Detail in relief

The SC order on payment to kin of COVID-19 victims is a recognition of their plight

The most welcome feature of the Supreme Court of India's order detailing the modalities for payment of ex gratia financial assistance to the families of those who died of COVID-19 is the stern caveat that no State shall deny the benefit solely on the ground that a person's death certificate did not specify the cause of death as due to the novel coronavirus disease. Thanks to the Court's assertiveness, the Union government shed its initial wariness about incurring the financial burden of compensating the next of kin of the over 4.49 lakh people officially recorded as having died due to the virus infection. The National Disaster Management Authority issued guidelines last month, specifying that ₹50,000 be paid for each death. While the primary requirement to avail of this assistance is that the death should be certified as having been caused by COVID-19, the Court has rightly ruled that the cause mentioned in the death certificate would not be conclusive by itself, and that if other documents are provided, the family shall be entitled to the ex gratia payment. Experience over the last year-and-a-half has shown that hospitals tend to attribute some deaths to co-morbidities rather than the infection; and many died after testing negative during a spell of hospitalisation or after discharge. It has now been made clear that deaths occurring within 30 days from the date of testing or from the date of being clinically determined a COVID-19 case shall be treated as eligible for the aid, "even if the death takes place outside the hospital/in-patient facility".

Given the fact that independent data analysis has revealed a possibly huge undercount in the official COVID-19 toll maintained by the State governments and the Centre, the view that only a certified COVID-19 death should be eligible for compensation has been rightly discarded. Of course, some documentary evidence will still be required to establish the cause, but once it is submitted, the payment should be disbursed within 30 days. It is a matter of consolation to those likely to have their claims rejected or disputed that the Court has created an appeal mechanism in the form of Grievance Redressal Committees at the district level. These panels can issue amended official documents to certify COVID-19 deaths, as well as the power to call for records or information from the hospitals where the deceased were admitted. To buttress the need for a humane approach, the Court has included those who took their own lives under the shadow of the pandemic in the ambit of the scheme. It has also advised the authorities to avoid technicalities in processing claims. The assistance will be welcomed by those affected, not because it will be enough to address the adverse impact that numberless families have suffered due to the pandemic, but as a sign that there is some recognition of their plight and immediate succour available.

With a bang

The IMD can further improve its models to forecast shortfall as well as excess rains

The southwest monsoon has officially ended in India with 87.4 cm of rainfall between June and September, or just 0.7% short of the historical average of 88 cm. In many ways this was an exceptional year. By August end, India was staring at an all India monsoon rainfall deficit of nearly 9%. This was primarily due to monsoon rain in August, usually the second rainiest month, being short by 24%. Early in the monsoon, the India Meteorological Department (IMD) had forecast "normal" rains with "a tendency towards the positive side" and the August failure had it backtrack a little. It forecast – correctly in hindsight – strong rains in September but maintained that the overall monsoon rainfall while still "normal" would be towards the lower end. However, September rainfall – 35% more than the monthly normal – was so munificent that it completely closed the deficit and was well beyond the IMD's expectations. Normally, India gets about 17 cm of rain in September, but at 22.9 cm this year, it was more than the 19 cm in August.

Monsoon 2021 capped a rare three years of healthy rain. In 2020, India received 109% of the long period average (LPA) and in 2019, 110% of the LPA and not since 1996, 1997 and 1998 has India got three consecutive years of normal or above normal rain. Much of the rain was focused on southern India, with large parts of northeast and eastern India receiving below normal rainfall, but this is not concerning for two reasons: the base level of monsoon rains is higher in the northeastern regions than the rest of India and the region also gets the retreating monsoon which normally commences by October end. Three years of good rains have boosted storage in India's key reservoirs. The monsoon, however, proved erratic for agriculture. The two key months for *kharif* crop sowing, July and August, were the ones when the monsoon failed and the excess September rains meant there are real fears of crop damage due to excessive moisture. The Government is expecting record crop output with *kharif* crops expected to yield 150.5 million tonnes until June 2022, which is slightly higher than the 149.56 million tonnes harvested last year. There are record surpluses expected for rice, pulses and oilseeds. While this could advantage exports it might also mean demands by farmers for more remunerative prices. These excess rains may be a rare event but the Government should capitalise on it and ensure adequate stocks for next year. The IMD should not be content that it got its overall prediction right but must analyse how its models could be improved to forecast shortfall as well as excess rains.

RBI microfinance proposals that are anti-poor

The proposed guidelines will favour private credit institutions at the cost of public sector banks

MADHURA SWAMINATHAN

In June 2021, the Reserve Bank of India (RBI) published a "Consultative Document on Regulation of Microfinance" (https://bit.ly/3ixTIH3). While the declared objective of this review is to promote the financial inclusion of the poor and competition among lenders, the likely impact of the recommendations is unfavourable to the poor. If implemented, they will result in an expansion of microfinance lending by private financial institutions, the provision of credit at high rates of interest to the poor, and in huge profits for private lenders.

The recommendations

The consultative document recommends that the current ceiling on rate of interest charged by non-banking finance company-microfinance institutions (NBFC-MFIs) or regulated private microfinance companies needs to be done away with, as it is biased against one lender (NBFC-MFIs) among the many (commercial banks, small finance banks, and NBFCs). It proposes that the rate of interest be determined by the governing board of each agency, and assumes that "competitive forces" will bring down interest rates. Not only has the RBI abandoned any initiative to expand low-cost credit through public sector commercial banks to the rural poor, the bulk of whom are rural women (as most loans are given to members of women's groups), but, in addition, it also proposes to de-regulate the rate of interest charged by private microfinance agencies.

According to current guidelines, the 'maximum rate of interest rate charged by an NBFC-MFI shall be the lower of the following: the cost of funds plus a margin of 10% for larger MFIs (a loan portfolio of over ₹100 crore) and 12% for others; or the average base rate of the five largest commercial banks multiplied by 2.75'. In June 2021, the average base rate announced by the RBI was 7.98%. A quick look at the website of some Small Finance Banks (SFBs) and NBFC-MFIs showed that the "official" rate of interest on microfinance was between 22% and 26% – roughly three times the base rate.

Crucial for rural households

Microfinance is becoming increasingly important in the loan portfolio of poorer rural households. In a study of two villages from southern Tamil Nadu, done by the Foundation for Agrarian Studies, we found that a little more than half of the total borrowing by households resident in these two villages was of unsecured or collateral-free loans from private financial agencies (SFBs, NBFCs, NBFC-MFIs and some private banks).

There was a clear differentiation by caste and socio-economic class in terms of source and purpose of borrowing. First, unsecured microfinance loans from private financial agencies were of disproportionate significance to the poorest households – to poor peasants and wage workers, to persons from the Scheduled Castes and Most Backward Classes. Second, these microfinance loans were rarely for productive activity and almost never for any group-based enterprise, but mainly for house improvement and meeting basic consumption needs.

Our data showed that poor borrowers took microfinance loans, at reported rates of interest of 22% to 26% a year, to meet day-to-day expenses and costs of house repair. How does this compare with credit from public sector banks and cooperatives? Crop loans from Primary Agricultural Credit Societies (PACS) in Tamil Nadu had a nil or zero interest charge if repaid in eight months. Kisan credit card loans from banks were charged 4% per annum (9% with an interest subvention of 5%) if paid in 12 months (or a penalty rate of 11%). Other types of loans from scheduled commercial banks carried an interest rate of 9%-12% a year. As even the RBI now recognises, the rate of interest charged by private agencies on microfinance is the maximum permissible, a rate of interest that is a far cry from any notion of cheap credit.

GETTY IMAGES

A loan breakup, violations

The actual cost of microfinance loans is even higher for several reasons. First, on account of the method of repayment: a loan of, say, ₹30,000 from an NBFC-MFI has to be repaid in 24 equal monthly instalments of ₹1,640. Every month, a principal of ₹1,250 and an interest of ₹390 is repaid. In the first month, the simple interest on this loan is 15.6% per annum but by the end of the first year, the interest rate is 31%. This is because every month the principal is reduced (by ₹1,250) but the interest charge is the same. In short, an "official" flat rate of interest used to calculate equal monthly instalments actually implies a rising effective rate of interest over time.

In addition, a processing fee of 1% is added and the insurance premium is deducted from the principal. As the principal is insured in case of death or default of the borrower or spouse, there can be no argument that a high interest rate is in response to a high risk of default.

Does the borrower understand this mechanism? In line with RBI regulations, we found that all borrowers had a repayment card with the monthly repayment schedules. On their regular visit, the loan collector would tick off the instalment paid. This does not mean that borrowers understood the charges.

Further, contrary to the RBI guideline of "no recovery at the borrower's residence", collection was at the doorstep. Note that a shift to digital transactions refers only to the sanction of a loan, as repayment is entirely in cash. Many borrowers said the debt collector used bad language in a loud voice, shaming them in front of their neighbours.

If the borrower is unable to pay the instalment, other members of the group have to contribute, with the group leader taking responsibility. In our survey, there was no organic connection of microfinance to any group activity or enterprise. As an agent of a NBFC-MFI told us, "we have used the groups formed earlier for other activities solely to show that we lend to a group".

The shift now

While microfinance lending has been in place since the 1990s, what is different about the recent phase of growth of financial services is that the privately-owned for-profit financial agencies are "regulated entities". In fact, they have been promoted by the RBI. Lending by small finance banks (SFBs) to NBFC-MFIs has been recently included in priority sector advances. And, post-COVID-19, the cost of funds supplied to NBFC-MFIs was lowered, but with no additional restrictions on the interest rate or other parameters affecting the final borrower.

In the 1990s, microcredit was given by scheduled commercial banks either directly or via non-governmental organisations to women's self-help groups, but given the lack of regulation and scope for high returns, several for-profit financial agencies such as NBFCs and MFIs emerged. By the mid-2000s, there were widespread accounts of the malpractices of MFIs (such as SKS and Bandhan), and a crisis in some States such as Andhra Pradesh, arising out of a rapid and unregulated expansion of private for-profit micro-lending.

The microfinance crisis of Andhra Pradesh led the RBI to review the matter, and based on the recommendations of the Malegam Committee, a new regulatory framework for NBFC-MFIs was introduced in December 2011. A few years later, the RBI permitted a new type of private lender, SFBs, with the objective of taking banking activities to the "unserved and underserved" sections of the population.

Today, as the RBI's consultative document notes, 31% of microfinance is provided by NBFC-MFIs, and another 19% by SFBs and 9% by NBFCs. These private financial institutions have grown exponentially over the last few years, garnering high profits, and at this pace, the current share of public sector banks in microfinance (the SHG-bank linked microcredit), of 41%, is likely to fall sharply.

The proposals in the RBI's consultative document will lead to a further privatisation of rural credit, reducing the share of direct and cheap credit from banks and leaving poor borrowers at the mercy of private financial agencies. This is beyond comprehension at a time of widespread post-pandemic distress among the working poor. The All India Democratic Women's Association, in its response to this document, has raised concerns about the implications for women borrowers and demanded that the rate of interest on microfinance not exceed 12% per annum. To meet the credit needs of poorer households, we need a policy reversal: strengthening of public sector commercial banks and firm regulation of private entities.

Madhura Swaminathan is Professor, Indian Statistical Institute, Bengaluru

With AUKUS, India must keep its head above water

The security grouping spells opportunities but also possible unique challenges which New Delhi can ill-afford to ignore

DINAKAR PERI

The announcement by the United States of a trilateral 'enhanced security partnership' involving Australia, the United Kingdom and the United States (AUKUS) has taken everyone by surprise, competitors and allies alike. With close partners on both sides, India has maintained an ambiguous stand on the issue. A lot of commentary since has talked of how this is a welcome step for India to access technologies, build complementarities and so on. While it does present opportunities, the flip side is that AUKUS represents a threshold breach and could pose unique challenges for India, depending on how China responds to it, and the issue spiralling.

A different game now

The decision by the U.S. to make a very rare exemption, even for its allies, to supply nuclear-powered attack submarines (SSN) takes the whole issue of arms transfers and containing China's expansion to a new level. Submarines are the most potent and secretive military platform to asymmetrically counter an adversary and an SSN represents the pinnacle. The entry barrier for acquiring these is very steep, proven by how few countries possess them; and once that is breached, there is no technological leap to counter it but only incremental measures to negate it, which would nonetheless be another expensive endeavour.

The U.S. has now set a precedence to this and how it unfolds and how long it remains an exception has to be seen. The next question is how will China, which has sharply reacted to the announcement of AUKUS, respond to this? Will it resort to further proliferation, in any manner, as it has done in the past, and likely involving its closest partner, Pakistan?

If so, the only country in the region which will face the real implications of this is India; for the others, it is more of stated positions and rules-based order which are a matter of convenience and not of survival. The whole Pakistani missile and nuclear weapons programme and its proliferation trail are proof of it.

Data leak

The China threat notwithstanding, this development is as much, if not more, about the tussle between arms industries of the two sides which collectively dominate the global arms industry. A case in point is the leak, in 2016, of 22,000 pages of secret data on the capabilities of six Scorpene submarines being built for the Indian Navy by the French Naval Group (then DCNS) barely months after DCNS was declared the winner in the Australian tender, only to be thwarted by the U.S. five years later.

While the real intention (of the leak) and those responsible may never be known, the fallout, though likely coincidental, was on India. The Naval Group had then said that it may have been the victim of "economic warfare."

AUSTRALIAN DEFENCE FORCE/GETTY IMAGES

India's stand, China factor

Another tangent that needs to be observed as the initiative takes shape is whether AUKUS is an attempt by the U.S. to position Australia as a 'Net Security Provider' in the Indo-Pacific. This is especially so given India's reluctance to add a military dimension to the Quadrilateral grouping comprising India, Australia, Japan and the U.S.

The Quad – as a grouping of major democracies in the Indo-Pacific – has seen momentum in terms of engagement in the last two years especially in the backdrop of a violent stand-off between India and China along the disputed boundary in Eastern Ladakh last year which is yet to be resolved. However, India has reiterated on several occasions that it sees the Quad as a platform for consultations at the political and diplomatic level but does not see a military dimension to it. So, with Australia and Japan being U.S. allies, the limiting factor for deepening military engagement for the Quad as a grouping, beyond a point, is India.

Incidentally, the current Chief of the Naval Staff, Admiral Karambir Singh, since he assumed charge of the force in May 2019, had stated his reluctance in using the term 'Net Security Provider' and instead propagated the phrase, 'Preferred Security Partner'.

Probably the best articulation of this was put forward in May 2018 by his predecessor and then Chief of the Naval Staff, Admiral Sunil Lanba, while delivering a talk at the Vivekananda International Foundation. Responding to questions, he stated that there were "dependencies" for group members on China and also the "uncertainty" of America when push comes to shove. He said, "So I don't think there is [a] need for a military dimension to Quad... We are not going down that route. And I don't think there is [a] need to go down that route."

Admiral Lanba further said, "What do you think a military dimension will achieve? India is the only country in the Quad with a land border with China. In case of conflict... nobody will come and hold your hand." The validation for this observation manifested itself in 2020 in the Himalayan ranges with a new normal now on the ground along the Line of Actual Control (LAC) and the trust between India and China along with the agreements that held it in tatters.

More recently, on several occasions External Affairs Minister S. Jaishankar, while terming the Quad as a platform that looks at the future, has also echoed similar views.

Speaking at the Raisina Dialogue in April, he categorically stated that Quad will not be an 'Asian NATO' and added that "people need to get over this...." He had also highlighted 10 broad subjects of cooperation including vaccine collaboration, climate action, emerging technologies, resilient supply chains, semiconductors, disinformation, counterterrorism and maritime security among others.

The Quad versus AUKUS

The outcome of the first ever in-person meeting of Quad leaders in the U.S. on September 24 only reinforces this trend. The Quad countries have outlined cooperation in several important areas including high technology; military cooperation and a mention of China were conspicuous in their absence. Essentially, the Quad is taking shape as an organisation of broader cooperation among the four countries, while AUKUS, for now, remains an organisation for high-end military trade. This only gives further credence that the U.S. may be preparing Australia for a greater military role in the Indo-Pacific.

Afghanistan has shown that New Delhi cannot depend on or tag along with anyone to protect its national interests. Given the surprise and setback India received with the sudden exit of the U.S., the country can ill-afford to lower its guard by taking AUKUS at face value. While working with AUKUS through other platforms and advancing its own strategic cooperation with each of the countries, India also needs to offset any fallout of the development which will only unfold in the long term.

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LETTERS TO THE EDITOR

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Farmers' protest

It is baffling why the Uttar Pradesh government has been trying to prevent Opposition party leaders from visiting Lakhimpur Kheri, where four farmers were mowed to death (Inside pages, October 5). The facts are already in the public domain and it is only natural that the leaders of these parties would like to meet the affected families. In the Hathras gang-rape case too there were similar restrictions. The question/observation raised and made by Chhattisgarh Chief Minister – as to whether Indian residents require a passport or visa to visit Uttar Pradesh – is pertinent.

D. SETHURAMAN,
Chennai

■ There is no gainsaying the fact that this country has never been very considerate when it comes to the interests of the farmers and other unorganised sections. The present government's reluctance to extend statutory protection to MSP is of a piece with that approach. Should not we, as a society, be equally concerned about the welfare of the 'annadata' who ensures that there is food on our table? Should we be grudging them for even the protection of a decent MSP?

G.G. MENON,
Tripunithura, Kerala

China's intrusions

As with India, China will continue to practise this form of "Grey zone" warfare with other nations ('World' page, "China sends 52 jets towards Taiwan", October 5. It will be misplaced optimism for India to expect a shift in China's foreign policy approach. China is adept at protracting negotiations only to buy time and consolidate its territorial gains. The long-term implication for India in this form of "Grey War" is that the entire India-China border will continue to be sensitive; to expect a resolution would mean being unrealistic.

H.N. RAMAKRISHNA,
Bengaluru

Fading green cover

India's forests are in danger not because of its "nearly 270 million people including local tribals" who "depend on the forest for subsistence" alone. The Central and State governments are responsible too for giving unlimited freedom to the corporate mining industry and so-called developmental projects to destroy precious forests. As Prerna Singh Bindra says in her book, *The Vanishing: India's Wildlife Crisis*, "we continue to clear no less than 135 hectares of forests a day, diverting it for various projects such as highways, mines, and cement factories... And we pitch their protection, and that of a healthy environment, against development...."

SUKUMARAN C.V.,
Kongad, Palakkad, Kerala