



OUT OF FOCUS Congress leader Rahul Gandhi

The government took out the money from common man's pockets and handed it to Ambani and Adani. Both Modi and Khattar are working for businessmen and keep deviating your focus from real problems

L-1 has hurt govt & PSUs, so good if CVC reviewing it

In the case of PSUs, abolish L-1 where the market is a competitive one; make it more flexible for govt tenders

VEN THERE ARE around 340 central PSUs alone, and possibly 2-3 times as many owned by various state governments, it is clear that even an aggressive privatisation programme can't fix the problem of PSUs rapidly losing value; in which case, reforming the way they are run has to be top priority. While heavily unionised workers, and vast overstaffing is a major reason for the poor performance of PSUs, equally important is the issue of what is called L-1-itis, or the fact that, since PSUs are seen as an arm of the state under Article 12 of the Constitution, they have to issue tenders for most purchases/contracts; indeed, they do not have the freedom to enter into JVs, or other such partnerships. In the case of ONGC, for instance, when it tried to tie up with Brazil's Petrobras and Norway's Statoil, which had deep-sea drilling experience, it was told it needed to float a tender even though the firms were both PSUs; had ONGC been able to do the tie-up, chances are it would have done a better job in the deep waters of the KG Basin. Similarly, one of the reasons for BSNL falling behind in providing mobile phone connections is that, on at least two occasions, its tenders were challenged in court and it had to go in for re-tenders. Given how most of BSNL's competitors, like Bharti Airtel, for instance, have outsourced a large part of their network operations to firms like Siemens and Ericsson, not having such flexibility can cripple the organisation.

This is why it is good news that, as *Hindustan Times* reported, the Central Vigilance Commission (CVC) is relooking the issue of L-1, to make it more responsive. One solution being talked about is to replace the concept of L-1 (the lowest bidder wins) with, for instance, Quality-cum-Cost-based-solution (QCBS) or Quality-Based-Selection (QBS) where, instead of just the lowest bid, the govt/PSU would first choose the firm on the basis of technical parameters and then go in for a price-bid, or only on the basis of a technical evaluation. A Swiss-Challenge could also be adopted where, once a firm has given its techno-commercial bid, this can be thrown open for others to match. These are undoubtedly good suggestions, but as a general rule, as long as PSUs are operating in a competitive environment, ideally, the concept of needing to bid should be done away with. This can be done if Article 12 of the Constitution is modified to say that PSUs which function in a competitive marketplace will not be covered by it since, for them, the ability to respond quickly to market situations is of paramount importance; as for a QBS-type of selection process, if the transaction is large enough, such as an ONGC tie-up with a Petrobras or a Statoil, such a justification will, in any case, have to be made to the company's board.

While many will argue that the change in procedures will result in large corruption, no system is foolproof. In the case of the Delhi airport privatisation bid many years ago, for instance, despite the elaborate procedures, the evaluation of the bid was faulty, and would have favoured one firm; this was stopped after an alert bureaucrat spotted this, and an expert group was set up to relook the post-bid evaluation process. It is important to keep in mind that, while no system is foolproof getting work on time—or even before time—is itself a very big saving given how lengthy delays of even decades in many cases push up costs inordinately; had BSNL been able to increase its mobile-phone capacity on time, for instance, this would probably matter less than if the price-bid was not the most competitive.

Q2 GDP could be worse

In which case, even a 6% FY20 growth could be at risk

IVEN THE SLUGGISH loan growth, contracting four-wheeler sales and slowing volume momentum in a host of other sectors, it is not altogether surprising that factory output contracted by 1.1% year-on-year (y-o-y) in August. The deterioration was particularly marked in segments such as capital goods, which shrank 21% y-o-y on the back of a 7.2% y-o-y fall in July, and durables, which fell 9.1% y-o-y, reflecting the very anaemic demand partly arising from weak credit flows to many sectors of the economy. As has been pointed out, despite excess liquidity to the tune of ₹200,000 crore in the banking system—the system has been in a surplus for close to five months now—banks are being ultra-cautious while sanctioning loans. They are not to be blamed. For one, much of corporate India is still fairly leveraged, and in the current difficult environment, cash flows aren't improving. Moreover, the quality of corporate balance sheets remains worrying as seen from the daily downgrades by ratings agencies. Indeed, the second NPA cycle has started, and could get exacerbated by weakening commodity cycles, the global slowdown, and also the unhelpful policies relating to the ownership and operatorship of infrastructure assets; as experts have pointed out the IRRs for some infra projects are unremunerative given that prices are below market levels. The fact that state governments have been dishonouring contracts—as has happened with some renewable energy projects—will also hurt banks' portfolios.

The offtake of loans by individuals, too, is slowing because incomes are growing slowly and consumer confidence is low. It is precisely because companies don't see the need to produce when demand isn't picking up that manufacturing is contracting—the August data of a negative 1.2% was the worst in five years. It is hard to see greenfield investments by the private sector picking up meaningfully in the next couple of years, and, as a share of GDP, it could actually fall. That is because capacity utilisation is around 73%, and distressed assets are being bought at attractive valuations via the IBC route. Very few new projects are being announced.

However, existing projects that are stressed or stalled—like in the residential real estate sector—can be revived with relatively small incremental investments. That could then help fuel demand for a range of products and, at the same time, help banks recover their loans. Over a period of time, household savings should move up, and can be used to fund investments. Unless some sectors get an immediate boost, it is hard to see the economy re-bounding. With high frequency data at their lowest levels since 2008, growth in Q2FY20 could well be lower than the 5% y-o-y clocked in Q1FY20. That, then, increases the risk of the economy growing at below 6% in 2019-20.

TwitterTAKEOFF

Railways model of Twitter governance can help DGCA tackle errant airlines

ORLDWIDE, FLYERS HAVE found Twitter a convenient platform to air grievances with airlines, and the latter, ever fearful of negative publicity (remember Delta Airlines's woes), have seemed eager to redress these. That said, the Directorate General of Civil Aviation's (DGCA's) plan to harness Twitter to get airlines to serve customers better is going to be a tall ask. The aviation regulator in a meeting on Thursday directed airlines to offer timely redressal of all grievances, warning against laxity. It asked them to provide regular SMS updates of delays and boarding, and said that the airlines need to give drinking water, refreshments and meals to passengers stuck because of delays, in keeping with the Civil Aviation Regulations (CAR). Although DGCA had laid down clear norms under CAR, these have been observed more in breach than in compliance.

While the DGCA started the Airsewa portal, it has not been as successful as awareness regarding the platform has been limited. Twitter governance can ensure better service delivery, but the DGCA needs to come up with the right plan for this. The current proposal, of airline resolving disputes raised on their respective Twitter handles, is not only difficult to track but also impossible to implement. A Railways-style approach can work better. While Railways is the only operator, in this case, the DGCA can ask all complaints to be tagged to the DGCA account. This way, not only would it be able to track requests, it would also be able to account for airline response. And, if it has worked in the case of Railways—the service lists over 20 accounts for complaints besides its official Twitter handle with 4.15 million followers—it can do so for airlines too. More important, what DGCA and airlines need to address is the issue of refunds—ambiguity in CARs with regards to the minimum period for refunds has led to airlines delaying these.

EDUCATION 2.0

ONLINE LEARNING WILL 'MASS-IFY' HIGHER ED, WHICH IS WHAT A \$5-TRN ECONOMY NEEDS.BUT, 35 UNIVERSITIES APPLIED FOR A LICENCE FOR ONLINE COURSES, AND NONE HAS RECEIVED IT

Over-regulation choking online learning potential

N A RECENT US investor roadshow, a portfolio manager at one of India's largest foreign investors asked us, "How do you get something done in India after everybody important in the government agrees with you?" His rhetorical question is relevant; the gap between India's performance and potential is not a lie, but a disappointment. For example, most policymakers agree that a \$5 trillion economy needs 'mass-ifying' higher education because our farm to non-farm transition is happening to services, not manufacturing. The agreement that some traditional universities do a poor job of balancing cost, quality, scale, and employability triggered a reexamination of a one-size-fits-all education regulation that stifles innovation, and led to lifting a ban on online higher education in July 2018. Yet, not one of the 35 universities that applied has been licensed, and the posture and tone has scared off another 150 eligible universities. This gap between intention and execution must end; it handicaps Indian universities over global ones, holds back expansion of our gross enrollment ratio (GER), and sabotages our \$5-trillioneconomy ambition.

As context, the University Grants Commission (UGC) banned online higher distance education in 2015 in the name of consumer protection. Granted, that there were surely some fly-by-night operators, yet drunk driving is not an argument against cars. But, UGC has no jurisdiction over global universities who continued to enroll over 1 million Indian students annually in various courses. The need for reform was recognised, and UGC reviewed its decision in July 2018 by inviting universities to apply for licences. In January 2019, more than 35 applied, but not one has yet received the goahead. Besides, immediately issuing online licences, we would like to make a case for six policy changes:

End two separate regulations: Separate regulations for open and distance learning (ODL), and online programmes is unnecessary, complex, and akin to friendly fire. The MANISH SABHARWAL **& SHANTANU ROOJ**

Sabharwal is with TeamLease Services and Rooj is with Schoolguru Eduserve. Views are personal

frontiers between ODL and online education are blurring; an ondemand, on-the-go, always-on, modular, and multi-modal education system is where they both are headed. The regulator should evolve a single regulation that sets basic benchmarks, creates a framework for selfgovernance, and dumps the licence raj by allowing all universities to launch online programmes.

Allow capacity expansion: The monopoly of brick-and-mortar higher education has been challenged by online learning and competency-based education; more and more students are turning to online education to pursue degrees that may have been otherwise—geographically or financially out of reach. However, UGC's newfound approach to control quality, which allows only universities with a NAAC grade above 3.26 and NIRF Top 100 rank to apply for the licence, places huge amounts of red tape in the way of online learning expansion, and blunts the expansion of GER in the country. Parameters of quality should apply to all formats of education, and not only to online offerings. Blocking universities from launching online programmes murders the multiple statistically independent and genetically diverse tries that lead to innovation,

Move from regulation to supervision: UGC's online regulations permit universities to launch only those courses which have one batch of graduates—this thwarts innovation, autonomy, and competition. Regulations should focus on providing a framework, and permit universities to think anew, collaborate with industry, and launch new-age student focused, self-

competition, and better value.

paced subscription models in online education. Universities will, then, not only innovate for fresh students but also for those already in the labour market who would come would bring their aspirations, past experiences, qualifications, and current jobs. Repair and Upgrade need a different thought world than Prepare. View technology as

the medium: Current online regulations require universities to recruit many employees before launching their online programmes. But, advancements in technology, machine learning, artificial intelligence, and bot-based services mean universities can use their existing ecosystems as the academic home for their distance and online courses, and their existadministration teams to manage the online students. This

would mean a standard experience for students irrespective of their mode of learning. Leveraging technology shall help optimise student service, improve governance, fix accountability and control costs—the benefits of which will surely be passed on as lower course fees because of competition.

De-regulate admission cycles: The stereotype of a university student as a privileged, 18-year-old, urban male, who will spend three years, full-time, physically at the institution, no longer holds. Today's students are just as likely to be female, older, from rural areas, and studying part-time, concurrent with full-

time work. The line between corporate training and higher education is blurring, and traditional models of provision no longer work for these students. A recent research report suggested that the number of employed-learners is expected to surpass that of traditional learners in the next four years. Clearly, labour market and education outsiders need more flexibility in admission processes, criteria, and deadlines. This needs rolling admissions, and ondemand exams.

Encourage employability: Automation, artificial intelligence, and intangible assets are transforming the employment landscape; nobody can predict the future, but we can make ourselves worthy of it.

Employability is a function of qualifications, work knowledge, experience, job search strategies and signalling value, amplified by networks; E = (O+WK+E+JSS+SV)NMicheal Spence's Nobel prize winning work on the signalling value of higher education has important implications for recognising apprenticeships as a classroom, having multiple on- and off-ramps, and thinking differently about the regulatory regime for skill universities that focus on

employability over build-

ings, and research.

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Education, employability, and employment change lives in ways that no subsidy ever can, and India's problem is not jobs, but productivity. Deregulating online education will enable employers, universities, and students to combine apprenticeships, degrees, and learning in ways that are currently banned. The poet Iqbal once said, "Dhoondh koi nayi raah khud ke liye. Kab tak qadeem raahon par chalta rahega?" (Find a new path for yourself; how long will you keep walking on ancient paths?). Time to take his advice in higher education.

What's on the table in Brexit talks

Even though the two sides haven't yet entered the famed negotiating "tunnel," at least they appear to be struggling toward the light



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NO NEWS CAN be good news sometimes. The logic of past Brexit negotiations suggests that the less we hear about what is happening in intensive Brussels talks, the greater the chance that those talks are getting somewhere. Once the details start to leak and the anonymous briefings start, what is left tends to be dead on arrival.

Yet even with scant details on the new negotiations between the Brits and the EU, or what concessions either side might have made to activate them, it is possible to draw some conclusions about what is being discussed.

First, what it doesn't mean. The quiet luxury wedding venue in Cheshire, where the UK Prime Minister Boris Johnson met with his Irish counterpart Leo Varadkar on Thursday (discovering a "pathway to a possible deal") is a long way from the Justus Lipsius building in Brussels, or wherever the nitty-gritty of any possible Brexit deal might be thrashed out. As my colleague Lionel Laurent wrote on Friday, negotiations don't mean an agreement is a sure thing; there are many degrees of separation between the parties.

Any deal must satisfy three requirements if it is going to fly politically in the UK and the EU. It must let Johnson bring Britain out of the bloc by October 31 or very soon after, as he has promised his supporters. Second, Northern Ireland must be deemed part of the UK customs territory for any future trade deals struck by Britain. Third, an agreement would have to avoid customs checks in Ireland that would threaten either the Good Friday peace settlement or the EU's single

Once a deal ticks those seemingly contradictory boxes, it must also pass muster with the Democratic Unionist Party of Northern Ireland. The DUP leader Arlene Foster gets very twitchy about anything that separates Northern Ireland from the rest of the UK. Without her support of any compromise agreement, it will be very difficult for hardline Brexiters in Johnson's ruling Conservative Party to back a deal. That means Johnson would have to rely on Labour MPs if a deal came to a parliamentary vote, although he would be unlikely to put his initials on one without some assurance of support from his own side.

The window in which to sell any agreement would be small. If, as many suspect, Johnson is considering a variation on part of his predecessor Theresa May's maligned Chequers deal—a "customs partnership" with the EU but that includes only Northern Ireland rather than her plan to include the whole of the UK—agreement would be difficult to secure and implementation would be messy. It would also be

ironic since Johnson resigned over May's plan and the EU rejected it out of hand.

There is nothing in Johnson's past that suggests he is a slave to his positions, quite the contrary. He is perfectly happy, shamelessly so at times, of changing with the wind if it delivers political victory. By contrast, everything in the DUP's history suggests that it doesn't budge even when the case for doing so is compelling. It says it won't accept Northern Ireland staying in the EU's customs union.

Ireland's own position is delicate too. Any Varadkar concessions would need to be less onerous than the cost to Ireland of accepting no deal. Each side will be doing rapid calculations of whether a deal works better than the ugliest alternatives.

You can see why there has been an 11th hour push, though. If Varadkar and Johnson hadn't found their "pathway," there wouldn't have been much to discuss at next week's EU council meeting other than an extension to the Halloween Brexit date.

That would have been grim for John-

son, who has been forced by his own parliament to seek an extension if he can't strike a deal. For someone who won the Conservative leadership on a promise of leaving on October 31, "no if sorbuts," having to ask for a delay is an unappetising prospect.

On the EU side, they had no doubt rather get this done and move on to other things before a new European Commission takes its seat and before a new budget is voted on next year; especially if they can avoid

chucking Dublin under a bus.

Even though the two sides haven't yet entered the famed negotiating "tunnel,"where they pore over the draft legal text of an agreement, at least they appear to be struggling toward the light. That doesn't mean they'll get there. But the alternatives of an eternal Brexit process (or no deal) are far darker places.

This column does not necessarily reflect the opinion of the editorial board or Bloomberg LP and its owners

LETTERS TO THE EDITOR

Even smog, odd solution The yearly tradition continues, as

smog rules the NCR-skies during

early morning & late evening hours, and authorities continue to procrastinate over the matter by forecasting a further spike in PM2.5/PM10 levels over the next few weeks. Instead of distributing antipollution masks to combat the falling AQI, it is time that state PCBs take due cognisance of the chronic problem, which persists nearly throughout the winter season every year. It is well-implied that measures forcing shut-down of power-plants, restrictions on garbage-burning at landfill sites, and use of green crackers throughout the festive season are insufficient to eliminate the impediment. Proactive steps are needed. Authorities ought to steepen the learning curve, and act before the smog-layer thickens. Experiments based on road-rationing scheme for a couple of weeks, with multiple exemptions on offer and lacking collaboration among authorities, cannot work wonders in the long-term. A strong political will, and regular micro-monitoring is needed to prevent the hazard and preserve public-health. A hitherto defensive approach towards the known root-cause has aggravated the problem. Besides imposition of stringent traffic rules, a time-bound plan is also needed to ensure adherence to evolving emission standards, expedite the launch of evehicles, and implement a long-term framework. It is time to explore sustainable solutions and educate the rural farmers, instead of expending time towards non-viable activities viz. impounding old vehicles, halting construction projects, generating artificial-rainfall via cloud seeding, or brainstorming on anti-smog guns. — Girish Lalwani, Delhi

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FINANCIAL EXPRESS







N SUNDAY, OUR son, Karna, his wife, and our grandson dropped in for dinner. While chatting, conversation drifted to the Economics Nobel Prize this year, and we did some guessing and gossiping about who might get it. Karna predicted that it would go to Abhijit Banerjee, Esther Duflo and Michael Kremer. We all agreed that would be a fantastic choice. The only question was: They are so young (58 years, 46 years and 54 years, respectively); would this happen this year or would we have to wait for a few years more?

It is so rare to get the Nobel prediction right that when I was woken up on Monday morning by journalists calling to get my reaction, and learned that the Prize has just been announced and it has gone to exactly the three names we had talked about the previous evening, I was thrilled.

This is a richly-deserved award. The prize has been given for their work on randomised control trials used in the broad area of poverty eradication and policies for better health and education. Research done by Abhijit, Esther and Michael has transformed the way development economics is practiced nowadays, not just in the US, where they are based, and India and France, where Abhijit and Esther are from, but the world over. The Poverty Action Lab that they founded is active all over the world, from Asia and Africa to Latin

Let me give you a sample of some their work which I have used elsewhere. It had long been suspected that there is a connection between the better provision of local public goods and the local government having women leaders. But, we had no idea which way the causality runs. Is it that more progressive villages elect women or women leaders are more effective as policymakers and facilitate the better provision of public goods? Esther Duflo, along with Raghav Chattopadhyay, did an outstanding study of India's decision to reserve some of the leadership of local governments-village panchayats—for women. Since the choice of which seats are to be reserved for women is done by lottery in India since 1993, following a constitutional amendment, this turned out a perfect setting for studying how the election of women leaders could affect economic





Fighting poverty: Expertise from experiments

The Nobel for Abhijit Banerjee, Esther Duflo, and Michael Kremer is richly deserved. Banerjee's win should remind India of the importance of fostering scientific thinking

The Royal Swedish Academy of Sciences has decided to award the Sveriges Riksbank Prize in Economic Sciences in

Abhijit Banerjee

Massachusetts Institute of Technology, Cambridge, USA

Memory of Alfred Nobel 2019 to

Esther Duflo

Massachusetts Institute of Technology, Cambridge, USA

Michael Kremer Harvard University, Cambridge, USA

"for their experimental approach to alleviating global poverty"

This year's Laureates have introduced a new approach to obtaining reliable answers about the best ways to fight global poverty. In brief, it involves dividing this issue into smaller, more manageable, questions - for example, the most effective interventions for improving educational outcomes or child health. They have shown that these smaller, more precise, questions are often best answered via carefully designed experiments among the

people who are most affected. FROM NOBELPRIZE.ORG

well-being in the locality. By studying a massive data-set from West Bengal and Rajasthan, they proved that the provision of local public goods, like water supply, improves in statistically significant ways in villages where women are elected to lead.

Likewise, Michael Kremer's research, done with Ted Miguel, on what deworming in schools in Kenya could do for child health and absenteeism of school students was quite remarkable. By doing a massive randomised controlled study, they showed that benefits of deworming could be staggering, way beyond the costs of such an intervention. There are many similar and important findings recorded in the book by Abhijit Banerjee and Esther Duflo, Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty.

It should be mentioned here that, quite apart from the field for which the three of them got the Nobel Prize, they have made important contributions to other areas of economics. Michael Kremer's research on O-rings, which uses an analogy from the disaster that occurred when the space shuttle, Challenger, crashed in 1986, to explain poverty traps, was pioneering. It is a model that I have used in my own work. Abhijit Banerjee's work on the mathematics of herd behaviour, which he did as a PhD student at Harvard University, is an outstanding piece of research.

Congratulations to all three of them! All three of them are not just great economists, but also wonderful people with genuine commitment to do their bit for a better world.

It is worth pointing out here that since I chair the Jury for the Infosys Prize in the Social Sciences, I feel very happy, personally, that two of the Nobel Prize winners this year won the Infosys Prize even earlier—Abhijit Banerjee and Esther Duflo. (And Michael Kremer, I may add, could not get it because he was

not eligible!) With Abhijit having studied at Kolkata's South Point School, Presidency College and then at JNU in Delhi, India should be proud of his achievement and remind itself of the importance of science and scientific thinking. With the slowdown in India's economic growth, it is important for us to use this prize not just for celebration but to harness the best of science and careful reasoning to policymaking.

MISSION DRIVEN INNOVATION

Innovative collaboration



ATER THIS MONTH, India will generously host a State Visit by the King and Queen of the Nether-

India and Netherlands have been cooperating on innovation for more than a decade

lands, as well as an economic mission and a Tech Summit with the Netherlands comprising four cabinet ministers and more than 200 participants form companies, knowledge institutes and the government. Central to this are two things that will create more win-win opportunities for both countries: joint mission-driven innovation as a way to tackle global challenges and public-private partnerships as a means of finding cost-effective solutions in the areas of water, health and agriculture. More than a decade ago, India and the Netherlands began to cooperate on innovation, this great driver of sustainable

economic growth. Together we started innovating in areas of common interest, such as crop sciences, medical devices for affordable health, smart energy grids, big data and urban water systems. Over the years, we have funded no fewer than 34 research projects, which not only generated new knowledge and economic value, but also brought more safety, health, and opportunities to our communities.

Take the LOTUSHR project, for example. India and the Netherlands implemented a holistic approach to recovering water, energy and nutrients from the 1.6 million liters of waste water produced by New Delhi each day at the Barapullah Drain. In the past, this water would end up untreated in the Yamuna, thereby polluting New Delhi's water source. This new approach reduces water scarcity and treatment costs and complements the Modi Government's

Swachh Bharat mission to clean up India.

Key to our work has been Together, India and public-private partnerships between government, the pri-Netherlands can vate sector and academia, an contribute towards approach pioneered by the sufficient energy, Netherlands when the country water, food and began transforming into a knowledge economy in the health for billions 1980s. Partners from all three of people, and domains share knowledge, further schemes pool investments and align like Ayushman goals according to long-term roadmaps, which allows all to **Bharat** achieve better and more costeffective solutions. The

Netherlands ranks highly on the global innovation index and is the world's second-

largest agri-food exporter. Last year, the Netherlands innovated its approach to innovation. Next to focusing innovation on practical, industry-specific solutions, we now focus our innovation policy on a higher purpose. Dubbed mission-driven innovation, we now encourage public-private partnerships to address the global challenges that face mankind. The four social themes that inspire our missions are Energy transition and sustainability, Agriculture, water and food, Health and Healthcare, and Security.

Inspired by these themes, the Netherlands has formulated 25 missions. These missions focus on ensuring a greater and healthy life expectancy, sufficient clean water and safe food, lower greenhouse gas emissions, affordable sustainable energy and a safe Netherlands to live and work in.

In addition to this, we have also identified the key technologies we need to realise our mission. These are among others biotechnology, photonics, nano technology, artificial intelligence and quantum computing. In the coming years, our focus lies on these four themes and the relevant key technologies through multi-year programmes that cover the entire chain from fundamental research to market introductions. Thus, we may also address the societal challenges we share with India along this route.

The State Visit and the Tech Summit will mark the beginning of a new period in which India and the Netherlands will begin work on a new bilateral knowledge and innovation agenda. Together, we can contribute towards sufficient energy, water, food and health for billions of people. For example, we can aim to double farmers' income through sustainable supply chains and provide accessible and affordable healthcare, in line with the Ayushman Bharat scheme.

PMC CRISIS

F LATE, BANKS in India have been in the news for all the wrong reasons—NPAs, continued deterioration in asset quality, grossly inadequate capital levels, etc.

While the PMC is small compared to the size and reach of most commercial banks, it is still the fifth largest cooperative bank. As of FY19 it had 137 branches, deposits of ₹11,617 crore, advances of ₹8,383 crore, NPAs of 4%, capital adequacy of 12% and a net profit of ₹99.69 crore compared to ₹100.90 crore a year ago. This made PMC seem like a relatively

well-run co-operative bank. After the whistle blower's September 17, 2019 letter, the MD and CEO Joy Thomas wrote a detailed five-page confession to RBI. RBI responding "swiftly and promptly" curbed all activities of PMC Bank and appointed an administrator for six months. It was found that PMC Bank's exposure to the bankrupt Housing Development Infrastructure Ltd (HDIL) was ₹6,226 crore—four times the regulatory cap with the single exposure limit for banks being 15% of capital fund. It was 73% of the banks entire loan book.

In terms of RBI's sweeping restrictions, curbs were placed on fresh lending, accepting fresh deposits and investments. Customers withdrawal was initially capped at ₹1,000 (later raised first to

Way down we go

Commercial banks vis-à-vis cooperative banks are subject to greater regulatory rigors of RBI



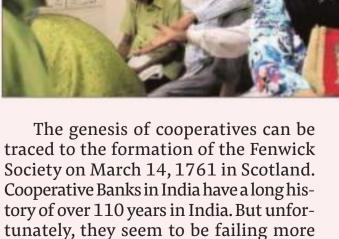
₹10,000 and again to ₹25,000) from the Bank, irrespective of the type, total balance or the number of accounts. In the event of emergencies like hospitalisation, etc., the RBI may grant a case-by-case exception, though it is not certain to come through. RBI also sacked the Board and suspended the MD and CEO.

PMC created over 21,000 dummy accounts (mostly of dead account holders), did creative banking and showed large number of project loans and, worst, deliberately delayed computerisation. The FIR shows the modus operandi. HDIL promoters allegedly colluded with the bank management to draw loans from

the Bank's Bhandup branch.

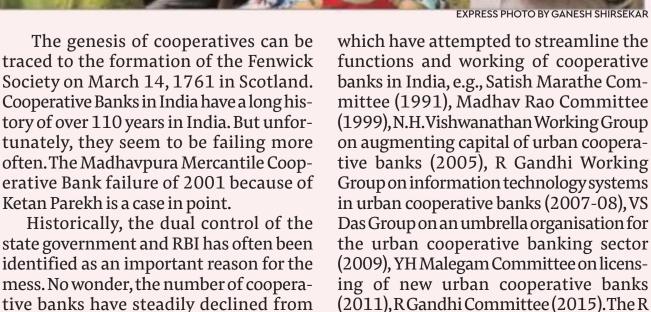
Further, PMC Bank had also reportedly granted a personal loan of ₹96.5 crore to HDIL's promoter Sarang Wadhawan. These aspects forced the bank to go down under.

Generally commercial and cooperative banks are seen to be similarly placed but there are several important differences. Considered in a proper historical and comparative perspective, commercial banks vis-à-vis cooperative banks are subject to greater regulatory rigors of RBI; generally, the levels of manpower and operational efficiency are discernibly higher and they are also required to list on the stock exchanges, thereby subjecting them to market discipline.



Ketan Parekh is a case in point. Historically, the dual control of the state government and RBI has often been identified as an important reason for the mess. No wonder, the number of cooperative banks have steadily declined from 1,926 in 2004 to 1,551 in 2018.

There have been several Committees,



Gandhi Committee recommended, inter-

alia, an accelerated winding up/merger

process, effective regulation of such banks and meeting the capital needs of urban cooperative banks in a greater measure.

Besides, with deposit insurance limited to ₹1 lakh per bank account, India is among the countries with lowest protection to depositors in the unlikely event of bank failure. While India's DICGC's scheme covers 70% of bank deposits, accounts with less than ₹1 lakh together account for only about 8% of cumulative bank accounts.

Issues of contagion effect, short-ter-

mism as against sustained growth, cor porate governance and conflict of inter est also need to be carefully considered for a comprehensive assessment and per spective. RBI's measures like revamping its regulatory and supervisory structure by creating a specialised cadre of supervisory officers, strengthening its analyt ical vertical and enhancing onsite super vision, market intelligence and statutory auditor roles for supervision and creating an institutional mechanism for sharing of fraud-related information among urban cooperative banks (UCBs) like Credit Fraud Registry (CFR) for commercial banks are contextually significant.

In the ultimate analysis, given the interplay between cooperative banks and the socio-political system, the issue boils down to greater political will to address the fault-lines in a coordinated and concerted manner with a sense of urgency.

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