Opinion

FRIDAY, OCTOBER 4, 2019

A JOURNEY TO THE TOP

Union Home Minister, Amit Shah

In the next 10 years, Jammu and Kashmir will be one of the most developed states. The journey of development has begun with Vande Bharat Express set to boost tourism in state

UP RERA gets it right, others must learn from it

Instead of waiting to send real estate firms to IBC, UP plans to rope in new builders to complete existing projects

FOR A STATE that was initially reluctant to get RERA (Real Estate Regulatory Authority) going, it is commendable that Uttar Pradesh is now becoming proactive on stalled real estate projects. The UP RERA chief has said it will deregister more than two dozen 'stuck projects' in the state's NCR towns, and invite fresh tenders from developers to complete construction. Data suggests that more than 30,000 homebuyers will benefit from this—a large number. The idea of roping in new builders to complete projects is an excellent one; as the RERA chief has said, the unsold apartments and surplus land will be used by the new promoters to generate the resources to complete construction. That should be a good-enough incentive for builders to participate in these projects. Indeed, all states should take a leaf out of the UP RERA's initiative of using Sections 7 and 8 of the RERA Act, 2016. Moreover, they must ensure that the RWAs cooperate—the process requires a nod from three-fourths of the homebuyers—else the initiative cannot be successful. The homebuyers must remember that completing projects, by bringing in new promoters, is a far better option than letting these go to the bankruptcy court.

Data shows that as many as 421 real estate companies had entered the bankruptcy court by the end of June; indeed, the number of real estate companies that are in the NCLT has doubled in less than a year since the collapse of Infrastructure Leasing & Financial Services (IL&FS). Sector experts expect the numbers to increase, and have pointed out that the resolution process in the tribunals and courts is a time-consuming one; what's worrying is that many assets could be liquidated at throwaway valuations, or buyers are able to get them at low prices, with banks taking massive haircuts. Intervening before a company is admitted to the NCLT will help projects fetch their right value, and banks, too, would recover more in quicker time.

There are few signs of improvement in builders' finances, and destroying value would be unfortunate. In the September quarter, NCR saw housing sales of just 9,830 units, a 13% year-on-year fall and a 22% quarter-on-quarter fall. While the measures announced by the government in mid-September will help builders, much of it is for affordable housing; builders of existing non-affordable housing don't really gain. In fact, the financial assistance of ₹20,000 crore may not help resuscitate much of the sector because most housing projects today are stressed whereas the scheme is only meant for those projects that have not been admitted to the NCLT for a resolution process, and those where the loan exposure hasn't gone bad. Moreover, 60% of construction should have been completed, which is probably not the case for the majority of projects. It is the promoters with weaker balance sheets and lack of access to conventional sources of funding who need help. To be sure, the government doesn't want to be bailing out every errant builder, but it may want to look at some projects that are not in the NCLT but where the loans may have gone bad. A bigger fund—at least ₹30,000 crore—with a larger contribution from the government could help, with some of the conditions relaxed. Until then, it is good that UP RERA is working to revive such projects.

AISHE lessons

Link tertiary education to employability to improve GER

THE ALL INDIA Survey of Higher Education (AISHE) 2018-19, read with its predecessors, reveals a stagnation of tertiary GER over the past half-decade. It was 24.3 in 2014-15, and is now 26.3; India targets 30 by 2020. For perspective, China improved its tertiary GER from 39 in 2014 to 51 in 2017. While government funding for higher education has gone up significantly over the years, and its showing on infrastructure growth is not poor—from 642 universities in 2011-12, there are 993 now—there are many drags on tertiary level enrollment.

To begin with, the quality of school education remains a concern. The now-junked no-detention policy under the Right to Education (RTE) Act, among other factors, saw over 17% students drop out at the secondary level in 2014-15. Nearly a quarter of the remainder, who enrolled in the senior secondary (SS)/intermediate level, didn't pass the Class XII exam the following year (2016). Despite most school education boards inflating SS scores, it is likely, given the ever-rising threshold for entry into tertiary education, that a large part of the SS/intermediate-pass population simply doesn't make the cut. At the same time, the affordability of higher education is still a serious problem for many households, especially when costs get compared with the perceived economic returns. The expenditure incurred by a household per person at the under-graduate level, as per the HRD ministry, is nearly twice what is spent at the secondary level. With many blue-collar jobs requiring just primary or secondary or even no education at all, the choice of pursuing higher education must compete with economic compulsions, and the opportunity cost of starting to earn right after school. The digital economy has also opened up unforeseen employment opportunities for those with basic or no education. For instance, just Ola and Uber are estimated to have a total driver app install of 3 million. Not all Ola/Uber drivers will be of tertiary-education age, and neither are the education levels the same for all the drivers. But, it indicates that many new livelihood opportunities that don't require higher education are getting created.

Unemployment data for May-August 2019 from CMIE shows that the unemployment rate is the highest (15%) for those with tertiary-level education. To be sure, at lower levels of education, the quality of jobs isn't great, but there is no denying the dissonance between higher education in India and the jobs getting created. At this juncture, it is important to match higher education primarily to industry needs. Given how, as AISHE 2018-19 shows, the appetite for graduate engineering education as well as Arts is falling, there is already a market-dictated move away from these disciplines. For engineering education, this indicates a wide gap between course design/content and the industry's requirements. With paradigm-shifts occurring faster in technology, legacy engineering education, apart from being deficient in quality, as the 2017 Aspiring Minds study showed, is simply not equipping graduates for Industry 4.0. There is, thus, a need to radically reimagine higher education in India.

InfraSTRUCTURE

NITI index shows even the states with best showing on quality of school education need to focus on improving infrastructure

NITI AAYOG'S RECENTLY-released School Education Quality Index (SEQI) is yet another pointer towards the yawning north-south divide in education outcomes, with Kerala leading the ranking of 20 large states' performance in school education, and Uttar Pradesh finishing last; West Bengal did not participate in the survey. More importantly, however, it highlights severe infrastructural and governance lacunae that hinder the improvement of outcomes, even in the better-performing states. The index consists of 30 indicators assessing the quality of education, including learning outcomes, access to and equity in education, infrastructure, availability of in-service teacher professional development, accountability, financial discipline, etc. While the survey, which uses 2015-16 as its base year, and 2016-17 as the reference year, gives the highest weightage—almost 50%—to learning outcomes, governance processes aiding these outcomes carry a 30% weight. Whereas the learning outcome score for the top three performers—Kerala, Rajasthan, and Karnataka—for the reference year ranged from high-70s to mid-90s, their infrastructure scores did not even touch 50. Rajasthan, in fact, raked in a sub-20 score in this domain. Among the smaller states, too—Manipur, Tripura, and Goa are the best performers—this trend of lagging infrastructure is maintained (excepting Goa). Governance scores lagged those for outcome in half the large states, and all but one of the smaller ones.

This data is meant to be used to incentivise states to improve the quality of their education outcomes through "competitive and cooperative federalism". The Centre is already taking the first steps towards this by tying bonus grants for education to states' performance on learning outcomes. While that should indeed be the key focus area, the Centre should also look at ways to incentivise states to improve school infrastructure, else the gains that a Kerala has made can't be sustained in the long run.

THROUGH THE LOOKING GLASS

THIS REQUIRES CONFIDENCE, COORDINATION AND CAPITAL; RESOLUTION CAN'T BE IMPOSED USING POLICY ACTIONS

Guiding markets from crisis to calm

AKHILESH TILOTIA

Author of *The Making of India*
Views are personal

WHEN COMMEMORATING ANNIVERSARIES, we tend to reserve our special attention for round-number, decadal years. Last year, around this time, the world—and India—remembered and recounted its lessons from the Great Financial Crisis (GFC) that reverberated across the globe in September 2008. Since it is the nature of history to repeat, but not to rhyme, decadal recounting of experiences and learnings serve as good markers, but may not be timed to perfection.

The challenges in the local banking and non-banking finance companies 11 years post the GFC require us to take a relook at the learnings, especially, on the aspects that eventually led to the calming of the markets. India is nowhere near the situation that the world witnessed 11 years ago—however, GFC offers helpful pointers on how to navigate the sometimes choppy waters.

The business of finance is built on the edifice of trust and stability—witness the large, stately, grand, stone buildings of the banks of yore. Whenever a challenge strikes the financial markets, there is a need to calm the markets to restore trust and rebuild stability. The path from crisis to calm requires confidence, coordination and capital.

Confidence

Almost always the trigger for a dislocation in the financial markets is breakdown of trust. Restoring trust requires building confidence. This can happen either (a) by using the 'last resort' powers of the regulators and the government, or (b) by limiting the trust deficit to the entities which are in trouble in reality and not just in perception.

The most famous example of engendering confidence in the financial markets remains that of Mario Draghi, the then-president of the European Central Bank (ECB), who in July 2012 said, "Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough". This boosted the confidence of market participants not just in the European Union, but across the world.

On the (yet another!) anniversary of the news of defaults at IL&FS, the financial system in India is being buffeted by news of stress in non-banking finance companies and cooperative banks. Reserve Bank of India has assured depositors—timely and forcefully—that the banking system is safe. Hopefully, no further news-flow disturbs the trust that links the financial markets together. However, if such a situation were to come to pass, the authorities should be willing to build confidence by "doing whatever it takes". Sometimes an asset quality review can also help restore trust by identifying and isolating problem areas, allowing the market to function normally for the remaining participants.

Coordination

The US government put together the Troubled Assets Relief Program (TARP), a $700 billion fund in October 2008 to purchase toxic assets from financial institutions. The Federal Reserve cut rates dramatically, and also started a quantitative easing programme of an unprecedented magnitude. Meetings of central bank governors, and of G20 leaders and finance ministers helped create forums for global coordination. The intent of such coordination was to restore the trust in the financial sector and avoid the impact of the Wall Street spilling on to the Main Street.

> **The coordination of the monetary and fiscal authorities in reviving investment via tax- and interest-rate cuts should yield results**

The Indian authorities have taken cognisance of the economic slowdown and have been responding with cuts, both in tax and interest rates. The coordination of the monetary and fiscal authorities in reviving investment via these cuts should yield results. However, the economic slowdown and tax rate cuts could cast a shadow on the fiscal glide path (and a consequent impact on inflation) making the coordination with monetary authorities more difficult. The ministry of finance and RBI could announce a medium-term coordination framework which works in this new environment. Since challenges span a large number of regulated sectors, various regulators like ministry of company affairs, Reserve Bank of India, Real Estate Regulatory Authority, Securities and Exchange Board of India, various investigative agencies, etc may need to coordinate their actions so as not to spook the confidence.

Capital

Warren Buffett invested $5 billion in Goldman Sachs at the peak of the crisis in September 2008. This came soon after many investment banks shut shop, triggering domino effects of unravelling credit links globally.

Any financial dislocation requires capital to come in from 'strong' hands to give confidence to the 'weak' entities. Speculative activity which bets on survival or demise of an entity can significantly abate, if such an entity is seen to be backed by strong shareholders who have the ability to outlast a speculative phase. Takeover of certain types of financial institutions may be constrained by shareholding restrictions for financial institutions. Regulatory provisions, which allow regulators to create a caveat for concentrated holdings for some time, can offer opportunities for large private equity funds or strategic investors to commit capital to troubled financial institutions, thereby restoring trust.

Resolution

It is important to recognise that 'resolution' cannot be imposed using policy actions. Actions can be taken to diffuse challenges and rebuild trust, but resolution requires the varied market participants to find their own equilibrium. The process of finding a new equilibrium can be long-drawn: it may be guided by the 3Cs, but cannot be hurried.

It is time for German fiscal expansion

Slower income growth will depress tax receipts, and thus, reduce Germany's budget surplus. But, the authorities should certainly not take steps to preserve the surplus

JEFFREY FRANKEL

Professor, Capital Formation and Growth, Harvard University. *Views are personal*

AS LONG AS Germany's economy was recovering well from the 2008 global financial crisis, policymakers had a coherent rationale for fiscal austerity. Rejecting other eurozone countries' constant urging that they undertake stimulus, they enshrined the national commitment to budget discipline in the 2009 "debt brake," which limits the federal structural deficit to 0.35% of GDP, and in the subsequent *schwarze Null* ("black zero") policy of fully balancing the budget.

More German public spending, stimulus advocates argued, would reduce the country's huge current-account surplus and fuel demand that would help other eurozone members, especially in southern Europe. But, with Germany experiencing low unemployment and relatively strong growth, policymakers in Berlin were understandably afraid that such measures would cause the domestic economy to overheat.

Today, however, overheating is no longer the concern. German GDP growth turned negative in the second quarter, reflecting weakness in the trade-sensitive manufacturing sector. And if third-quarter growth also turns out to have been negative, the economy will officially be in recession.

Slower income growth will depress tax receipts, and thus, reduce Germany's budget surplus. But, the authorities should certainly not take steps to preserve the surplus. On the contrary, the government should respond to any slowdown by increasing spending and/or cutting taxes. In particular, it should spend more on infrastructure maintenance and modernisation, and it could cut payroll taxes.

The legal constraints of the debt brake may limit the size of the stimulus, but they still leave some space. Moreover, the full "black zero" could be set aside in case of recession. Or it could be reinterpreted to allow for deficit spending that goes to investment, while still balancing current expenditure.

After all, investment in infrastructure does not constitute borrowing against the future in a true economic sense. And negative interest rates—the government can currently borrow for ten years at a rate of -0.5%—strengthen the case for investing in public projects with positive returns. Such projects include roads, bridges, and railroads, as well as soft infrastructure such as 5G mobile networks.

As John Maynard Keynes once said, "The *boom*, not the slump, is the right *time for austerity* at the *Treasury*." If the German government allows the country's philosophical tradition of ordoliberalism to stop it from running a fiscal deficit at a time of recession, its leaders will join the club of foolishly pro-cyclical politicians.

They would not lack for company. Historically, many commodity-exporting developing countries have pursued pro-cyclical fiscal policies during a commodity boom, before being forced to retrench when prices fell. Greece, meanwhile, ran big budget deficits during its growth years from 2003-08, and then had to cut back sharply in the decade after the euro crisis erupted in 2010. Republicans in the United States also have a pro-cyclical track record, undertaking fiscal stimulus when the economy is already expanding, as with president Donald Trump's 2017 tax cut, and rediscovering the need to fight deficits when recession hits (as in 1990 and 2009).

Other countries, however, have moved impressively towards more counter-cyclical fiscal policies since the turn of the millennium. Germany could follow the South Korean government's new path. After 20 years of overall budget surpluses, the authorities there are substantially increasing spending to counter slower economic growth.

Fiscal policy should of course be guided by other goals, in addition to counter-cyclicality. One is a long-run path of sustainable debt. Recognising that some countries' excessive austerity in the last recession was a mistake does not require adopting the position that governments can run up debt without limit, as some observers now seem to believe.

After all, Germans' much-maligned attitude toward debts and deficits deserves more sympathy than it gets. Ahead of the establishment of the euro in 1999, German citizens had been skeptical of the assurances provided to them in the form of the Maastricht fiscal criteria and the "no-bailout clause." Their scepticism proved prescient. As Germans point out, the 2010 euro crisis would not have happened had Greece, after joining the euro, maintained the fiscal discipline called for under the Stability and Growth Pact, and followed Germany's lead in reforming labour markets and keeping unit labour costs in check.

On the other hand, avoiding a path that causes debt-to-GDP ratio to explode (as in Greece) does not require avoiding deficits at all times. There is a lot of territory between those two extremes.

The composition of spending and taxes is also critical in fiscal policy. Governments can use both levers to address environmental goals, for example. In fact, some see Germany's renewed commitment to reducing carbon dioxide emissions by 2030, in order to achieve the goals of the 2015 Paris climate agreement, as a battering ram against the *schwarze Null*. On September 20, the German government announced some €54 billion ($59.4 billion) worth of spending measures to cut emissions. In the US, such a package would be called a Green New Deal.

Spending on such priorities as energy and the environment can be useful. But, getting serious about CO2 emissions and other environmental goals doesn't have to mean larger budget deficits. Governments can strengthen the budget by eliminating fossil-fuel subsidies and raising taxes on emissions, or by auctioning limited emission permits. Or they can redistribute the resulting revenues to achieve other goals. The important point for climate-change policy is to increase the price of carbon. Doing so is orthogonal to an intelligent choice between fiscal expansion and fiscal austerity.

Governments should base that policy choice on the counter-cyclical criterion and the sustainability of public debt. The US has made some bad fiscal choices, in particular by cutting taxes for the rich at the peak of the business cycle. German policymakers should not make the symmetric mistake of preserving the country's budget surplus as the economy risks sliding into recession.

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LETTERS TO THE EDITOR

A tall claim

Prime minister Narendra Modi's declaration that India is "open-defecation free" appears to be a tall claim. There is some truth in the adage "old habits die hard", and despite thousands of washrooms being built in rural India, many villagers prefer to do their business in the open. The impressive numbers that the government has put up—building 100 million toilets in the past five years—have received much praise from the international community, including the Bill and Melinda Gates Foundation. But, clearly, it is still a work in progress. Enlightening the rural populace on the importance of hygiene and cleanliness is a must to open their eyes to the perils associated with open-defecation. The government could also consider introducing bio-toilets on long-distance trains.
— NJ Ravi Chander, Bengaluru

SC/ST Act

By recalling its 2018 order, which diluted the provisions of The Scheduled Castes and Scheduled Tribes (Prevention of Atrocities Act) 1989, the Supreme Court of India has demonstrated its institutional resilience at a time questions are being raised about its independence. The 2018 order forbade the arrest of public servants and private persons without prior permission in cases filed under the SC/ST Act, and insisted on preliminary enquiry before filing an FIR in such cases. It had evoked apprehensions and condemnation among Dalits communities. It should be noted here that while Dalits have managed to improve their economic and political status through affirmative action, their social status still leaves a lot to be desired. That the assertion of constitutionally guaranteed rights by Dalits, and other marginalised communities, is still being met with violent backlash in our society is a strong reasons why laws such as the SC/ST Act cannot be diluted, and should remain in place.
— M Jeyaram, Sholavandan

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SAUDI OIL OUTAGE

Will it turn into a non-event?

If the Saudis fail to restore oil production quickly, and the oil market gets tight, low price elasticity is likely to come into play, and we may see oil prices skyrocketing to three digits. Therefore, the world cannot afford to be complacent about the fourth oil shock being a non-event

WHEN THE WORLD learnt about the loss of 5.7 million barrels per day (mmbd) of Saudi Arabian oil on September 14, old oil professionals who have lived through similar disruptions (see graph) would have expected that within days oil prices will jump to three digits. In the event, even after one week, these went up by a mere 7%, an increase often experienced on rumours or minor dispersions. Thus, this outage, though historic, may turn into a non-event.

What is even more surprising is that just about every news media has published that the impact of oil outage has resulted in historic price increase never seen since 2008. No one has questioned why the oil market has not reacted the way most oil pundits (including the author) used to pontificate if for whatever reason Saudi oil production is disrupted. Every one used to predict that such a dramatic development will result in skyrocketing of the oil price.

Oil price skyrocketed by 350% after the first oil shock in 1973, resulting from the Yom Kippur war and Arab oil embargo. The second oil shock in 1978-79 was caused by the Iranian revolution resulting in a price increase of 250%. The third oil shock was caused when the Saudis abandoned the swing role resulting in oil price falling below single digits.

There have been other minor oil disruptions as a result of Iraq attacking Kuwait in 1990 (prices did increase by 270%, but did not last even for a year), Libyan revolution, civil war in Venezuela, and civil unrest in the Niger-ian Delta. None of these affect oil prices in the long term as the first two oil shocks. As discussed earlier, the Saudi outage of 5.7 mmbd is unprecedented and if one were to apply the lessons of the first two oil shocks, prices would have easily gone above $100 per barrel. But they have not. Why?

Just like the first two oil shocks, this non-event fourth oil shock was totally unexpected, though the possibility of it was dreaded by oil experts. The September 14 drone attack on Abqaiq, the largest oil installation in the world, and on Saudi Arabia's second largest oil field Khurais, reduced the world oil production by 5.7 mmbd.

But for this critical information on the amount of production loss, the world did not have reliable information on who was behind the attack, how long will it take to restore production, what is the spare capacity to fill the void, oil inventories held by Saudis and other OPEC+ members to meet the demand, the impact of the US releasing its Strategic Petroleum Reserve (SPR), etc. Though there were many unknowns, oil pundits and government officials were ready to give predictions. Only a few readily agreed that their crystal ball is cloudy.

Although Iran-supported Houthi rebels, who are fighting the Saudi-supported government in Yemen since 2015, claimed they were behind the attack, not many believed them. The US and many countries blamed Iran for the attack.

Before the attack, the US Energy Information Administration (EIA) estimated the spare capacity at 2.3 mmbd (see graph) and most of it in Saudi Arabia. With the loss of 5.7 mmbd, the current world spare capacity is now negative. Even the US, with the often discussed flexibility of shale oil production to react to price changes, may not be able to increase oil production significantly. Other countries like Russia, Kuwait, the UAE and Iraq have some spare capacity, but their contribution is unlikely to be more than a few hundreds of thousands of barrels per day.

A day after the attack, Aramco declared oil production will be restored by the end of the month. It was contradicted by former Aramco officials that it may take many months since specialised equipment had been destroyed and cannot be manufactured and installed quickly.

But for oil inventories held by the Saudis in four export terminals at Ras Tanura, Sidi Kerir (Egypt), Rotterdam and Okinawa (Japan), no information for other OPEC+ was available. The Saudis had about 180 million barrels (just 40 million barrels above the level in 2002) and a large part of it should be considered as working storage and not to meet exigencies.

It was felt the world will not suffer any shortage immediately since oil demand can be met by drawing on existing inventory, and as time progresses and inventory levels start coming down, there will be competition for limited supplies. But it is difficult to estimate when that critical time will come. The longer the processing facilities in Saudi Arabia remain disrupted, the larger the impact on future oil supplies, which are already tight.

The accompanying graph shows how the historic sudden drop in world oil supply had insignificant impact on oil price. The first day of trading after the drone attack saw 14% increase in oil price, but 11 days later the oil price was slightly higher than what it was the previous week.

There could be many reasons for the market not to reflect the potential unprecedented supply/demand imbalance in the months to come. During the first two oil shocks, the oil industry did not have access to supply/demand information. Today, we have much better, though not perfect, information. Studies had shown very low short-term price supply and demand elasticity. During the previous shocks, the market overestimated the loss shortage and prices skyrocketed.

In the early 1970s, the US did not have SPR. Some OECD countries though had some mandatory reserves, these weren't adequate. The International Energy Agency was established soon after the first oil shock and today it is in a much better position to deal with this kind of disruption.

Despite all these positive factors, if Aramco is unable to repair oil infrastructure as announced (despite all claims to the contrary), then there is bound to be unmanageable shortage, resulting in higher oil prices.

There is another big unknown. Since there is credible proof to show that Iran was behind the attack, there is some chance—not insignificant—of a regional war erupting in the Persian Gulf. Iran has already given the ultimatum that, if attacked, there will be an 'all-out war'. In such an eventuality, we will definitely experience world oil supply being reduced significantly to create a large imbalance. Such a possibility should have resulted in the market reflecting a large security premium. But it has not. This again shows that the market is putting a low probability on such an event.

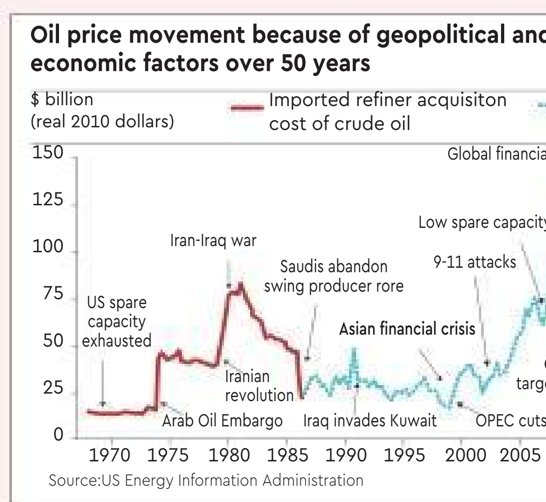
During earlier shocks, oil demand showed every indication of increasing at a rapid rate and oil supplies not being able to keep up (there was the fear of the end of oil era because of decreasing oil reserves). However, now we face an entirely different scenario. Peak oil is replaced by peak demand. With global warming on the world agenda, and every chance of oil reserves being stranded like coal reserves, there is no need for oil price to go higher to incentivise oil exploration. This may be the reason for oil price not to skyrocket as expected.

Still, if the Saudis fail to restore oil production quickly as claimed by Aramco, and the oil market gets tight, low price elasticity is likely to come into play, and we may see oil prices skyrocketing to three digits. Therefore, the world cannot afford to be complacent about the fourth oil shock being a non-event. Also, for some time because of this outage, security premium may become a permanent component of oil pricing in the future.

Impact on India

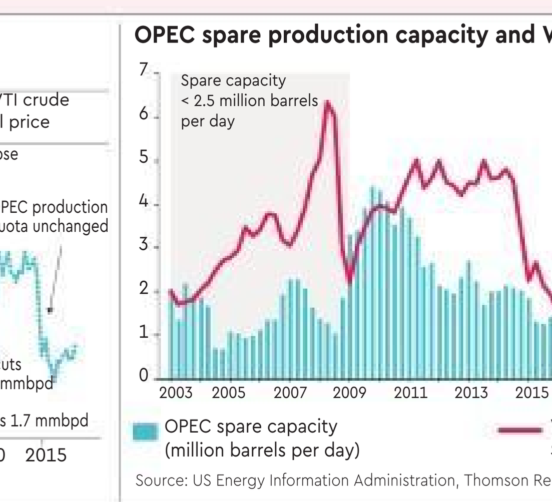
- India's import from Saudi Arabia in 2018-19 was 18%
- India has already approached Russia to import oil to ensure supplies in case Saudi outages continue for a long time. This may not give any financial benefits in terms of a lower crude price. In fact, this may increase transportation costs.
- For every $10/b crude cost increase, India's import bill will increase by $16 billion per year.
- India's strategic oil reserves of 5.33 million tonnes will meet the needs of 12 days, at best.
- Though India's refiners hold 65 days of oil reserves, a large part of it is for operating purposes.
- Saudi Arabia has assured India of continuous oil supplies despite outages. But what will happen if these fall short?

Oil price movement because of geopolitical and economic factors over 50 years



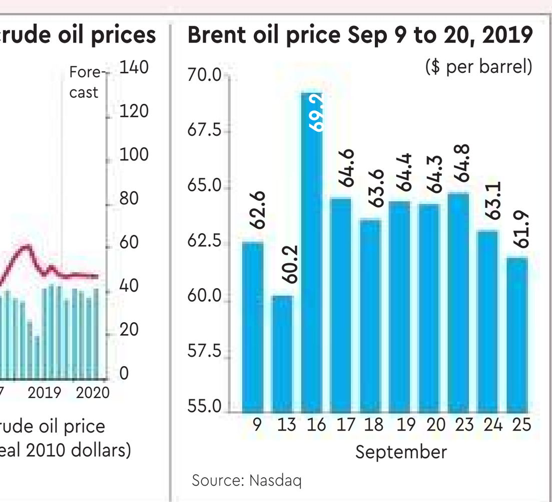
Source:US Energy Information Administration

OPEC spare production capacity and WTI crude oil prices



Source: US Energy Information Administration, Thomson Reuters

Brent oil price Sep 9 to 20, 2019 ($ per barrel)



Source: Nasdaq

JACQUES CHIRAC

The strategic connection

YOGINDER K ALAGH

The author, a former Union minister, is an economist

The former French president was clear France would strengthen collaboration with India in the energy sector

THE LATE FRENCH President Jacques Chirac was the Republic Day Guest in 1998, and I was asked to accompany him. We were interested in access to French nuclear technology, particularly the Fast Breeder Reactor. The French were the global leaders in the area. But we had not signed the Treaty, which Dr Manmohan Singh would do later. During his visit to India in 1998, Chirac was very clear on the importance of India in the French world view. On trade and energy, he was totally clued up. In fact, at the time, he shared the view of the US democratic government on India's strategic importance. It may be recalled that, in 1997, Madeleine Albright was to sign a technology agreement with me as the science and technology minister, but was called back on some urgent domestic issue. Eventually, the US signed its first official S&T Agreement, providing for government-to-government collaboration. The then US Ambassador had signed the Indo-US Technology Agreement with me. The US did, however, have reservations on India's stand in the Nuclear Test Ban negotiations. Chirac took a more sympathetic view on India's stand, and this was the leitmotif of his visit as the Special Republic Day guest in 1998. The French were reportedly keeping in touch with the Indian private sector companies on the issue of the VVER, or water-water energetic reactors, and the Prime Minister had to categorically deny this in the Lok Sabha.

Chirac, in fact, was very clear that France would strengthen its collaboration with India in the energy sector, including nuclear energy when India signed the Test Ban Treaty negotiations. His science and technology minister had spent time as a geology student in the Narmada valley, and knew of my work on planning the Sardar Sarovar. The French were always sympathetic towards the project. In fact, the SCADA (Supervisory Control and Data Acquisition) systems for the main canal were designed on the pattern of the Canal de Provence in France. President Chirac met Indian industrialists at the Oberoi in Mumbai, while I was there as a representative of the government. He talked about the deep cultural links between the two countries: the cinema links with Satyajit Ray, the famous French social anthropologist Louis Dumont (he described India as Homo Hierarchicus—the only society that had the hierarchy of man as a value system), and the American rural specialists settled in Paris the Thorners. He also emphasised on the poor economic relationship, which needed to be remedied. He mentioned the Maison des Sciences de l'homme and its India connections. And he was clear-headed on the partnership that the two countries were to forge on energy, agro-based development, education and skills, including cooperation in development planning (to the best of my memory, the great French econometrician Edmond Malinvaud was their planning chief).

> Chirac was clear headed on the partnership that the two countries were to forge on energy, agro-based development, education, skills and development planning

The discussion with India's corporate czars was lively and Chirac was pleased with the meeting. As we were coming out, Radhakrishna Vikhe Patil, then a minister in the Maharashtra government, was coming from the other side with the usual entourage. I was a trustee of the Pravara Educational Complex run by my dear friend and his father, Balasaheb Vikhe Patil. Radhakrishna greeted me by touching my feet and I introduced him to the President, who was tickled by the traditional Indian greetings.

The President and I were aboard his official plane from Mumbai to Delhi when he gave me an understanding of his worldview on Asia, particularly China and India. Apart from the French hospitality, I was struck by his clarity on the role of both countries and that they would have to be at the core of Europe's relations with Asia. He again went back to the need to understand the low level of Indo-French trade and the need to work on the bottlenecks: information, language, company links and practical steps needed to transform the relationship. These views were incorporated in the Indo-French Strategic Relationship Agreement he signed a couple of days later in Hyderabad House in Delhi.

Time to go green

The government needs to set up a Green Investment Trust to fund green infrastructure projects and look for an overseas green bond market

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THE "EARTH SUMMIT" of 1992, in Brazil, brought in a paradigm shift in concept of development with increasing recognition that environmental and economic policies must work in tandem to improve the quality of human life. One of the ways to incentivise sustainable development is through low-cost financing for sustainable projects. Developed world has already recognised the need of dedicated funds for greener projects at low-cost.

Indian government is implementing the National Action Plan on Climate Change (NAPCC) to reduce emissions intensity—GHG emissions per unit of GDP—by 33% to 35% below the 2005 levels by the year 2030. Further, at least 40% of energy in 2030 would be generated from non-fossil fuel sources. Achieving this requires massive investment as green tech is largely capital-intensive. Most of the cases fall under the categories of renewable and sustainable energy that use clean technology.

Responding to environmental problems used to be an unappealing, no-win proposition for managers, and economic forces at work. There is a need for a far-sighted programme and innovative, creative solutions to address environmental challenges. Financing, which is normally considered a passive activity, can contribute a lot towards reducing the cost of doing business in a greener way. Green Bonds have emerged as an innovative way to fund green projects. These can reduce the cost of capital and, thereby, improve returns.

Green Bonds are the same as corporate bonds, but their proceeds are pre-allocated to green activities. Fund raising through green bonds was done first in 2007 when European Investment Bank raised €600 million under the label "Climate Awareness Bond" dedicated for renewable energy projects and energy-efficient projects. The latest success story comes from Russian Railway, whose eight-year green bond raised €500 million, and was priced at 2.2%. The issuance was oversubscribed with an order-book of over €1.8 billion. The capital raised will be used to purchase electric trains as part of a modernisation programme.

Transport, the second largest contributor to global GHG emissions, is responsible for 23% of all energy-related carbon dioxide emissions globally, and 14% of total GHG emissions. Road transportation remains the primary source of emissions in the sector, and is responsible for 73% of the carbon dioxide emissions. India's scenario is no different.

Hence, leveraging debt capital markets towards sustainable transport infrastructure development and services has enormous potential to help achieve climate goals. 71% of the climate-themed bonds issued relate to low-carbon transport. This is largely due to a number of rail issuers, which have a long history of using bonds to raise finance. As per the Climate Bonds Standard and Certification Scheme of "Climate Bonds Initiative", there are certain areas which are most likely to get acceptance in the green bond market. These include transport infrastructure (all modes of collective/mass transport and its infrastructure, especially urban rail and Bus Rapid Transport (BRT), ropeways and cable cars); alternative (low-carbon) energy refuelling distribution infrastructure; vehicle technologies to significantly increase emissions efficiency (including fuel efficiency, fuel type and other vehicle improvements); and new vehicle technologies and hybridisation, autonomous /semi-autonomous vehicles.

The electric vehicles industry is one of the thrust areas, and the 2019-20 Budget has announced fiscal incentives and measures to ease regulatory hurdles.

The Railways can play a huge role in combating climate change. Indian Railway Finance Corporation Ltd (IRFC) established a Green Bond Framework for fund raising. The proceeds were proposed to be used for financing the Dedicated Freight Corridor project and electrification of the railways. The IRFC had raised $500 million in 2017 from the 10-year green bond through India INX, GIFT City. Very recently, in June 2019, Adani Green Energy issued green bonds worth $500 million through India INX at a coupon of 6.25%, these were subscribed over three times, when most infrastructure companies struggled raising funds in India. Given the success of Russia in raising green bonds at a coupon rate of 2.2%, the greener pastures are open for rail transportation in India.

The Economic Survey 2018-19 points out that India needs to almost double its annual spending on infrastructure at $200 billion, which will obviously require harnessing private investment. Finance minister Nirmala Sitharaman, in her budget speech, talked about international debt issuance by the government so that domestic resources would be available to others at comparatively cheaper terms. It will ease the liquidity crisis and give an impetus to the growth momentum.

India is only putting $100-110 billion annually into infrastructure development which requires innovative approaches. Issuing green bonds overseas is one such approach in realising the goal of creating a clean environment. The government can do well by setting up a Green Investment Trust, an agency for green financing, to fund the green infrastructure projects of the country. The trust can tap the green funds abroad and channel these towards the green projects in India, including clean transportation. The financial incentives in terms of low-cost funds will trigger infrastructure investments in clean transport.