Opinion

WEDNESDAY, MARCH 6, 2019

REVOKING OF GSP

Ganesh Kumar Gupta, president of FIEO

GSP has been given on non-reciprocal basis yet the US has linked it with market access and tariff reduction which is against the basic tenets of GSP

RationalExpectations

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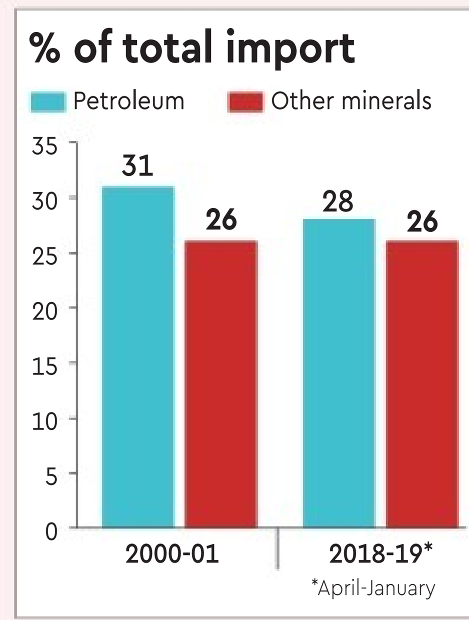
Govt fixes mining policy, at long last

Since even non-oil minerals comprise 25% of our imports, large-scale mining is critical and will also create a lot of jobs

GIVEN THE MINING sector's potential to both create millions of jobs and save billions of dollars of forex, it was always a surprise that the government was so slow to fix issues that have prevented it from growing fast, but the good news is that it has finally started making some attempt to fix things. In February, the Cabinet cleared an oil and gas package that resolved many outstanding issues in the sector. The package could have been more generous but it was nonetheless an important step forward; instead of allowing market prices for only gas produced from new discoveries, it could have even been allowed for producing fields since more profits for oilcos will incentivise them to explore more. And last week, the government made some important reforms in the case of non-oil minerals—these account for 25% of India's import bill if oil is not included and around 55% if it is (*see graphic*).

As the Niti Aayog strategy paper on this pointed out, India's "prospective geology is broadly similar to that of Western Australia, especially in relation to iron ore, bauxite, coal, diamonds and heavy mineral sand", but of the area identified as rich in minerals, only 10% has been explored—the corresponding figure for Australia is 95%—and an even smaller 1.5% is presently being mined. According to Niti Aayog, even doubling the area explored to 20% of "obvious geological potential" can create an additional 5 million jobs by 2022-23, from the current 10 million. Indeed, Niti Aayog points out that India's imports of minerals are roughly seven times as high as the domestic output; such is the poor level of exploration and production.



While the finer details of the policy are yet to be made available, the Cabinet note makes some important departures from the current policy. Right now, if a firm that has a reconnaissance permit (RP) finds evidence of minerals, it has to inform the government which then auctions off the area; the new policy says such firms will get the right of first refusal. This is an important confidence-booster since no firm would like to find deposits of a mineral and then see the area being given to a competitor.

And much like the open acreage policy in the oil and gas sector, firms will be allowed to give the government the coordinates of the area they would like to mine in, and this will then be put up for auction in a short period of time. The policy also promises to harmonise taxes and various levies in keeping with global benchmarks; this is important because, as compared to 8-12% levels globally, Indian levies on most non-oil minerals works out to around 30% of top-line revenues. In other words, high levies make exploration of minerals uncompetitive.

And since PSUs tend to have a lot of good acreage that they may not necessarily be exploiting, the policy says these acreages will be auctioned off to the private sector. India's largest imports of minerals, including oil, take place in sectors dominated by PSUs. ONGC, for instance, has some of the best acreages in the country but its crude oil production fell from 25.9 million tonnes in FY08 to 22.2 million in FY17 while that of Cairn rose from 2.6 million tonnes to 9.4 million tonnes. Indeed, since FY14, when the prime minister spoke of reducing the import content of the oil sector by 10% over the next five years, the import-intensity has risen.

Apart from getting the policy right, what is equally critical is to fix the current levels of implementation such as the delays in getting permission. So, Niti Aayog has recommended that all statutory approvals should mandatorily be granted within a period of 180 days. It suggests that, if this is not given, a provision for a deemed-to-have-been-given approval be put in place in the law; it also suggests that local forest officers may be empowered to grant permission under the forests law for exploration in forest areas. This is critical since environmental clearances take up to even 390 days to get, and it was found in the case of the government-owned Coal India that it was routine practice for the government to give environment clearances late and then retrospectively condone the mining that was illegal since it took place without the environmental clearances—but Coal India has been fined ₹40,000 crore already for such illegal mining!

It is equally important to do more stringent 24×7 checks on the quality of mining—through the use of drones and satellite imagery, for instance—so that local communities do not feel their lands are being destroyed by mining companies and valuable forest cover removed. Also, less than a fourth of the District Mineral Foundation fund—meant to benefit local people affected by mining activity—has been spent and, last year, the Supreme Court pulled up the government for not spending ₹90,000 crore of the Compensatory Afforestation Fund Management and Planning Authority (CAMPA) fund; had enough forestry been done on time, the local population would be less averse to fresh mining.

With such a massive failure to monetise the country's mineral assets and mineral imports comprising around 55% of imports, is it any wonder that the current account deficit mostly looks like it is about to swing out of control? Ideally, these changes should have been made early in the NDA's tenure, and the country would have both saved forex as well as generated millions of jobs over the last five years. But, better late than never, since the next government will reap the benefits of the reforms over the past few weeks; and prime minister Modi is hoping it will be one led by him.

PatriotGames

It would be nice if all parties spoke in one voice about the Air Force's strikes, but can that be the test of patriotism?

THERE CAN BE little doubt that, were the entire Opposition and the media to go along with the government's narrative on how many terrorists were killed in the Indian Air Force's strike at Balakot—200+ seems to be the consensus figure among BJP leaders—it would paint a pretty picture of a nation united behind the government and united against terror. But the question that senior BJP ministers—including the prime minister—need to ask themselves is what difference does it make if they don't? Indeed, since the Air Force has categorically said it is not in the business of counting the number of terrorists killed, it is a legitimate question to ask where the government got its numbers from.

And while the government is also within its rights to not disclose more information—it could compromise agents on the ground—how does questioning the government imply questioning the armed forces? Also, questioning a claim made by the armed forces is not the same as questioning their valour or patriotism? By way of example, no one denies the importance of the police in protecting us, but those indulging in encounters are punished. For decades, various political parties and civil society activists have blamed the government of the day for mishandling Kashmir, and while Pakistan may welcome this, it hasn't been able to use this to make its case against India any stronger. Speaking in different voices and questioning officials is India's strength, stifling even voicing a different opinion by reducing everything to a test of patriotism only weakens India. Those questioning the efficacy of the air strikes aren't anti-national, just as those questioning the wisdom of demonetisation weren't tax thieves.

OUTPUT OUTLOOK

THE CURRENT SLOWDOWN MIGHT ALSO HAVE RIPPLE EFFECTS ON FY20 GROWTH, WITH FALLING CAPEX FURTHER LOWERING INDIA'S POTENTIAL OUTPUT

Growth weakening, capex a concern

SAUGATA BHATTACHARYA

Senior vice-president, business and economic research, Axis Bank. *Views are personal*

THE RATE CUT by RBI's MPC following a mildly expansionary FY20 fiscal budget signalled the intent of a coordinated response to a now increasingly widely accepted narrative of a lingering and probably deepening economic slowdown. A range of what are described as high-frequency metrics is currently sending mixed signals on this slowdown, but the majority still indicate continuing, even—at the outside—robust, if not accelerating, growth.

The 2nd advance estimate (2AE) of India's FY19 GDP growth was revised down to 7%, from the earlier 1st advance estimate of 7.2% (in early January). The GVA measure of value added in growth was revised down to 6.8% from 7% earlier. RBI, in its February MPC review, had not formally forecasted the FY19 GDP growth, but stated the earlier official GDP growth number of 7.2%.

Firstly, let's come to the sources of the revision and the segment-wise breakup of the growth, from the output and demand perspectives. From the output side, the downward revision is spread between agriculture, manufacturing, electricity and government spends, offset by higher estimated growth in financial services. The lower agri growth is due to the lower estimated Rabi (winter) foodgrain output.

From the expenditure side, the sharpest fall (and contribution) is from gross fixed capital formation (GCF). This is troubling if forecasted correctly, since there were signs of a modest mid-size capex revival.

The revised lower capex growth is validated by the capital goods (and to an extent, infra/construction goods, (I/CG)) segment of the index of industrial production (IIP). The 1AE FY19 GDP forecast estimate of GCF would have been based on April-October FY19 data of IIP, extrapolated into the later months. April-October IIP CG growth averaged 8.9%. Post the 1AE release, the November-December IIP print averaged 1.4%, bringing down the overall April-December average to 7.3%. The I/CG growth average also fell from 8.7% to 8.5%.

Sales growth of a set of 135 corporates classified in the CG segment had dropped quite sharply from 24% year-on-year (y-o-y) in Q2 FY19 to 14% in Q3, also corroborating the narrative of the capex slowdown.

While it is difficult to reconcile the downward revision of the capex growth with that of industry, construction and other segments in the output side of GDP without more granular data, a slowdown in capex activity is emerging as a concern. If there is a further deceleration in the oncoming Q4 FY19 IIP CG prints, FY19 GDP growth might need to be further revised downwards. The current slowdown might also have ripple effects on FY20 growth, with falling capex further lowering India's potential output growth.

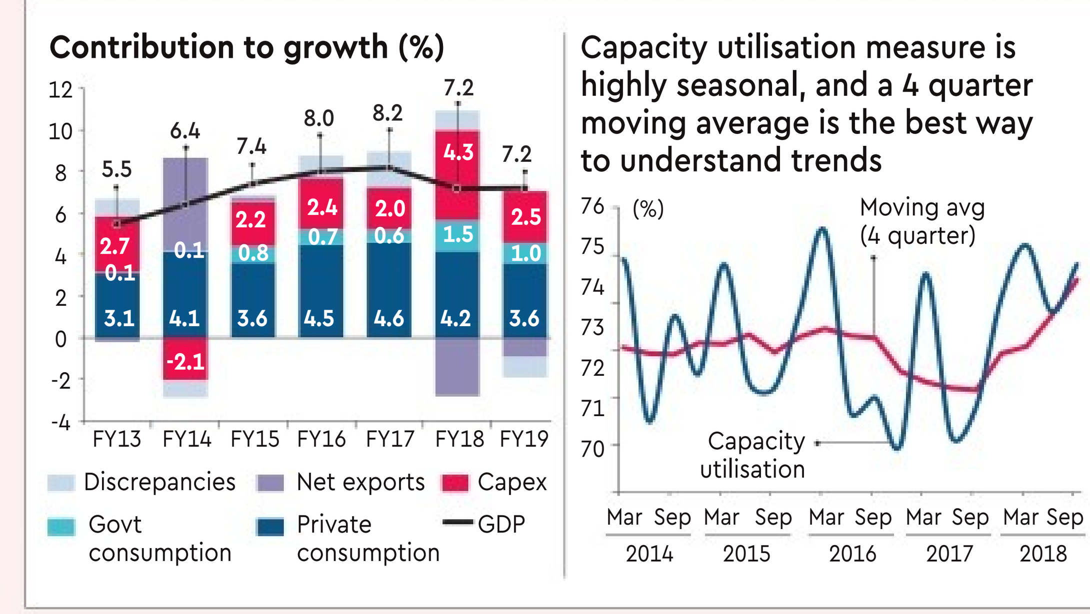
A premonition of this might have been a deciding factor in the MPC majority voting to cut the repo rate at the last review. However, this is where the picture starts getting ambiguous. The proximate cause of concern was a slowdown in the auto sector, with negative growth in passenger vehicles since September, then spilling over into commercial vehicles (CVs) in November. The 8-industry core sector index growth had also slowed to 1.8% in January, a precursor of the month's IIP.

Adding to this was a worry on exports, where growth had slowed sharply since November. Although partly due to the base effect of very high growth in the corresponding months of 2017, fears of a global slowdown of economic activity in general, and trade in particular, have deepened concerns. Trade activity had slowed sharply in countries with high export intensities—like Germany and China—with the repercussions of a persisting trade conflict. A sharp rise in crude prices with output cuts by OPEC and other oil producers deepened fears of further restricting already weakened structures.

In India, all this came right in the middle of a series of corporate credit events and concerns of a funding squeeze for NBFCs. Market liquidity had also tightened in this period, with, *inter alia*, a continuing rise in lending rates a likely contributing factor to a potential slowdown.

Having said this, there are also emerging signs that the feared slowdown might be more transient than expected. Manufacturing and services purchasing managers indices look quite robust. Capacity utilisation continued to tick up in Q2FY19. Anecdotal evidence also suggests a revival of mid-size capex in a range of sectors, driven in large part by government spending on infra. RBI has acted to infuse liquidity in a timely manner, but more microprudential measures might be needed to lower lending costs for MSMEs, who are more dependent on NBFCs for their borrowing needs.

Tanay Dalal contributed to the article



Getting NBFC regulation right

The core vulnerability of NBFCs is borrowing short-term and lending long-term and this can only be tackled by strengthening the long-term bond market

RAJANI SINHA

A corporate economist based in Mumbai

WITH INDIA'S BANKING sector suffering from a lack of capital and mired in NPA issues, the NBFC sector was holding fort and growing strongly in the last 2-3 years. Credit from the NBFC sector grew by 21% year-on-year (y-o-y) in FY18 when bank credit growth was hovering at around 10%. However, the recent liquidity crisis has brought to fore some of the inherent weaknesses in the NBFC sector.

Woes in the NBFC sector started by the loan default of IL&FS in September of last year. The resulting crisis of confidence in the sector resulted in a liquidity crunch and sharp rise in the cost of funds for NBFCs. RBI came up with some liquidity easing measures. The NBFCs, on their part, resorted to increased securitisation of their loan accounts. They also had to curtail their fresh disbursements. Mutual funds, as lenders of funds to NBFCs, shifted to entities with good parentage (within the NBFC basket). So, it seems a massive failure of the system has been avoided for the time being.

NBFCs have exposure to wholesale and retail assets. Retail exposure includes vehicle financing, microfinance, and housing loans, while wholesale assets include infrastructure, developer loans, etc. Long-term assets like infrastructure and real estate developer loans form around 34% of total assets of the NBFC sector. With an aggressive growth in loan books, NBFCs had been relying increasingly on short-term funding routes to meet their long-term lending requirements. Share of CPs in total borrowings of the NBFCs increased from 5.4% in 2012 to 9.7% in 2018. NBFCs have been resorting to the rolling over of short-term debt to meet their long-term lending commitments. For NBFCs, the share of market borrowings (mainly CPs and debentures) is 52% while the share of bank borrowings is 26%. Hence, any crisis of confidence would lead to difficulties for NBFCs in raising funds from the market. Not surprisingly, in the fallout post IL&FS, NBFCs' disbursements have fallen by 20-90% and the cost of funds has spiked by as much as 100 bps for some of them.

NBFCs have become a very important part of India's financial system and we cannot afford to let the sector slip. Share of NBFCs in outstanding credit has increased to 17% in March 2018 from 9% in March 2009. In the last few years, the sector has been instrumental in meeting the credit requirements of the economy at a time when bank credit growth has been weak with a number of public sector banks under PCA (Prompt Corrective Action). The NBFC sector has helped in financial inclusion by reaching out to areas that are unbanked (smaller towns/rural areas) and also taking care of the category of borrowers who are not being fully serviced by the banking sector. NBFCs have a large share of around 53% for micro-finance and as high as 50% in auto-finance's total credit requirements. The sector meets 40% of infrastructure and housing finance credit requirements.

NBFCs have become a very important part of India's financial system and we cannot afford to let the sector slip

Apart from growing size and reach, maintaining a good health of the NBFC sector is also critical due to its strong interlinks with banks and financial markets as a whole. NBFCs have a share of 6% in bank's total lending. Bank credit to the sector was growing by a strong 40% till last year, as banks struggled to find better avenues for credit disbursement. Mutual funds have a higher exposure, with 35-40% of their debt investments in NBFC/HFC. Insurance companies also have at least some exposure to NBFCs (though at a lower level). This implies that any failure of the NBFC sector would have huge repercussions for the entire financial sector.

The quality of NBFC assets has deteriorated in the last few years, with the GNPA ratio increasing from 2.6% in 2014 to 5.8% in 2018 (though this is still less than the banking sector GNPA of 10.8%). With the importance of the NBFC sector in the economy growing and strong interlinkages within the financial system, there is definitely a need to get more stringent on regulations for the NBFC sector. RBI is relooking into the asset-liability management (ALM) regulations for the NBFC sector. The core vulnerability of NBFCs is borrowing short-term and lending long-term and this can only be tackled by strengthening the long-term bond market. Globally, long-term capital is raised via bond markets with pension funds and insurance companies as major investors. In India, there are stringent regulations guiding the investments by pension funds and insurance companies. Even within the stipulated limit, insurance companies or pension funds avoid taking credit risk. Intermediaries in the financial system and complex structures further complicate the issue. This also brings to fore the role of credit rating agencies in India, especially in light of the recent sharp downgrade of IL&FS debt instruments (from AAA rating) after the loan default.

A crisis in the NBFC sector may have been averted for the time being. But the episodes of the last few months in the form of a liquidity crunch, sharp fall in NBFC stock prices, and a sharp drop in disbursements by NBFCs have highlighted the vulnerability of the sector. There is a need for closer monitoring/regulations to prevent further deterioration in the asset quality of NBFCs. There is also a need to develop long-term funding avenues for the NBFC sector to take care of their asset-liability management.

LETTERS TO THE EDITOR

Security approach

With discussion forums being largely ineffective to mitigate the chronic problem, repeated cease-fire violations only reflect upon a greater need to act stringently. Diplomatic steps to boost surveillance, suppress internal opposition, discourage trade relations/ties, have drawn the much-needed attention from OIC, UNSC and other international bodies. Undue politicisation of a sensitive issue and the posing of questions over a tactful win, acknowledged by higher-ranks and larger sections across the globe, defies decorum/integrity and thus ought to take a back seat in order to uniformly prioritise solidarity and boost the sovereign sentiment. A cockeyed perception towards superficial/eye-wash attempts along with a befitting action against a hostile entity, continually indulged in duping, misleading statements/propaganda, denials and outright rejection of evidence is the need of the hour. Robust legislation in sensitive areas is a must to keep undue interference at bay and meet the key objectives of public welfare and geopolitical stability

— Girish Lalwani, Delhi

Doubling farm incomes

Prime minister Narendra Modi had set an ambitious target of doubling farm incomes by 2022 but there is no indication yet on the ground to show that incomes of our farmers are indeed rising. Despite bumper harvests, the incomes of our farmers are not rising, pointing to the structural problems afflicting the farm sector. If the prices of agricultural produce remain stagnant or do not rise, then the problem requires a fundamental review of our agriculture policy. Agrarian crises cannot be tackled by ad hoc measures such as the writing off of loans of farmers, and other populist schemes. Time-bound measures to effectively address the ills plaguing the Indian farm sector need no delay

— M Jeyaram, Madurai

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PORTRAIT: SHYAM KUMAR PRASAD

RECORD CAFE: USHA BARWALE ZEHR

Govt policies have shrunk Mahyco's ag-biotech research spending by 70%

The Maharastra Hybrid Seeds Company (Mahyco) is the pioneer of organised private seed production in India. An unlisted company, it was founded by Badrinarayan Ramulal Barwale at Jalna in Maharashtra in 1964. From its breeding efforts came hybrids in bajra (1981), jowar (1982) and cotton (1985). In 1995, it began research in transgenic crops and, in 2002, obtained approval for cultivation of India's first and only genetically-modified (GM) crop, Bt cotton, with technology from the American MNC Monsanto. In 2006, it got approval for an improved version of the insect-resistant cotton. Since then, India has not approved any GM crop for cultivation. In an interview with Vivian Fernandes, *who blogs at www.smartindianagriculture.in, Mahyco's chief technology officer Usha Barwale Zehr, herself a geneticist and PhD in agronomy, explains why government policies have had a chilling effect on ag-biotech research. Excerpts*:

While participating in a discussion on 'Regulation of GMOs and genome-edited products', at the XIV Agricultural Science Congress 2019 in Delhi recently, you said Mahyco's research on GM crops has suffered by 70%. Is that in terms of investment or headcount?

In terms of rupees; I was asked by my board for how long are you going to keep putting money in a hole where there is no end in sight? Over the last three years, we have drastically reduced staff, investment and activities.

(*Its annual expenditure on GM crop research has declined from ₹80 crore to ₹30 crore, the company said.* VF)

How much staff have you reduced?

We reduced 50-plus staff who were working on GM crop-related matters. We have cut our funding by 70%. Whatever we had at BRL (Biosafety Research Level)-I or BRL-II, stages we have put on the shelf.

(*Mahyco was doing research in transgenic rice for insect resistance; herbicide and salinity tolerance; and nitrogen- and water-use efficiency. Bt okra was in advanced trials for resistance to the fruit borer.*)

> **Our goal is to develop products that farmers can plant. We have doubled up on research in molecular markers (that help select plants with desirable traits). We have also made significant investments in microbial seed treatments**

There is extensive illegal cultivation of BG-II RRF cotton, given there is no approved version. In August 2016, Mahyco withdrew its application from GEAC for approval of BG-II RRF, saying the government pressing for sharing of technology with seed companies "raised serious concerns about the protection of IPR." Last April, a division bench of the Delhi High Court overturned a ruling of the court's single judge that GM traits, being artificial gene constructs, were patentable. In January, the Supreme Court said the division bench was wrong and referred the matter back to the single judge. Does this not give Mahyco the confidence to reapply for approval of BG-II RRF?

On the legal front, I am not the best person. My understanding is that the Supreme Court set aside the judgment of the two-judge bench and sent it back to the single-judge bench for sorting it out. That is in process.

But hasn't the single judge upheld the patentability of GM traits? While doing that he said the government had the right to fix prices and trait fees...

To my understanding, the single judge said that Section 3(j) of the Patents Act (that plants and seeds cannot be patented) does not apply to Monsanto's patent for man-made gene. Also, the PPV&FRA (Protection of Plant Varieties & Farmers' Rights Act) does not extinguish or impact patent rights. But he only gave an interim order. The Supreme Court order was a good start and we now await the completion of the matter before taking a final call.

(*Monsanto, which has been taken over by Bayer, holds the patents for herbicide tolerance and insect resistance genes in BG-II RRF. The PPV&FRA is meant to recognise the rights of farmers or farming communities to varieties with unique traits they have conserved, and reward them.*)

At Science Congress, you said Mahyco was deterred by the restrictions on a GM trait owner's right to charge fees for proprietary traits. But the government withdrew, within a few days, its May 2016 notification denying pricing and licensing freedom to GM trait owners...

The notification was withdrawn, but every year we have the same discussion. Unless we have assurance that if you bring innovative products to the market, there will be some mechanism by which the developer is protected ... otherwise, not only do I have to take all the risk, but I am not even allowed to capture value.

(*In 2016, the government slashed trait fee payable by seed companies on BG-II cottonseed from ₹163 per pack of 450gm to ₹49. Subsequently, it reduced it to ₹39.*)

What is Mahyco's research focus now?

Our goal is to develop products that farmers can plant. We have doubled up on research in molecular markers (that help select plants with desirable traits). We have also made significant investments in microbial seed treatments, which enhance farmers' income by increasing productivity as well as soil health. The sad part is we have a lot of products that are ready to go. Bt brinjal is a case in point, where nothing is needed; it just needs a green light. When you don't have that, it is really demoralising.

(*Bt brinjal got regulator's approval for commercial cultivation in 2010, but environment minister Jairam Ramesh vetoed the approval. Bangladesh approved it on the basis of Indian biosafety data in 2013. From 20 in 2014, a little over 27,000 Bangladeshi farmers are growing it.*)

The CEO of the Food Safety and Standards Authority of India (FSSAI) is in favour of labelling of GM food products. Would you go along?

My first preference would be not to label, for two reasons. One, after the product undergoes full biosafety clearance, what is the need for labelling? If the government mandates that we label, I don't have an issue, but the challenge is the practicality of it. In the case of cotton, we could possibly label.

Even Bt cottonseed oil...

It's a no-brainer; 95% of the cotton area is GM so only the non-GM cotton oil will have to be segregated.

Do you mean non-GM cottonseed oil should be labelled as such?

It wouldn't be a bad idea considering how much pesticide might have been on it. In Bangladesh, farmers name Bt brinjal varieties, but as the acreage increases, we are not sure how this will continue.

(*The Bangladesh Agricultural Research Institute (BARI) has four approved Bt brinjal varieties: Uttara, Nayantara, Kazla and ISD006. Farmers are required to label their baskets, say, 'BARI Bt Begun 1-Uttara—Fruit and Shoot Borer Resistant Bt Brinjal'. Mahyco has supplied the technology but does not get paid for it.*)

Genome editing is more acceptable technology than genetic engineering because genes from other species are not introduced; only undesirable ones are silenced or excised. Should gene-edited crops be subject to the same rigorous testing for biosafety as GM crops?

I don't think same rules should apply because you can produce gene-edited products by conventional processes. If you can't distinguish between gene-edited products and those that have been mutated through conventional processes (radiation or chemicals), then some might disclose and some might not, and those that disclose will be at a disadvantage. Regulation should be based on the appropriateness of the technology.

What could trigger a government rethink on GM crops?

The fall armyworm could be a trigger. About 15 million hectares of maize in India is under threat.

How to do UBI

ANIL K KANUNGO

The author is professor, Lal Bahadur Shastri Institute Of Management, Delhi, and former senior faculty, IIFT

Neither Centre nor states have fiscal capacity to implement anything close to a true UBI

UNIVERSAL BASIC INCOME (UBI) may have gained momentum in the area of social security, but is yet to convince the country how sustainable it is in terms of securing a reasonable income for the needy. The question is: What is new in this initiative that wasn't there in other social initiatives of the past government and has not been fulfilled yet? UBI is possibly a paradigm shift that aims to bring in social justice and economic security. It focuses on the principle that a just society needs to guarantee to each individual a minimum income they can count on, and that provides the necessary material foundation for a life with access to basic goods and dignity. UBI, like many other rights, is unconditional and universal, hence requires that every person should have a right to a basic income to cover their needs, just by virtue of being a citizen. Such overwhelming objective apparently looks difficult to achieve in a short period of time, but what can be argued is that a fresh, long-term initiative needs to be worked out and implemented.

UBI, in a narrow sense, aims to provide direct cash transfer to households, which should guarantee them a minimum standard of living. This means the government transfers a sum of money at regular intervals to all citizens. The idea of providing basic minimum income was first mooted by Jawaharlal Nehru in 1938, even before Independence. But the success of anti-poverty schemes has been mixed—although some have experienced marked improvement in key areas, implementation has been afflicted by corruption, leakages and also due to the exclusion of deserving persons. For example, a major employment guarantee scheme in 2011-12 did not reach 40-65% of the poorest. It is observed that, in practice, a UBI should target low-income classes and the poor in the range of 60-75% of the population. Providing universal income is a constructive alternative because it removes the need for identifying and targeting correct beneficiaries. This is becoming easier with technology, which ensures biometric identification of the exact beneficiary. This nearly covers all Indians. Financial inclusion and mobile penetration have created the scope for directly transferring cash to household bank accounts. There is still some work to be done as biometric identification becomes contentious in some cases and financial inclusion suffers from last-mile connectivity, i.e. beneficiaries are physically at a distance from banks or ATMs.

> **If properly targeted, Universal Basic Income can reduce corruption and leakage of funds. And it will be politically correct**

The translation of this idea into an actionable policy requires a strong political will. An opportunity does exist with the unfolding of agrarian distress. Respective state governments need to address such concerns. However, for the last couple of years, agricultural prices received by farmers have declined sharply, shrinking their incomes. The results of such agrarian distress was well-pronounced in the last three state elections where the ruling party lost in all states.

Telangana took the plunge by providing cash transfers to land-owning farmers. Odisha extended this scheme to agricultural labourers and tenants. The announcement by the Congress party to provide a minimum income to the poor has become a key part of its manifesto for the general elections. The Interim Budget proposed a cash transfer of ₹6,000 per year to all small and marginal farmers up to a landowning limit of two hectares.

None of these schemes really aim at creating a UBI, because they all target a fraction of the population. Many are mere announcements, with implementation yet to be take place. Pronouncements have to contend with budget constraints—neither the Centre nor states have fiscal capacity to implement anything close to a true UBI. In addition, implementation of a true UBI seems impractical as incessant agricultural subsidies for capital, power, fertiliser and water are simultaneously carried out, making it a huge burden on the government to think of an alternative like UBI. And removing these subsidies is a real political challenge. Hence, to expect UBI to happen in the near future looks remote.

A reasonably sound idea could be that UBI needs to be financed and implemented jointly by the Centre and states. Competition between states can ensure that the rewarding of tough political choices to implement a UBI in one area will be imitated by others. What works for UBI is that, if properly targeted, it can eliminate corruption and leakage of funds. It can provides low-income citizens with spendable money and avoid systemic distortions that farm loan waivers impose. Above all, it becomes politically correct.

INDIA'S WATERWAYS

An ocean of opportunity

Waterways can make India a trade leader in South Asia and beyond

RAVI JESWANI & MONNESH NANDI

Jeswani is professor and Nandi is a final year student, Vivekanand Education Society's Institute of Management, Mumbai

ACCESS TO GREAT WATER bodies within and outside your borders is a huge asset. India is a land of rivers, and its 7,500-km-long coastline gives it access to Arabian Sea, Bay of Bengal and the Indian Ocean. The name of our country itself comes from the mighty Indus river, and this alone should be inspiring enough to use our great water resources to increase our share of global trade and promote internal trade.

One of the weaknesses of the industrial set-up in India is the supply chain. Roads and railways are major transporters, but both have their limitations. It has been observed that poor conditions of roads are a major source of distress for trading. Trains used for commercial transport are also plagued by delays and breakdowns. Moreover, both these modes of transport, along with air, require huge capital inflows to build the infrastructure. The rising cost of fuel is also a major concern.

When it comes to waterways, however, the need for capital inflows is low, as the major infrastructure needed is docks and ports at strategic areas. One of the greatest challenges of managing any supply chain is ensuring timely delivery and controlling costs. Use of waterways will reduce costs of transporting goods and increase the speed of delivery.

Transportation costs in India are already high, i.e. 18-20% of GDP (in China, it's about 10%). The US, the EU and China have invested heavily into their waterways programmes and are reaping the benefits.

Waterways is not a new concept. The Sagarmala Project—an ambitious attempt to link India's coastal regions to inland waterways—was first proposed in 2003. It was given a green light in 2015, and is a massive initiative with investments running in lakhs of crores of rupees. It is estimated to contain over 500 projects, and create benefits worth billions of dollars and create millions of new jobs.

However, the project is moving at a slow pace, and this is both increasing its costs and reducing benefits. It's necessary to speed up this project so that its value doesn't diminish. The opponents criticise its high costs and the potential damage to existing waterways, but the high capital costs will be followed by a lowering of costs once ports become operational. The infrastructure is being built to last many decades, during which initial costs will be recovered. The question of environmental feasibility is important, but the use of waterways will reduce our reliance on roads and railways, decreasing vehicular pollution and deforestation.

The project can also be expanded to public transportation. India has vital maritime assets such as the Andaman and Nicobar Islands that are a gateway to South East Asia, and the development of maritime infrastructure out there can increase our role in the area of global shipping. India shares inland waterways with many of its neighbours, and the extension of the Sagarmala Project in the SAARC and the BIMSTEC regions can resolve the supply chain woes of our largest trading partners, and also help give India trade leadership in South Asia, acting as a counter to China's Belt and Road Initiative.

COMMODITY BROKERS

Regulating the regulator

Who will punish regulators if they punish innocents?

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RECENTLY, MARKETS REGULATOR SEBI declared five commodity brokers—commodity arm of Motilal Oswal, India Infoline, Anand Rathi Commodities, Geofin Comtrade and Phillip Commodities India—as "not fit and proper" for trading in commodity derivatives markets for their involvement in the NSEL crisis in September 2013.

SEBI found all of them guilty of violating provisions of the erstwhile Forward Contracts (Regulation) Act (FCRA). After the merger of the commodity markets regulator, the Forward Markets Commission (FMC), with SEBI in September 2015, the regulator had issued show-cause notices to these brokers, asking why they should not be declared as "not fit and proper" for their involvement in the NSEL scam.

SEBI has ordered the clients of these firms to withdraw their funds or securities within 45 days. According to SEBI, these brokers violated FCRA provisions. They made false representations with respect to assured/risk-free return, arbitrage opportunity in spot markets by way of paired contracts, and making assurances with risk-free returns on assured collateral of commodities. Also, they did client code modifications with manipulative artifice. Hence, they are not fit and proper person to hold, directly or indirectly, the certificate of registration and, therefore, cease to act, directly or indirectly, as commodity derivative brokers, said the SEBI order.

Interestingly, some of these brokers had shut down commodity broking firms immediately after the NSEL crisis in 2013, and then re-entered the business under a new company name. The new entities have been generating sizeable business in the commodity derivatives markets with membership of leading exchanges. SEBI is also reported to be investigating as many as 300 brokers in the NSEL payment crisis. Similar "not fit and proper" actions might be taken on other broking firms named by various investigating agencies for their alleged involvement in the NSEL crisis.

These actions of SEBI reveal the NSEL crisis was caused by brokers in the commodity markets, who, incidentally, also trade in the securities markets. Of course, the immediate cause of the crisis was the abrupt closing of trading in the market.

When trading at NSEL was abruptly stopped, panic ensued among market participants to avoid losses, through settlement of outstanding contracts, not so much through delivery of goods by sellers as by paying the differences between the contracting price and the price at which trading was stopped—resulting in heavy defaults by sellers, to the impediment of buyers, who began calling themselves investors, notwithstanding that NSEL was not an investment market like securities markets, but a spot exchange for trading in one-day forward contract. The SEBI order makes clear brokers made false representation with respect to assured/risk-free returns at NSEL, offering clients opportunities of arbitrage by way of paired contracts, making assurances of risk-free returns on the alleged assured collateral of commodities, besides modifying client codes, with manipulative motives. Verily, the cat is now out of the bag.

While regulators have the right to punish those who violate the rules and regulations of commodity, security, currency and bond markets, who will punish them, if they wrongly punish innocents?