Jayalalithaa—the two powerful and charismatic leaders who have taken turns to lead the state for decades. Both the regional parties have formed alliances with national parties. The alliances are quite complicated, with many permutations and combinations and with friends becoming foes and vice versa.

In 2014, Tamil Nadu saw an unprecedented landslide win for the AIADMK in the Lok Sabha polls, which wiped the DMK from national scene. Jayalalithaa pulled it off with her famous line 'Modi versus lady'. Contesting on its own in 39 seats, the AIADMK won 37 seats and emerged the third largest bloc in Parliament. Subsequent developments in the state, Jayalalithaa's conviction, her ill health, her death and her close aide Sasikala trying to seize power after her death have all taken the sheen off the party.

In spite of it taking occasional potshots at the BJP, it was a foregone conclusion the AIADMK will ally with the ruling party. It is known that it is the BJP that has been pulling the strings behind the scene in the state and has been propping up the AIADMK government—the AIADMK has to contest under the NDA umbrella.

But in the popular perception, the BJP continues to be seen as a party from the North that will impose Hindi on the Tamils and has no sympathy for Tamil aspirations or culture. Narendra Modi is very low on the Tamil psyche and 'go back Modi' hashtags erupt each time he visits the state.

The AIADMK has given five seats to the BJP, and seven seats more to the Pattali Makkal Katchi (PMK), which is influential among the powerful Vanniyar caste in the northern belt of the state. The PMK has also been promised a Rajya Sabha seat in the future as a bonus. The opposition alliance sees this as an unacceptable combination of the BJP's religious communalism and the PMK's casteism.

When the DMK president MK Stalin announced the party's official alliance with the Congress and the decision to allot them 10 seats, it raised a lot of eyebrows. The DMK's decision is considered strange, especially after the national party's dismal performance in 2016 Tamil Nadu assembly election prevented the DMK from getting a majority. The junior partners of this alliance are the CPI(M), the Viduthalai Chiruthaigal Katchi, Vaiko's MDMK, and the Indian Union Muslim League.

Most parties have aligned with Dravidian parties, with two notable exceptions. The nephew of Jayalalithaa's close aide Sasikala, TTV Dhinakaran, has launched his own party, the AMMK (Amma Makkal Munnetra Kazhagam), claiming to be the true successor of Jayalalithaa. No other known party is going with him and he is contesting 38 seats out of 39 on his own. The AIADMK hopes that its alliance with the BJP (which has already helped cut Dhinakaran's wings considerably) will curb him totally. However, he is expected to eat into AIADMK votes in some districts.

The unknown factor is Kamal Haasan, founder of the Makkal Needhi Maiam. He has announced the names of candidates for 19 constituencies, although he is not contesting himself. The list includes a retired IPS officer, a retired judge, three doctors, five lawyers, four engineers and seven businesspersons. He has said that the party has chosen candidates based on whether they were economically stable, had past experience in public life, and with great ideas to solve many issues. Among other things, he has promised 50 lakh jobs, agricultural revival, and women empowerment with 50% job reservation to them. He has also played into some parochial sentiments. If his party makes any inroads at all, it will show that film stars still have some influence in Tamil Nadu politics.

Both the AIADMK and the DMK have announced populist economic promises in their manifestos. There is a lot of similarity in what they are offering. Both the parties have promised a change in oil-pricing formula, scrapping of foreign direct investment (FDI) in retail, and hike in exemption limit for individual income tax.

Freebies are a given in Tamil Nadu manifestos. The AIADMK has promised fans, mixer-grinders, laptops, goats, cows, four grams gold for poor women's marriage and other things nationwide. The DMK's manifesto is silent on freebies—the manifesto says it would urge the Centre to hike the exemption limit for individual income tax to Rs 6 lakh in the case of men and Rs 7.2 lakh for women. The party has also promised to urge the Centre to exempt gratuity and provident fund paid to government employees on retirement from tax. The AIADMK says it would take steps to increase the exemption limit to Rs 5 lakh for both men and women.

On the oil-pricing policy, the AIADMK has stated it would take action to change the mechanism for determining the prices of petrol and diesel. It will also work to withdraw the power given to OMCs to fix prices. The party wants oil and cooking gas prices to be fixed in a way that it is uniform throughout the year. On its part, the DMK wants the Centre to change the pricing policy to fix just and reasonable prices for petroleum products. As things stand, the DMK-Congress combination appears to have an edge over the BJP-AIADMK alliance. In the state, the BJP has not gained in popularity even after Pulwama attacks. All that the BJP can hope to do is to try and limit the Congress riding piggyback on the DMK and gaining some ground.