Opinion

TUESDAY, JULY 16, 2019

IMPACT ON ECOSYSTEM
Congress MP, Jairam Ramesh

"The proposed construction of the Mega Port Complex in North Chennai by a private company with dubious environmental credentials will irretrievably damage the Ennore-Pulicat eco-system"

NCLAT gets it totally wrong on Essar Steel

If banks have the same rights as operational creditors, as NCLAT feels, get ready to pay more interest on all loans

THE RECENT RULING by the NCLAT, or the appellate tribunal, in the Essar Steel case—it directed lenders to disburse a bigger share of the recoveries to operational creditors than they are entitled to—puts banks in jeopardy and threatens to erode the sanctity of the Insolvency and Bankruptcy Code (IBC). Indeed, the ruling smacks of socialist thinking, displays little concern for commercial and business ethics, and puts at risk the well-being of the country's banking system. It is all very well to want to be fair to all creditors—secured and unsecured—but basic business practices must be respected. That secured creditors rank well ahead of unsecured creditors in the repayment hierarchy is acknowledged the world over as it is in the IBC.

The NCLAT bench noted that distributing a larger share of the proceeds only to secured financial creditors and denying operational creditors a bigger share was against the provisions of Sections 30(2)(b) and Regulation 38(IA). As legal experts have pointed out, Section 30(2)(b) clearly says that as long as the operational creditor gets a minimum of liquidation value, the Committee of Creditors (CoC) can decide on the amount to be distributed. Moreover, Section 31 says that once the resolution plan is approved by the Adjudicating authority, it is binding on the corporate debtor, employees, members, creditors and so on. They also say that Regulation 38, which says the amount due to the operational creditors under a resolution plan shall be given priority in payment over financial creditors, simply means that the former should get their money back earlier.

Unless secured creditors get priority—as is the law—and are given the biggest share of the recoveries, secured credit as a product will be totally undermined. It is because bank loans are secured that banks offer a lower interest rate. Hereafter, banks will have no reason whatsoever to lend against collateral and offer a lower interest rate; instead, they will jack up the interest rate, thereby making loans costlier for every borrower, whether a company or an individual. So, as one lawyer has argued, home loans will cost 15% since banks will build in high-risk premia and not the 8-9% that they cost today. Moreover, even if banks decide to keep collateral, they will, at the first signs of distress in a company, enforce it immediately, depriving the business of its production facilities and preventing any chances of reviving the unit. Else, they will opt for liquidation since they stand to recover more or less the same amount as they would if they opted for the resolution plan route.

The Essar Steel case is now in the Supreme Court with banks having challenged the NCLAT order. The NCLAT has, in its order, cited the SC having said that, when looking into the feasibility of a resolution plan, the tribunal has also considered whether "operational creditors are roughly given the same treatment as financial creditors". Moreover, it cites the SC as having said that, in instances where the treatment wasn't the same, the plans were either rejected or modified to ensure that the rights of operational creditors were safeguarded. Legal experts, however, believe the NCLAT's interpretation of the SC's observations may not be quite right. Diluting the status of secured lenders and equating them with homebuyers is dangerous. In another instance, the NCLAT is trying to ensure that Provident Funds are able to recover their dues ahead of the secured lenders on the grounds that it involves savings of people. Such interpretations of the law will not just lead to a loss of faith in the judicial system, they will have deleterious consequences for the financial health of banks.

A pause, not abort-mission

Chandrayaan 2's launch abort should be seen in the right light

A LAUNCH OF India's second lunar probe, Chandrayaan 2, close to the 50th anniversary of the American moonlanding that immortalised Neil Armstrong and Buzz Aldrin, would have been great for optics, but beyond that missed opportunity of timing, there is little to make of Isro aborting the launch on Monday. Isro, as per reports, detected a glitch with launch vehicle, the GSLV Mark III, that was to blast off with the orbiter, lander and rover, and the launch was called off just 56 minutes before the scheduled time. The expectations, both in India as well as globally, from the moon mission against the backdrop of the phenomenal space success that Isro has demonstrated over the years, were high, and therefore the decision to abort, albeit temporarily, has drawn disproportionate attention from critics and mourners. Had a successful launch, and then a successful soft landing on the lunar surface, happened as scheduled, India would have become only the fourth nation in the world to have achieved this feat, after the erstwhile USSR, the US, and China. Chandrayaan 2 is intended to become the second mission to make a soft landing near the lunar south pole after Chang'e 4, the Chinese spacecraft that landed there earlier this year. The Chandrayaan 2, apart from demonstrating India's space prowess, has serious exploration goals, from study of the lunar topography and mineralogy to the study of the lunar exosphere and the search for water on the moon. The orbiter will map the lunar surface. But, most important, the mission would serve as a beta for the 2022 manned mission to the moon that India is eyeing.

Given the relentless coverage of the mission and the fact that the global media is in awe of Isro's success-on-a-shoestring-budget story, the failure to launch on Monday could seem to some as a loss of face, but nothing can be farther from the truth. NASA and Roscosmos—both with decades and billions of dollars of launch experience—have catalogues of failure, some of them quite recent. NASA's launch failure with the Orbiting Carbon Observatory (OCO) 1 launch in 2009, the rendezvous failure of its DART satellite, a long-list of aborted missions for a host of reasons, technical glitches to budgetary constraints has not dented the perception it enjoys as the world's premier space agency. Indeed, there have been two missions that have exacted terrible human costs from NASA. Every agency has had a problem of failures, accidental and of oversight—recall the US's NOAA 19 fiasco, where the satellite was badly damaged at NASA's private sector partner's facility due to procedural lapses! The lunar mission's eventual fate has a lot at stake—the hard work of Isro's talented pool of engineers, the pace of progress towards realising India's space ambitions, and even what can be potentially added to the bank of human knowledge should the mission succeed. What it doesn't put at stake is Isro's rich legacy as a premier space agency in its own right and national pride. Chandrayaan 2 reimagines space prowess for India, but a temporary delay isn't something that doomsayers can credibly harvest.

PoliticalHAPPINESS

A new paper examines the interplay between political beliefs, electoral fate and happiness

FINDINGS OF A study published in the *European Journal of Political Economy (EJPA)* show the extent to which a person's political affiliation and ideology is correlated with them being happy or unhappy. The *EJPA* paper by Jeremy Jackson of North Dakota State University, examines the role of politics in creating happiness. Jackson does this by focussing on individual's political affiliations and ideology, and how that correlates with representation in national and state politics. The paper tests three hypotheses—individuals will report higher happiness when their party's representative has won, respondents possessing extreme political views will report higher happiness in comparison to those with moderate views, and state level party alignment will have a larger impact on individual's happiness than at the national level. The research empirically tests these hypotheses in the US and finds that people with extreme political views were happier than moderates and, national level representation has a greater impact on happiness than state level representation. In all cases, the first hypothesis was proven to be correct.

The paper highlights that one's allegiance to a party becomes a part of their social identity, though this has relatively less to do with policies. Against the backdrop of Jackson's findings, the mass euphoria at the BJP victory in the recent general elections, and, more important, the way a chunk of the electorate in different states batted for the BJP at the Centre while it favoured a local party for the Assembly, should be easier to understand. However, what explains the lack of sadness at the BJP getting beaten in these states? Are there gaps, cultural or otherwise, because of which the extreme sadness in the American setting was not mirrored in the case of losses in the states? It is likely, all the sadness is the lot of a different set of voters in the Indian political spectrum—the "extreme liberals"!

AVOIDING SURCHARGE?

ANY CONVERSION TO A COMPANY STRUCTURE MAY ENTAIL FURTHER ADVERSE TAX CONSEQUENCES SUCH AS DDT, SETTING OFF ETC, GOING BEYOND SAVINGS ON SURCHARGE

Getting incorporated a non-starter for FPIs

NISHITH DESAI & RICHIE SANCHETI

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RECENTLY, THE CHAIRMAN of the Central Board of Direct Taxes (CBDT) suggested that FPIs and AIFs could opt to get themselves structured as corporate if they wanted to avoid paying the additional surcharge proposed in the Budget (the proposal provides for surcharge at a rate of 25% for income between ₹2 crore and 5 crore and at 37% for income above ₹5 crore). However, implementing such a suggestion may be a legal or regulatory impossibility for many such investing vehicles and a commercial impossibility for many more. Further, invocation of GAAR remains a hanging sword. In short, conversion of a fund from trust into a corporate entity is it just a non-starter.

FPIs and Cat III AIFs are a fairly misunderstood class. People think these are big investors who can afford to pay huge taxes, but the reality is different. Pension plans and other institutions are often the investors, and behind whom lie large number of small investors. It is their lifetime savings that has been impacted by hefty tax that is proposed to be imposed. Let us understand the reality.

It needs to be realised that FPIs are often not set up exclusively for India. Often, India's allocation is a minor portion of global portfolio and it would be unrealistic to expect FPIs to change the operating form for one among many investment jurisdictions.

From a regulatory perspective, various FPIs such as foreign pension funds are statutorily or regulatory, required to be set up in a non-corporate format, mostly as trusts.

Often, such FPIs are set up under statutes of respective national and state parliaments, and there is no flexibility under respective home laws to change the choice of form of organisation. These are long-term, patient pools of capital that are some of the most sought after investor classes globally. It would be difficult for them to reset their structures.

In most common law jurisdictions, the capital invested by shareholders cannot be returned (by way of redemption of shares), except out of the profits. The question that then arises is how can you return capital if there is overall loss?

Commercially too, the global funds industry is conversant with the Delaware limited partnership model, and several FPIs are set up in such format and not as companies. These forms of organisations provide greater familiarity to investors, greater flexibility and clarity of treatment vis-à-vis different national laws applying to the FPIs. Therefore, conversion of such structures into companies is commercially impossible, since any such move could be undesirable and impractical for them.

The CBDT chairman's suggestion also covered AIFs. The proposed increase in surcharge directly affects Category III AIFs, since they do not have a statutorily encoded tax pass through like Category I and II AIFs. The proposed increase in surcharge further highlights the step-motherly treatment meted out to Category III AIFs.

Under mutual funds law, Indian regulations require mutual funds to be established in the format of a trust, with the possibility of having many different schemes running under an umbrella trust. In line with this prevalent model, most Category III AIFs have adopted such a trust–scheme structure. In fact, many mutual fund managers also manage Category III AIFs. Instead of finding a solution in light of industry practices, it is surprising to see the bureaucratic machinery suggest a conversion to company structures.

It is surprising to see the bureaucratic machinery suggest a conversion to company structures, instead of finding solutions

The trust structure also is well understood from an investment vehicle construct. Beneficial interest, and, rights and obligations of a unit-holder mesh well with investor-level engagement as is globally understood in an LP–GP (investor–manager) construct. The relationship has a high risk of distortion if it were to be covered in a company format, which has not been designed to cater to fund vehicles.

In the case of existing Category III AIF structures, a change to a company structure could entail further adverse consequences, including difficulty in mapping beneficial interests in a shareholder construct, onerous compliance and filing obligations under companies and other laws, imposition of dividend distribution tax (DDT). Such changes could be seen as material changes affecting decisions of investors, and, therefore, be construed as changes requiring investor consent, which may not be forthcoming.

Any conversion to company structure may entail further adverse tax consequences such as DDT, setting off, etc, going beyond any gains saved on surcharge. Instead of saving tax, the corporate structure may be even more onerous.

Also, disallowance of capital losses on transfer of assets in the course of conversion from trust to corporate structure is already under litigation in the Bombay High Court.

It will be counter-productive for industry participants to undergo conversion to corporate structure, if ultimately, such conversion is disregarded under GAAR.

For the above reasons, the CBDT chairman should revisit the entire issue of taxation of FPIs and Cat III AIFs. Most countries (including the US) do not tax FPIs. Understandably, after the budget, ₹5 lakh crore of wealth has already been washed off, affecting large number of small investors. In dollar terms Indian public markets have given about 3.5% returns compared to 7.5% by China, and almost 18% by the US. It would work out better if the government engages with the industry stakeholders who represent significant providers of capital to Indian capital markets, and propose a workable solution to the legitimate concerns of such stakeholders.

Change the way India does business

Regulatory cholesterol is one of the reasons for start-ups to lose heart—the failure rate of start-ups is quite high, but closure can take more than two years

SUMITA KALE & RISHI AGARWAL

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IN HER BUDGET speech, Nirmala Sitharaman put a greater spotlight on Ease of Doing Business through many measures—simplifying GST process, e-assessments for tax, interchangeable Aadhaar and PAN, etc. The government's intent to further simplify procedures, reduce red-tape and make the best use of technology was clearly set out. However, there was no reference of a refreshing, revolutionary move that is already on the cards. A draft Cabinet note has reportedly been circulated last month on the National Ease of Doing Business Policy, where, for the first time, we see the government holding the bureaucrats accountable for the compliance requirements they place on businesses.

The details are not out yet in the public. According to media reports, ministries and departments must measure the time and cost of compliance requirements. The rationale behind licensing to be explained, as departments are being asked to replace licences where possible with simple registration processes or simplify process where the removal of licences is not possible. Departments also have to justify the frequency of renewals they demand.

Holding bureaucrats accountable for the pain they inflict through compliance marks a structural break in the way India regulates and controls businesses. There is a three-vector framework that is key to Ease of Doing Business—rationalisation (rationalising the 1,100+ Acts and 58,000+ compliances that govern businesses), simplification (reducing the 3,100+ filings and 2,500+changes every year), and digitisation (using the GST template of an API architecture that allows straight-through-processing of filings from external systems, instead of uploading documents to a government website with passwords). Viewing compliance within this framework will facilitate the re-engineering that the government is targeting.

Once you set in force a mindset change, and control the controllers, there will be significant productivity gains for firms. One of the biggest constraints to scale currently is the exponential increase in compliance as a firm grows. Actual client data from Avantis Regtech shows that a mid-sized manufacturing company spread across six different states is regulated by over 5,000 compliances, approximately 100 licences and registrations—making for an average of two filings a day. A small firm is faced by around 10 filings a month—not an easy task. The proposed policy has suggested that the compliance burden should be capped at an hour per month for start-ups. Our submission is that a similar benchmark should be placed for micro and small firms.

The government has recognised the vision and passion of start-ups to scale up, yet treats them on par with larger businesses when it comes to compliance. Typically, start-ups are run by young, first-time entrepreneurs, who have no idea what hits them when they are faced with the heavy compliance requirements—a start-up working from a home office/shared space, in its first year, needs to obtain registrations under at least seven regulators and file a minimum of 18 returns to a maximum of 69 returns. Not surprisingly, regulatory cholesterol is one of the reasons for start-ups to lose heart—the failure rate of start-ups is quite high, but closure can take more than two years!

The proposals regarding the vexatious angel tax issue are steps in the right direction. Yet, so much more can be done to make it easy for a start-up to begin operations, grow or exit if needed. Some compliance requirements can be removed, for example, mandate only one board meeting a year, instead of two, implement single window NOC clearances for closure, have a single annual return for MCA instead of 4-5 now and an annual TDS return instead of quarterly, etc. These are simple steps that will make a world of difference to the life of a young entrepreneur, who is out to take on the world.

Over the past five years, India's ranking has risen dramatically in the World Bank Ease of Doing Business index from 130 to 77. But this achievement has not really meant much for businesses in India struggling under the weight of 58,000+ possible compliances and 3,100+ possible filings annually. The government has now finally come through, and taken on board the pain and stress of the compliance burden. The proposed National Ease of Doing Business Policy can be a game-changer, making a greater impact on growth and formal employment, than government programmes and subsidies. It is time to remember the spirit and intent of a regulatory framework—effective regulation need not be complicated, control need not be cumbersome. It is time to bury the license raj and inspector raj forever.

Business stage	MCA	Finance Ministry	Labour ministry
Incorporation	3 duly certified forms for incorporation & commencement of business	Mandatory PAN, TAN and PT (although PAN / TAN clubbed with MCA form)	Shop Act registration up to min employee strength of 10
	For additional benefits, registration required under MSME & Startup India		
On-Going	4-5 annual filings) and a min 2 board meetings	10+ returns under I-T & professional Acts & professional audit of financials	Renewal of S&E License
	In case business picks up, additional compliances under GST, PF, ESIC & LWF with around 51 returns		
Closure/ winding pp	Once the business operations are shut down, entities take over 2 years for closure. Further, it has to follow below tedious steps prior to submission of closure application: 1. Surrender all the registrations taken under various regulators; 2.Obtain NOC from these regulators and also all creditors; 3. Closure of all bank accounts		

Parameter	Small	Medium	Large
Number of factories/plants	1	6	11
Number of employees	Up to 500	Up to 5,000	Up to 10,000
Number of licenses/registrations	23	98	163
Number of applicable acts (& rules)	60+	135+	210+
Number of applicable compliances	750+	5,500+	9,500+
Number o filings per year	120+	530+	940+

LETTERS TO THE EDITOR

England's first WC

Kudos to England for its maiden ODI Cricket World Cup (WC) win! But, England won the WC when the rest of the world saw a 'double' tie. By this victory, Morgan's team now joins the women as world champions in this format—a trophy Heather Knight's team won on the same ground on 2017. But, I feel bad for the New Zealand (NZ), though they had mixed luck in this tournament. Because, the NZ's two throws are the matter. One in semi-final by Martin Guptill not only ran out MS Dhoni, but also ousted Cup favourite India to reach the finals, and in the final another throw that ball hitting England's Ben Stoke's bat was so horribly cruel that it gave an extra boundary. Perhaps that law should be reviewed, with a dead ball signaled if the batsman or his equipment is struck, while still allowing for the run or a possible run out to be completed? With God's hand over England, everything fell into place for them and the poor Kiwis couldn't take a trick. They were tied at the end of 50 overs, and tied at the end of the super over. But England scoring more boundaries declared them winners, but it did not suggest NZ bowling more dot balls? Then why Kiwis' case has not been considered? Strangely the ICC were happy to have joint winners if the final was washed out, but maintained an approach of 'there must be a winner' if the match was actually played out to a completion. Even in the case of a double tie. Actually a flaw in the laws is in the common in the WC format. Who can forget the 1992 bizarre WC Semi-Final when South Africa needed 22 runs for one ball after D/L method of 13 minutes loss due to rain? But the flag bearer of the gentleman cricket's, NZ captain Kane Williamson made not a single complaint about his team being defeated. Not only true cricketer, but he knows NZ were defeated on the basis of rules that all teams signed up at the beginning of this tournament. He made gracious winners and runner up. Though it's not their fault that England will forever be known as the team who 'won' a World Cup without winning.
— Bidyut K Chatterjee, Faridabad

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CHLOROPHILE

Back to basics with ZBNF

A zero-budget natural farming campaign shouldn't be debt-driven or a leap of faith, like Andhra Pradesh's

MEGA BUCKS WERE chasing Andhra Pradesh's drive to convert all its 60 lakh farmers to a form of regenerative agriculture that strikes at the root of the country's agricultural research, education and extension system. N Chandrababu Naidu—who, in his earlier stint as chief minister, was a champion of information technology—wanted to take the rice bowl's farmers back to the pre-synthetic-urea age. The state was prepared to contract debt supposedly to make its farmers debt-free with Zero-Budget Natural Farming (ZBNF). Will the current chief minister YS Jaganmohan Reddy complete what Naidu began?

Andhra's initiative was perhaps in finance minister Nirmala Sitharaman's mind when she announced a "back to basics" move to "Zero-Budget Farming." We need to "replicate this innovative model through which in a few states farmers are being trained in the practice," she had said during her recent Union Budget speech. But why did she not back it with money? The programmes that ZBNF can draw from—Rashtriya Krishi Vikas Yojana (RKVY) and Paramparagat Krishi Vikas Yojana (PKVK)—have had a modest ₹200 crore increase in outlay to ₹4,050 crore.

According to the Rythu Sadhikara Samstha (RySS), Andhra's official agency that is driving ZBNF, it will cost ₹16,452 crore for the state's 60 lakh farmers to make the switch by 2023-24. The cost of covering each farming household is ₹25,550, of which ₹1,000 is for one-time subsidy on inputs. The rest is for skill development, institution building, marketing support and management oversight. Apart from drawing on RKVY and PKVK allocations, Andhra was preparing to borrow from private and multilateral agencies. This was to be facilitated by the Sustainable India Finance Facility (SIFF) put together by the United Nations Environment Programme (UNEP), World Agroforestry Centre and BNP Paribas, the French bank.

There was much celebratory talk in the presence of Naidu at an event in Vijayawada in June last year. The Food and Agriculture Organization (FAO) representative said upscaling would need "visionary leadership" and "funding agencies." The FAO would be in the middle, providing knowledge. France, he said, had passed a law for "much more" natural farming. An offer of French experts and expertise was also made. BNP Paribas's global management committee member said that Andhra would be the first state of its size to have "purely natural agriculture." The bank was invested in achieving sustainable development goals (SDG); it had projects worth $175 billion. With the "incredible products" and "all those evidences" that ZBNF works in Andhra, "we have the argument to convince" investors like pension funds, he said.

But do India and Andhra Pradesh need to go back to basics and transit beyond France's "much more" natural farming to "purely natural" farming? Is the Green Revolution broken? Foodgrain production has been rising year after year, except when weather is very unfavourable. The net availability of foodgrains per person has increased from 395 gm per day in 1951 to 494 gm per day, despite the population increasing by 3.5 times during this period. This has been made possible by the extension of irrigation and the use of high-yielding varieties that are responsive to the application of fertilisers.

Andhra Pradesh's progressive farmers have been quick to adopt new technologies and improved practices. Although foodgrain production has declined from an average of 18.6 million tonnes to 15 million tonnes over the past 10 years, its farmers are moving in sync with changing Indian diets towards value-added fisheries, horticulture and livestock rearing. These have a greater share in its agri-GDP than field crops.

Padma Shri awardee Subhash Palekar's ZBNF is based on the stimulation of microbial activity in the soil. This is supposedly achieved by applying a bacterial culture made by fermenting cow dung and urine with additives like *besan* and jaggery. Mulching—spreading straw or crop residues on the soil surface—is meant to conserve moisture and suppress the growth of weeds. Aeration of the root zone area is insisted upon.

These are good agricultural practices. Even Green Revolution farmers are advised to add farmyard manure or vermicompost to enhance soil texture and microbial activity. Under Conservation Agriculture, ploughing is barred. Sowing is to be done with seed drills in fields where the previous crop's stubble is left to decompose naturally. ZBNF is called "zero-budget" because the income from subsidiary crops planted with the main crop compensates for cash inputs. This is not unique to ZBNF; it is advised for garden crops like coconut. Even aeration or *waaphasa* happens when drip irrigation is practised.

Palekar draws glares from the agricultural research establishment when he says that "the output of the Green Revolution is only destruction: of the soil, water, environment and human health." He blames it for cancer, diabetes, and even AIDS. For him, it is a conspiracy to create dependency among farmers for fertilisers, pesticides and hybrid seeds.

Palekar's science is questionable. According to him, only the dung of Indian cows is effective as a soil inoculant. That of the black-coloured Kapila cow is the best. For fermentation, the dung should be fresh and cow urine as old as possible. Palekar says the dung of one Indian cow can fertilise 30 acres. (Palekar estimates it at 11 kg per day, but how can it be uniform?) Peter Carberry, the director general of ICRISAT, the Hyderabad-based international agricultural research institute, said this was "clearly inadequate." He made the observation in his lecture to the National Academy of Agricultural Sciences in New Delhi. Carberry said the recommendation of a practice must be based on prior evidence gathered as per scientific protocols.

Carberry was dismayed by NITI Aayog vice-chairman Rajiv Kumar's effusive endorsement of ZBNF in a two-part article in a financial daily in April. He said it was an innovation that could be readily exported (how, if the dung of indigenous cows is required?) without awaiting certification from 'respected foreign institutions.' (His quotes.)

This writer visited Palekar's village, Bellura, in Amravati district and found none of the farmers practising ZBNF. The caretaker of his farm did not know the recipe of *jiwamrita*, the soil inoculant, or *beejamrita*, the anti-fungal coating for seeds. He said he had applied the dung of six cows and six bulls (10 tractor-trolley loads) to the 11-acre farm, when according to Palekar one cow is enough to fertilise 30 acres.

Palekar said there was no need to apply jiwamrita after three years by when the field's microbial level would have reached saturation point. Does anyone fertilise a forest, he asked. The objective was to make the farm as regenerative as the forest. When Vijay Kumar Thallam, the co-vice-chairman of the RySS, was told about Carberry's remarks, he said every acre of land had 78,000 tonnes of nitrogen. He was referring to nitrogen in the air, which soil microbes would make available to plants through ZBNF. Were we not feeding ourselves before urea (that is, the process for manufacturing it was invented in 1908), he asked. (Diseases and food inadequacy kept populations in check, actually.)

This writer has met or spoken to four farmers who say ZBNF works for them. Two of them were growing garden crops like coconut, areca, banana and betel leaves. C Sanjeeva Reddy, 66, of Ashok Nagar, Anantapur, said his Sona Masuri rice yields from 33 acres of own and leased fields were slightly less than chemically-grown rice, but he got three times the price. He has his own brand: Prakriti Vyavasayam.

The back-to-basics leap must await the results of ZBNF trials being conducted under the aegis of ICAR and an investigation by a committee appointed by the NITI Aayog

But MVS Nagi Reddy of Vijayawada, who also practised ZBNF for 10 years, had a different story. His rice yields under ZBNF were 20% below the average and he was not able to convince farmers in his village or the block. An MSc in genetics and plant breeding from the University of Allahabad, Reddy has now restricted ZBNF to half an acre of paddy for own consumption. "I need profits for my family," says the farmer who was an advertisement for ZBNF. Now he rears fish on 80% of his family's 100-acre farm. On the rest, he grows rice and pulses the conventional way.

"The success of the Green Revolution has enabled us to criticise the Green Revolution," says agricultural economist and NITI Aayog member Ramesh Chand. The problem with chemical agriculture is injudicious use. He says India will not be able to afford chemical-free agriculture. But it can use less chemicals.

The back-to-basics leap must await the results of ZBNF trials being conducted at four locations under the aegis of the Indian Council of Agricultural Research and an investigation by a committee appointed by the NITI Aayog.

Ending water crisis in India

PP SANGAL

The author is a former ISS and UN consultant

Unlike oil, water has no substitute

IN HIS MANN KI BAAT 2.0, PM Narendra Modi—the first after his re-election—pitched for water conservation to be made into a mass movement in India, amid reports of depleting water resources due to several reasons. In India, agriculture consumes nearly 80% (65% in China) of fresh water and the rest 20% is used for drinking and other household activities. Thus, and rightly so, the government launched the Jal Shakti Abhiyan (JSA) on July 1.

The objective of JSA is to take measures for rainwater harvesting, water conservation and replenishing water bodies for meeting acute shortage of water. Today, India conserves only 8% of the rainfall it receives, which is among the lowest in the world, and we need to change this. Further, only 4% of world's water resources are available to us, and we have to provide for 16% of world's population. Thus, our huge water shortage is sure to land us in a critical situation, if urgent steps are not taken. We are already seeing water shortage in Tamil Nadu, Rajasthan, Uttar Pradesh, Telangana and Haryana. NITI Aayog's report of 2018 asserts that that groundwater in 21 cities of India is set to plunge to bare minimum levels by 2020. Is it not alarming?

Although water crisis in now a worldwide phenomenon (two-thirds of the global population is living under water-stressed conditions and, by 2025, about 1.8 billion people are expected to face absolute water scarcity), but it is much worse in India due to mismanagement of water usage in agricultural operations. The latest available World Bank statistics show that while India produced $0.5 of agricultural GDP (in 2010) for a litre of fresh water, this figure is $1.6 for China (in 2012) and $3.9 for Israel (in 2004)—a success story in efficient use of water for agriculture. In fact, there has been no increase in agricultural output per unit of water usage in our country during the last three decades. In view of this grim scenario, the following measures are suggested:

- Recycle sewage and other household waste water by setting up water-treatment plants, using innovative technologies, and reuse the extracted water for irrigation. Singapore, Windhoek (capital of Namibia) and Israel are great examples of treating such water for reuse and even for drinking.
- Increase awareness among the masses about scarcity of water and the dire need of conserving it by organising programmes/public meetings on efficient use of water.
- Impose suitable penalties for wasting and polluting water, and also limit per capita use of water and impose fines for exceeding the limit. Perhaps there would be no need for doing so once people are made aware of the problem.
- Traditional water conservation/harvesting methods like constructing farm ponds, check dams, gully plugging, dug wells, borewells and artificial glaciers in Ladakh; Tamaswada Pattern *nallahs* treatment in Maharashtra; soak pits in Punjab; and watershed development and management in Maharashtra and Madhya Pradesh—which have become defunct in some parts—must be revived.
- Agricultural universities should take a lead in advising farmers on suitable cropping patterns, taking into account soil and other climatic conditions of a region, to save water.
- Promote use of drip irrigation and sprinklers.
- In urban areas, there is water theft and also loss of clean water due to slackness on the part of water management bodies. This is due to inferior water service infrastructure and its poor maintenance. This needs to be corrected by adopting strict procedures for compliance and monitoring.
- Though it may be an unpopular measure in the existing political environment, the practice of providing free or subsidised water and power to farmers must be stopped. This would not matter much for big farmers as they are not liable to pay income tax as others do. Of course, small and marginal farmers may need to be compensated for this loss by increasing the MSP for their produce. Here it must be mentioned that free power to farmers not only leads to excessive withdrawal of groundwater, but also increases soil salinity, which jeopardises farm sustainability.
- It is learnt that, while launching JSA, the government announced reorientation of MGNREGA towards water conservation and harvesting by reserving 75% (instead of 67% in 2018-19) of 2.58 billion person-days expected to be generated during 2019-20. To walk the talk, it would be necessary to provide adequate funds to complete all pending water storage projects in states.

To sum up, although water crisis in urban areas normally attracts governments' attention, it is the inefficient agricultural sector that is largely contributing to this situation in India. We hope the Centre and states will pay heed to these steps, else JSA would not be able to achieve its objective.

Remember, unlike oil, water has no substitute.

EDUCATION LOANS

Financing to yield the dividend

If education ensures good jobs to students, banks will be more willing to lend money to them

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JOBS HAVE ALWAYS BEEN at the helm of political and economic debates, and the recent controversy around the government trying to pull down the NSSO report on jobs earlier this year had brought this topic to the limelight again. The recently published Periodic Labour Force Survey (PLFS), released after the new government was sworn in, not only talks about unemployment levels, but also emphasises on education levels in its sample design.

Theoretically, for a large number of youth, education should have a significant bearing on one's employment prospects. According to the All India Survey on Higher Education (AISHE) 2017-18, 36.6 million students enrolled for higher education, up from 34.2 million three years ago. More than 75% of institutions of higher education in India are private. As a result, the cost of education has been ever increasing without much of a check. Inflation in the education category has averaged about 7% since 2012, with school and college fees continuing to take a substantial share of households' income. Exorbitant fees and donations in medical and engineering colleges are not unheard of. Even premier public institutes like the IIMs and IITs have seen a manifold increase in their fees over the last decade.

With this rising fee burden, most candidates have to depend on education loans to finance their studies. Outstanding education loans disbursed by scheduled commercial banks stood at ₹675.5 billion at the end of fiscal 2019. These loans are designed to offer students a flexible repayment plan once they start earning (with a moratorium period), a discounted interest rate over other personal loan items, and a tax benefit on interest repayment. It may be argued that these loans allow a sense of opportunity for students to get good education. With a huge chunk of young population, increased awareness, rising aspirations of the youth and new job opportunities, one would expect the disbursement of education loans to increase.

However, according to CRIF High Mark, a credit bureau, education loan disbursals have reduced by 25% in the last four years. High NPA levels and high default rates in education loans are leading to this decline. Banks are reluctant to lend to students who are economically-disadvantaged and whose families are unable to put up a collateral, or those who, in their opinion, might not end up getting a job. Also, the ticket size of loans is increasing. This rise in ticket size can be attributed to higher education becoming costlier. With increasing fees at premier Indian institutions and increased number of students opting for higher studies outside India, the volumes in the ₹20-lakh-plus segment have grown by six times over the last five years. Banks are willing to fund big-ticket loans and avoid loans up to ₹4 lakh, which fall under priority lending and need no collateral. As reported by many bankers, these small ticket and priority sector loans record the highest number of defaults and NPAs. Public sector banks have excessive bureaucracy, documentation and formalities before they give lower-ticket loans without collateral. Most private banks have tie-ups with educational institutions and lend only to their students.

From a bank's perspective, this makes complete business sense. But it doesn't really bode well for the society and economy at large. With rising costs of education, the inability to access finance deprives students the opportunity to undertake higher studies. This adversely impacts the ability of the candidate to secure quality education, and, in turn, perhaps a steady stream of adequate income flow in the future. While banks are willing to fund higher-ticket loans for students going to premier institutes or going abroad, this leaves a major chunk of students at a disadvantage—leading to increase in inequality in terms of opportunity to get good education, as well as to earn good living in the future. Many NBFCs have come forth to hand out education loans, but usually they need to be backed by a collateral, which makes availing them a bit difficult for students. This might even put families of students in a tight spot who would have to pledge their family assets as a collateral to secure loans.

While willingness to pay back the loan is a necessary condition, one of the prime reasons for defaults on education loans is the inability of students to payback loans. This could be due to the inability to secure a job, or even if one secures a job, the inability to secure an adequately-paying job. Salaries for students graduating haven't kept pace with increased cost of education. The employability of Indian students has been questioned in multiple reports and commentaries. According to AISHE 2017-18, 36.4% of undergraduate students enrol for arts, humanities, social sciences, which, anyway, have not been able to command the necessary traction in our social as well as professional circles. Around 31% enrol for science, and engineering & technology. According to Aspiring Minds, the talent evaluation company, over 80% of the engineering graduates are unemployable for any job in the knowledge economy. Many industry veterans, too, have voiced their concerns over the skill and employability of Indian engineering graduates.

This leads us to a vicious circle—high cost of education, poor access to finance to fund higher education, poor employability, inadequately paying jobs, defaults on education loans, reluctance by banks to advance education loans. All this can be effectively dealt with by improving standards and quality of Indian education. The draft National Education Policy 2019 does well in identifying the major problems and challenges with higher education in India. If the education undertaken can ensure a well-paying job to students, banks would be more than willing to lend money to them without the fear of default. This will result in reduction in NPAs, and banks will be more willing to lend to a wide spectrum of students. Easy access to finance education will go a long way in making the most of our asset—the demographic dividend.