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Opinion

TUESDAY, SEPTEMBER 19, 2017

STATE FUNDING OF POLLS

Former CEC TS Krishnamurthy

"There should be a national election fund to which companies and individuals can contribute for which 100 per cent tax exemption should be given. If there is a deficiency, the Centre will have to make good"

Forget IUC, is there a quick court of appeal?

Incumbent telcos and RJio have their versions of what matters, real issue is of where Trai ruling can be appealed

EXPECT A BATTLE of words when the telecom regulator, Trai, comes out, either today or later this week, with its regulations on the charges telcos pay one another when a subscriber calls from one network to the other—the Interconnect Usage Charge (IUC). While RJio has said incumbents like Bharti Airtel, Vodafone and Idea have overcharged consumers ₹1 lakh crore over the last five years on account of a high IUC, it has argued this cost could come down dramatically were the incumbents to have the kind of high-tech network it has. The incumbents, for their part, argue that what matters is that the total costs, including those for spectrum, are taken into account—in response to the RJio claim about its superior technology resulting in lower costs, AV Birla Group chairman KM Birla wrote to Trai last month to say it was not possible to come to any firm conclusions on RJio's costs since there was no audited account of this. In the past, Airtel has argued that Trai had not taken its full costs into account—the last time the IUC was calculated, Airtel said that while the IUC should have allocated 4.5 paise for its spectrum alone, Trai had attributed just 0.79 paise for this. While Airtel may be right, it also needs to be recognised that incumbents who have the most to gain from a higher IUC will always protest against any reduction in it—the question is of how justified their current protests are.

Normally, in any such cases, since the courts are clogged, the appellate tribunal, TDSAT, offers the fastest resolution. The problem, however, is that Trai doesn't think TDSAT has any jurisdiction over its orders on IUC. So, along with the matter of jurisdiction, various IUC orders going all the way back to 2006, are stuck in the country's crowded courts.

As this newspaper has argued before, if the sector has to grow rapidly, Trai simply has to allow TDSAT to rule on all its orders/rulings. Such checks and balances are at the heart of any regulatory process and are critical for the telecom industry's growth. Apart from the fact that the incumbent operators have challenged Trai's rulings in the past, keep in mind the Supreme Court's sharp comments against Trai when it tried to impose penalties on telcos for call drops last year. The SC said, "TRAI may follow a transparent process where all facts and figures may be shared prior to making of regulations/ subordinate legislation. This would obviate, in many cases, the need for persons to approach courts to strike down subordinate legislation on the ground of such legislation being manifestly arbitrary or unreasonable". After calling Trai arbitrary and unreasonable, SC went on to say '(Trai) must respond in a reasoned manner to (comments) that raise significant problems, to explain how the agency resolved any significant problems raised by the comments, and to show how that resolution led the agency to the ultimate rule … including a rational connection between the facts it found and the choices it made'. That the country's highest court should be making such observations about the telecom regulator is unfortunate and is all the more reason why Trai cannot afford to put itself above review—telcos can challenge Trai in various high courts and SC, but this takes so long, justice is almost invariably denied.

Export concerns masked

High forex flows hide the rising current account deficit

THE $25.4 BILLION of capital inflows into the country, primarily via foreign direct investment (FDI) and foreign portfolio investments (FPI), in Q1FY18 have ensured a surplus in the balance accounts of $11.4 billion—a two-year high. Given the abundance of liquidity in global markets, flows are expected to remain reasonably good, and there is no real concern they will not be adequate to cover the current account deficit (CAD). Nonetheless, the relative strength of capital flows masks the weakness in exports which is creating bigger merchandise deficits. In Q1FY18, for instance, a fairly large trade deficit, of $41.2 billion, drove up the CAD to $14.3 billion, or 2.4% of GDP—a four-year high. Exports, after growing at close to 18% y-o-y in April, clocked a sedate 6% y-o-y and 4.1% y-o-y in May and June respectively. Coming on the back of very modest increase in the last 18 months and a contraction for more than a year before that, this is disappointing. It underscores the need for some serious steps to help exporters—relaxing labour laws and making the environment less stressful could be considered. Else, they will find it hard to compete even if the rupee isn't as strong as it is now.

Meanwhile, imports continue to rise. More gold is being brought into the country and, while the pre-GST stocking by jewellers ahead of the July 1 rollout was not surprising, gold imports have risen fairly sharply both in July and August. The trade data for July and August have been encouraging with some of the GST-related disruption in July having been reversed in August. For instance, exports in August rose in double-digits—10.3% y-o-y, sharply higher than the 3.9% y-o-y in July. Nevertheless, the trade deficits, even if they are smaller, remain elevated. There is also the concern that inflows from remittances have risen very marginally in Q1FY18, against the backdrop of not growing meaningfully for some two years now. As such, although invisible surpluses increased nearly 15% y-o-y, in the June quarter, reflecting the better global demand, foreign receipts from travel, construction and other business services, these were not enough to offset the higher trade deficit. Also, a good chunk of the strong portfolio flows in Q1, of $11 billion, was contributed by inflows into the bond markets; with much of the quotas for foreign funds nearly full up, these could taper off. Unless the fund flows into the stock markets compensate for this, the total capital flows could be smaller in subsequent quarters. However, at this point capital flows are less of a concern that the subdued increase in exports. As core imports rise—as they should if the economy picks up steam—exports need to grow to keep the trade deficit in check. For now, the CAD it would appear can be reined in at about $37 billion, or a comfortable 1.5% of GDP in FY18.

Dangerous CURBS?

Many regimes use internet curbs to stifle dissent, but that is not what India is doing

THE BJP/MODI government is likely to take a beating when it comes to the optics of government-ordered internet shutdowns—the number of occasions when such curbs were imposed increased from four in 2014 to 42 between just January and August 2017. A *Reuters* analysis shows that 89 shutdowns have been ordered—following assorted reasons, from farmers' protests and public violence resulting from social media posts to reservation agitations and threat of unrest in Kashmir—since May 2014, of which 74 have ordered by the BJP or allies. It is easy to sell these instances—especially after what the internet did for the Arab Spring—as crackdown on freedom of expression. More so, since the Union government junked older curfew laws that were used to order the curbs, and formalised explicit rules to guide the Centre and the states in this regard. Given such curbs will always carry the risk of stifling freedom of expression, the government must walk the tightrope to ensure the curbs are used solely to preserve internal security and don't suppress democratic dissent.

Thanks to the ease, speed and spread they afford, social media and messaging services have become one of the most powerful tools to organise people for marches, rallies and demonstrations as well as for voicing dissent and disagreements. However, this is a two-edged sword. They can be just as easily be used to coordinate violent agitations against sentencing of cult leaders, stone-pelting and even reservation agitations that end in widespread violence. In an atmosphere of rabid polarisation by leaders from opposite ends of the ideological and political spectrum, the internet is also being used to throw law & order and peace-keeping off gear and undermine governance delivery. There is no legitimising sweeping internet curbs that threaten democratic principles. At the same time, India's curbs need a more nuanced response than just summary rejection and criticism. After all, these are not an oppressive and censorious crackdown on dissent like China's—which, incidentally, just arrested a software developer for providing solutions to circumvent its expansive "firewall".

● NO PROOF REQUIRED

INFLATION IS DOWN BY 700 BPS SINCE 2013, AND POLICY RATES HAVE DECLINED BY 200 BPS—AND YOU ARE STILL WONDERING WHY GDP GROWTH IS SLOW?

It is the interest rates, stupid

SURJIT S BHALLA

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THE GDP GROWTH number for 2017Q2 was bad, very bad. It came in at a y-o-y growth of 5.7%. Just to provide a perspective on the low growth reported—the eighth-worst quarter since 2011, and the fourteenth worst quarter since the start of the high growth period in FY04. You want more evidence on the lowness of this growth number? The average GDP growth for the two years prior to the Modi election of May 2014 was 6.4%; even if for the rest of this fiscal year GDP growth averages an unlikely 6.5% each quarter, the fiscal year numbers will not match the UPA average for their bad years! Yes, that is how bad GDP growth is today.

It is imperative that the political and economic policymakers in the Modi government identify the cause of this downturn. National elections are just 18 months away, and does the BJP believe that a growth rate below the UPA's worst years will not dent its popularity?

Prior to the 2017Q2 number, the favourite refrain of the Modi detractors or Congress supporters (same set of individuals!) was that the high GDP growth rate in FY15 and FY16 (7.5% and 8%, respectively) was caused by political manipulation of the figures by the Central Statistical Organization (CSO); the critics were too politically correct to say so openly, but they clearly implied that the CSO was fudging the numbers at the behest of the government. Now that the GDP numbers conform to their political priorities, there is not a squeak from these doubters; these critics-without-base should either come out with their latest updates on GDP growth in India, or at least apologise to the CSO for doubting their integrity and expertise.

The media and economic experts have noted the phenomenon of low growth, and have offered two explanations. The most common, near-universal explanation, is the equivalent of "the butler did it". Or, the closest, most proximate (and, coincidentally, most popular with the anti-Modi crowd) cause of the slowdown is demonetisation.

Besides convenience, this explanation has some theory to back it up; if, for a cash-dependent economy, you remove its lifeline of cash (over 86% of cash was demonetised on November 8, 2016), then obviously you will get a crash as output. As the "experts" point out with glee, a 2% decline in GDP growth was exactly what was predicted by them to be the consequence of demonetisation. Growth has shown a big decline, and the world economy is booming—so, India is in low-growth mode because of demonetisation.

The second most-popular explanation centres around the appreciation of RBI's nominal, 36-country real effective exchange rate (REER). Some noted economists are behind this logic—hence, this hypothesis deserves serious examination. For the moment, let it be noted that for the first eight months of this year, exports (in dollar terms) are up 12.1%, while the REER has appreciated by 4.8%. For the last six years, and excluding the bad trade year of 2015 (export and import growth were -15% and -12%, respectively, in 2015), both export growth and REER appreciation in 2017 are the highest observed!. Between 2012 and 2016, export growth had averaged 0.3%, and REER an average depreciation of 1.6%.

For the moment, the export explanation for the slowdown is perhaps even less meaningful than demonetisation. So, what does explain the downturn? Bad weather or bad karma? Maybe the latter. One fact noted by some objective experts is that the growth slowdown preceded demonetisation. After hitting a peak of 9.1% in 2016Q1, quarterly GDP growth registered 7.9% and 7.5% in the subsequent quarters, i.e., at the time of demonetisation on November 8, 2016, GDP growth was already down to 7.5%, a full 1.6% below the peak reached just two quarters earlier.

If one has to explain the growth slowdown without recourse to conspiracy theories about data manipulation (we can't really do that now because growth is lower, much lower, than what the so-called data manipulators would like!), one has to begin to answer the following two questions: What determines growth, and which of these determinants was flashing a red signal before demonetisation.

In most countries (strike that, and replace with "all countries except a unique country called India"), the above question has the same answer—look at interest rates, stupid. No matter what country, central banks and government officials have the same answer and the same policy: To increase demand (up the GDP growth rate), decrease interest rates; to decrease demand, increase interest rates. Why Indian macro-experts almost never offer this policy is a question I can't answer—a psychiatrist might do much better.

That interest rates do matter in India, and matter a lot, can be shown as follows. We look at only those sectors most susceptible or sensitive to interest rate policy. Agriculture can be ruled out, as it is most influenced by the weather; public utilities, public administration and defence should be excluded, as these sectors are more susceptible to the whims of bureaucrats rather than the *babus* in Mint Street.

Which leaves us with manufacturing, mining, services (excluding public administration) and construction. Both mining and manufacturing are problematic for any analysis because these two sectors have been plagued with high corruption, and even higher bad balance-sheets (NPAs or non-performing assets). It is likely that resolution of the NPA problem will significantly improve investments and growth, but the resolution will need a different instrument than lowering interest rates.

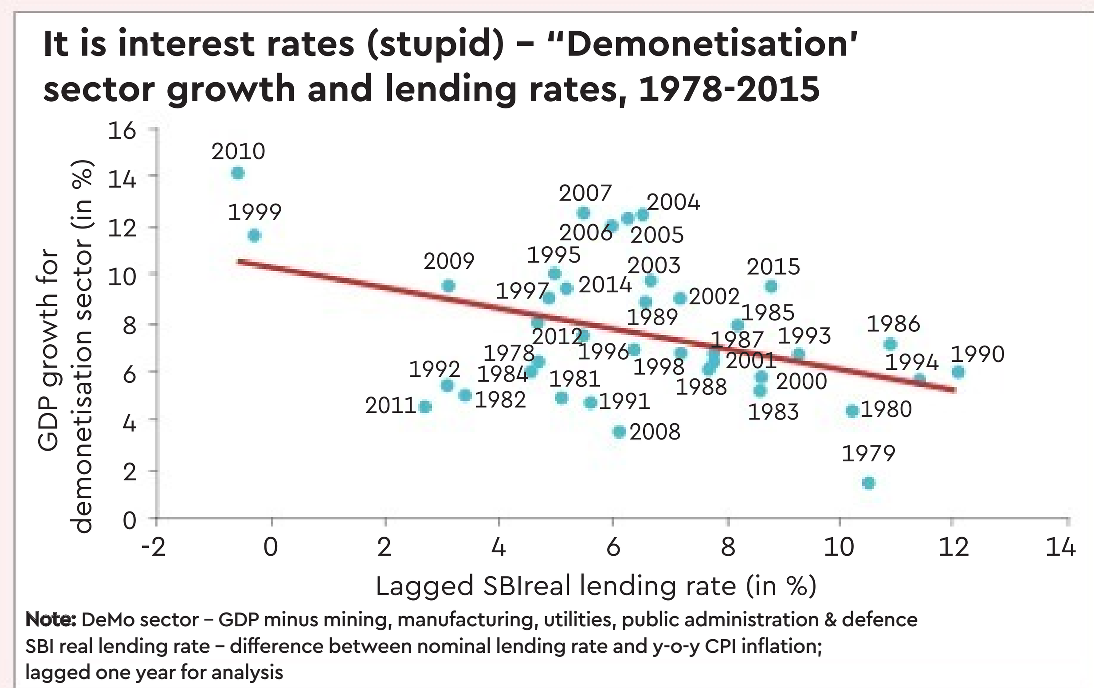
If one takes only the interest rate-sensitive sectors (services *ex* public administration + construction), then one can estimate interest sensitivity of output growth. This sector can also be thought of as the demonetisation sector. Agriculture and government expenditures bias GDP growth upwards, balance-sheet considerations bias it downwards. These sectors are ignored in our calculations.

The accompanying graphic shows the relationship between the growth in the interest-sensitive (demonetisation) sector and lagged real SBI lending rates, with data presented for fiscal years from 1978 to 2015. Note the strong central negative relationship for close to 40 years! Each 100 bps increase in the one-year lagged real lending rate decreases growth by 40 bps. Between 2012 and 2014, the one-year lagged real lending rate averaged around 5%; the corresponding values for 2015 and 2016, 8.8% and 9.7%. So, annual growth in FY18 is expected to be around 2 ppts lower than that observed in 2015.

Average growth in the demonetisation sector in FY16 was 9%—hence, 7% is the expected growth for this sector in FY18. We have only two observations since demonetisation—2017Q1 and 2017Q2; sector growth rate in these quarters was 6.5% and 7.9%, respectively, or an average of 7.2%.

We don't want to push the analysis too far in the direction that only interest rates matter; there is the weather, animal spirits, momentum, confidence, and other vaguely important factors. However, no matter what explanation you come up with, you will have to circle back to interest rates—the evidence is that strong. But go ahead, disregard the evidence. You are in good company, with the experts at RBI (and MPC). They must know better; otherwise, why would they keep real interest rates at world-beating levels?

It is interest rates (stupid) – "Demonetisation' sector growth and lending rates, 1978-2015



Note: DeMo sector – GDP minus mining, manufacturing, utilities, public administration & defence
SBI real lending rate – difference between nominal lending rate and y-o-y CPI inflation;
lagged one year for analysis

The economy is an urgent problem

India's jobs problem is tied to its manufacturing stagnation—which in turn is tied to the lack of labour reforms

MEGHNAD DESAI

Prominent economist and Labour peer

THERE ARE 20 months till the next election. It is easy to believe that the outcome in 2019 is beyond doubt. But think again. Indira Gandhi had won two consecutive elections in 1967 and 1971 and had been in power for 10 years, including 21 months of the Emergency. She called an election she did not have to, confident that she would win. Faced with a motley collection of fractious and fractional groups of had-beens, she lost.

In 2004, the first ever BJP/NDA government—having won two successive elections in 1998 and 1999, and after a string of outstanding GDP growth rates—called an election a few months in advance. India Shining was the message conveyed by the latest mobile phone technology. Yet again, there was a coalition of unlikely partners led by the Congress with Sonia Gandhi, foreign-born and still a relative amateur in politics as its leader. Again, the result was a shock.

The point is that elections cannot be taken for granted. The BJP/NDA government has won many state elections recently, the latest being UP. But the GDP growth rate has been on the slide for four years. India was the fastest-growing country in the G20 for the last couple of years. But now, that distinction is lost as China has revived. Inflation is down, but can't be relied on to stay down. Onions or tomatoes can turn an election. Let me make a list of what needs to be done.

Narendra Modi has been an energetic leader. He has reaped electoral dividend of his interventions. But he has been reluctant to reform or restructure the economy. Instead of grappling with the last 50 years of rigidities which are growth-destroying, he has launched new initiatives to compensate for the reforms not carried out. Thus, Make-in-India is an add-on to the manufacturing industry but it concerns foreign entrants. India has had a stagnant manufacturing sector for several years, a legacy of the Nehru-Indira Gandhi planning. It is top heavy in high- or medium-tech activities, which use skilled workers. The labour laws have throttled growth in low-tech products where South East Asian and East Asian economies have found significant growth opportunities. The government has avoided labour market reform like the plague. It can anticipate strong resistance from trade unions. It left the task to states, but that was just an excuse for doing nothing. Growth in manufacturing could generate jobs if only the sector could be revived.

The government inherited a broken banking system. The NPA of PSU banks was a deep structural sign of the old crony capitalism in partnership with Congress socialism. The government has taken too long to sort out the NPA problem. It has reformed insolvency laws which is a positive step. It has finally consolidated one bank—the State Bank. But the rest of the PSU banks need restructuring. The best solution would be to return them to the private sector. India does not need 25-odd state-owned banks. If that is too radical, at the very least, these banks must be consolidated. Indira Gandhi's nationalisation was a deliberately political act with no economic logic. Nationalised banks have been useful to Congress over the years to sustain political corruption. Unless the PSU banks are tackled, the fight against corruption cannot be won.

The agricultural sector is broken. We can see it from the debt forgiveness orgy in which various states are indulging. Debt forgiveness does not solve problems; it only perpetuates them. The bulk of farms—80%—are no viable. They cannot even provide subsistence for the farmers who cultivate them. Ideally, the farmers would be moved to urban, manufacturing jobs if there were any. But that takes us back to reform of labour laws. Another approach would be to repeal the Land Acquisition Act of 2013 which could then make it easy for the government and the private sector to acquire land for infrastructure and/or industrial projects. If neither of these options is taken up, we will just see repetition of suicides and debt forgiveness. The prime minister's promise of doubling farmers Incomes by 2022 is highly unlikely to be fulfilled unless drastic restructuring takes place.

Then, there is the issue of job creation. No doubt, people are finding ways of making a living though they may not call them jobs. But where can jobs come from?

India has only one growth sector—services. GST will definitely help. But the IT sector is unlikely to generate jobs as it is experiencing rapid productivity growth. That will mean other service sector activities will have to create the jobs. It could be hospitality, health care, retailing and logistics, tourism. But all these sectors require education-plus-skilling.

May be the prime minister will win a majority, perhaps even a bigger one, in 2019. But the problems listed above will not go away.

LETTERS TO THE EDITOR

Fight plastic by cutting usage, too

This is with regards to the edit "Plastic gains" (*FE*, September 18). Plastic pollution has become a major challenge to the environment, and despite decades of debating over its control, widespread proliferation of the same continues. After years of testing out plastic roads, it is great to hear that India has already constructed 21,000 miles of the same. But the issues of potholes, water-logging, plastic waste accumulating on landfills, plastic bags usage still continue. The headway made in construction of roads must be increased manifold while decreasing plastic consumption. An Indonesian company has created plastic-like bags out of plant waste which can be used with the same ease. Time to make gains everywhere.

— Gaurav Gupta, Hyderabad

Aadhaar no panacea

Apropos of the report "Govt plans to link Aadhaar with driving license" (*FE*, September 16), since the Supreme Court is already seized of the matter concerning the issue of upholding the citizens' right to privacy in the context of Aadhaar Card, it would have been prudent on the government's part to patiently wait for the final judgment. Would the heavens really fall if the government resisted adding on to the list of things that need to be linked to Aadhaar each passing day? One just shudders to imagine the rationale behind the government's move which seems to show its keenness to put all its eggs in one basket. Needless to say, Aadhaar should not be taken as a panacea.

— SK Gupta, Delhi

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IMPROVING SOIL FERTILITY

India's organic farming challenges

The biggest challenge is the lack of an organic policy for the domestic market and imports. In the absence of regulation on labelling standard for organic production and logo, it is not possible to distinguish an organic product from a conventional product

THE INDIAN GOVERNMENT has been undertaking measures to promote organic farming with the aim to improve soil fertility and help to double the farmers' incomes by the year 2022. The Prime Minister had visited Sikkim—which is India's first organic state—and encouraged other states to replicate the "Sikkim model".

Some of the policy initiatives to promote organic farming and exports include development of an organic regulation for exports by the Agricultural and Processed Food Products Export Development Authority (APEDA), removal of quantitative restriction on organic food exports, providing subsidies to farmers under the Paramparagat Krishi Vikas Yojana (PKVY) in partnership with the state governments, and other schemes such as the Mission Organic Value Chain Development for North Eastern Region. Despite these initiatives, a recent survey-based study covering 418 organic farmers across different states of India suggests that a move to organic farming methods may not be that easy and organic farmers are not getting the expected premium price for their produce.

The study highlights five key issues faced by organic farmers that are affecting their livelihood and income.

◗ First, the supply chain is underdeveloped and small and mid-sized farmers located in hilly regions and tribal belts find it extremely difficult to access the market. There is a shortage of pack houses and refrigerated vehicles, which leads to spoilage. Organic products have to be stored separately from conventional products to avoid cross-contamination and the existing supply chain does not often provide that facility. In addition, the survey found that companies mostly source from farmers in regions with a well-developed supply chain and only a few of them are sourcing from the North-eastern states and tribal belts, despite their high potential in organic farming. While the government is supporting organic product marketing through fairs and exhibitions, it does not give farmers a steady market. In a number of cases, the middlemen take away most of the profits and farmers are not able to earn a premium price. Direct linkages to processors and retailers could have helped farmers to get a better price, but farmers lack the right linkages and hence have to depend on middlemen and *mandis*.

◗ Second, while the government is subsidising farmers under the Participatory Guarantee System (PGS) for India, which is a self-certification process supported through the PKVY scheme, these farmers are not allowed to export. In fact, the APEDA has made it mandatory to have a third-party certification for exports. This is despite the fact that globally more than 100 countries, mostly developing countries, recognise the PGS. Unless farmers under PGS India are allowed to export, they cannot earn the premium price. Therefore, ideally, farmers should have the right to decide where they want to sell the product—domestic market and/or export market—and the government policy should support the same.

> If the right policy measures are taken, organic farming can grow at 20% over the next five years, leading to perhaps doubling of farmers' incomes over the years

◗ Third, as a farmer converts his/her land from conventional chemical-based farming to organic farming, there is a risk of loss in yield due to the withdrawal of chemical inputs and high-yielding varieties of seeds. A number of countries, such as the United Kingdom, have carefully designed subsidies to compensate for the yield loss during the conversion period. However, in India, there is no such subsidy. Further, a majority of the government budget and subsidies are targeted towards chemical-based inputs and, in many states, less than 2% of the budget is allocated to organic farming. Given India's low rank is Sustainable Development Goals Index (India has been ranked 116 out of 157 nations on the Sustainable Developmental Goals Index for the year 2017, even behind other developing countries such as Nepal, Iran, Sri Lanka, Bhutan and China), it is important for the government to allocate more funding to organic farming and sustainable agriculture practices. In the case of organic, the cost of laboratory testing and third-party certification is high and subsidy can definitely help. A number of states, such as Gujarat, Karnataka and Sikkim, have already set up their third-party certification bodies. Other states may also do the same.

◗ Fourth, there is a serious shortage of good quality organic inputs, which increases the risk of loss of yield. The available organic fertilisers are much below the required quantity, and there are a number of spurious players in the market too. Similarly, there is a shortage of good quality organic seeds. Some inputs companies have taken initiatives to go for third-party certification. However, there is need for a policy on input standardisation. Further, different varieties of crops are grown in different regions of the country, and they are faced with different issues related to pest infestation and soil quality. Hence, there is a need for more crop-specific and region-specific research and development (R&D) on organic inputs. In addition, the survey found that farmers need access to equipment such as netting and poly houses to protect their crops against insects. Fruit flies have led to destruction of crops such as oranges in the state of Sikkim. Here, we can learn from the government of Bhutan, which provides equipment at subsidised rates—and the same can be replicated by Indian government as well.

◗ The fifth and the biggest challenge faced by organic farmers is the lack of an organic policy for the domestic market and imports. In the absence of regulation on labelling standard for organic production and logo, it is not possible to distinguish an organic product from a conventional product. This has led to fraudulent practices and genuine players are not getting the premium, which the consumers of organic products are willing to pay. While the absence of a policy makes it difficult to punish fraudulent players, the government cannot enforce punishment on the basis of a voluntary certification process. Therefore, over 79% of the farmers opined that the certification process should be mandatory and the government should help farmers under PGS India to get the mandatory certification once their land is converted to organic. In fact, over 91% of survey participants pointed out that there should be a uniform logo for organic, which will help in product identification. The study further highlighted that if the right policy measures are taken, then organic farming is expected to grow at 20% in the next five years and the farmers will see a rise in their income.

CLIMATE-RESILIENT TECH

Need of the hour for our farms

Climate change will have a substantial impact on crop yields by the end of this century

BHARAT CHAR

Lead, Biotechnology, Maharashtra Hybrid Seeds Company Pvt Ltd (Mahyco). Views are personal

WITH DWINDLING NATURAL resources and growing population, there has been a lot of pressure on the environment and on the earth. We have exploited our natural resources to enable industrialisation, urbanisation and to meet the growing demands of a burgeoning population. Unfortunately, by doing this, we are exposing ourselves and also our future generations to the risks of climate change.

Depleting water tables, year-long droughts and floods in different parts of the world, changing patterns of rainfall, and rising temperatures are some indicators of climate change. All these indicators have a direct impact on agriculture.

Climate change, global warming and food security have been key topics of discussion among global leaders. The Paris Climate Summit, or COP 21, was a milestone meeting of leaders, scientists, policy-makers and experts from over 200 countries. They agreed upon ways to combat climate change as it directly impacts food security. If we do not take immediate remedial action, climate change will have a long-term effect on our farms. Once set in motion, these changes will be difficult to reverse.

It is believed that climate change will have a major impact on crop yields by the end of this century. In fact, a 2009 study by Schlenker and Roberts in *PNAS*—one of the world's most-cited and comprehensive multidisciplinary scientific journals—states that yields at the end of the century are predicted to decrease by 44% for corn, 33-34% for soybeans and 26-31% for cotton under a slow warming scenario, and 79-80%, 71-72% and 60-78%, respectively, under a quick warming scenario.

In addition, according to a 2012 US Department of Agriculture (USDA) report titled *USDA Technical Bulletin 1935*, climate change is likely to have a significant impact on the American agricultural output. This holds true for all countries where farming is the primary occupation for a majority of the population. As a result, farmers will be pushed to change the way they cultivate crops. They will need to adopt new farming technologies that can address the changing environment. Also, countries will have to incur significant investment to combat the expected changing patterns of pest, disease and weed incidence.

> Yields at the end of the century are predicted to decrease by 44% for corn, 33-34% for soybeans & 26-31% for cotton even under the slow warming scenario

We must understand that climate change could have a higher impact on developing countries, including India. El Nino effects, alarmingly low water tables and extreme temperatures are signs of climate change experienced in the country today. Its effects are most dire on our farming community. As Indian farms largely depend on the monsoon rainfall for productivity, our farmers are directly impacted.

We got no time to waste, and must think about ways to mitigate the dangers of climate change. This includes adopting various sustainable models, both in agriculture and other areas.

And innovation is the single most effective way to address these challenges. Just as in other fields, innovation in agriculture has played a significant role in making the sector more productive, less labour-intensive and more profitable for our farmers. It has also addressed various farm challenges caused by climate change. Innovation in seed technology can help crop plants cope with not only environmental stresses, but also those caused by biotic factors such as pests, diseases and viruses.

In order to achieve the United Nations Sustainable Development Goals (UNSDGs) to end hunger, achieve food security and improved nutrition, and to promote sustainable agriculture by 2030, it is imperative that we focus on agriculture and seed innovation. This will enable the deployment of climate-resilient technologies that address drought-tolerance, salinity-tolerance and other environmental challenges.

As a country, we must address climate change as a priority challenge and prepare ourselves without delay. A supportive policy environment towards farm innovations and technologies, especially crops that can withstand climate change, will be critical for the growth of our agriculture sector. With this, we will not only hopefully provide solutions for our farmers, but also help them compete in domestic and global markets.

To make our farms sustainable and protect our farmers from the uncertainties of climate change, innovation in agriculture and seed technologies is the need of the hour.

Independent directors need empowerment

However, they are not supposed to interfere in day-to-day management functions

MY KHAN

Former Economic Advisor, SEBI. Views are personal

THE BOARD WORKS as a spine in the structure of a company, of which one segment is independent directors, forming the vertebra, having the strength to fight risk. At the same time, it is argued that "independent directors are not independent." This is not really correct. Independence is there, but not sufficient to discharge their responsibilities. Since their prime duty is to manage risks, they have to face tough challenges.

The duty of independent directors is to formulate policies and oversee the welfare of stakeholders, and their focus is risk management. They have to see through agendas prepared by the management, to see whether the implementation of policies is being followed. But they are not supposed to oversee day-to-day activities of a company.

It is necessary that their appointment is made on merit. It is generally seen that board members, including non-executive independent directors, are nominated by the chairman and promoter directors, on the basis of relationship, mutual understanding and vested interest, not on technical qualification and proper exposure to risk of corporate sector. Appointment of independent directors should not be for three years, because by the time they become conversant with the functions of a company and the rules of the regulator, their term gets finished. If this term is extended to five years, a company will benefit. Moreover, Sebi should not only be the last to approve their appointment or termination, but the chairman or executive director of Sebi should meet with independent directors on a quarterly basis to find out the gaps in their performance. Such a step will enable them to work efficiently and without any fear. In addition, observations and suggestions of independent directors should be included in the minutes of board meetings, and they should be accountable for lapses in procedure compliances. They should also have veto power to reject such proposals of the board that are not in the interest of shareholders and the company itself. They should not feel obliged to promoters and shareholder directors.

Sebi has also proposed to focus on risk management by board members. In fact, risk management is the most necessary input in the financial stability of a company. It is generally seen that independent directors do not professionalise in risk management strategies. Board directors frequently tend to accept company generated projections without examining underlying assumptions. SEBI board has to make it mandatory for a company to impart good training to board members on risk minimisation techniques. The report of the NACD Blue Ribbon Commission on Risk Governance states that "the board's role is quite simple to provide risk of oversight. This means making sure that management has instituted a process to identify and bring to the board's attention, the major risks the enterprise faces. It also means continual revaluation of monitoring and processing of risk with the help of the board and its committees." Following the appointment of non-executive independent directors and formations of various committees, independent directors have to assess how the compensation committee measures executive performance. Whether the mechanism to evaluate value creation by the executives has affected financial performance of the company, whether the remuneration committee has effectively negotiated compensation of executives, whether alignment of interest of management and that of other stakeholders is in harmony with the guidelines used by the governance committee...

There are some independent directors who regard their appointment as recognition for past achievement, confirmation of their social status, and not a great deal of work. It may be clearly understood that independent directors should be committed to their business of attending to the agenda of meetings with full understanding and realisation without fear from management. It is true that independent directors feel exposed and anecdotal facts suggest that inside executives have been found more hesitant and less cooperative with independent directors. The management should know the strength, weakness, opportunity and threats to a company. Generally, independent directors are unable to get the information on weakness and threat to a company from management side, so they have to be cautious of the vested interest of promoters or other stakeholders.

In a nutshell, independent directors carry a heavy bag of responsibility in terms of framing policies and their 100% implementation by the management. However, they are not supposed to interfere in day-to-day management functions. Their responsibilities end at the level of board, and for all other activities, promoters and management are bound to be liable.