THE HINDU BusinessLine
THURSDAY, MAY 11, 2017

Arresting the drift

Inland water transport is finally getting policy attention, but its potential is yet to be realised

When a private vessel began its pilot journey two weeks back from East Midnapore, along the Rupnarayan river (National Waterway 86) to Bhagalpur on the Ganga (National Waterway 1) with a cement consignment, it was a watershed event in the history of India's inland waterways. While this marked a movement across two waterways, a vessel carrying cement went up the Ganga, from Haldia to Patna, earlier this year. The Centre has said that cargo movement along the Ganga will become a regular feature. The Modi government is making a concerted effort to raise the share of inland waterways in freight traffic from 2-3 per cent levels (coastal shipping accounts for a similar proportion), in view of its energy efficiency and lower carbon footprint vis-à-vis road and even rail transport. In China, 47 per cent of its domestic freight traffic moves by water, while in the US it is 12 per cent. To this end, the Centre has passed the National Waterways Act 2016, which categorises 106 new rivers as national waterways (adding to the existing five riverine and canal systems), allowing the Inland Waterways Authority of India (IWAI) to develop these for shipping. The advantages of raising the share of waterways in the transport mix are obvious. A World Bank study points out that a litre of fuel can move 105 tonne-km by inland water transport, against 85 tonne-km by rail and 24 tonne-km by road. Likewise, the carbon emission per tonne km is 32-36 gms in the case of container vessels, against 51-91 gms in the case of road transport vehicles. Reduced congestion on roads and fewer accidents are an added advantage.

A growing economy needs to take an integrated and long-term view of developing transport infrastructure so that there is seamless connectivity across different modes as well as balanced, planned and coordinated development across regions. This has been a casualty in transport policy, manifested perhaps by the failure of several PPP projects in roads. An integrated Union transport ministry could address this failing. The 2014 report of the National Transport Policy Development Committee estimates that to achieve industrial growth of 10 per cent over the next two decades, public and private investment in transport will have to increase at least threefold over this period, from ₹20 trillion in the 12th Plan.

However, in moving ahead, two issues need to be considered: first, the rights of States and local communities over water resources and second, the ecological consequences of movement of heavy vessels in particular. The impact of dredging and barrages on river flows (Farakka being an example) and direction, aquatic life and the livelihoods of citizens dependent on the river is an important aspect. A Standing Committee report has pointed to the need to regenerate rainfed rivers and take into account the rights of States with respect to irrigation and provision of drinking water. It rightly suggests a regulator with both Central and State government representatives to address a gamut of concerns.

OTHER VOICES

The New York Times

The firing of James Comey

By firing the FBI director, James Comey, Trump has cast grave doubt on the viability of any further investigation into what could be one of the biggest political scandals. The explanation for this shocking move — Comey's bungling of the investigation into Hillary Clinton's private email server — is impossible to take at face value. Comey's agency has been pursuing ties between the Russian government and Trump and his associates, with potentially ruinous consequences for the administration. NEW YORK 10 MAY 2017

GLOBAL TIMES

New trends on peninsula worth pondering

A report from Japan's *Kyodo News* says that the administration of Donald Trump has told Beijing that Washington is open to welcoming North Korean leader Kim Jong-un for a meeting in the US on the condition that Pyongyang abandons its nuclear and missile programs. Speculation over a visit by Kim does not come out of nothing. Is this a signal that Pyongyang is suspending its nuclear and missile activities? BEIJING 9 MAY 2017

the guardian

Exploiting religion for political purposes

The jailing of Jakarta's Christian governor for two years for blasphemy is a shocking ruling. It goes further than even prosecutors had sought: a suspended one-year sentence for Basuki Tjahaja Purnama — better known as Ahok — on a lesser charge. Indonesia likes to pride itself on moderation, pluralism and tolerance. If a man as powerful as Ahok is treated so harshly on such a flimsy pretext, what are the prospects for others? LONDON 9 MAY 2017

Being a banker doesn't suit the RBI

Resolving bad loans is a messy affair, it's a job best left to empowered bank boards

RADHIKA MERWIN

Such has been the concern over banks' rising pile of bad loans and historically low credit growth, that the Centre's new ordinance has mostly found optimists lauding it as a path-breaking move.

Under normal circumstances, the ordinance that essentially empowers the Reserve Bank of India to micromanage bank decisions on resolution, would have bankers and critics of the old school crying foul.

But these are extraordinary times that call for extraordinary measures. True, despite the relentless effort of the central bank to put banks' affairs into order through various tools to resolve stressed assets, there has been little progress on the ground.

Toss in restructured loans, and the tally of stressed assets could well be upwards of ₹10 lakh crore.

Last ditch effort

The ordinance which empowers the RBI to set up oversight panels to look into loan recasts, is being viewed as a desperate, last throw of the dice. With the RBI forcing all lenders to come on board with debt restructuring, the resolution could after all pick up pace. But will banks that have now been stripped of their decision-making authority be able to take key decisions on lending henceforth? Most importantly, will the RBI be able to act as a prudent and independent regulator after it muddies its hands in the mundane affairs of banks?

Why did things have to come to such a pass that the regulator has been forced to don overalls and dirty its hands on the shop floor? The RBI has been active in prodding banks to clean the NPA mess starting with the Joint Lenders' Forum, and the SDR and S4A schemes. Realising that banks were chary of even recognising non-performing loans, the regulator brought in the asset quality review (AQR) in FY16.

The AQR was touted as a major clean-up activity, one that would allow banks to start off on a clean slate. Forgotten were the important issues of inadequate credit appraisal systems and shoddy lending practices that caused the problem in the first place.

Where the buck goes

But the mess, as it appears, did not end with AQR. Private banks which got off with a shorter AQR list, had some catching up to do.

Realising that there were still divergences in asset classification and provisioning compared to its norms, the central bank last month issued a circular requiring banks to make suitable disclosures pertaining to FY16.

Axis Bank now says that loans to the tune of an additional ₹9,478 crore should have been declared as NPAs in the FY16 fiscal itself; the bank had reported gross NPAs of ₹6,087 crore only as of FY16. According to the ICICI Bank management, the RBI assessed incremental bad loans to the tune of ₹5,100 crore as part of this exercise. The two banks explain the under-disclosure in FY16 saying that they accounted for the same during FY17, before the RBI issued its directive last month.

The fact that the RBI had to issue so many directives and circulars on the operational front alone highlights the critical governance issues at banks.

The RBI will now step into banks' shoes to clean up the bad loan mess. The fact that it will — under the authorisation of the Centre — instruct banks on how to tackle specific accounts raises questions on the central bank's autonomy. The preamble to the RBI Act 1934 indicates two core functions of the RBI — issue of currency and monetary authority. The legal mandate for other key functions and responsibilities comes from specific statutes — The Banking Regulation Act 1949, The Foreign Exchange Management Act 1999, The Payment & Settlement Systems Act 2007.

Above it all That's what the RBI is meant to be BLOOMBERG

In 2011, the then governor of RBI, Duvvuri Subbarao, in one of his speeches had clarified that the RBI has not been accorded autonomy under the statute.

The RBI Act lays down that the Centre may give directions to the RBI, after consultation with the governor, in the public interest. In reality however he re-iterated that the RBI operates with a functionally autonomous mandate and there has been no instance so far of the Government exercising its reserve powers to issue a directive.

That was then. The Centre's demonetisation move changed that. Questions about the RBI's independence and credibility have been raised since then. According to the two new insertions in the Banking Regulation Act — 35 AA and 35 — the Centre can authorise the RBI to issue directions to banks on resolution of stressed assets. Remember, these sections will stay in the Act much after the NPA problem is resolved.

Can the RBI still carry on with its implicit 'autonomous' image after it involves itself with bank decisions? Unlikely, as these provisions can be called upon by the Centre or the RBI any time, not necessarily in dire times.

Most of the past lending decisions leading to the NPA mess reek of political compulsions. It needs to be seen if the RBI can ring-fence its directives on resolution from political interference.

Time to dissolve BBB

Rather than mollycoddling banks and finding quickfix solutions to tackle bad loans, kick-starting reforms to improve bank governance would have been the right way to deal with the issue at hand. Some-time back, with the constitution of the Banks Board Bureau chaired by CAG Vinod Rai, expectations ran high of a drastic overhaul in governance of PSBs.

But after a year of coming into being, BBB has proved to be damp squib, thanks to the Centre's unwillingness to let go. The BBB's latest recommendations mooting a new Governance, Reward and Accountability Framework for PSBs could well be a non-starter.

The PJ Nayak committee had envisaged granting more autonomy to bank boards. As a first step, the Centre would do well to reduce its stake.

There is an urgent need to professionalise and depoliticise the governance structure. After all, when the economy picks up, banks will have to get on the lending bandwagon.

And to avoid repeating past mistakes, empowering bank boards will be critical.

That is the way to go rather than for the regulator to get into an operational role in banks.

Policymakers are misreading the pulse

The Government's singular lack of strategic vision is hurting pulse-growers, despite new records in production

G CHANDRASHEKHAR

Has the Government failed the country's pulse-growers this year? Isn't last year's 'dal shock' that hurt consumer interests still fresh in people's memory? Did the avoidable pulse crisis provide any lessons to policymakers? These questions deserve to be debated. Consider the following facts.

To be sure, 2015-16 was a year of weather-reduced output, widened supply shortfall, tight availability, high consumer prices and heightened import needs.

The Government was completely on the defensive, clueless about how to handle the crisis.

Cut to 2016-17: the world's largest producer, importer and consumer of pulses, India, has set another record by harvesting a humongous 221 lakh tonnes, a quantum jump from the previous year's 163 lakh tonnes; at the same time it imported an unprecedented 63 lakh tonnes last fiscal, higher than the 59 lakh tonnes of the previous year.

In other words, output and import both hitting a new high is the defining feature of the pulse market performance this year. The impressive growth in production was aided by reasonably well-distributed rainfall, enthusiasm of growers in the wake of high prices during the planting season and consumers' ravenous appetite for consumption given the price and income elasticity of demand for this essential food ingredient.

Unmet appetite

Higher agricultural growth generates higher rural incomes which in turn encourages consumption of various food products including pulses. The experience of 2016-17 demonstrates not only the huge unmet appetite for food consumption in India, but also the stark underestimation of demand by policymakers.

Where does the Indian pulse market go from here? India is at the crossroads.

In some regions, pulse growers are utterly disillusioned because despite harvesting record crops they have not received the remunerative prices they expected.

In Maharashtra and Karnataka, principal growers of pigeon pea, the harvested produce has been

Pulses picture

Production and import trends (lakh tonnes)

Year/ Season	Kharif	+	Rabi	=	Total	Import
2011-12	61		110		171	31
2012-13	59		124		183	38
2013-14	60		133		193	36
2014-15	57		114		171	46
2015-16	55		108		163	59
2016-17	87		134		221	63

Source: Government of India

selling 10-15 per cent below the minimum support price (₹5,050 per 100 kg) assured by the Government. The pulse procurement programme of the Government that envisaged purchase of 20 lakh tonnes has had limited impact on supporting domestic prices, especially of pigeon pea.

Similarly, in the rabi season, unprecedented prices of chana at the time of planting prompted growers to expand the planted area; they harvested 91 lakh tonnes according to official estimates.

But market prices have halved to the current level of around ₹5,500/100 kgin recent weeks.

The question is whether disillusioned pulse-growers will once again plant record acreage.

There is a possibility they may not. Disgruntled growers will respond the only way they know — not plant the crop that failed to meet their price expectation.

Next year (2017-18) it is possible we may go back to the explosive 2015-16 situation of lower crops and heightened dependence on the international market.

Also, policymakers seem have no strategic action plan to ensure that the record production of 2016-17 is sustained in the upcoming season. Far from helping retain farmers' enthusiasm, government's superficial approach may have killed it.

In a year of bumper harvest, record import and price collapse, continuing storage restrictions and prohibition on export (except for kabuli chickpea) clearly go against growers' interests.

The rain factor

The weather is sure to continue to play a critical role.

While the forecast is for a normal SW monsoon in 2017 (June to September), the harvest will depend on spatial and temporal distribution of rainfall as well as area planted.

Meanwhile, consumption demand for pulses will grow with the beginning of the festival season.

In the next three-four months the pulse market is likely to witness volatility, driven by the onset and progress of the monsoon, progress of planting not only in India but in other major origins too, currency fluctuations as well as government policy.

So, the big question is whether India's record production and record import will be the new normal or will the new-found aggression fizzle out.

The writer is an agri-business and commodities market specialist

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Total mismanagement

The Supreme Court's decision to arrest CS Karnan and barring the media from reporting his statements, makes you wonder whether the Emergency is back(SC sentences Karan to six months in jail for contempt", May 10). In trying to show that it means business, the highest court has trampled upon the freedom, enshrined in the Constitution, of an individual and the media in one stroke.

The intransigence on the part of Karnan no doubt needs some check with some measures like resorting to impeachment or non-allocation of cases, rather than sending a sitting judge of a High Court to prison that too without assigning any reasons.

The action of the SC is in quite contrast to the way it handled the disobedience of BCCI — with kid gloves for too long in implementing the recommendations of the Lodha Committee. A senior office-bearer was even let scot free in spite of his making a false representation to the ICC, which even the SC warned amounted to contempt of court. It is also doubtful whether the SC acted with same alacrity in instances where the judiciary was accused of corruption, bribery and even sexual harassment.

Instead of treating it as an ego or legal issue, if the SC had displayed compassion and tried to hear out his grievances across the table to arrive at mutual understanding, the nation would have been spared of these unpleasant happenings.

V Subramanian
Chennai

Karnan being sentenced a jail term for six months is stunning. Judges sentencing judges is unprecedented in the history of the Indian judiciary. The whole episode reveals that everything is not smooth with the Indian justice system.

KA Solaman
Alappuzha, Kerala

The jail sentence marks the egregious culmination of an uneven fight between seven Supreme Court judges and a single High Court judge. Clearly, there were ego clashes all along. The order to conduct a medical test on Karnan unveiled the move to depict him as unfit to be a judge. Certainly his identity as a dalit and his "less-than-diplomatic and indiscreet" accusation of corruption against 20 judges worked against him.

It is relevant to ask whether the SC has the jurisdiction to send a sitting High Court judge to jail. The court has also gagged the press with scant regard for freedom of expression. If it felt that Justice Karnan overstepped the line, it could have recommended to the Parliament his impeachment and removal. It has now become a fit case for the President to intervene.

G David Milton
Maruthancode, Tamil Nadu

False expectations

With reference to the edit, 'Hard choices' (May 10), we have just a tenth of of China's crude steel capacity. Miscalculated capacity addition would leave us in a fix. The present per capita steel consumption in India is 50 kg, going up to 120-150 kg by 2030. Putting in excess production capacities without a matching appetite for steel both domestic and global would result in huge surpluses. Tariff walls will never incentivise cost reduction or productivity.

The crux of steeling India lies else where — R&D. We must produce steel engineered for the future and not be left making run-of-the -mill products to end up with idling plants and dead inventory. The giant steel industry of the US of the 1960s first lost out to the foresight and inventiveness of the Japanese and S Koreans, and later to the singular pursuit of far cheaper and mass steel production by the Chinese.

R Narayanan
Ghaziabad, Uttar Pradesh

Inexplicable

Getting back Mallya from abroad is understandable, but what is amazing is the inability of the Karnataka Police to catch the rowdy element Nagaraj of Bengaluru. It is puzzling how he is able to pull on for so long hiding within the country and releasing different stories and getting them published in media! Is the delay in catching him deliberate in order to hide some undesirable truths being revealed?

VS Ganeshan
Bengaluru

Published by N. Ram at Kasturi Buildings, 859 & 860, Anna Salai, Chennai-600002 on behalf of KASTURI & SONS LTD., and Printed by D. Rajkumar at Plot B-6 & B-7, CMDA Industrial Complex, Maraimalai Nagar, Chengleput Taluk, Kancheepuram Dist., Pin: 603209. Editor: Raghavan Srinivasan (Editor responsible for selection of news under the PRB Act). ISSN 0971 - 7528

Malaria-free India?

Immunisation holds the key

DHARMINDER NAGAR

Malaria is one of the oldest diseases known to mankind. In India, it is an ongoing national health burden. To curb the disease, globally, the World Health Organization (WHO) is poised to introduce the first vaccine created to prevent malaria. The African nations to receive the malaria vaccine by next year are Kenya, Ghana and Malawi. With the official nod for India awaited, it is just a matter of time before India follows suit.

Globally, more than 4,29,000 people died of mosquito-borne illnesses in 2015, and millions are affected by malarial infection. This is contributing to the overall burden of healthcare in India.

From 2000 to 2015, a 62-per cent reduction in malaria deaths has been noted, according to the WHO. The implementation of the urban malaria scheme (UMS) in 1971-72 and the modified plan of operation (MPO) in 1977 had helped in improving the malaria situation considerably. However, almost 22 per cent of India's population live in high transmission areas, and 67 per cent live in low transmission areas, shows the World Malaria Report 2014.

Eradicating malaria and other tropical diseases in endemic countries such as ours needs a paradigm transformation in the way the disease is to be dealt with. Broadening the spectrum of universal immunisation coverage will surely play a significant role in achieving this goal with a long-lasting, tangible impact for improving health outcomes in the treatment of this disease.

Gearing up for immunisation

Vaccines are widely recognised globally by health experts as one of the world's most successful and cost-effective interventions for health. It is unfortunate that even with the availability of advanced and affordable vaccines, there are 19.4 million children world over who remain under-vaccinated or unvaccinated. The bottomline is — immunisation matters now more than ever, and needs to be seen as a development priority in Indian healthcare.

Indian's vaccine market remains small and under penetrated. The Government has to realise that adding new vaccines to the National Immunisation Programme results in creating immense value creation.

The WHO has defined an ambitious goal to eliminate malaria by 2030. Similarly, the Union Ministry of Health and Family Welfare had launched the National Framework for Malaria Elimination last year.

Here is a five-point agenda to scale up immunisation programmes in India:

Take up value-added disease surveillance initiatives to measure and assess the current burden of the disease on communities and the process of dealing with it.

Form an evidence-based nationwide protocol for all stakeholders for doing research on new vaccines and implement them at the ground-level should be done, because in India malaria hits the poor the most.

Build a motivated workforce to promote education and communication about the new vaccine is important.

Put up an efficient logistics and distribution network for upcoming vaccines and set up safe cold stores to protect them.

Define the performance and management accountability responsibilities in a clear-cut manner, and periodic monitoring and evaluation should be done in the first five years after the introduction of the new vaccine.

The writer is the managing director of Paras Healthcare

Making PPP projects deliver

Large, complex projects require effective distribution of risk, which calls for suitable renegotiation of contracts

SURESH SUBUDHI / NEETU VASANTHA

The promise of time and cost efficiency through access to specialised skills has had governments increasingly reaching out to the private sector for large infrastructure projects. However, flanking the potential benefits is the rigid design of public-private-partnerships (PPP), inhibiting asset owners from drawing the requisite balance between tightly composed contracts and injecting adequate flexibility to accommodate unforeseen scenarios.

As a result, long term multi-stakeholder projects often encounter financial difficulties and contract disputes, leaving little or no room for structured resolution.

Many PPPs across developing and developed countries have failed primarily due to mismanaged risk and lack of a structured response to unplanned situations. Internationally, for infrastructure concessions in developed countries such as Spain, Italy, Chile as well as developing countries of Latin America renegotiations are common.

A study of the 17 early concessions in Spain revealed that they have been renegotiated a total of 121 times (an average of about seven times). Similarly, a World Bank study has indicated that out of a sample of 1,000 concessions granted in Latin America and Caribbean between 1985 and 2000, 30 per cent underwent renegotiations. In the transportation sector, this was as high as about 55 per cent

Theoretically, large infrastructure projects, which have multiple stakeholders collaborating over long periods, require that risk is allocated to parties that are best positioned to manage it. In practice, this results in over-prescriptive, inflexible contracts to address inherent incompleteness of contracts — but is self-defeating as *a priori* identification of all risks is not feasible. Hence, to address the risks which may be unique to each project/sector, risk management in PPP contracts needs to be made dynamic. These adaptable mechanisms may take several forms:

Contractual structure

Delinking players from unpredictable risks: Transport infrastructure owners may mitigate the impact of crisis on projects by passing on unpredictable risks. For example, instead of the well-established mode of build operate transfer (BOT), concession to the highest bidder, an alternate and, perhaps, more efficient way is through the Least Present Value of Revenue (LPVR) mechanism.

Here, the concession is auctioned to the private partner that offers the best design/construction efficiency and minimum cost of capital. During the project, the concession period is adjusted to account for unexpected events, such as lower-than-anticipated traffic and changes in toll revenue, to ensure that the private partner generates the expected discounted revenues. Chile has used this; many others are following suit.

This mechanism is attractive to all stakeholders. Private sector minimises the risk of a winner's curse as long-term traffic demand projects do not dictate the bid amount. Public sector gains integrated and optimal design and operations capability over a long term.

Societal benefit is in the form of a significantly reduced risk premium to create a public good. Extensive technology deployment to ensure transparency across stakeholders on quality, progress, traffic would ensure smooth functioning of a variable concession model.

Another variant of the BOT model, currently being used by our road transport ministry is the Hybrid Annuity Model. In this model, the public and private sectors partly fund project construction cost.

Hanging in the air Not an ideal result for infra projects TRAVELLIGHT/SHUTTERSTOCK.COM

Financial returns to the concessionaire are predetermined using semi-annual annuity payments, while toll revenues go to the Government, transferring unpredictable commercial risk to the public-sector partner. The provision of inflation adjusted costs and annuity payments with interests at minimum bank rate hedge inflation and revenue risks.

Contractor selection

Involve private sector early: The principle of early contractor involvement is a collaborative approach to tender a large, complex project. In a two-stage process, based on quality and cost prequalification, two-three contractors are shortlisted who compete in developing the best 'solution' i.e. detailed project plan, design and price. The asset owner typically provides boundary conditions for these solutions.

Association of the contractor with project development reduces the information asymmetry with the asset owner, infuses ownership and can achieve higher cost effectiveness and expedite delivery. Identification of project scope and risk and value drivers upfront induces collaboration and reduces the risk premium demanded by the private contractor. Governments in the UK, the Netherlands, Australia, New Zealand have utilised this effectively.

Contractual flexibility

Facilitating structured negotiation: Some events lead to substantial permanent changes in operating environments. To account for such possibilities, asset owners should make adequate provision for contract renegotiation, including triggers for exceptional reviews, upfront while defining the contract.

Hence, there must be provision in a PPP contract that clearly articulates dispute-resolution mechanism that provides flexibility to restructure within the commercial and financial boundaries of the project. India is taking steps in this direction.

For instance, last year, finance minister Arun Jaitley announced setting up a Public Utility Bill for resolution of PPP contract disputes based on the Kelkar committee recommendations.

The committee suggested setting up of sector specific monitoring committees to review contracts and prevent distress in partnerships. They also recommended setting up external regulators that would decide the gravity and permissibility of a contract dispute and the Infrastructure Adjudication Tribunal — a multidisciplinary expert committee that would make resolution recommendations.

With the Government's target of $375 billion in investment in infrastructure by 2019 and a hope of PPPs bridging 50 per cent of this deficit, the need of the hour is to employ institutional mechanisms while designing PPP contracts.

The time is now for asset owners to think through new ways of de-risking key stakeholders, sharing supernormal profits and negotiating unforeseen conditions.

Subudhi is partner & director and Vasanta is principal at Boston Consulting Group

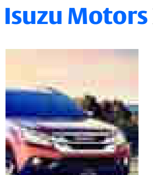
5 THINGS to WATCH OUT for TODAY

- **Prime Minister** Modi will travel to Sri Lanka today to attend the biggest Buddhist festival, 'Vesak Day'. The celebrations, to be held in Colombo from May 12 to 14, will include an International Buddhist Conference in which over 400 delegates will participate. Vesak marks commemoration of Buddha's birth, enlightenment and passing away.

- **Road** transport minister Nitin Gadkari will kick off his three-day trip to the UK today with a market opening ceremony at the London Stock Exchange where he will address investors on investing in India's growth story.

- **The Supreme Court** is to hear today pleas challenging the validity of triple talaq. A Constitution Bench will hear the matter. Earlier, the SC said it had to examine if personal law practices such as the triple talaq were the "fundamental traits" of the minority religion.

- **Isuzu Motors** India, an arm of Japanese automaker Isuzu Motors, will launch today its fourth model in India — the Isuzu MU-X. The MU-X is a family SUV based on the same platform as other Isuzu models — V-Cross, D-Max and S-Cab.



- **Over 200** companies will showcase their latest price competitive LED solutions and innovations for the Indian market at the LED Expo from today till May 13 in Mumbai. Exhibitors from China, Taiwan, Hong Kong, Korea will be showcasing products at this three-day fair.

Note ban, and why appealing to 'civic sense' works

VENKY VEMBU

THE CHEAT SHEET

What manner of mythical beast is 'civic sense'?

I know it's easy to be cynical, but in fact, behavioural economists have established that policy initiatives that appeal to people's sense of a 'greater common good' and to their 'civic sense' actually have better chances of success.

How does that apply to the demonetisation experience?

Six months after demonetisation, commentators are still puzzled at how a nation of a billion-plus people whose lives revolve around cash stoically put up with the inconveniences of seeing 86 per cent of the notes in circulation withdrawn overnight.

In his foreword to a recently published book on demonetisation, former RBI Governor YV Reddy wonders that "people at large did not revolt" but "went through not just inconvenience, but pain." Their patience, he writes, "was beyond belief."

How do you explain that?

It's possible that people believed that a 'greater common good' was being served by the note ban. That's why I say that an appeal to people's 'civic sense' works. There are many studies in the area of behavioural economics that account for such counter-intuitive behaviour. For instance, people don't need financial incentives to "do the right thing" and, in fact, sometimes such 'rewards' backfire; similarly, imposing a penalty doesn't disincentivise bad behaviour.

Tell me more.

In their 1997 research study, 'The Cost of Price Incentives', Bruno Frey and Felix Oberholzer-Gee at the Institute for Empirical Economic Research, University of Zurich, established that while a sense of 'civic duty' may cause people to respond for the greater common good, a financial incentive may actually backfire.

That sounds crazy.

But it's true. When the Swiss government planned to build a facility to store nuclear waste, roughly half of the respondents to a survey said that despite the risk, they would be agreeable to having the facility in their community — out of a sense of "civic duty". But when the survey was reframed with the offer of several thousand dollars for living near a nuclear-waste facility, only 25 per cent extended their support.

Interesting.

And there are other examples. In the UK, the Behavioural Insights Team, which helps the Government redesign public services by harnessing learnings from behavioural science, was able to get delinquent taxpayers to pay up their taxes by writing to them and pointing out that nine out of ten people in the UK pay their taxes on time, and that they hadn't. Evidently, being reminded of the "social norm" appeals to one's civic duty: drawing attention to other people's good behaviour can reform deviants.

And penalties don't work?

In some contexts. Researchers Uri Gneezy (co-author of *The Why Axis*) at the Israel Institute of Technology and Aldo Rustichini at Tilburg University noted that parents who picked up their children from day-care centres in Haifa, Israel, were sometimes unintentionally late. But when a small penalty was introduced on latecomers, parents stopped showing up on time entirely.

How do you explain that?

Earlier, parents had non-financial incentives for being on time; such as avoiding the guilt of inconveniencing day-care workers. But as soon as they had the option to pay a fine and avoid the guilt, they grabbed it.

The lesson from all this?

People are not always motivated by money considerations. Sometimes, appealing to their 'civic sense' or pointing them to the 'social norm' can often yield more fruitful outcomes for the 'greater common good'.

A weekly column that helps you ask the right questions

BusinessLine TWENTY YEARS AGO TODAY

MAY 11, 1997

FIs given more leeway in raising short-term funds

The RBI has relaxed stipulations on the financial institutions garnering funds from the public which could place competitive pressure on banks. In place of the present instrument-wise limits fixed by the RBI for each FI, it has now been decided to fix an umbrella limit for mobilisation of resources by way of term money borrowings, certificates of deposit, term deposits and also inter-corporate deposits for each institution. The overall ceiling for the umbrella limit will be equal to the net owned funds of the FI.

BSE guarantee fund to be in place tomorrow

The BSE has said its Trade Guarantee Fund will become operational from May 12. The fund is aimed at guaranteeing settlement of bona-fide transactions in the event of a member failing to honour his settlement liabilities. The trade guarantee scheme had been approved by the SEBI earlier in the week. The initial corpus of the fund is Rs. 172.5 crores. The largest contribution to it — Rs 60 crores — will come from the exchange. Another Rs. 55 crores will come from the base capital of the members lying with the exchange in the form of cash, fixed deposits and shares.

New depreciation norms for computer hardware

The Department of Electronics has proposed new norms for calculating depreciation of computer hardware for income tax purposes, keeping in mind the high degree of obsolescence in the industry. Under the proposed scheme, depreciation would be calculated at 50 per cent for the first year and the asset could be written off in the second year. The proposal had to be cleared by the Finance Ministry and the Income-tax Department.

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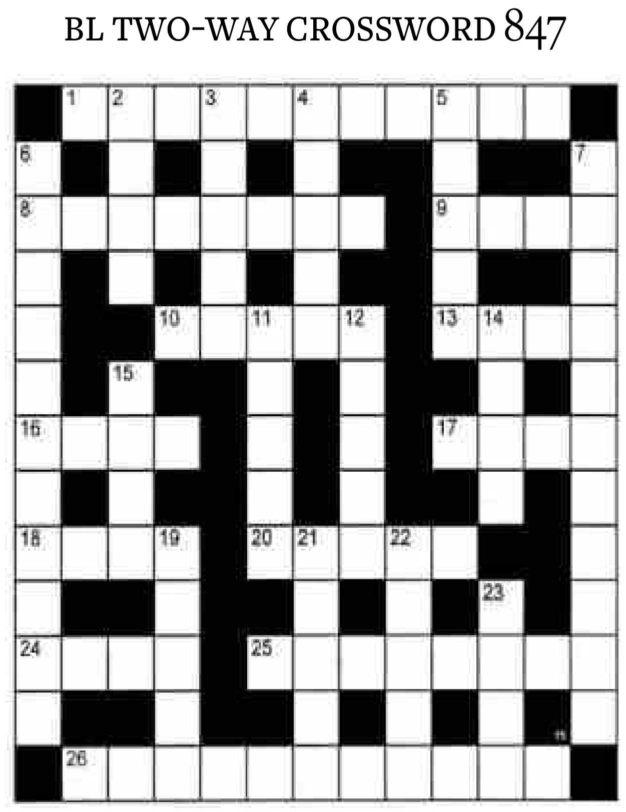

EASY

ACROSS

01. Division of passenger coach (11)
08. Support for a belief (8)
09. Make a hole (4)
10. Poetry (5)
13. Animal fibre (4)
16. Forehead (4)
17. Sun helmet (4)
18. Reluctant, unwilling (4)
20. Indentation, nick (5)
24. Watch over, minister to (4)
25. One having money in shares (8)
26. Watching over, protecting interests of (11)

DOWN

02. Latin poet (4)
03. Portion, part (5)
04. Speed trials (5)
05. Joint that may be crooked (5)
06. Capacity of feeling, emotion (11)
07. Senders of greetings (4-7)
11. Black bird (5)
12. Have actual being (5)
14. Ancient Greek coin, weight (4)
15. Junior player, young horse (4)
19. Living border (5)
21. Weight, avoirdupois or troy (5)
22. System of belief (5)
23. Daze, stupefy (4)

SOLUTION: BL Two-way Crossword 846

ACROSS 1. Tricycle 4. Acer 8. Pad 9. Rival 10. Mad 11. Changed 12. Noose 13. Well-covered 17. Ducat 18. Brought 20. Bus 21. Oboes 22. USA 23. Ease 24. Skittles
DOWN 1. Topics 2. India 3. Livid 5. Compose 6. Rudder 7. Slanderous 9. Regulation 14. Excuses 15. Edible 16. Strays 18. Brook 19. Gruel

NOT SO EASY

ACROSS

01. Remark about part played by division in carriage (11)
08. Vice need not be the same if heard in court (8)
09. Tedious person who carried a child (4)
10. First of Vikings to use Irish to write poetry (5)
13. Fibre gathered by absent-minded dreamer (4)
16. Archer's weapon about right for top of hill (4)
17. Sun-helmet creates work in putting it back (4)
18. Unwilling to have a good deal of hydrogen (4)
20. Nick giving weight back to the church (5)
24. Be apt to look after things (4)
25. One putting money in vein must sort it out (8)
26. Man with crook has gin cocktail when marshalling crowd (11)

DOWN

02. Poet gave up the party when about six (4)
03. Portion that sounds irenic (5)
04. Goes quickly, the result of a scare maybe (5)
05. Push one out of the way as a joint endeavour (5)
06. Emotional response to second part of Austen title (11)
07. They send greetings to those hoping for a water supply (4-7)
11. Tower bird gives the right vane a twist (5)
12. Actually to be six up, and in France get around it (5)
14. Greeks gave little money to mob Olympics allowed in (4)
15. Young player starts to learn while in bed (4)
19. Row of bushes will not provide a straight answer (5)
21. How the snow leopard may turn on cue (5)
22. Statement of belief I've not received arrangement of (5)
23. Crazy upturn that will knock one cold (4)