Opinion

FRIDAY, MARCH 8, 2019

ACCESSIBLE HEALTHCARE

Narendra Modi, prime minister of India

"Through the Jan Aushadhi scheme only, lakhs of families have made a saving of around ₹1,000 crore. We are working for a holistic transformation in the health sector and hence our approach is no silos only solutions"

RationalExpectations

SUNIL JAIN

sunil.jain@expressindia.com
@thesuniljain

Monsanto wins a battle, not the war

It wins arbitration and SC ruling also helps it, but till govt rolls back its unfair policies and defends its patent, this won't help

WITH THE BOMBAY High Court asking Nuziveedu Seeds to deposit ₹138 crore within two weeks, US seed-tech firm Monsanto has won a major battle against the Andhra Pradesh seed firm that was refusing to pay royalty for its technology. The Bombay High Court ruling, in turn, followed an arbitration court ruling in Monsanto's favour in January; Nuziveedu didn't pay Monsanto royalties from April to November 2015, after which Monsanto terminated its licence agreement.

And Monsanto won an even bigger battle when, in January, the Supreme Court overturned a ruling of the division bench of the Delhi High Court that said the patent it had got from the Indian Patent Office was illegal (yes, that is what it said). But there is an important caveat. When Nuziveedu refused to pay Monsanto, one of the arguments it made was that Monsanto's patent was not a valid one. When a single judge bench of the Delhi High Court ruled on this, it said that while a larger hearing on the validity of the patent would be held, prima facie, it appeared valid. When this was challenged before a division bench of the same court, it ruled that the patent was invalid. The Supreme Court, however, struck down this ruling. With the single bench ruling becoming the operative one, this meant that while the patent is valid right now, there will be a full hearing on whether this should be struck down. So while it took Monsanto 7-8 years to get the patent in 2008, it can take another 15-20 years for a decision on its validity—whichever party loses the patent battle in the single-judge bench will appeal to the division bench and that, eventually, will be appealed before the Supreme Court.

This is where prime minister Narendra Modi comes in. His government has done a lot to hurt Monsanto, through a seed-price order, by trying to limit royalties, and even the additional solicitor general arguing the patent was illegal! This went down well with the RSS's anti-GM lobby, but with the Indian Patent Office under attack, will anyone bring in innovations that require patent protection? It is not just Monsanto, the Patent Office has given 70 similar patents including several to Indian companies. What happens to them?

> While GoI policies helped seed firms like Nuziveedu, its licence has been cancelled for selling illegal GM seeds! And when the Patent Office granted Monsanto patent, how is the Central govt saying this is illegal?

The crux of the controversy centers around Section 3(j) of the Patents Act—while Section 3 deals with what are not inventions and cannot be patented, 3(j) talks of "plants and animals in whole or any part thereof other than microorganisms but including seeds, varieties and species and essentially biological processes for production or propagation of plants and animals".

Monsanto's invention comprised (a) identification of desired gene (Cry2Ab) from the DNA of Bacillus Thuringiensis (BT) bacteria, which is found naturally in the soil; (b) making (synthesising) nucleic acid sequence by copying the Cry2Ab for insertion into a plant cell; and (c) the method of inserting this nucleic acid sequence into a plant cell. Once this was done, Monsanto licenced the technology to various seed companies, like Nuziveedu, and they used this to develop various cotton hybrids that had the essential qualities of what Monsanto developed. Monsanto argued its product was a biotech one, a microbiological process/microorganism, which was patentable under the Patents Act. It said Section 3(j) did not apply to it since what it had developed was not ordinarily part of a plant, it was inserted into a plant using its technology. The single judge bench agreed with this when it said Monsanto's technology "involve(d) laboratory processes and are not naturally occurring substances which only are to be excluded ... in Section 3(j)".

The division bench, however, agreed with Nuziveedu when it said, "the nucleic acid sequence, which is the invention in question (the Cry2AB gene), has no existence of its own; it is of use after introgression at a particular place, none else. Even thereafter, the seed material has to undergo further steps of hybridisation to suit local conditions. Therefore, these products are not 'microorganisms' and consequently excluded from the exclusion clause in Section 3(j)". In other words, Monsanto's patent was really useful only after it was inserted into a plant, but once it was introduced into a plant, however, Section 3(j) applied! Additional Solicitor General Tushar Mehta, who appeared before the division bench even though the Central government was not a party to the case, argued something close to Nuziveedu's point when he said that, since the gene on which the patent was issued was later inserted into a plant, the patent was, in effect, being given to a plant; and, by law, that is not allowed.

Interestingly, while the Central government's actions were benefitting Nuziveedu primarily, the Andhra Pradesh government has cancelled its licence—along with 13 other seed firms—for their role in selling the next generation of GM seeds even though they were not approved by the Genetic Engineering Approval Committee. This followed the findings of a body of experts—formed at the behest of the Prime Minister's Office—that ruled out these seeds being supplied by Monsanto and said its tests showed some local firms were engaged in breeding the illegal seeds. Apart from restoring the credibility of India's patent office, Modi needs to intercede since GM seeds are critical for boosting productivity. In the case of cotton, for instance, in the absence of new seeds, the output of Indian farmers will remain below world levels; if farmers' output is lower than global levels, Indian cotton and garments made from it will also be uncompetitive. If GM maize raises global productivity and India doesn't have this, similarly, it means India's chicken industry will become uncompetitive. That is, GM technology is not just about benefitting farmers, it is about benefitting Indian industry as well. That is also why, though the government put a cap of ₹800 on every bag of Monsanto's seed, when illegal varieties of the next generation of GM cotton were sold in India—by the likes of Nuziveedu—farmers were willing to pay even ₹1,200 since they benefitted from its properties.

ExtrajudicialAffair

If TV soaps are leading to illicit affairs that are responsible for murders, is global warming the cause of road rage?

THE MADRAS HIGH Court, going by a report in *The Times of India*, has asked Central and state government authorities to inquire whether 'mega television serials' are responsible for extramarital relationships. The court observed the same during the hearing of a case of murder that took place due to an illicit relationship. In an effort to address the growing occurrence of fatal fallouts of these affairs in the form of "ghastly murders, kidnappings, assaults, etc", the bench suggested that the supposed reasons behind these clandestine relationships ought to be looked at.

Since a central tenet in legal discourse and proceedings is that of establishing causality, and if television shows and dramas are to be held responsible for citizens' actions of infidelity, what's to stop people from arguing that these shows are influencing those who commit graver acts like murder, etc? What's next, the impact of global warming—and may we add all forms of pollution, from air to water?—on road rage and other forms of anger? Imagine the arguments, and counter-arguments, to try to establish causality or the lack of it. Dealing with the psychobabble will only expand the existing workload of the judiciary, even though it will provide a great deal of entertainment for the lay public; and a lot more opportunities for doctors and lawyers to use their imagination to help their clients.

JOBS IN INDIA

CMIE USES THIN SURVEYS TO ESTIMATE UNEMPLOYMENT AND ALSO LINKS THIS WITH FALLING INVESTMENTS. BUT INVESTMENTS ARE RISING AND THERE ARE BETTER SOURCES OF DATA ON JOBS

Use reliable databases for jobs not thin samples

TV MOHANDAS PAI & YASH BAID

Pai is chairman of Aarin Capital Partners and Baid is head of research at 3one4 Capital

THERE HAVE BEEN several articles in the media in the past month raising the issue of 'increasing unemployment'. These reports cite 'data' from blogs written by the think tank, CMIE (the Centre for Monitoring Indian Economy Private Ltd.). The CMIE has been putting out alarmist reports without adequate data from a thin survey to back their stance. Recently, the CMIE put out a report saying there has been a reduction of 11 million jobs in the year 2018.

Their analysis is based on a paper-thin sample survey conducted on just 1,40,000 (*bit.ly/2QN2XIT*) respondents to determine job trends for a nation of over 1.3 billion people. Further, the results from the survey are based on preliminary estimates two months ahead of schedule. They promise to complete the survey by February 2019 and a recent release says more or less the same! Looking at their methodology for these claims, we notice that their purported job loss calculations are based on falling investment proposals. Quoting Mahesh Vyas, the MD and CEO of CMIE from a recent article in *The Hindu* (*bit.ly/2S2BXPZ*), "new investment proposals had peaked at ₹25 trillion in 2010-11. In 2017-18, these were down to ₹11 trillion and, in 2018-19, these are unlikely to cross ₹10 trillion. The impact of this fall in investments is visible in shrinking jobs". Basing jobs on investment proposals is nothing but voodoo economics.

An investment proposal is a statement of intent and does not reflect investment on the ground. Proposals take 4-5 years to materialise and become tangible. It has no direct linkage with employment except for when actual investments flow in. Further, only about 35-40% of the investment proposals come into being. To say that investment proposals have come down and have suddenly impacted in a loss of jobs in just the past one year is an alarmist prediction. 'Breaking news' with such scant data to back their claims is a prime example of fearmongering.

If one looks at the recent CSO data in the first revised estimate of national income, consumption expenditure, saving and capital formation for 2017-18 (*bit.ly/2EGRErm*), we can see the actual investment in the economy. The yearly change in a nation's Gross Fixed Capital Formation (GFCF), is a measure of investments in that country. At constant figures, one can see from the graphic that the GFCF has grown consistently from ₹28.97 lakh crore in 2011-12 to ₹41.36 lakh crore in 2017-18. There is no data to signify any reduction in 2018-19. So the idea that any 'unemployment' is due to reduction in investment between 2014-18 is bogus and not borne by data! The reduction between 2011-12 and 2013-14 is more due to a reduction in household investment in real estate than the private sector. This data also shows no reduction in private sector investment during this time except for a slight dip in 2016-17. There has been a discernible increase in government investment between 2014-18.

The last four years have seen a consistent uptick, with the change in 2017-18, in particular, being the most prominent. Even if you take investments at current prices, the GFCF at current prices has grown very well from 2014 to 2018, with a CAGR of 8.6%. The rate of GFCF to GDP, too, has increased from 30.8% to 31.4% in constant terms and from 28.2% to 28.6% in current terms in the past year. When investment to GDP is going up, there is no basis to say that employment can come down just because investment proposals are down.

Further, India has seen a constant accretion in its Gross Value Added (GVA) as can be seen in the graphic. For the years 2014-18, we witnessed a healthy CAGR of 7.5% in constant prices and 10.6% in current prices. The value addition in these years has been significant. Even if we credit a strong 5% of this growth in constant prices to increasing labour productivity per year, the remaining 2.5% growth in constant terms can be attributed to job growth. Hence, during 2014-18, this data shows an increase in total employment by 10%. On the base of a 502-million-strong labour force (World Bank), this 10% increase shows an increase in employment of 50 million (a lesser number if we use actual employed out of this). Analysts can assume any yearly productivity growth but the data will show strong employment growth contrary to the alarmist viewpoint.

When macroeconomic data like GVA, GFCF, social security (EPFO, PPF, NPS) data on transportation and from I-T on professionals is readily available, there must be strong questions raised against the need and sole use of thin surveys like the ones conducted by CMIE. The EPFO/ESI have over 10,00,000 employers registered, most of whom file monthly returns and pay contributions for around 190 industries across 29 states! This enormous quantum of data, every month, is more than any data from sample surveys and can be the base to make estimates. The CMIE reportedly has 500,000 respondents but this database has 10,00,000 employers and is more reliable. Today, the EPFO/ESI, after discounting duplication, shows 7.5 crore people getting a monthly salary. Governments, both Central and states and parastatals, employ another 2.5 crore, making a total of 10 crore getting a monthly salary with verifiable data. Increase in the monthly payroll, available through monthly reports of EPFO/ESI/NPS, show strong growth of around 70 lakh per year-verifiable data!

The Income Tax (I-T) data shows that 2.14 crore non-corporate entities filed returns in the fiscal year 2016-17 under the head 'income from business/profession'. Assuming each employs 5 people on average, this could potentially show a stock of 10 crore employed. The MOSPI data on total stock of vehicles registered in India shows around 5 crore employed in this sector. All this shows verifiable data of 25 crore people employed. Even if we discount this further by 20%, we get a stock of 20 crore people employed from these databases. We can infer from the EPFO/ESI/NPS, vehicle sales and from data on professionals from the I-T database that, yearly, around 1/1.1 crore people are getting jobs, a far cry from the reduction in employment claimed by CMIE! Of course, this excludes the jobs in the agriculture sector!

India's challenge is that around 43% of people depend on agriculture which is 15% of GDP, and shrinking, with their income growing at 2.9% a year, with low per capita income. They need to be moved to the industry and services sector where income is growing at 7.5-9%. The disparity is widening and only faster growth can bridge the income divide!

India has these rich verifiable data bases available with most giving monthly data. Sadly, MOSPI, too, depends on a thin sample of around 160,000 households for NSSO employment data surveys in a country of vast diversity with over 26 crore households, and the questions asked are based on the low growth economies of the 1980s and 1990s. When verifiable data is available, depending on such antiquated thin surveys does no justice to India. India needs a modern system of job growth estimation using verifiable databases. The government of India needs to take a policy decision to move from thin surveys to verifiable databases to enable regular issue of verifiable data. Our economists and commentators, too, should look at verifiable databases rather than pontificate on thin surveys that do not reflect the reality of a country which has grown at 8.7% a year in dollar-terms between 1991 and 2018!

Particulars (₹ crore)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	CAGR (2014-18)
GFCF at constant prices (2011-12)	29,97,733	31,45,793	31,94,924	32,78,096	34,92,183	37,83,778	41,36,572	6.7%
y-o-y change		4.9%	1.6%	2.6%	6.5%	8.3%	9.3%	
GFCF to GDP	34.3%	34.1%	32.6%	31.1%	30.7%	30.8%	31.4%	
GFCF at current prices	29,97,733	33,24,973	35,15,621	37,50,392	39,57,092	43,35,014	48,96,813	8.6%
y-o-y change		10.9%	5.7%	6.7%	5,5%	9.6%	13%	
GFCF to GDP	34.3%	33.4%	31.3%	30.1%	28.7%	28.2%	28.6%	
GVA (constant prices, ₹ crore)								
Agriculture	15,01,947	15,24,288	16,09,198	16,05,715	16,16,146	17,17,467	18,03,039	2.9%
Manufacturing	26,35,024	27,21,167	28,24,188	30,21,899	33,11,317	35,67,377	37,79,514	7.6%
Service	39,69,975	43,00,819	46,30,263	50,84,519	55,64,409	60,34,128	65,21,612	8.9%
Total	81,06,946	85,46,274	90,63,649	97,12,133	1,04,91,872	1,13,18,972	1,21,04,165	7.5%
GVA (current prices, ₹ crore)								
Agriculture	15,01,947	16,75,107	19,26,372	20,93,612	22,27,533	24,96,358	26,70,147	8.5%
Manufacturer	26,35,024	29,23,394	31,90,871	34,48,189	37,66,249	40,92,874	45,29,864	9.2%
Service	39,69,975	46,04,192	52,45,909	59,62,478	65,80,718	73,46,686	82,82,704	12.1%
Total	81,06,946	92,02,693	1,03,63,152	1,15,04,279	1,25,74,500	1,39,35,918	1,54,82,715	10.6%

Driving demand for affordable housing

Extension of tax rebates, exemption of notional tax, added flexibility to deploy capital gains from property transactions and tax breaks for individual taxpayers will help in improving the demand for lower ticket size houses

MANISH SHETH

MD and CEO, JM Financial Home Loans Limited

THE $180 BILLION real estate sector that contributes 6-7% of the country's GDP is betting majorly on the performance of the affordable housing segment to script the much-awaited revival. Following the government's continuous push for the sector, the affordable housing sector, which was conferred industry status in 2017, has emerged one of the key demand-drivers for the sector.

What the government has been focusing on is the making of the conversion of such demand into actual sales smooth. As a result of that, for both homebuyers and real estate developers, the demand for affordable homes has become actionable. The recent interim budget 2019 is also in line with the government's declared objective of housing for all as it addressed both the demand (incentives to buyers) as well as supply (incentive to developers) challenges in the sector, which is a commendable job in itself.

From the supply perspective, the extension of tax rebates for affordable housing projects (Section 80 IB-A) and exemption of notional tax on unsold inventory to two years are much-needed support to the developers in the current liquidity scenario. On the demand side, added flexibility to deploy capital gains from property transactions and tax breaks for individual taxpayers with annual taxable incomes of up to ₹5 lakh are positive steps for the industry.

The government has extended the timeline to avail tax deductions under section 80 IB-A by one year i.e, till March 2020. Thanks to the extension, eligible affordable housing projects approved before March 2020 can avail a deduction of an amount up to 100% of the profits derived from such projects.

Developers presently are liable to pay tax on notional rental for unsold inventory one year after the completion of the project. The proposal to exempt developers from paying tax on notional rent for a period of two years is evidently a relief for the cash-strapped developers.

Finance Bill, in section 54 of the Income Tax Act, proposes to allow a one-time benefit for deploying the capital gains of up to ₹2 crore for the purchase/construction of two residential houses (from one house earlier). This will help in improving the demand for lower ticket size houses, as the investors may look for options to deploy capital gains in the mid-segment or affordable housing units.

The full tax rebate to individuals having a taxable income of up to ₹5 lakh will provide eligible taxpayers with an additional saving of ₹12,500 per annum. This increased disposable income will help home buyers in getting an additional loan of approximately ₹1 lakh.

However, the government's decision to reduce the allocation to CLSS for economically weaker sections (EWS) and low income groups (LIG) by 54% to ₹6,000 crore under PMAY-Urban has surprised many. Also, the allocation to the middle-income group (MIG) segment has been reduced by 33% to ₹4,000 crore.

Having said that, utilisation of funds is more important. For example, ₹6,000 crore allocation for the EWS/LIG segment can provide subsidy to over 2.2 lakh households at an average subsidy amount of ₹2.67 lakh per loan. Further, one key omission is the proposed GST reduction on under-construction houses. Lower GST on under-construction housing units would have given a much-needed impetus to the affordable housing sector. Nevertheless, the government acknowledges the sectoral pain from the point of view of developers as well as home buyers. The measures promulgated by the government will definitely attract buyers to the affordable housing segment.

LETTERS TO THE EDITOR

Balakot strike

The Indian Air Force has provided the government with radar and satellite images that show the February 26 air strike on the seminary run by the Jaish-e-Mohammed terror group but the fact that they have not been put up in the public domain has fuelled speculation. Besides, the government has not crowned itself with glory by contradicting its own statement on the casualties inflicted in Balakot

— Ravi Chander, Bengaluru

Free speech

The days of the Raj saw non-cooperation and peaceful satyagraha dealt with extreme force. Paradoxically, 1644 AD, at the height of the English Civil War, poet John Milton called on the British Parliament to grant above all liberties the freedom to speak. Sad that a notion that lasted for centuries thereafter under a medieval dispensation should be under siege in this 'evolved' modern era. Equally a pity that few are prepared to defend this very sap that nurtures the spirit of men, society and nations. Intellectualism is rudely sought to be branded as anti-national, deserving of suppression by the might of the state

— Janaki Narayanan, Mumbai

●Write to us at feletters@expressindia.com

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SHWETA KHANDELWAL

The author is head, Nutrition Research, and associate professor, Public Health Foundation of India. Views are personal

The health effects of climate change

Climate change is indeed exacerbating India's nutrition and health insecurity—there is evidence that environmental changes reduce yields of starchy staple crops and alter nutrient composition of fruits, vegetables and legumes. This is quite a serious issue in a country like India that grapples with micronutrient and protein deficiency in more than half of its population

THE INTERGOVERNMENTAL PANEL on Climate Change (October 2018) shared that human activities have led to a 1°C (0.8°C to 1.2°C) rise in temperatures (global warming) above pre-industrial levels. This will reach 1.5°C between 2030 and 2052, if it continues to increase at the current rate. The atmospheric concentrations of carbon dioxide (the primary greenhouse gas) have risen to 410 parts per million (ppm) from about 280 ppm in pre-industrial times. The World Health Organisation estimated that approximately 250,000 deaths annually between 2030 and 2050 could be due to climate change. Several reports confirm that the poorest people, already suffering from the highest rates of undernutrition, will be the most vulnerable to climate change.

The consequences of our irresponsibly depleting Earth's natural resources are both predictable and dire. Indian agriculture, and thereby India's food production, is highly vulnerable to climate change largely because the sector continues to be highly sensitive to monsoon variability. About 65% of India's cropped area is rain-fed. With its huge and increasing population and rapid rate of urbanisation, India may experience much bigger levels of multiple health and nutrition threats owing to climate change. India already is one of the top rankers in multiple forms of malnutrition globally. With only about one in 10 children getting adequate nutrition, we ought to keep other potentially influential (to health and nutrition) variables favourable. There are multiple reasons contributing to poor nutritional status of our population, spanning from food scarcity to (unhealthy) food excess, increased consumption of refined cereals, simple sugars and salt, etc. However, adverse variables like climate change, pollution, etc, added to this scenario can further catalyse plummeting of the public health nutrition (PHN) indices.

The connection between climate change and nutrition is complex and multifaceted. Undernutrition can be exacerbated (increased nutrient demands and reduced nutrient absorption) by the effects of climate change at all stages of the food value chain. Suboptimal diet (micronutrient deficiencies and overall poor nutritional status) during vulnerable stages, especially pregnancy lactation, may have adverse repercussions for several generations. Studies show that the onset of risk factors for non-communicable diseases like hypertension, diabetes, cardiovascular problems, etc, is faster and earlier in people with nutrient deficiencies than those consuming a healthy diet. The recently released EAT-Lancet Commission's food advisory recommends consumption of fruits and vegetables rather than meat for preserving own health and nature. But there is evidence that environmental changes reduce yields of starchy staple crops and alter nutrient composition of fruits, vegetables and legumes. This is quite a serious issue in a country like India that grapples with micronutrient and protein deficiency in more than half of its population. Studies show that the absence of adaptation strategies, increasing ambient temperature in (sub)tropical areas, tropospheric ozone, water salinity and decreasing water availability would all negatively affect vegetable and legume yields. Further, the increasing level of carbon dioxide is also implicated in "dilution effect" resulting in lesser vitamins and minerals per unit of yield. In fact, related issues around reducing use of pesticides, preventing food wastage, promoting dietary diversity, and creating sustainable, accessible and robust food systems also need more voice and power.

> WHO estimated that climate change could lead to 250,000 deaths annually between 2030 and 2050. The poorest people, suffering from highest rates of undernutrition, are most vulnerable

India already depends a lot on imports for fulfilling nutritional needs of the population, and with the ensuing climate change, the access to safe and nutritious food, and affordability, is bound to be impacted severely. We must take specific actions to help curb adverse impacts of climate change on PHN:

■ Funding needs to be earmarked for designing, rolling out modern climate change-resistant infrastructure and technology to tackle with climate change and nutrition insecurity. To reduce nutrition risks along the entire value chain, early warning systems are needed so that farmers can produce sufficient food and traders can adequately store food in the face of extreme weather events.

■ Mitigation and adaptation strategies are needed to offset adverse impacts of climate change on food production. Climate change should instil greater urgency to find more sustainable, resilient and efficient ways of producing, trading, distributing and consuming diversified agricultural food products.

■ Use food technologists to devise food storage and processing practices that reduce climate-related food safety concerns and help to preserve the nutritional value of foods. These strategies can also support reducing food waste.

■ Build and strengthen capacity of public health professionals and allied forces, which may be used for prevention and management of climate change-related issues. Increasing the number of healthcare facilities/staff can improve access to healthcare for vulnerable populations, especially the rural poor.

■ Academic and research capacity need to be augmented. Integrated curricula drawing upon best practices from agriculture, public health, nutrition, transport and environment to prepare qualified interdisciplinary workforce should be designed and adopted. Options for all interested scholars to do certified courses (of varying duration and modes) should be available.

■ Invest in social protection schemes and livelihood security mechanisms to tackle malnutrition and build resilience. Interventions aimed at reducing undernutrition have a greater and rapid impact on poverty than economic growth on its own. It has been seen that while a 1% decrease in poverty rate achieves a 0.25% reduction in malnutrition rate, a reduction of 1% in undernutrition eventually yields 4% decrease in poverty.

■ Make disaster management robust and capable of preventing, managing and restoring normalcy as soon as possible.

■ Policy coherence is the most vital piece. The cross-sectoral nature of nutrition, adverse impact of climate change, and the potential interaction between these two domains calls for increased policy coherence and institutional collaboration at regional, national and international levels. An example that may require deeper deliberations around "boon versus bane" could be the introduction of diesel engines, which are sometimes promoted to limit greenhouse-gas emissions, but have been found to release more fine particulates and nitrogen oxides than gasoline engines.

All this is not oblivious to experts and leaders on global health, sustainable agriculture, nutrition and environment. In fact, the Sustainable Development Goals (SDGs) contain a commitment to "end hunger and ensure access by all people to safe and nutritious food all year round" (Goal 2) and to "take urgent action to combat climate change and its impacts" (Goal 13). India's recently launched National Nutrition Mission or the POSHAN Abhiyaan envisions to integrate and strengthen action around all three pillars of nutrition—nutrition specific, nutrition sensitive and the enabling environment—to attain SDGs. This integrated platform is an ideal way to start advocating for PHN in an environment-friendly manner. However, state and central alignment of priorities and coordination will play a key role in smooth roll-out of envisaged activities. The adage "united we stand, divided we fall" resonates more than ever in this case. The solutions for this looming complex threat of food and nutrition insecurity, intertwined with poor health and environmental outcomes, may require coming together of several forces rather than fighting individual battles. This area requires urgent prioritisation, strong political will and dedicated resources to yield sustainable and public health friendly measures.

RBI's surgical strikes on banks

ROMIT DASGUPTA

Founder & MD of the fintech firm Globsyn 3rd.Life

Banks are still vulnerable to SWIFT scams

INDIA'S BANKING INDUSTRY must be watching with concern how RBI has gone on a penalising spree in the last week, fining 19 banks for failing to comply with its guidelines on the use of the global payments network SWIFT. The very fact that penalised banks include the largest private and public banks operating in India makes one wonder just how hard it must be for banks to comply with the RBI mandate, as encapsulated in the 'SWIFT related Operational Controls' circular issued on February 20, 2018.

From information available in public domain, we know the PNB fraud involving Nirav Modi occurred because the bank faltered on three levels: people, process, technology. But the primary reason why the fraud could be engineered on such a big level and over such a long time is because there was no real-time integration between the PNB's Core Banking Solution (CBS) and the SWIFT system. Simply put, what went on in the SWIFT system had no 'real-time' reflection (or no record) in the bank's CBS. Hence, SWIFT discrepancies went unchecked and unnoticed for years. Some experts have claimed that had the bank taken previous RBI advisories seriously and detected the fraud even a year earlier, it could have kept the loss to the bank limited to under $800 million.

The RBI circular forbade banks to directly send financial messages from the SWIFT system. The circular mandated Straight Through Processing (STP) between a bank's CBS and its SWIFT system, besides listing down various other controls for fraud detection and prevention at the general, pre-transmission, post-transmission and technological levels.

A thorough analysis of the RBI circular reveals that the guidelines encompass the three factors of people, process and technology—with a dominant focus on process improvement. However, not all of the guidelines or controls are easy or straightforward enough to adopt.

First, let us look at those controls that are easy to adopt, provided financial resources are not a constraint. Concerning 'people', RBI asked banks to ensure the users entering, passing or authorising transactions in CBS are different from those operating in SWIFT, in case CBS-SWIFT integration is pending, or if the final authorisation of transactions is still done on SWIFT. Further, banks should have the list of authorised SWIFT users, along with user privileges, readily available at any point of time, and monitor their usage closely.

To adhere to these controls, all that a bank needs to do is to separate SWIFT administration from operations. In other words, the users with operational rights should not have admin rights and vice versa.

Similarly, under 'process', RBI has asked banks to implement time restrictions for accessing SWIFT (banks can simply shut down SWIFT services at the end of business hours) and asked them to quickly implement STP between CBS and SWIFT messaging system. While technically feasible, STP implementation can still be costly, particularly for small and midsized banks. It is also important to note that SWIFT levies a penalty for every incorrectly-formatted transaction message that gets rejected, and, therefore, CBS must generate accurately-formatted SWIFT messages.

Under 'technology', banks have been asked to put in place a system to generate alerts on breach of control limits as well as other unusual features in transaction messages. A mandate like this necessitates either an upgrade of existing systems or the use of additional software. Of the 100-plus banks offering SWIFT-based international transfers in India, a significant fraction can be termed as small. Even though affordable middleware solutions exist that can ensure technical compliance with RBI-mandated guidelines, we find only large or midsized banks show an inclination to adopt these.

Coming to the more challenging parts of the RBI circular, the mandate to reconcile Nostro on real-time basis, with a stipulation to immediately escalate differences, if any, is problematic. Nostro statements from correspondent banks are received on the next working day, and reconciliation is, therefore, undertaken only on the next business day by back office staff involved in daily accounting of transactions. How can banks transform this once-a-day reconciliation into a real-time process is a question nobody has a good answer to.

Further, banks are mandated to subscribe to online monitoring services of correspondent banks so as to monitor the transactions as they happen. As of today, there is no online access available to view Nostro accounts with a correspondent bank abroad, and the only way for banks to comply with this requirement is to set up separate systems and agreements with each correspondent bank—a daunting task.

In conclusion, Indian banks have, no doubt, found it challenging to fully comply with the RBI guidelines, resulting in penalties being imposed by the central bank. But do these lapses mean banks still remain vulnerable to more scams in the future? We do not have an easy answer for this question yet, but smaller banks in particular remain vulnerable.

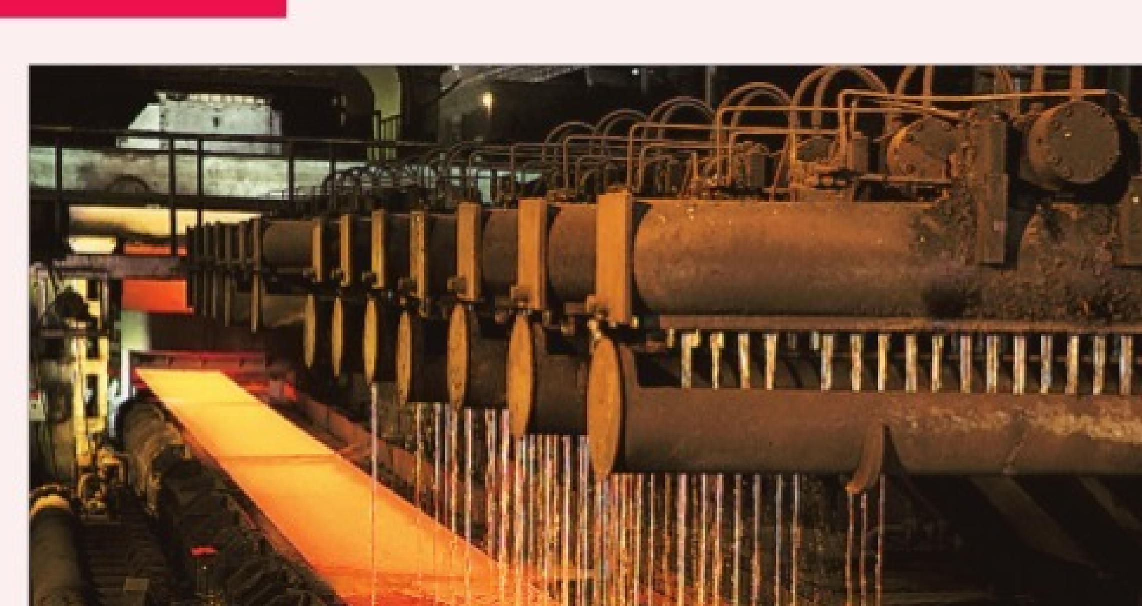
MISSION STEEL

Need to privatise six steel PSUs

Vast amounts recovered through NCLT of late will pale in comparison to what the govt could earn from divestment of steel assets

RAJESH V SHAH

Co-chairman & MD, Mukand Ltd. Views are personal



THE NATIONAL STEEL Policy 2017 seeks to accomplish the PM's vision of Make-in-India with the objective of nation-building and encouraging domestic manufacturing. Unfortunately, most Indian steel companies, for several years, have been looked down upon as industrial laggards, and derided.

The industry has faced difficulties in obtaining even normal credit as they are part of a sector that was one of the largest contributors to NPAs of banks. However, thanks to timely decisions of the government to provide some protection from dumping and bringing in an effective insolvency code, the last one-and-half years witnessed several serious contenders, national and international, bidding spiritedly for stressed steel companies at the NCLT.

Also, there appears a more buoyant mood for growth, investment and lending to this capital-intensive and cyclical industry. What could have led to such a shift in perception and keenness backed by large sums of money for acquisition of steel assets? In my opinion, it is apparent that the GDP growth India has achieved during the past few years and, in particular, the growth of infrastructure, transportation and housing will continue as the fundamentals to sustain future high rates of growth, both in terms of policy and governance. The conclusion that investors seem to have arrived at is that a strong, expanding domestic steel industry is essential and can be financially viable. Further, the premium value payable to purchase established manufacturing facilities with long gestation periods, along with their incumbent land, linkages for transport, water and possibly raw materials, has become manifestly apparent.

Challenges in production

The ministry of steel has repeatedly announced the laudable target of India producing 300 million tonnes (MT) of steel a year against the current 101.5 MT. Given that growth rates of production were a mere 5% per annum over the last five years, even with the recently-generated fervour, achieving such steel output in the near future is unlikely.

China, with more than 1 billion tonnes per annum steel-making capacity, has demonstrated remarkable capabilities in constructing steel plants, often adding facilities of 40-50 MT per annum in a single year. China's dominance in steel-making is undisputed, with more than 50% of world output. Most other major steel-producing countries—Japan, the US and countries in the EU—have stagnated or shrunk their capacities and production.

While the demand for steel is dependent on economic growth, even small increases in demand can result in rising prices. It is not expected that China will continue to add to its capacities of steel-making at the pace it did decades ago—there's a considerable shift towards reducing its own pollution levels. This implies that unless other countries add more steel-making capacity, enhanced demand, especially from developing countries like India, can lead to shortages in supply.

Privatise six steel PSUs

If we grow as we hope to, huge capacities of steel-making will have to be added domestically to meet the 300 MT target or exceed it—we need to recognise that if we do not, the vast quantities of steel required by us will not be available from other countries. If we fail to accept this reality and do not grow our steel-making capacity dramatically, we may become dependent on only one country, China, which could hold our development to ransom. Hence, the imperative is to speedily expand Indian steel-making plants. It requires stable industrial policies ensuring continuous availability of raw materials and capital at competitive costs, the lack of which is responsible for the ill-fortunes of many private steel companies. While we may see considerable expansion in private steel companies, it is not likely to meet demand.

The six government-owned steel plants and the iron-ore miner NMDC are ideally placed to increase their capacities—at least fivefold—given they possess huge tracts of land, captive raw material mines, secure and cheap linkages to logistics, water, power and other essential resources. Unfortunately, the record of government-owned plants in achieving their time or cost targets for capacity expansion projects has been abysmal. Often, costs are double those budgeted and time overruns are three times the target.

Given the public sector constraints and the fear of possible punitive actions against them, managements of these organisations have not delivered, and to expect any transformation is too big a risk for India's development. The best course of action would be to privatise all government steel and steel-related assets, while giving full protection to existing employees and insisting on multifold capacity expansion as part of the bid process. Global companies with deep pockets and proven managerial track records, perhaps in partnership with large Indian companies, need to be wooed to bid for these prime assets that are severely underutilised.

The vast amounts recovered through the NCLT in these recent months will pale in comparison to what the government could earn from a total divestment of its steel assets. These temples of modern India, its public sector steel plants, may have served their purpose decades ago, but now the country cannot depend with blind faith on these inefficient institutions.