Opinion

FRIDAY, MAY 3, 2019

VOX POPULI

Congress leader Priyanka Gandhi

"If public pain is not addressed, if the voice of the people is drowned by the voice of one leader or by the kind of ideology they (leaders) have, they (the leaders) will have to suffer the consequences"

NBFCs were too loosely regulated for too long

With ₹1.3 lakh crore of NBFC borrowings from mutual funds matures over the next 3 months, rolling over won't be automatic

THE PROPOSED TIGHTENING of rules for non-banking financial companies (NBFCs) are very late in coming, and going by the problems the sector is facing, it is surprising the regulators haven't been more concerned. To be sure, the liquidity mismatches were exacerbated by the IL&FS crisis, which surfaced last August, but the fact is NBFCs have been over-dependent on mutual funds and on short-term borrowings for a long time now. The same is true for some home finance companies (HFCs). Consequently, the rules need to be tightened for HFCs also, with these intermediaries being fully under the oversight of RBI. Should some players need to down the shutters or be merged with bigger companies, to ensure the system isn't at risk, so be it.

Worryingly, going by the downgrades and caution from ratings agencies, there appears to be more trouble in the works. In late April, CARE Ratings downgraded the instruments of two ADAG companies, pointing out the liquidity profile of the group continues to be under stress on account of delays in raising funds from the asset monetisation plans and impending debt payments.

The point is that financial players, whether banks, NBFCs or HFCs, must have access to resources for tenures that match the tenures of their assets. The abundance of liquidity with mutual funds—partly the result of demonetisation—resulted in NBFCs borrowing from them for short tenures while creating assets that were of a longer duration. The weaker players are now not able to raise funds so easily from the wholesale markets since, post the events at DHFL, lenders to NBFCs are now becoming far more discerning. While, this time around, banks have had adequate liquidity to be able to pick up assets from NBFCs—partly because there is very limited demand for corporate loans—NBFCs should never have been allowed to over-extend themselves in the first place. The pace of growth of NBFC and HFC assets has been way too rapid in the last few years, and while some players have done exceedingly well to ensure the quality of assets is good, others may be in trouble. Indeed, industry experts point out that loans to builders and products such as loans against property are not always in the best interests of the financial system.

For their part, mutual funds should have been far more circumspect while lending to NBFCs. This exposure has been pared to 27% of the assets under management (AUM) from 34% in August last year. However, the concern is that between 4% and 15% of the AUM comprises exposure to stressed players, including IL&FS and Essel Group. Credit Suisse estimates that, of the exposure to four stressed groups that AMCs have, 11% or roughly ₹2,200 crore is through close-ended plans aggregating ₹18,000 crore. Around 56% of this is up for maturity in Q1FY19. Recently, some asset management companies (AMCs) tweaked the maturity dates for some Fixed Maturity Plans, following the delay in repayments by the Essel Group. Should there be any more repayment delays, they would once again be caught on the wrong foot. There is no doubt that NBFCs play a big role, and painting all of them with the same brush would be wrong. However, the regulators need to watch them much more closely because some promoters are not prudent enough.

Ganga tum behti ho kyun?

Namami Gange is still far from its touted goals

EVEN THOUGH OTHER major Indian rivers suffer far worse pollution—the Yamuna, the Godavari and the Kaveri, for instance—Ganga has historically received disproportionate attention from policymakers because the lives of nearly 400 million on its banks are tied to its fate and it is the holiest of holies as far as rivers in Hinduism are concerned. The NDA II, thus, made a high-decibel campaign of setting up a separate department under the water resources ministry for Ganga rejuvenation and earmarking ₹20,000 crore for Namami Gange, touted as a conservation effort far larger in scale and vision than those that preceded it. Now, a *Mint* analysis shows, despite all the talk, Ganga flows just as *maili* (dirty) as before. Three rounds of testing in four states—Uttarakhand, Uttar Pradesh, Bihar and West Bengal—showed no material improvement in the state of the river between 2014 and 2018. Its waters were safe for bathing at just 13 points out of 61 live monitoring stations, with faecal bacteria above the acceptable level—this, after the government claimed that 4,465 villages along the Ganga were now open-defecation free. In 2018, as per Central Pollution Control Board data, 211 of 961 industrial units along the river were violating effluent disposal norms. Of the 304 projects that were to be undertaken under the National Mission for Clean Ganga (NMCG), as of March 2019, only 85 have been completed. Against a 3,730 million litres/day target for development of sewage treatment capacity—the volume of sewage dumped in to the Ganga—the existing capacity is of just 2,350 MLD, with 413 MLD added under the NMCG. Also, an estimated 11,729 tonnes per day of municipal solid waste is generated by the 97 towns along the river, while the existing processing capacity is of just 3,786 tonnes, and a further capacity of just 3,058 tonnes has been approved so far.

The problem is perhaps rooted in the many slips between the cup and the lip. Against Namami Gange's ₹20,000 crore over five years, the water resources ministry admits, just ₹5,448.99 crore has been spent from the ₹6,819.27 crore released between FY12 and November 30, 2018. Continued industrial pollution is evidence of how the government has failed to balance industry's concerns against those of the river and the environment. Ganga clean-up minister Nitin Gadkari has talked of 254 projects sanctioned at a cost of ₹24,000 crore that will clean up the river by March 2020 (the original deadline was March 2019). The expenditure will be on 133 sewerage management projects, 11 bioremediation projects, a modular Sewerage Treatment Plant, a rural sanitation project, 64 ghat and crematoria, six bio-diversity and 16 afforestation projects. While that seems quite comprehensive an action plan, the pace so far doesn't encourage much faith. Indeed, even though the water quality of the Ganga at Prayagraj deteriorated between 2014-15 and 2017-18, the Ardh Kumbh earlier this year, on which the government spent over ₹4,000 crore, generated 18,000 metric tonnes (mt) of the 60,000 mt of solid waste lying untreated at the Baswar Solid Waste Treatment Plant. The National Green Tribunal made particular note of this in its censure of the Uttar Pradesh government, and also pointed out that the Rajapur Sewage Treatment Plant was swamped with sewage beyond its installed capacity during the mega-pilgrimage, and only 50% of the sewage in the Rajapur was being treated through geo-tube technology while the remaining was flowing in to the Ganga untreated.

CasterQUANDARY

How to preserve the integrity of female athletics while ensuring DSD athletes like Caster Semenya don't suffer?

SOUTH AFRICAN RUNNER Caster Semenya poses a dilemma for the sports world, and faces on herself after Wednesday's ruling by the Court of Arbitration for Sports (CAS), which calls for her to bring her blood testosterone levels below 5 nanomoles (nmol)/litre. The scientific community agrees that elevated blood testosterone, even when naturally-occurring in athletes with differences in sexual development (DSD) like Semenya, put them at an unfair advantage. Gender and rights activists, on the other hand, believe banning a Semenya from contesting if she doesn't undergo a demanding form of treatment to bring her blood testosterone levels within the specified cap is highly discriminatory and is akin to policing her body. Therein lies the rub. While the International Association of Athletics Federations hyperandrogenism guidelines had been challenged by Semenya, the guidelines themselves seem arbitrary. IAAF holds that the female level for blood testosterone is 0.12 nmol/litre to 1.79 nmol/litre while the male range is 7.7-29.4 nmol/litre. So, it is not clear why the IAAF then believes the 5 nmol/litre cap is the right one. Also, while the cap applies to 400-metres to 1-mile races, it doesn't to shorter or longer ones.

The dilemma Semenya faces is a far graver one. Failing appeal, it will boil down to a gut-wrenching choice for the athlete: Does she submit to the IAAF standards and undergo either invasive or life-long treatment to bring down testosterone levels, risking known and unknown side-effects? Or, does she give up the sport that she has dedicated her life so far to? The CAS, even as it maintained the validity of IAAF's guidelines for DSD athletes, acknowledged that the policy was discriminatory to DSD athletes. Yet, it said, the discrimination was "necessary" to preserve the integrity of female athletics. The IAAF clearly must walk the fine line between ensuring that the integrity of female athletics is preserved while DSD athletes don't end up being discriminated against.

MEASURING PROGRESS

PEOPLE SEEM TO RELIABLY SEEK OUT A FEW THINGS THAT MAKE THEM UNHAPPY; A BASIC PRINCIPLE OF ECONOMICS KEEPS GETTING TURNED ON ITS HEAD

The pursuit of happiness

NOAH SMITH
Bloomberg

MUCH OF MODERN economic theory is based around a simple idea: Human beings maximise utility. But what is utility? Many people think of it as happiness or pleasure; British philosopher Jeremy Bentham, the inventor of utilitarianism, conceived of it this way. But this isn't how modern economists think of the concept. To an economist, utility simply means how much people want something. If an economist observes people working hard and making sacrifices to buy houses, then the conclusion is that houses must have lots of utility to those people.

Modern economists tend to assume that utility is good—that people should get what they want. When economists talk about the notion of consumer surplus, they just mean the utility that consumers derive from getting a good deal on consumer goods. Welfare economics, which deals with the question of how much the economy benefits humanity, often conceives of social welfare as a function of the extent to which people satisfy their wants. More egalitarian economists will tend to value the utility of the poor and disadvantaged more than the utility of the wealthy, but fundamentally it's still about giving people what they desire.

There are certainly reasons to criticise this philosophical approach. First of all, people sometimes make choices they come to regret. Smokers know they should quit now, but they put it off and years later end up wishing they had shown a little more fortitude. So should society care about people's present selves, or their future selves? This question is very important when discussing whether to ban electronic cigarettes, as the city of San Francisco is now considering. If Juul Labs and other vape makers get young people hooked on nicotine in ways that they'll later wish they hadn't, it might make sense for government to bar those people from satisfying their wants.

But there are deeper reasons to question whether society should just feed human desires all the time. Bentham's utilitarianism conceived of a good society as one that makes its people happy. But what if the things people desire don't bring them happiness? There's no clear consensus on how to measure happiness. Some neuroscientists have tried to link it to various measures of brain activity. But economists tend to use a method that's a lot cheaper and quicker—they send out surveys and questionnaires asking people how happy they are.

Happiness research has led to some surprising and troubling discoveries. People seem to reliably seek out a few things that make them unhappy.

One of these things is Facebook, by far the world's largest social-networking site. In a recent paper, economists Hunt Allcott, Luca Braghieri, Sarah Eichmeyer and Matthew Gentzkow investigated how much money they had to pay Facebook users in order to get them to deactivate the Facebook app for one or two months. They found that the median amount was $100, and the average was $180 (the latter being larger because a few users really loved Facebook).

This suggests that Facebook, which is free to use, generates a huge amount of utility—more than $370 billion a year in consumer surplus in the US alone. This bolsters the argument of those who believe that free digital services have added a lot of unmeasured output to the global economy.

But Allcott et al. also found that the people who deactivated Facebook as part of the experiment were happier afterward, reporting higher levels of life satisfaction and lower levels of depression and anxiety. The change was modest but significant—equal to about 25-40Vof the beneficial effect typically reported for psychotherapy.

> **Why are people willing to pay so much money for something like Facebook that reduces their happiness? One possibility is that social media acts like an addictive drug**

Why are people willing to pay so much money for something that reduces their happiness? One possibility is that social media acts like an addictive drug—in fact, the people Allcott et al paid to deactivate Facebook ended up using it less after the experiment was over. But another possibility is that people use services like Facebook because they're compelled by motivations other than the pursuit of happiness.

Another example of the disconnect between happiness and utility might be commuting time. Economists and other happiness researchers consistently find that longer commutes are associated with unhappiness. Yet people still pay quite a lot to live in far-flung exurbs. Economist Robert H. Frank has found that the larger houses that come with exurban life don't compensate for the longer commute times in terms of happiness. House size and commute time aren't the only factor in the choice of what neighborhood to live in, but this might be another case like Facebook where things that bring utility don't bring happiness.

There may be a number of such cases. A paper by economists Daniel J. Benjamin, Ori Heffetz, Miles S. Kimball, and Alex Rees-Jones found that on surveys, people usually predict that the things they say they'd pay money for would also boost their happiness — but not always.

So what should society do about the disconnect between utility and happiness? The question raises the thorny issue of paternalism and whether it's government's role to push people to do things they don't want to do, simply because they might be happier as a result. Basing policy on happiness surveys might also be a mistake if these surveys aren't good measures of true happiness. Such surveys might reflect cultural expectations of what people think they ought to say, or people could gradually lose their ability to gauge how much happier or sadder they are now than they were in the past. But it also unwise to simply dismiss the disconnect between happiness and utility simply because happiness is hard to measure. If people are consistently making mistakes that lead to a less happy society, it's a problem that should be addressed. Bentham and the original utilitarians would demand no less.

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RBI's sandbox rules need more clarity

The joining criteria for financial services and the evaluation process for the sandbox need to be made explicit

SAON RAY
Senior Fellow, Icrier
Views are personal

The Reserve Bank of India has come up with draft guidelines on "Enabling Framework for Regulatory Sandbox" for the financial sector. The sandbox approach is currently the most favoured mechanism globally to promote and facilitate fintech innovation. This article discusses the joining criteria, boundary condition and evaluation criteria for sandboxes in India with respect to the draft by RBI.

Regulatory sandbox refers to live-testing of new products and services in a controlled environment with active cooperation of the supervisor. This allows companies to experiment with their products and improve their viability in the existing market. The handholding by the supervisor can help the fresh entrants better address barriers to entry and information asymmetries in the market that would have otherwise limited their growth and development. From the regulator's perspective, the sandbox allows it to gain insights into potential risks and benefits arising out of innovative products and business models, and facilitate innovation.

In a sandbox setup, generally, there is a prior application process and selection by supervisor before it engages with the firm which may or may not be currently regulated. A sandbox would also have a given eligibility criteria, a well-defined space and duration for testing of the product and appropriate boundary conditions to ensure protection of interests of all parties involved, including consumers and rest of the industry.

Prior application is necessary in case of a sandbox, unlike innovation hubs that provide regulatory advice on request. Hence, the joining criteria become important in the case of a regulatory sandbox. RBI, in its draft guidelines, has listed the eligibility criteria for participating in the sandbox. It has listed certain innovative products, services and technologies that could be tested in the sandbox. It has also listed what may be excluded from the sandbox. It has also spelled out the criteria for selection of participants in the sandbox.

The criteria suggested by the Bank for International Settlements (BIS) include 'genuine innovation, with a consumer benefit, not fitting easily into an existing regulatory framework and being ready for market.' The idea of the regulatory sandbox is to encourage innovation in financial products and is similar to the requirements of a patent-filing: novelty, non-obviousness and capable of industrial application. How do the RBI guidelines compare with the BIS criteria? While the draft guidelines seem to be emphasising the first and third point, there seems to be less emphasis on the second: not fitting easily into a regulatory framework. Most novel innovations should fit into this category, and the list of exclusion in the draft guidelines does mention a few. Does this mean barring these, all innovations could potentially be tested in the sandbox?

> **While the BIS's guidelines emphasise that, to be eligible for the sandbox, a product or service must satisfy three conditions—'genuine innovation, with a consumer benefit, not fitting easily into an existing regulatory framework and being ready for market—RBI's focus only on innovation and market-readiness**

With respect to the joining criteria, there is a difference between the UK and Australia models. The Australian model does not require companies to obtain individual approval where as the UK model, which has an application process where applicants are tested against a set of criteria, including the ingenuity of the innovation, benefit to consumers, readiness of the product to be tested, and need of guidance for the testing process, does. In the UK, the Financial Conduct Authority (FCA) operates on a cohort basis with two six-month test periods per year, where the selected firms are provided with 'sandbox tools' to conduct the test within a regulatory framework. The Australian model on the other hand uses a *white list* approach, where companies meeting the criteria are allowed to test their concepts without the requirement of a licence.

The Indian approach spelt out in the draft guidelines, is silent on this aspect, too, though some media articles have pointed out that the UK approach may be adopted.

Boundary conditions for the regulatory sandbox refer to the space and duration of the proposed financial services to be tested in the sandbox. The draft guidelines have specified the start and end date of the regulatory sandbox, target customer type, limit on the number of customers involved, the transaction ceiling and cash-holding limits, and cap on customer losses.

The draft guidelines do not say anything about the evaluation criteria for sandboxes in India. To conclude, while the draft guidelines are indeed a logical step forward in the process of setting up a sandbox in India, clarity on some of the aspects outlined above is needed.

LETTERS TO THE EDITOR

UNSC on Azhar a big win for India

The United Nations designating Pakistan-based Jaish-e-Mohammed chief Masood Azhar as a "global terrorist" after China lifted a technical hold on a proposal to blacklist him—after holding on to this technical hold for quite some time—must cheer all those who abhor terrorism. Though the UNSC listing refers to Azhar's various terror roles, there is no mention of the Pulwama attack of February 14, for which the JeM had claimed responsibility. Nevertheless, the listing is a huge diplomatic win for India which had all along been pressing hard for Azhar's inclusion in the global terror list.

— NJ Ravi Chander, Hyderabad

Pepsi, potatoes and politics

PepsiCo's suit against the farmers in Gujarat for allegedly growing the FC5 variety potatoes without its authorisation is very unfortunate and is against the principle of natural justice. One is astonished to witness such multi-national giants' monopolistic hegemony over the seeds of the crops like potatoes which are necessary to be produced on large scale to fight against hunger and malnutrition in many parts of the world. The snack food of potato chips of PepsiCo, which is only good for junk-munching, is not going to solve the problem of hunger. Sad that commercial interests like Pepsico are outweighing the farming community and the common man and concerns of food security. It is better that the Union government step in to help farmers in their predicament before it is too late, since, in a country like ours, politics over potatoes can spill over to streets and take an unhealthy turn.

— Brij B Goyal, Ludhiana

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The People's Liberation Army Navy's Huang Shan Jiang Kai II-Class ship (right), in this file photo

BLOOMBERG

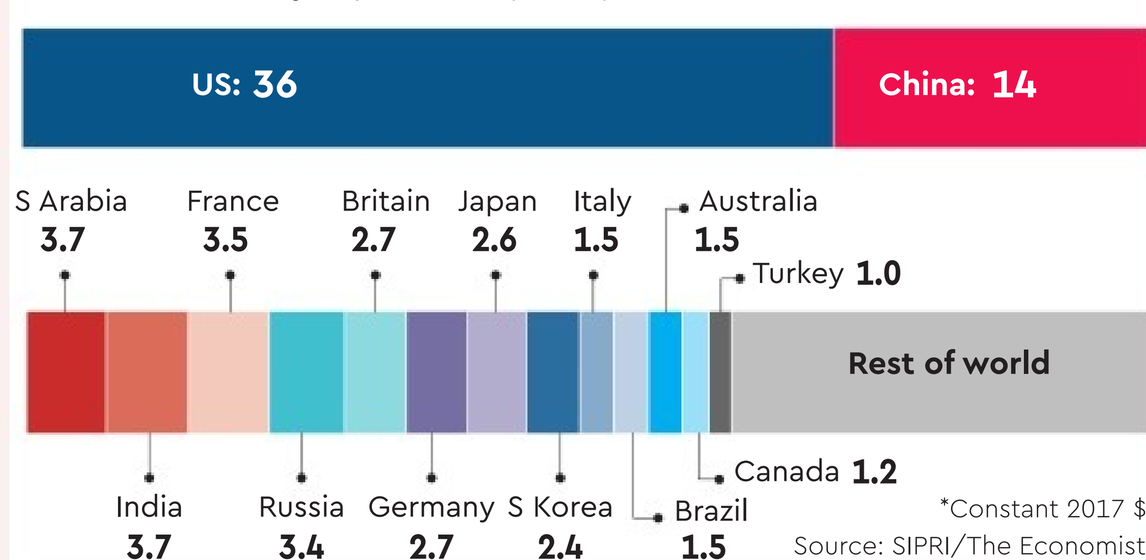
TOOLING UP

Military spending around the world is booming

America and China are committing vast sums to their armed forces. And in response to China, regional rivals have opened their purses, too. India now outspends every European country. South Korea's annual increase in 2018 was the highest since 2005. And Japanese spending is set to surge in the next five years, with new offensive weapons breaking old pacifist taboos. All in all, Asian military spending makes up 28% of the world's total, up from 9% in 1988

Changing world

Worldwide military expenditure*, 2018, as % of total



THE WORLD IS ARMING itself to the teeth. That is the conclusion of a new report published on April 29 by the Stockholm International Peace Research Institute (SIPRI), a think tank. Global military spending last year rose to $1.8 trillion, says SIPRI—the highest level in real terms since reliable records began in 1988, during the Cold War, and 76% higher than in 1998, when the world was enjoying its "peace dividend". Military spending as a share of global GDP has fallen in recent years, but that offers little reassurance in a world of rising geopolitical tension.

The spending boom is driven, above all, by the contest between America and China for primacy in Asia. Start with America. In 2018, it raised its already-gargantuan defence budget for the first time in seven years, ending an era of belt-tightening imposed by Congress. The boost reflected the Donald Trump administration's embrace of what it calls "great power competition" with Russia and China—requiring fancier, pricier weapons—in place of the inconclusive guerilla wars it had fought since 2001.

America's military heft has no equal. Its outlay of $649 billion (in 2017 dollars) was almost as large as the next eight countries combined, by SIPRI's reckoning. Even that did not satiate the Pentagon's appetite. It got $716 billion this year (in current dollars, as counted by the Department of Defence) and hopes for a staggering $750 billion in 2020—an annual increase larger than the defence budgets of almost all of its NATO allies. That includes nearly $10 billion for cyber operations, a 10% year-on-year boost; over $14 billion for space, a 15% jump; and the biggest budget request for shipbuilding in two decades.

> **America's military heft has no equal. Its outlay of $649 billion was almost as large as the next eight countries combined. But even that did not satiate Pentagon's appetite—it has gotten $716 billion this year**

China is far behind. It spends somewhere between a quarter and two-fifths of what America does (the precise amount is unclear, say experts, because Chinese spending is so opaque). Nor is its military expenditure growing at a 10% clip, as it did on average in the years between 2000 and 2016. But it has risen relentlessly for a quarter-century, completely changing the balance of power in Asia.

Between 2009 and 2018, America's defence spending fell by 17% in real terms, whereas China's grew by 83%—accelerating under President Xi Jinping and outpacing every other big power. "No one has ever presided over anywhere close to this level of Chinese military development in Chinese history before Xi," notes Andrew Erickson, a professor at the US Naval War College. Its navy has been a particular beneficiary. Between 2014 and 2018, China launched naval vessels with a total tonnage exceeding that of the entire Indian or French navies, notes IISS, another think-tank. Even so, the country's defence spending is still smaller as a proportion of GDP than that of any other top-five country: 1.9% to America's 3.2%. That means it has room to grow, should the geopolitical mood darken.

Military reforms that Mr Xi introduced in 2015, including a slimming down of the army and reorganisation of the command structure along American lines, are also likely to have given China more bang for its yuan.

In response, China's regional rivals have opened their purses, too. India now outspends every European country. South Korea's annual increase in 2018 was the highest since 2005. And Japanese spending is set to surge in the next five years, with new offensive weapons breaking old pacifist taboos. All in all, Asian military spending makes up 28% of the world's total, up from 9% in 1988.

Meanwhile, Europeans, having hollowed out their armed forces after the Cold War, are getting their act together. In 2018, NATO's European allies raised military spending by 4.2% in real terms, according to IISS. Poland, which is particularly anxious about next-door Russia, boosted spending by 8.9%.

Were European spending to be lumped together, the continent would be the world's second-largest military power, outspending Russia fourfold. In practice, Europe's hodgepodge of duplicated, mismatched equipment (Europeans use 17 types of tanks to America's one) and continued dependence on America in key areas—such as moving troops and refuelling warplanes—mean that its armed forces are far less than the sum of their parts.

Yet not everywhere is piling up arms. Military spending in Africa shrank for a fourth consecutive year in 2018, by 8.4%, driven by big falls in Angola, Algeria and Sudan, says SIPRI. Protests in the latter two countries, with armies under pressure to hand over power to civilians, might cause bloated military budgets to be squeezed further.

The Middle East also seems to be cooling off after years of frenzied arms-buying. Though SIPRI lacks data for Qatar and the United Arab Emirates (UAE), two of the biggest customers for Western arms companies, and for war-torn Yemen and Syria, spending in the rest of the region fell by 1.9% in 2018.

That trend seems likely to continue. Saudi Arabia, the region's biggest fish, which sets aside a huge 8.8% of GDP for defence, will slash its military spending by 9.1% this year. Iran, its rival, plans even bigger cuts of its own—though the Islamic Revolutionary Guard Corps (IRGC), which has done most of the recent fighting in places like Syria, got a hefty raise, as did the intelligence ministry, which has been bumping off dissidents abroad.

The most interesting contraction is, however, in Russia. "Can they count?" President Vladimir Putin asked of his Western rivals in February. "I'm sure they can. Let them count the speed and the range of the weapons systems we are developing." But despite the theatrical flaunting of new missiles, and NATO's impressive rearmament to the west, SIPRI calculates that Russia's defence budget actually shrank by 3.5% in 2018—putting it outside the top five for the first time in over a decade. This may be the result of a weakening rouble. But Russia's long military spending spree seems to be drawing to a close. That is a sobering thought for Mr Putin.

THE ECONOMIST

LENDING AND INVESTMENT

Why have two separate divisions?

SUNIL KANORIA

The author is vice-chairman, Srei Infrastructure Finance Limited

Merging the commercial and treasury operations in banks would give them greater flexibility in financing decisions

IN THE INDIAN BANKING system, at present there exists a clear demarcation of roles when it comes to lending and investment operations. The 'commercial' division carries out the lending operations, while the 'treasury' division conducts the investment operations. However, the treasury division mostly invests in government bonds, and not corporate bonds. Therefore, given the low yields of government bonds, banks essentially have to depend on the interest earnings from the loans given out for a healthy bottom-line growth. However, Indian banks today are among the least profitable in the world. The bad loans problem in our banking system, especially in the public sector banks, has severely dented profitability through greater recognition of bad assets and rising write-offs.

Although gross non-performing assets (NPAs) as a percentage of gross advances are expected to marginally improve to 10.3% in March 2019 (from 10.8% in September 2018), Indian banks' return on assets (RoA), the common measure for bank profitability, stood at (-0.1%) in 2018.

The recapitalisation programme undertaken by the government, the Insolvency and Bankruptcy Code (IBC), and the deferment of the adoption of Ind AS accounting standards are providing banks some relief. Lending activity has started picking up, but banks are much more cautious now. What is needed for the banking sector at this stage is structural reforms—be these on empowerment of bank boards, risk mitigation practices, talent recruitment, retention and compensation, manpower training, induction of technology, or even ownership structure. Many of these have already been highlighted in the PJ Nayak committee recommendations. Perhaps it is the right time to revisit the committee's findings.

> **Banking sector needs reforms—empowerment of bank boards, risk mitigation, talent recruitment, retention and compensation, manpower training**

Talking about structural reforms brings me back to the point where I started from—the parallel existence of commercial and treasury divisions within the banking set-up. This is something worth a relook. After all, the end-objective of both giving out a loan and making an investment is the returns that accrue to the bank. Then why have two separate divisions? Just imagine what can happen if the lending and investing activities are brought at par. There will be no need for two separate divisions. The two would become one and that would allow banks greater flexibility in terms of their financing decisions. In fact, this is now the global practice.

With our banking sector getting ready to embrace Ind AS norms, it is high time for our banks to embrace this practice of merging the commercial and treasury divisions. Imagine a scenario where a project SPV approaches a bank for funds. It is now up to the bank to decide whether to provide a loan to the SPV, or to purchase bonds of that SPV. The bank, while taking the decision, would need to factor in a future possibility of the project running into some trouble or getting halted. In such a scenario, if the bank has given a loan, recovering that loan can become a headache. But if the bank has purchased bonds from that SPV, all it needs to do is just sell off the bonds in the market. With this, the decision making at banks can get much more professionalised. A move like this will go a long way in infusing life into the corporate bond market as well.

In fact, a recent diktat by SEBI mandates listed companies with AA rating and above and with outstanding loan of a minimum of ₹100 crore to tap the bond market for 25% of their incremental long-term funding needs. While this diktat may have been a cause of anxiety for some, the move to merge the commercial and treasury divisions in banks can address, to a large extent, these concerns.

In fact, SEBI should consider allowing companies with ratings less than AA to be included in this as well. Companies with AA rating and above would any way be able to raise funds from the market. Only by including companies with ratings less than AA can the bond market be expanded.

SOLAR AGRI-FEEDERS

Farmers' place in the sun

How solar energy can catalyse India's agricultural energy transition

VENKATESH DWIVEDI

The author is director (Projects), EESL

THE CURRENT ENERGY consumption pattern of India's agricultural sector is mired in inefficiency. Despite farmers being dependent on the sun for most farming activities, irrigation usually happens quite late at night. This is due to the practice of supplying subsidised electricity to farmers during the midnight hours. Done with the intent of reducing the strain on the grid, owing to the daytime loads, the practice inadvertently leads to increased water and energy wastage, as the pumps run throughout the night. Therefore, the energy wastage is compounded further, with disruption in farm yields and significant delays in irrigation of farms. To put things in perspective, an area that could be irrigated in 24 hours, ends up taking almost 4-5 nights to irrigate completely.

India's agricultural sector is responsible for the consumption of over 18% of overall national electricity usage. However, its contribution to the GDP in just over 5%. This discrepancy has been prevalent since the 1970s, when the Green Revolution was on. Well-intentioned reforms like subsidised electricity supply have had the adverse effect of increasing the energy strain even further. Meant to alleviate the stress on farmers, low-tariffed or free-of-cost electricity has instead led to mounting losses for the distribution companies (discoms), exacerbated further due to high transmission losses. Electricity theft has emerged as another area of concern and has been on the rise due to non-metered electricity usage in the agricultural sector.

The solution, however, is not to curtail the power access to the agricultural sector, as it employs a large part of the population and is a key cog in India's growth engine. We need to provide the requisite energy to the sector, albeit in a more sustained manner. With the agricultural sector's electricity demand set to double over the next decade owing to rising irrigation demand for larger cropped areas, newer crop varieties and rising mechanisation, there is a need for introducing focused measures. The continued agricultural subsidies will lead to piling losses for discoms, along with disruption of the entire energy value chain.

The challenge here is two-pronged. First, we must ensure farms receive uninterrupted electricity supply during daytime. Second, we need to prevent the rising electricity demand from the agricultural sector to bleed discoms further. Solar energy has long been the beacon of India's energy transition and can provide a greener energy avenue for the agricultural sector.

The first step towards the adoption of solar energy is solar agri-feeders installed by discoms to transmit energy to farms. A solar agri-feeder is a 1-10 MW community-scale solar power plant and is linked to a substation. The plant requires around five acres of land and a single 1 MW plant can power around 350, 5-HP pumps. These agri-feeders can provide largely uninterrupted and sustainable 8-10 hours of electricity during the day. It also obviates installation, maintenance and operation costs for farmers. Additionally, discoms can support farms when the power supply from the feeders is low due to sporadic sunlight, and can even use excess electricity produced by the feeders in case of low irrigation demand. Thus, solar agri-feeders have unparalleled utility for the agricultural sector. A shining example is the solar substations of the Maharashtra State Electricity Distribution Company Limited (MSEDCL), which are pegged to generate 200 MW of clean energy in a year, which can then be infused into the grid at attractive tariffs via long-term power purchase agreements.

There are many advantages of solar agri-feeders. These enable reduction of agricultural subsidy and do not require capital subsidies of their own, from the government. These also offer remarkable scalability, as a large number of small solar power plants can be swiftly installed in the open or unused land of substations across the country. These feeders also eliminate the need for significant infrastructural costs, due to new large transmission lines, which is a challenge faced by large-scale wind and solar deployments. This results in affordable and sustained power supply for the agricultural sector during the day, aided by an easy-to-implement design for setting up the feeders.

Discoms benefit immensely from this approach, as the mounting losses from agri-electricity subsidies are mitigated to an extent, which enables in reducing overall losses. Lower agricultural demands from discoms also have the domino effect of enhancing energy access and affordability for industrial and commercial use. This is due to decreased dependence of discoms on the higher tariffs imposed on the industrial sector. India's 2 crore electric and 75 lakh diesel irrigation pumps contribute 26 million metric tonnes of greenhouse gas, which is 5% of the nation's total emissions. Solar agri-feeders can help alleviate this considerably.

The remarkable utility and viability of solar farm feeders is undeniable and has definite relevance in the government's roster of energy sector interventions such as smart metering, renewables proliferation, energy-efficient pumps, and pan-India energy access.