



SHYAM KUMAR PRASAD

ON SUNDAY, OUR son, Karna, his wife, and our grandson dropped in for dinner. While chatting, conversation about 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 America.

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



Professor of Economics, Cornell University, and former chief economist, IMF

● ECONOMICS NOBEL 2019

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 Memory of Alfred Nobel 2019 to

Abhijit Banerjee
Massachusetts Institute of Technology, Cambridge, USA

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.

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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 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 space shuttle that occurred when the space disaster, 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

MONA KEIJZER

Netherlands' State Secretary for Economic Affairs and Climate Policy



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

LATER THIS MONTH, India will generously host a State Visit by the King and Queen of the Netherlands, as well as an economic mission and a Tech Summit with the Netherlands comprising four cabinet ministers and more than 200 participants from 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.

Together, India and Netherlands can contribute towards sufficient energy, water, food and health for billions of people, and further schemes like Ayushman Bharat

Key to our work has been public-private partnerships between government, the private sector and academia, an approach pioneered by the Netherlands when the country began transforming into a knowledge economy in the 1980s. Partners from all three domains share knowledge, pool investments and align goals according to long-term roadmaps, which allows all to achieve better and more cost-effective 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

OF 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

MANORANJAN SHARMA

Former general manager, Canara Bank.



₹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 BMCup branch. Further, PMC 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.



EXPRESS PHOTO BY GANESH SHIRSEKAR

The genesis of cooperatives can be traced to the formation of the Fenwick Society on March 14, 1761 in Scotland. Cooperative Banks in India have a long history of over 110 years in India. But unfortunately, they seem to be failing more often. The Madhavpura Mercantile Cooperative Bank failure of 2001 because of 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,

which have attempted to streamline the functions and working of cooperative banks in India, e.g., Satish Marathe Committee (1991), Madhav Rao Committee (1999), N.H. Vishwanathan Working Group on augmenting capital of urban cooperative banks (2005), R Gandhi Working Group on information technology systems in urban cooperative banks (2007-08), VS Das Urban an umbrella organisation for the urban cooperative banking sector (2009), YH Malegam Committee on licensing of new urban cooperative banks (2011), R Gandhi Committee (2015). The R 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-termism as against sustained growth, corporate governance and conflict of interest also need to be carefully considered for a comprehensive assessment and perspective. RBI's measures like revamping its regulatory and supervisory structure by creating a specialised cadre of supervisory officers, strengthening its analytical vertical and enhancing onsite supervision, 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.